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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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**Form 10-Q**

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

For the quarterly period ended June 30, 2004

OR

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

For the Transition period from \_\_\_\_\_ to \_\_\_\_\_ .

**Commission file number 0-8677**

**Tidelands Royalty Trust "B"**

(Exact name of registrant as specified in its charter)

**Texas**  
(State or other jurisdiction  
of incorporation or organization)

**75-6007863**  
(I.R.S. Employer  
Identification No.)

**Bank of America, N.A.**  
**P.O. Box 830650, Dallas, Texas**  
(Address of principal executive offices)

**75283-0650**  
(Zip Code)

Registrant's telephone number, including area code (800) 985-0794

None  
(Former name, former address and former fiscal year  
if changed since last report)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate number of units of beneficial interest outstanding as of the latest practicable date.  
As of August 12, 2004, we had 1,386,375 units of beneficial interest outstanding.

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TIDELANDS ROYALTY TRUST "B"

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**TIDELANDS ROYALTY TRUST B AND SUBSIDIARY**

**CONSOLIDATED BALANCE SHEETS**

**June 30, 2004 and December 31, 2003**

**(Unaudited)**

**ASSETS**

	<b>June 30, 2004</b>	<b>December 31, 2003</b>
Current Assets:		
Cash and cash equivalents.....	\$ 888,617	\$ 605,962
Oil and gas royalties receivable.....	147,826	165,765
Taxes refundable .....	500	—
Interest receivable.....	2,072	5,664
Total current assets.....	\$ 1,039,015	\$ 777,391
Investment in U.S. Treasury and agency bonds.....	304,638	712,036
Oil, gas and other mineral properties.....	2	2
	\$ 1,343,655	\$ 1,489,429

**LIABILITIES AND TRUST EQUITY**

Current Liabilities:		
Accounts payable.....	\$ 3,202	\$ 5,132
Federal income taxes payable .....	—	702
Income distributable to unitholders.....	215,056	334,960
Total current liabilities.....	\$ 218,258	\$ 340,794
Trust Equity:		
Corpus – authorized 1,386,525 units of beneficial interest, issued 1,386,375 at nominal value.....	2	2
Undistributed income.....	1,125,395	1,148,633
Total trust equity.....	1,125,397	1,148,635
	\$ 1,343,655	\$ 1,489,429

See accompanying notes to condensed consolidated financial statements.

**TIDELANDS ROYALTY TRUST B AND SUBSIDIARY**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND UNDISTRIBUTED INCOME**  
**For the Three Months and Six Months Ended June 30, 2004 and 2003**  
**(Unaudited)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Income:				
Oil and gas royalties.....	\$ 194,938	\$ 365,866	\$ 450,495	\$ 836,802
Interest and other.....	2,541	2,408	4,776	9,372
	<u>197,479</u>	<u>365,274</u>	<u>455,271</u>	<u>846,174</u>
Expenses:				
General and administrative.....	34,651	36,278	67,585	68,962
Income before Federal income taxes.....	162,828	331,996	387,686	777,212
Federal income taxes of subsidiary.....	700	(1,042)	1,140	2,000
Net income.....	162,128	333,038	386,546	775,212
Undistributed income at beginning of period.....	1,178,711	1,355,094	1,148,633	1,226,179
	<u>1,340,839</u>	<u>1,688,132</u>	<u>1,535,179</u>	<u>2,001,391</u>
Distributions to unitholders.....	215,444	404,425	409,784	717,684
Undistributed income at end of period.....	<u>\$ 1,125,395</u>	<u>\$ 1,283,707</u>	<u>\$ 1,125,395</u>	<u>\$ 1,283,707</u>
Net income per unit.....	<u>\$ 0.12</u>	<u>\$ 0.24</u>	<u>\$ 0.28</u>	<u>\$ 0.56</u>
Distributions per unit.....	<u>\$ 0.16</u>	<u>\$ 0.29</u>	<u>\$ 0.30</u>	<u>\$ 0.52</u>

See accompanying notes to condensed consolidated financial statements.

**TIDELANDS ROYALTY TRUST B AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Six Months Ended June 30, 2004 and 2003**  
**(Unaudited)**

	<b>Six Months Ended June 30,</b>	
	<b>2004</b>	<b>2003</b>
Cash flows from operating activities:		
Net income.....	\$ 386,546	\$ 775,212
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premium.....	8,123	11,146
Loss on sale of U.S. Treasury and agency bonds .....	761	—
Change in assets and liabilities:		
Oil and gas royalties receivable.....	17,939	11,147
Federal income taxes receivable.....	(500)	(3,288)
Interest receivable.....	3,592	(879)
Accounts payable.....	(1,930)	517
Federal income taxes payable.....	(702)	—
Net cash provided by operating activities.....	413,829	793,855
Cash flows from investing activities:		
Investment in U.S. Treasury and agency bonds.....	(201,034)	(206,301)
Proceeds from sale of U.S. Treasury and agency bonds.....	599,548	200,000
Net cash provided by (used in) investing activities.....	398,514	(6,301)
Cash flows from financing activities –		
Distributions to unitholders.....	(529,688)	(488,914)
Net increase in cash and cash equivalents .....	282,655	298,640
Cash and cash equivalents at beginning of period.....	605,962	520,375
Cash and cash equivalents at end of period.....	\$ 888,617	\$ 819,015

See accompanying notes to condensed consolidated financial statements.

## TIDELANDS ROYALTY TRUST B AND SUBSIDIARY

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

(Unaudited)

#### Accounting Policies

The financial statements include the financial statements of Tidelands Royalty Trust "B" ("Tidelands") and Tidelands Royalty "B" Corporation, its wholly-owned subsidiary, are condensed, and should be read in conjunction with the annual report on Form 10-K for the fiscal year ended December 31, 2003. The financial statements included herein are unaudited, but in the opinion of management they include all adjustments necessary for a fair presentation of the results of operations for the periods indicated. Operating results for the three months ended June 30, 2004, are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

As an overriding royalty owner, actual production results are not known to us until reported by the operator, which could be a period of 60-90 days later than the actual month of production. To comply with accounting principles generally accepted in the United States of America, we must estimate earned but unpaid royalties from this production. To estimate this amount, we utilize historical information based on the latest production reports from the individual leases and current average prices as reported for oil by Chevron USA and the well head price for natural gas as reported by the Energy Information Agency (a division of the Department of Energy) for the period under report.

#### Distributable Income

Tidelands' indenture provides that the corporate trustee is to distribute all cash in the trust, less an amount reserved for payment of accrued liabilities and estimated future expenses, to unitholders of record on the last business day of March, June, September and December of each year. Such payments are to be made within 15 days after the record date.

As stated under "Accounting Policies" above, the financial statements in this Form 10-Q are the condensed and consolidated account balances of Tidelands and its wholly-owned subsidiary. However, distributable income is paid from the unconsolidated account balances of Tidelands. Distributable income is comprised of (i) royalties from offshore Texas leases owned directly by Tidelands, plus (ii) 95% of the overriding royalties received by the subsidiary that are paid to Tidelands on a quarterly basis, less (iii) administrative expenses of Tidelands.

#### Undistributed Income

A contract between Tidelands and its subsidiary provides that 95% of the overriding royalties received are to be paid to Tidelands each quarter. The subsidiary retains the remaining 5% of the overriding royalties along with other items of income and expense, until such time as the Board of Directors declares a dividend out of the retained earnings. The Board of Directors has declared quarterly dividends beginning in the first quarter of 2004 in a amount equal to 5% of the overriding royalties received. On June 30, 2004, the undistributed income of Tidelands was \$260,941 and the undistributed income of its subsidiary was \$864,454.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Financial Condition - Liquidity and Capital Resources**

*Organization.* Tidelands Royalty Trust "B" ("Tidelands") is a royalty trust that was created on June 1, 1954, under the laws of the State of Texas. Tidelands is not permitted to engage in any business activity because it was organized for the sole purpose of providing an efficient, orderly, and practical means for the administration and liquidation of rights to overriding royalty interests in any oil, gas or other mineral leases obtained by Gulf Oil Corporation ("Gulf") in a designated area of the Gulf of Mexico. These rights are evidenced by a contract between Tidelands' predecessors and Gulf dated April 30, 1951 (the "1951 Contract"), which is binding upon the assignees of Gulf. As a result of various transactions that have occurred since 1951, the Gulf interests that were subject to the 1951 Contract now are held by Chevron Corporation ("Chevron"), Elf Exploration, Inc. ("Elf"), and their respective assignees.

The Tidelands Royalty Trust "B" Indenture, effective June 1, 1954, as amended (the "Indenture"), provides that the corporate trustee is to distribute all cash in Tidelands, excluding cash retained by its subsidiary, less an amount reserved for the payment of accrued liabilities and estimated future expenses, to unitholders of record on the last business day of March, June, September, and December of each year. Bank of America, N.A. serves as corporate trustee. The Indenture, and the charter and by-laws of Tidelands' wholly-owned subsidiary, prohibit the operation of any kind of trade or business. Since Tidelands' sole purpose is to collect and distribute cash collected from royalties, there are no requirements for capital.

The unitholders of Tidelands have consented to extend the life of the Indenture to April 30, 2021.

Tidelands' wholly-owned subsidiary, Tidelands Royalty "B" Corporation ("Tidelands Corporation"), holds title to interests in properties subject to the 1951 Contract that are situated offshore of Louisiana. Ninety-five percent of all oil, natural gas and other mineral royalties collected by this subsidiary are paid to Tidelands. Tidelands Corporation, like Tidelands, is prohibited from engaging in a trade or business and does only those things necessary for the administration and liquidation of its properties.

Tidelands' only industry segment or purpose is the administration and collection of royalties.

*The Contract.* The 1951 Contract identifies 60 specific tracts in the Gulf of Mexico. These tracts are not all the same size and collectively contain approximately 1,370,000 acres (sometimes referred to herein as the "Royalty Area"). Prior to the expiration of the 50-year lease acquisition period on April 30, 2001 (the "Acquisition Expiration Date"), if Chevron, Elf or their assigns had acquired a lease or leases on one of the 60 tracts, and if oil or natural gas were produced and sold from any such tract, then Chevron, Elf or their assigns had to make production payments to Tidelands, in an amount equal to approximately 12.5% of the value at the well-head of the oil and natural gas subject to such lease until the sum of \$1,500,000 has been paid under the lease. After \$1,500,000 has been paid under a particular lease, Tidelands' interest in such lease will convert to an overriding royalty, and Tidelands will receive payments equal to approximately 4.17%, as adjusted based on the leasehold interest acquired, of the value of the oil and natural gas sold as long as the lease on such tract exists.

Since the Acquisition Expiration Date, Chevron and Elf are no longer obligated to assign an interest to the Trust out of any lease that was acquired after that date. Tidelands will continue to receive payments on leases acquired by Chevron, Elf or their assignees prior to the Acquisition Expiration Date. Those leases are listed in the table below.

<b>Area</b>	<b>Block</b>	<b>Lease Number</b>	<b>Acres</b>	<b>Decimal</b>	<b>Operator</b>
Galveston.....	303	4565 <sup>(1)</sup>	5,760	0.041662	W&T Offshore, Inc.
Sabine Pass.....	13	3959 <sup>(1)</sup>	3,438	0.041662	Devon Energy Production Company LP
West Cameron.....	165	758 <sup>(1)</sup>	5,000	0.041662	Devon Energy Production Company LP
West Cameron.....	225	900 <sup>(1)</sup>	3,750	0.010416	Dominion Exploration and Production Inc.
West Cameron.....	251	21544 <sup>(2)</sup>	2,500	0.125000	Chevron U.S.A., Inc.
West Cameron.....	261	22537 <sup>(2)</sup>	2,500	0.062500	Chevron USA, Inc.
West Cameron.....	291	4397 <sup>(1)</sup>	5,000	0.041662	Devon Energy Production Company LP
Total acres.....			27,948		

- (1) The \$1,500,000 production payment has been paid.  
(2) There are no wells on these recently acquired leases.

The 1951 Contract provides that any assignment by Gulf of any leases acquired by it in the Royalty Area and any assignment of the information, data or records acquired under the 1951 Contract shall be made subject to the production payments and the overriding royalty interests provided therein.

#### **Critical Accounting Policies**

As an overriding royalty owner, actual production results are not known to us until reported by the operator, which could be a period of 60-90 days later than the actual month of production. To comply with accounting principles generally accepted in the United States of America, we must estimate earned but unpaid royalties from this production. To estimate this amount, we utilize historical information based on the latest production reports from the individual leases and current average prices as reported for oil by Chevron USA and the well head price for natural gas as reported by the Energy Information Agency (a division of the Department of Energy) for the period under report.

We did not have any changes in our critical accounting policies or in our significant accounting estimates during the three months ended June 30, 2004. Please see our annual report on Form 10-K for the year ended December 31, 2003 for a detailed discussion of our critical accounting policies.

#### **Summary Review of Operating Results**

Tidelands receives overriding royalties from four fields. In February 2004 (the most recent date data is available from the public records) 10 wells were producing oil or natural gas. Three oil wells are located on Sabine Pass Block 13 and have been producing since the 1980s. The other seven wells are located on West Cameron Blocks 165, 225 and 291, of which two have been producing since 1998, one has been producing since 2001, two have been producing since 2002 and the remaining two have been producing since May of 2003.

On May 18, 2004 Devon commenced drilling Well No. A006 on West Cameron Block 165. Total depth was reached on July 8, 2004. No further details have been released.

Tidelands realizes a majority of its revenue from the sale of natural gas, and these sales accounted for approximately 63% of revenue for the three month period ended June 30, 2004. Revenue includes estimated royalties of oil and natural gas produced but not paid.

Distributions fluctuate from quarter to quarter due to changes in oil and natural gas prices and production quantities. Net income is determined by the revenue from oil and natural gas produced and sold during the accounting period. Distributions, however, are determined by the cash available to Tidelands on the determination date.

The following table presents the net production quantities of oil and natural gas and the net income and distributions per unit for the last five quarters.

<u>Quarter</u>	<u>Production</u>		<u>Net Income</u>	<u>Cash Distribution</u>
	<u>Oil (bbls)</u>	<u>Natural Gas (mcf)</u>		
June 30, 2003.....	2,066	44,170	.24	.29
September 30, 2003....	1,752	26,999	.12	.21
December 31, 2003.....	1,955	31,127	.24	.24
March 31, 2004.....	2,095	31,245	.16	.14
June 30, 2004.....	1,779	20,822	.12	.16

Tidelands' revenues are derived from the oil and natural gas production activities of unrelated parties. Tidelands' revenues and distributions fluctuate from period to period based upon factors beyond Tidelands' control, including, without limitation, the number of productive wells drilled and maintained on leases subject to Tidelands' interest, the level of production over time from such wells, and the prices at which the oil and natural gas from such wells is sold. Tidelands believes that it will continue to have revenues sufficient to permit distributions to be made to unitholders for the foreseeable future, although no assurance can be made regarding the amounts thereof. The foregoing sentence is a forward-looking statement. For more information, see "Forward-Looking Statements" on page 10. Actual results may differ from expected results because of reductions in price or demand for oil and natural gas, which might then lead to decreased production; reductions in production due to the depletion of existing wells or disruptions in service, which may be caused by storm damage to production facilities, blowouts or other production accidents, or geological changes such as cratering of productive formations; and the expiration or release of leases subject to Tidelands' interests.

All aspects of Tidelands' operations are conducted by third parties. These operations include the production and sale of oil and natural gas and the calculation of royalty payments to Tidelands, which are conducted by oil and natural gas companies that lease tracts subject to Tidelands' interests. Similarly, Tidelands' distributions to unitholders are processed and paid by The Bank of New York as the agent for the trustee of Tidelands.

### **Results of Operations -Three Months Ended June 30, 2004 and 2003**

Revenue from oil and natural gas royalties decreased 47% in the quarter ended June 30, 2004 from the levels realized in the comparable quarter of 2003, primarily due to lower production due to normal field declines.

Net income decreased 51% to \$162,218 for the three month period ended June 30, 2004 from the \$333,038 of net income realized in the comparable period in 2003. The average price realized for oil increased 31% in the current period over the average price realized during the same period in 2003. The average price realized for natural gas decreased 14% in the current period from the average price realized during the same period in 2003. In the three months ended June 30, 2004, natural gas production was down 53%, and oil production decreased 14% from the results of the comparable period in 2003.

As an overriding royalty owner, Tidelands receives payment for its fractional interest in a lease based on the value at the well of any oil and natural gas produced and sold. Revenues from oil royalties decreased 13% during the current three month period from the comparable period in 2003. The volume of oil sold decreased 287 barrels and the average price received for oil increased \$9.79 per barrel to \$40.93 in the current period from the \$31.14 realized in 2003.

Revenues from natural gas royalties were down 53% in the current period from the results of the corresponding period in 2003. The volume of natural gas sold decreased 23,348 mcf and the average price of natural gas decreased to \$5.87 from \$6.83 for the same period in 2003.

The quantities of oil and natural gas sold and average prices realized from current operations for the three months ended June 30, 2004 and 2003 are presented in the following table.

	<b>June 30,</b>	
	<b>2004</b>	<b>2003</b>
<b>OIL</b>		
Barrels sold.....	1,779	2,066
Average price.....	\$ 40.93	\$ 31.14
<b>NATURAL GAS</b>		
Mcf sold.....	20,822	44,170
Average price.....	\$ 5.87	\$ 6.83

#### **Results of Operations - Six Months Ended June 30, 2004 and 2003**

Revenue from oil and natural gas royalties decreased 46% for the six month period ended June 30, 2004 from the levels realized in the comparable period of 2003. Lower demand for natural gas and normal field declines contributed to the decline.

Net income decreased 50% to \$386,546 for the six month period ended June 30, 2004 from the \$775,212 of net income realized in the comparable period in 2003. The average price realized for oil increased 14% over the same period in 2003. The average price realized for natural gas increased 1% in the current period from the average price realized during the same period in 2003. In the six months ended June 30, 2004, natural gas production was down 56%, and oil production decreased 11% from the results of the comparable period in 2003.

As an overriding royalty owner, Tidelands receives payment for its fractional interest in a lease based on the value at the well of any oil and natural gas produced and sold. Revenues from oil royalties increased 2% during the current six month period from the comparable period in 2003. The volume of oil sold decreased 462 barrels and the average price received for oil increased \$4.52 per barrel to \$36.94 in the current period from the \$32.42 realized in 2003.

Revenues from natural gas royalties were down 56% in the current period from the results of the corresponding period in 2003. The volume of natural gas sold decreased 67,823 mcf and the average price of natural gas increased to \$5.88 from \$5.80 for the same period in 2003.

The quantities of oil and natural gas sold and average prices realized from current operations for the six months ended June 30, 2004 and 2003 are presented in the following table.

	<b>June 30,</b>	
	<b>2004</b>	<b>2003</b>
<b>OIL</b>		
Barrels sold.....	3,874	4,336
Average price.....	\$ 36.94	\$ 32.42
<b>NATURAL GAS</b>		
Mcf sold.....	52,247	120,070
Average price.....	\$ 5.88	\$ 5.80

### **Forward-Looking Statements**

The statements discussed in this quarterly report on Form 10-Q regarding our future financial performance and results, and other statements that are not historical facts, are forward-looking statements as defined in Section 27A of the Securities Act of 1933. We use the words “may,” “will,” “expect,” “anticipate,” “estimate,” “believe,” “continue,” “intend,” “plan,” “budget,” or other similar words to identify forward-looking statements. You should read statements that contain these words carefully because they discuss future expectations, contain projections of our financial condition, and/or state other “forward-looking” information. Events may occur in the future that we are unable to accurately predict, or over which we have no control. If one or more of these uncertainties materialize, or if underlying assumptions prove incorrect, actual outcomes may vary materially from those forward-looking statements included in this Form 10-Q.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

As described elsewhere herein, Tidelands’ only function is to collect overriding royalties from leases operated by others and distribute those royalties to its unitholders after paying the cost of collection and administration. Tidelands income is highly dependent on the prices realized from the sale of oil and natural gas. Oil and natural gas prices have historically experienced significant volatility. The Trust does not attempt to manage its commodity price risk through the use of fixed price contracts or financial derivatives.

Due to the short span of time between receipts and disbursements, cash held by the Trust is held in a non-interest bearing trust account.

Oil and natural gas royalties received by Tidelands Royalty B Corporation (a subsidiary) prior to payment of the 95% Net Profits Interest are held in money market accounts that invest in U.S. Treasury securities and are considered not at risk.

The retained earnings of the subsidiary are held in either money market accounts or U.S. Treasury or agency securities to be held to maturity. Funds held in money market accounts and U.S. Treasury securities that mature in less than one year are considered not at risk. However, on June 30, 2004 the subsidiary held \$200,000 of such securities that mature on November 15, 2005. If held to maturity these securities are believed to be not at risk. Should a need arise for these funds before the securities mature and if interest rates increase there is, under these conditions, a possible market risk.

### **Item 4. Controls and Procedures**

As of the end of the period covered by this report, the Trustee carried out an evaluation of the effectiveness of the design and operation of the Trust's disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. Based upon that evaluation, the Trustee concluded that the Trust's disclosure controls and procedures are effective in timely alerting the Trustee to material information relating to the Trust required to be included in the Trust's periodic filings with the Securities and Exchange Commission. There has not been any change in the Trust's internal control over financial reporting during the period covered by this report that has materially affected, or is

reasonably likely to materially affect, the Trust's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

**Items 1-5 not applicable.**

**Item 6. Exhibits and Reports on Form 8-K**

- (a) The following exhibits are included herein:
  - 31.1 Certification of the Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 31.2 Certification of the Corporate Trustee pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 32.1 Certification of the Principal Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
  - 32.2 Certification of the Corporate Trustee pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (b) Current Reports on Form 8-K:
  - None.

**SIGNATURES**

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

**TIDELANDS ROYALTY TRUST "B"**

Bank of America, N.A., *Trustee*

August 12, 2004

By: /s/ RON E. HOOPER

Ron E. Hooper  
*Senior Vice President*

August 12, 2004

By: /s/ R. RAY BELL

R. Ray Bell  
*Principal Accounting Officer*

**Tidelands Royalty Trust "B"**  
c/o Bank of America, N.A.  
P.O. Box 830650  
Dallas, Texas 75283-0650