

Tidelands Royalty Trust “B”

P.O. Box 830650, Dallas, Texas 75283-0650

March, 2007

2006 TAX INFORMATION FOR UNITHOLDERS

Trust's TIN 75-6007863

This material is provided to assist individual unitholders in the preparation of their 2006 federal income tax returns with respect to income from Tidelands Royalty Trust “B”. The income has been reported to the Internal Revenue Service as royalties on Form 1099-MISC, with a copy to the unitholder. If units were not owned during the 2006 calendar year, copies of Form 1099-MISC will not be sent to the Internal Revenue Service or the unitholder and this material can be disregarded.

If more information is required, please contact the Trustee at (800) 985-0794.

GENERAL

Because Tidelands Royalty Trust “B” is a grantor trust, unitholders are taxed on the Trust's income. Each unitholder reports items of income, deduction, and credit based on a unitholder's tax status and applicable facts (including the adjusted cost basis in units of beneficial interest); therefore, it is advisable to discuss the tax consequences of owning units with a tax advisor. A unitholder should also consult a tax advisor regarding any state or local tax consequences of owning units.

For 2006, Qualified Dividends were disbursed as the result of financial operations. These should be reported on Schedule B of Form 1040.

ROYALTY INCOME AND DEDUCTION

Using the figures in Table A, an individual unitholder will enter income and administrative expenses on Schedule E (Form 1040). The figures given in Table A are on a per unit basis; therefore, to determine royalty income and deductions, multiply these per units amounts by the number of units owned. Use the figures in the “Total” column for units owned during the entire year; otherwise, use the sum of the figures that correspond to each record date of distribution on which units were owned. Instructions for Form 1040 Schedule E, on pages E-1 through E-6, should be followed.

PORTFOLIO INCOME

The Internal Revenue Code imposes limitations on losses and credits derived from passive activities that can be claimed by individuals, estates, trusts, and certain corporations. Passive activity losses and credits that can be claimed are generally limited to the amount of income derived from all passive activities. Royalty income is considered to be portfolio income and not income derived from a passive entity.

Therefore, a unitholder may not offset royalty income derived from the Trust with losses and credits derived from passive activities.

DEPLETION DEDUCTION

A unitholder's deduction for depletion will be the larger of the amount determined under (1) the cost method or (2) the percentage method. The deduction is entered on line 20, Part I of Schedule E (Form 1040). Attach a schedule to the return explaining the computation of the deduction.

1. Cost Method

To calculate the 2006 deduction under the cost method, multiply the remaining basis in units owned (cost of units less all depletion deductions under either the cost or percentage method for prior years) on January 1, 2006 by 8.54%. Do not use 8.54% if units were owned for only a portion of 2006; instead, use the total of the percentages in Table B corresponding to each record date of distribution on which units were owned.

The 8.54% factor has been provided by Netherland Sewell and Associates Inc., consulting petroleum engineers and geologists, based upon their study of the most accurate and reliable information available to the Trust. The factor is arrived at by dividing the Trust's share of oil and gas sold in 2006 by the Trust's share of the total estimated quantity of oil and gas expected to be sold from those properties after January 1, 2006.

The volumes of oil and gas sold (per unit of beneficial interest) in 2006 are presented in Table C and were used to calculate the cost depletion factors in Table B.

2. Percentage Method

The percentage depletion deduction for 2006 is equal to 15% of gross income, limited to a maximum depletable quantity of 1,000 barrels of oil or 6 million cubic feet of gas per day, or a statutory equivalent combination of both. Table C reflects the quantity of oil and gas sold per unit of beneficial interest in 2006. Percentage depletion is not allowable on any "proven property" acquired after December 31, 1974 and on or before October 11, 1990. Therefore, percentage depletion will be available for units purchased before December 31, 1974 and after October 11, 1990, assuming the unitholder meets the other requirements for percentage depletion. Unitholders should consult their tax advisors regarding their eligibility for, and the computation of, the percentage depletion.

Tidelands Royalty Trust "B" 2006 Tax Information Tables

TABLE A - INCOME & DEDUCTIONS - 2006

(In Dollars per Unit)

75-6007863

Distribution Record Dates

	3/31/06	6/30/06	9/29/06	12/29/06	TOTAL	ENTER ON IRS FORM 1040
Royalty Income from:						
Oil Royalties	0.002850	0.122185	0.019490	0.083678	0.228203	
Gas Royalties	0.080552	0.026078	0.023977	0.434695	0.565302	
Total Oil & Gas Royalties	<u>0.083402</u>	<u>0.148263</u>	<u>0.043467</u>	<u>0.518373</u>	<u>0.793505</u>	Schedule E, Part 1, Line 4
Qualified Dividends	0.000376	0.006697	0.001063	0.025987	0.034123	Schedule B, Part II
Deductions Entered on Schedule E: Administrative Expense	0.023860	0.016413	0.013258	0.024078	0.077609	Schedule E, Part 1, Line 18
Cash Distributed	<u>0.059918</u>	<u>0.138547</u>	<u>0.031272</u>	<u>0.520282</u>	<u>0.750019</u>	

TABLE B - COST DEPLETION PERCENTAGES

Record Date of Distribution	Depletion Percentage
3/31/06	0.97%
6/30/06	0.26%
9/29/06	0.53%
12/29/06	6.78%
Total	<u>8.54%</u>

TABLE C - PRODUCTION QUANTITIES

Record Date of Distribution	Oil (bbls) per unit	Gas (mcf) per unit
3/31/06	0.000037	0.008935
6/30/06	0.001645	0.002154
9/29/06	0.000594	0.004745
12/29/06	0.001169	0.062187
Total	<u>0.003445</u>	<u>0.078021</u>