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

Form 10-Q

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

For the quarterly period ended September 30, 2006

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 000-08677

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)

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (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 November 10, 2006, we had 1,386,375 units of beneficial interest outstanding.

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
September 30, 2006 and December 31, 2005
(Unaudited)

ASSETS

	<u>September 30, 2006</u>	<u>December 31, 2005</u>
Current Assets:		
Cash and cash equivalents.....	\$ 1,137,811	\$ 1,662,154
Oil and gas royalties receivable	499,624	134,434
Total current assets	<u>\$ 1,637,435</u>	<u>\$ 1,796,588</u>
Oil, gas and other mineral properties	<u>2</u>	<u>2</u>
	<u>\$ 1,637,437</u>	<u>\$ 1,796,590</u>

LIABILITIES AND TRUST EQUITY

Current Liabilities:		
Accounts payable	\$ 12,997	\$ 8,699
Federal income taxes payable	701	1,401
Income distributable to unitholders.....	42,969	749,343
Total current liabilities	<u>\$ 56,667</u>	<u>\$ 759,443</u>
Trust Equity:		
Corpus – authorized 1,386,525 units of beneficial interest, issued 1,386,375 at nominal value	2	2
Undistributed income	1,580,768	1,037,145
Total trust equity	<u>1,580,770</u>	<u>1,037,147</u>
	<u>\$ 1,637,437</u>	<u>\$ 1,796,590</u>

See accompanying notes to condensed consolidated financial statements.

TIDELANDS ROYALTY TRUST B AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENT OF INCOME
For the Three Months and Nine Months Ended September 30, 2006 and 2005
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Income:				
Oil and gas royalties.....	\$ 599,446	\$ 809,535	\$ 944,322	\$ 2,173,526
Interest income.....	9,987	10,493	27,972	25,804
	<u>609,433</u>	<u>820,028</u>	<u>972,294</u>	<u>2,199,330</u>
Expenses:				
General and administrative	<u>38,532</u>	<u>33,368</u>	<u>102,293</u>	<u>111,828</u>
Income before Federal income taxes.....	570,901	786,660	870,001	2,087,502
Federal income taxes of subsidiary	<u>600</u>	<u>6,841</u>	<u>7,877</u>	<u>16,382</u>
Net income.....	570,301	779,819	862,124	2,071,120
Undistributed income at beginning of period	<u>1,053,822</u>	<u>1,625,370</u>	<u>1,037,145</u>	<u>1,459,068</u>
	1,624,123	2,405,189	1,899,269	3,530,188
Distributions to unitholders.....	<u>43,355</u>	<u>788,680</u>	<u>318,501</u>	<u>1,913,679</u>
Undistributed income at end of period	<u>\$ 1,580,768</u>	<u>\$ 1,616,509</u>	<u>\$ 1,580,768</u>	<u>\$ 1,616,509</u>
Net income per unit.....	<u>\$ 0.41</u>	<u>\$ 0.56</u>	<u>\$ 0.62</u>	<u>\$ 1.49</u>
Distributions per unit	<u>\$ 0.03</u>	<u>\$ 0.57</u>	<u>\$ 0.23</u>	<u>\$ 1.38</u>

See accompanying notes to condensed consolidated financial statements.

TIDELANDS ROYALTY TRUST B AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2006 and 2005
(Unaudited)

	Nine Months Ended September 30,	
	2006	2005
Cash flows from operating activities:		
Net income	\$ 862,124	\$ 2,071,120
Change in assets and liabilities:		
Oil and gas royalties receivable	(365,190)	(93,179)
Interest receivable	—	(2,860)
Accounts payable	4,298	(7,692)
Federal income taxes payable	(700)	5,670
Net cash provided by operating activities	500,532	1,973,059
Cash flows used in financing activities—distributions to unitholders	(1,024,875)	(1,448,996)
Net (decrease) increase in cash and cash equivalents	(524,343)	524,063
Cash and cash equivalents at beginning of period	1,662,154	1,206,804
Cash and cash equivalents at end of period.....	\$ 1,137,811	\$ 1,730,867

See accompanying notes to condensed consolidated financial statements.

TIDELANDS ROYALTY TRUST B AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2006
(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, 2005. 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 nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

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 Corporation 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, plus (iii) dividends paid to us by Tidelands Royalty "B" Corporation, less (iv) administrative expenses of Tidelands.

In September 2005 hurricane Rita's path took it through the area where three of Tidelands' royalty interest properties are located. The hurricane did not damage any of the production structures on the royalty interest properties but did severely damage pipelines and onshore structures that take delivery of the oil and natural gas produced on those leases. The wells on West Cameron Blocks 165, 291, and 225 were shut in for all of the first six months of 2006 due to hurricane damage. The wells on West Cameron Blocks 165 and 291 were back on production in July 2006 and production on West Cameron Block 225 is presently suspended until January 2007.

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 since in the first quarter of 2004 in an amount equal to 5% of the overriding royalties received. On September 30, 2006, the undistributed income of Tidelands was \$722,426 and the undistributed income of its subsidiary was \$858,342.

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.

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.

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 the \$1,500,000 production payment is completed, Tidelands’ interest in such lease is converted to an overriding royalty, and Tidelands receives 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. 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.

Tidelands has a royalty interest in five leases. All five of the leases contain producing wells and have paid out their \$1,500,000 production payments. Tidelands’ royalty interest on four of the five leases is 4.17%. On the fifth lease the overriding royalty is 1.0416%.

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

<u>Area</u>	<u>Block</u>	<u>Lease Number</u>	<u>Acres</u>	<u>Decimal</u>	<u>Operator</u>
Galveston.....	303	4565	5,760	0.041662	W&T Offshore, Inc.
Sabine Pass.....	13	3959	3,438	0.041662	Newfield Exploration Company
West Cameron...	165	758	5,000	0.041662	Devon Energy Production Company
West Cameron...	225	900	3,750	0.010416	Dominion Exploration and Production Inc.
West Cameron...	291	4397	5,000	0.041662	Newfield Exploration Company
Total acres.....			<u>22,948</u>		

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 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 nine months ended September 30, 2006. Please see our Annual Report on Form 10-K for the year ended December 31, 2005 for a detailed discussion of our critical accounting policies.

Summary Review of Operating Results

Tidelands receives overriding royalties from 13 wells located on 5 different leases. The wells vary in age from less than 1.5 years to 25 years. Information on each of the 13 wells is presented in the following table:

<u>Location</u>	<u>Well</u>	<u>Typ e</u>	<u>First Produced</u>	<u>Status as of September 30, 2006</u>
West Cameron Block 165	A007	Gas	March 2005	Producing
West Cameron Block 165	A006	Gas	August 2004	Producing
West Cameron Block 165	A001	Gas	September 2002	Producing
West Cameron Block 225	6	Gas	January 2001	Shut in
West Cameron Block 225	C001D	Gas	May 2003	Shut in
West Cameron Block 225	C001	Gas	February 2004	Shut in
Sabine Pass Block 13	B001A	Oil	May 1997	Producing
Sabine Pass Block 13	A004	Oil	July 1981	Producing
Sabine Pass Block 13	A001	Oil	January 1986	Producing
West Cameron Block 291	A001	Gas	December 2002	Producing
West Cameron Block 291	3	Gas	April 1998	Producing
Galveston Area Block 303	B001	Gas	April 2001	Producing
Galveston Area Block 303	A002	Gas	April 2001	Producing

Over 69% of Tidelands' revenue was from natural gas sales during the nine months ended September 30, 2006. Revenue includes estimated royalties of oil and natural gas produced but not yet received from producers.

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>		
September 30, 2005.....	1,357	94,928	0.56	0.57
December 31, 2005	583	15,689	0.13	0.54
March 31, 2006	1,117	10,384	0.08	0.06
June 30, 2006	2,510	5,949	0.13	0.14
September 30, 2006.....	735	89,058	0.41	0.03

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.” 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. Tidelands’ distributions are processed and paid by Mellon Investor Services LLC as the agent for Tidelands.

Tidelands cannot project either net income or distributable net income in the future.

Results of Operations – Three Months Ended September 30, 2006 and 2005

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. Revenue from oil and natural gas royalties decreased 26% during the quarter ended September 30, 2006 from the levels realized in the comparable quarter of 2005, primarily due to the temporary shut in of wells in the West Cameron Block 165 Field.

Net income decreased 27% to \$570,301 for the three month period ended September 30, 2006 from \$779,819 realized in the comparable period in 2005. The average price realized for oil increased 18% in the current period over the average price realized during the comparable period in 2005. The average price realized for natural gas decreased 20% in the current period from the average price realized during the comparable period in 2005. During the three months ended September 30, 2006, production of natural gas decreased 6% over the comparable period in 2005. Production of oil decreased 46% from the comparable period in 2005.

Revenues from oil royalties decreased 36% during the current three month period from the comparable period in 2005. The volume of oil sold decreased 622 barrels and the average price received for oil increased \$11.06 per barrel to \$71.97 in the current period from the \$60.91 realized in 2005.

Revenues from natural gas royalties were down 25% in the current period from the results of the corresponding period in 2005. The volume of natural gas sold decreased 5,870 mcf and the average price of natural gas decreased \$1.52 per mcf to \$6.14 from \$7.66 for the comparable period in 2005.

The quantities of oil and natural gas sold and average prices realized from current operations for the three months ended September 30, 2006 and 2005 are presented in the following table.

	September 30,	
	2006	2005
OIL		
Barrels sold.....	735	1,357
Average price	\$ 71.97	\$ 60.91
NATURAL GAS		
Mcf sold.....	89,058	94,928
Average price	\$ 6.14	\$ 7.66

Results of Operations – Nine Months Ended September 30, 2006 and 2005

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. Revenue from oil and natural gas royalties decreased 57% during the nine months ended September 30, 2006 from the levels realized in the comparable nine months of 2005, primarily due to the temporary shut in of wells in the West Cameron Block 165 Field.

Net income decreased 58% to \$862,124 for the nine month period ended September 30, 2006 from \$2,071,120 realized in the comparable period in 2005. The average price realized for oil increased 25% in the current period over the average price realized during the comparable period in 2005. The average price realized for natural gas decreased 14% in the current period from the average price realized during the comparable period in 2005. During the nine months ended September 30, 2006, production of natural gas decreased 60% over the comparable period in 2005. Production of oil decreased 17% from the comparable period in 2005.

Revenues from oil royalties increased 4% during the current nine month period from the comparable period in 2005. The volume of oil sold decreased 894 barrels and the average price received for oil increased \$13.53 per barrel to \$66.81 in the current period from the \$53.28 realized in 2005.

Revenues from natural gas royalties were down 65% in the current nine month period from the results of the corresponding period in 2005. The volume of natural gas sold decreased 156,188 mcf and the average price of natural gas decreased \$1.02 per mcf to \$6.22 from \$7.24 for the comparable period in 2005.

The quantities of oil and natural gas sold and average prices realized from current operations for the nine months ended September 30, 2006 and 2005 are presented in the following table.

	September 30,	
	2006	2005
OIL		
Barrels sold.....	4,362	5,256
Average price	\$ 66.81	\$ 53.28
NATURAL GAS		
Mcf sold.....	105,391	261,579
Average price	\$ 6.22	\$ 7.24

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,” “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. Tidelands 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 Tidelands is held in a non-interest bearing trust account.

Oil and natural gas royalties received by Tidelands Corporation 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 Tidelands Corporation 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.

Item 4. Controls and Procedures

Bank of America, N.A., as Trustee of Tidelands, is responsible for establishing and maintaining Tidelands' disclosure controls and procedures. These controls and procedures were designed to ensure that material information relating to Tidelands and its subsidiary is communicated to the Trustee. As of the end of the period covered by this report, the Trustee evaluated the effectiveness of the design and operation of Tidelands' disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. Based upon that evaluation, the Trustee concluded that Tidelands' disclosure controls and procedures are effective to ensure that information required to be disclosed by Tidelands in the reports that it files or submits under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) is accumulated and communicated to the Trustee to allow timely decisions regarding required disclosure. There has not been any change in Tidelands' internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, Tidelands' internal control over financial reporting.

PART II. OTHER INFORMATION

Item 6. Exhibits

The following exhibits are included herein:

- 31.1 Certification of the Corporate Trustee pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Corporate Trustee pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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*

November 10, 2006

By: /s/ RON E. HOOPER

Ron E. Hooper
Senior Vice President

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