

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

**Form 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2016

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.)

**c/o The Corporate Trustee:**

**Southwest Bank**

**2911 Turtle Creek Blvd.**

**Dallas, Texas 75219**

(Address of principal executive offices)

(Zip Code)

**(855) 588-7839**

(Registrant's telephone number, including area code)

**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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of units of beneficial interest outstanding as of the latest practicable date:

As of August 1, 2016, Tidelands Royalty Trust "B" 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**

**CONDENSED CONSOLIDATED STATEMENTS OF ASSETS, LIABILITIES  
AND TRUST CORPUS**

**As of June 30, 2016 and December 31, 2015**

**ASSETS**

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
	<b>(Unaudited)</b>	
Current assets:		
Cash and cash equivalents.....	\$ 464,176	\$ 579,803
Oil, natural gas and other mineral properties .....	2	2
Total assets.....	<u>\$ 464,178</u>	<u>\$ 579,805</u>

**LIABILITIES AND TRUST CORPUS**

Current liabilities:		
Income distributable to unitholders.....	\$ —	\$ 55,201
Total current liabilities.....	<u>\$ —</u>	<u>\$ 55,201</u>
Trust corpus – 1,386,525 units of beneficial interest authorized, 1,386,375 issued at nominal value .....	\$ 464,178	\$ 524,604
	<u>\$ 464,178</u>	<u>\$ 579,805</u>

See the accompanying notes to condensed consolidated financial statements.

**TIDELANDS ROYALTY TRUST "B" AND SUBSIDIARY**

**CONDENSED CONSOLIDATED STATEMENTS OF DISTRIBUTABLE INCOME**  
**For the Three and Six Months Ended June 30, 2016 and 2015**  
**(Unaudited)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Income:				
Oil and natural gas royalties....	\$ 35,738	\$ 76,533	\$ 117,939	\$ 166,545
Interest income.....	20	4	30	10
Total income .....	<u>\$ 35,758</u>	<u>\$ 76,537</u>	<u>\$ 117,969</u>	<u>\$ 166,555</u>
Expenses:				
General and administrative ...	<u>\$ 69,705</u>	<u>\$ 80,536</u>	<u>\$ 90,364</u>	<u>\$ 98,011</u>
Distributable income (loss) before Federal income taxes.....	(33,947)	(3,999)	27,605	68,544
Federal income taxes of subsidiary .....	—	—	3,019	—
Distributable income (loss) .....	<u>\$ (33,947)</u>	<u>\$ (3,999)</u>	<u>\$ 24,586</u>	<u>\$ 68,544</u>
Distributable income (loss) per unit .....	<u>\$ (0.02)</u>	<u>\$ 0.00</u>	<u>\$ 0.02</u>	<u>\$ 0.05</u>
Distributions per unit .....	<u>\$ 0.00</u>	<u>\$ 0.02</u>	<u>\$ 0.06</u>	<u>\$ 0.14</u>
Units outstanding .....	1,386,375	1,386,375	1,386,375	1,386,375

See the accompanying notes to condensed consolidated financial statements.

**TIDELANDS ROYALTY TRUST "B" AND SUBSIDIARY**

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN TRUST CORPUS**  
**For the Six Months Ended June 30, 2016 and 2015**  
**(Unaudited)**

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Trust corpus, beginning of period .....	\$ 524,604	\$ 609,407
Distributable income .....	24,586	68,544
Distributions to unitholders .....	(85,012)	(194,642)
Trust corpus, end of period .....	<u>\$ 464,178</u>	<u>\$ 483,309</u>

See the accompanying notes to condensed consolidated financial statements.

## TIDELANDS ROYALTY TRUST “B” AND SUBSIDIARY

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

(Unaudited)

#### Note 1. Accounting Policies

The financial statements herein include the financial statements of Tidelands Royalty Trust “B” (the “Trust”) and Tidelands Royalty “B” Corporation, its wholly owned subsidiary (“Tidelands Corporation,” and collectively with the Trust, “Tidelands”). The financial statements are condensed and consolidated and should be read in conjunction with Tidelands’ Annual Report on Form 10-K for the year ended December 31, 2015. The financial statements included herein are unaudited, but in the opinion of Southwest Bank (the “Trustee”), the Trustee of the Trust, they include all adjustments necessary for a fair presentation of the results of operations for the periods presented. Operating results for the interim periods reported herein are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

#### Note 2. Basis of Accounting

The financial statements of Tidelands are prepared on the modified cash basis method and are not intended to present Tidelands’ financial position and results of operations in conformity with generally accepted accounting principles in the United States (“GAAP”). Under the modified cash basis method the financial statements of Tidelands differ from financial statements prepared in conformity with GAAP because of the following:

- Royalty income is recognized in the month when received by Tidelands rather than in the month of production.
- Tidelands’ expenses (including accounting, legal, other professional fees, trustees’ fees and out-of-pocket expenses) are recorded on an actual paid basis in the month paid rather than in the month incurred. Reserves for liabilities that are contingent or uncertain in amount may also be established if considered necessary, which would not be recorded under GAAP.
- At the time the Trust was established, no determinable market value was available for the assets transferred to the Trust; consequently, nominal values were assigned. Accordingly, no allowance for depletion has been included. All income from oil and natural gas royalties relate to proved developed oil and natural gas reserves.

The modified cash basis method of accounting corresponds to the accounting principles permitted for royalty trusts by the U.S. Securities and Exchange Commission (the “SEC”), as specified by Staff Accounting Bulletin Topic 12:E, *Financial Statements of Royalty Trusts*.

#### Note 3. Distributable Income

The Trust’s Indenture, as amended (the “Indenture”), provides that the 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 “Note 1. Accounting Policies” above, the financial statements in this Quarterly Report on Form 10-Q are the condensed and consolidated financial statements of the Trust and Tidelands Corporation. However, distributable income is paid from the account balances of the Trust. Distributable income is comprised of (i) royalties from offshore Texas leases owned directly by the Trust, (ii) 95% of the overriding royalties received by Tidelands Corporation from offshore Louisiana leases owned by Tidelands Corporation, which are retained by and delivered to the Trust on a quarterly basis, and (iii) dividends paid to the Trust by Tidelands Corporation, less (iv) administrative expenses incurred by the Trust. Distributions fluctuate from quarter to quarter primarily due to changes in oil and natural gas prices and production quantities.

## **Item 2. Trustee’s Discussion and Analysis of Financial Condition and Results of Operations**

### **Organization**

Tidelands Royalty Trust “B” (the “Trust”) is a royalty trust that was created on June 1, 1954 under the laws of the State of Texas. Southwest Bank, an independent state bank chartered under the laws of the State of Texas and headquartered in Fort Worth, Texas, serves as corporate trustee (the “Trustee”). The Trust’s Indenture (the “Indenture”) provides that the term of the Trust will expire on April 30, 2021, unless extended by the vote of the holders of a majority of the outstanding units of beneficial interest. The Trust 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 interests in certain oil, natural gas or other mineral leases formerly owned by Gulf Oil Corporation (“Gulf”) in a designated area of the Gulf of Mexico. These rights are evidenced by a contract between the Trust’s 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 rights to interests that were subject to the 1951 Contract now are held by Chevron U.S.A., Inc. (“Chevron”), which is a subsidiary of Chevron Corporation, and its assignees. The Trust holds title to interests in properties subject to the 1951 Contract that are situated offshore of Texas.

The Trust’s wholly owned subsidiary, Tidelands Royalty “B” Corporation (“Tidelands Corporation,” and collectively with the Trust, “Tidelands”), holds title to interests in properties subject to the 1951 Contract that are situated offshore of Louisiana because at the time the Trust was created, trusts could not hold these interests under Louisiana law. Tidelands Corporation is prohibited from engaging in a trade or business and only takes those actions that are necessary for the administration and liquidation of its properties.

Tidelands’ rights are generally referred to as overriding royalty interests in the oil and natural gas industry. An overriding royalty interest is created by an assignment by the owner of a working interest in an oil or natural gas lease. The royalty rights associated with an overriding royalty interest terminate when the underlying lease terminates. All production and marketing functions are conducted by the working interest owners of the leases. Income from the overriding royalties is paid to Tidelands either (i) on the basis of the selling price of oil, natural gas and other minerals produced, saved or sold or (ii) at the value at the wellhead as determined by industry standards, when the selling price does not reflect the value at the wellhead.

The Trustee assumes that some units of beneficial interest are held by middlemen, as such term is broadly defined in U.S. Treasury Regulations (and includes custodians, nominees, certain joint owners and brokers holding an interest for a customer in street name). Therefore, the Trustee considers the Trust to be a widely held fixed investment trust (“WHFIT”) for U.S. federal income tax purposes. Accordingly, the Trust will provide tax information in accordance with applicable U.S. Treasury Regulations governing the information reporting requirements of the Trust as a WHFIT. The Trustee will provide the required information and the contact information for the Trustee is below:

Southwest Bank  
2911 Turtle Creek Blvd., Suite 850  
Dallas, Texas 75219  
Telephone number: (855) 588-7839

Each unitholder should consult its own tax advisor for compliance with U.S. federal income tax laws and regulations.

### **Liquidity and Capital Resources**

As stated in the Indenture, there is no requirement for capital due to the limited purpose of the Trust. The Trust’s only obligation is to distribute the distributable income that is actually collected to unitholders. As an administrator of oil and natural gas royalty interests, the Trust collects royalties monthly, pays administrative expenses and disburses all net royalties that are collected to its unitholders each quarter.

The Indenture (and Tidelands Corporation’s charter and by-laws) expressly prohibits the operation of any kind of trade or business. The Trust’s oil and natural gas properties are depleting assets that are not being replaced due to the

prohibition against investments. These restrictions, along with other factors, allow the Trust to be treated as a grantor trust. As a grantor trust, all income and deductions for state and U.S. federal income tax purposes generally flow through to each individual unitholder. The State of Texas imposes a franchise tax, but the Trust does not believe that it is subject to the franchise tax because at least 90% of its income is from passive sources. Please see Tidelands' Annual Report on Form 10-K for the year ended December 31, 2015 for further information. Tidelands Corporation is a taxable entity that pays U.S. federal income taxes and state franchise taxes. However, Tidelands Corporation's income specifically excludes 95% of the oil and natural gas royalties collected by Tidelands Corporation, which are retained by and delivered to the Trust because of the Trust's net profits interest.

### The Leases

As of August 1, 2016, Tidelands had an overriding royalty interest in four oil and natural gas leases covering 17,188 gross acres in the Gulf of Mexico in the Sabine Pass and West Cameron areas. As of August 1, 2016 all four of Tidelands' assigned leases contained active wells. As of November 1, 2013, the wells on West Cameron Block 225 were shut-in and remain shut-in. As a royalty owner, Tidelands does not participate in operating decisions and has not received information from the working interest owners, ENI Petroleum USA LLC or Mariner Energy Resources, Inc., regarding the shut-in status of the wells on West Cameron Block 225. Tidelands' overriding royalty interest on three of the four leases is 4.1662%. On the fourth lease, the overriding royalty interest is 1.0416%. The overriding royalty interest on the fourth lease is lower because Chevron only acquired a 25% working interest in the lease. These leases and related overriding royalty interests are identified in the table below:

<b>Area</b>	<b>Block</b>	<b>Lease Number</b>	<b>Gross Acres</b>	<b>Royalty Interest</b>	<b>Working Interest Owner(s)</b>
Sabine Pass .....	13	3959	3,438	4.1662%	Renaissance Offshore LLC (100.00% Ownership Interest)
West Cameron .....	165	758	5,000	4.1662%	Fieldwood Energy LLC (100.00% Ownership Interest)
West Cameron .....	291	4397	5,000	4.1662%	Apache Corporation (100.00% Ownership Interest)
West Cameron .....	225	900	3,750	1.0416%	ENI Petroleum USA LLC (68.00% Ownership Interest); Mariner Energy Resources, Inc. (32.00% Ownership Interest)
Total.....			<u>17,188</u>		

Based on the latest public records reviewed by Tidelands, there are seven active oil or natural gas wells that had production during the past 12 months on leases that are subject to Tidelands' overriding royalty interest based on the records of the Bureau of Ocean Energy, Management, Regulation and Enforcement, a division of the U.S. government. The wells vary in age from approximately four years to fourteen years. Information on each of the seven wells is presented in the following table:

<b>Location</b>	<b>Well</b>	<b>Type</b>	<b>First Produced</b>
West Cameron Block 165	A001A	Gas	September 2002
West Cameron Block 165	A006	Gas	August 2004
West Cameron Block 165	A007	Gas	March 2012
Sabine Pass Block 13	A001	Oil	October 2008
Sabine Pass Block 13	A005	Gas	December 2008
Sabine Pass Block 13	A006	Gas	February 2009
West Cameron Block 291	003	Gas	July 2012

There was a decrease in active wells from nine wells as of June 30, 2015 to seven wells as of June 30, 2016.



## **Critical Accounting Policies and Estimates**

In accordance with the Staff Accounting Bulletin Topic 12:E, *Financial Statements of Royalty Trusts*, Tidelands uses the modified cash basis method of accounting. Under this accounting method, royalty income is recorded when received and distributions to unitholders are recorded when declared by the Trustee of the Trust. Expenses of Tidelands (including accounting, legal, other professional fees, trustees' fees and out-of-pocket expenses) are recorded on an actual paid basis. Tidelands also reports distributable income instead of net income under the modified cash basis method of accounting. Cash reserves are permitted to be established by the Trustee for certain contingencies that would not be recorded under generally accepted accounting principles in the United States.

Tidelands did not have any changes in its critical accounting policies or estimates during the six months ended June 30, 2016. Please see Tidelands' Annual Report on Form 10-K for the year ended December 31, 2015 for a detailed discussion of its critical accounting policies.

## **New Accounting Pronouncements**

There are no new pronouncements that are expected to have a significant impact on Tidelands' financial statements.

## **General**

Tidelands' royalty income is derived from the oil and natural gas production activities of third parties. Tidelands' royalty income fluctuates from period to period based upon factors beyond Tidelands' control, including, without limitation, the number of productive wells drilled and maintained on leases that are 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 are sold.

Important aspects of Tidelands' operations are conducted by third parties. Tidelands' royalty income is dependent on the operations of the working interest owners of the leases on which Tidelands has an overriding royalty interest. The oil and natural gas companies that lease tracts subject to Tidelands' interests are responsible for the production and sale of oil and natural gas and the calculation of royalty payments to Tidelands. The only obligation of the working interest owners to Tidelands is to make monthly overriding royalty payments that reflect Tidelands' interest in the oil and natural gas sold. Tidelands' distributions are processed and paid by its transfer agent, American Stock Transfer & Trust Company, LLC.

The volume of oil and natural gas produced and the selling prices of oil and natural gas are the primary factors in calculating overriding royalty payments. Production is affected by the natural production decline of the producing wells, the number of new wells drilled, and the number of existing wells that are re-worked and placed back in production on the leases. Production from existing wells is anticipated to decrease in the future due to normal well depletion. The operators do not provide Tidelands with information regarding future drilling or re-working operations that could impact the oil and natural gas production from the leases for which Tidelands has an overriding royalty interest.

## **Summary of Operating Results**

During the six months ended June 30, 2016, Tidelands realized approximately 73% of its royalty income from the sale of oil and approximately 27% of its royalty income from the sale of natural gas. During the six months ended June 30, 2015, Tidelands realized approximately 57% of its royalty income from the sale of oil and approximately 43% of its royalty income from the sale of natural gas. Royalty income includes royalties from oil and natural gas received from producers.

Distributable income per unit for the six months ended June 30, 2016 decreased to \$0.02 from \$0.05 for the comparable period in 2015. Distributions per unit amounted to \$0.06 for the six months June 30, 2016, down from \$0.14 for the comparable period in 2015. During the six months ended June 30, 2016, the difference between distributable income per unit and distributions per unit resulted from timing differences between the closing of the financial statements and the determination date of the distributions to unitholders.

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

Quarter Ended	Net Production Quantities		Distributable Income (Loss) per Unit	Distributions per Unit
	Oil (bbls)	Natural Gas (mcf)		
March 31, 2015 .....	794	8,947	\$ 0.05	\$ 0.12
June 30, 2015 .....	819	12,263	\$ 0.00	\$ 0.02
September 30, 2015.....	1,327	13,827	\$ 0.06	\$ 0.05
December 31, 2015 .....	1,520	8,373	\$ 0.05	\$ 0.04
March 31, 2016 .....	1,529	12,370	\$ 0.04	\$ 0.06
June 30, 2016 .....	889	5,979	\$ (0.02)	\$ 0.00

**Results of Operations – Three Months Ended June 30, 2016 Compared to the Three Months Ended June 30, 2015**

Income from oil and natural gas royalties decreased to \$35,738 during the three months ended June 30, 2016 from \$76,533 realized for the comparable period in 2015. The decrease was primarily due to a decrease in the production of natural gas and a decrease in the price of oil and natural gas.

Distributable loss increased to \$33,947 for the three months ended June 30, 2016 compared to a distributable loss of \$3,999 for the comparable period in 2015. As a result, after the payment of expenses, there were no funds available for distribution on July 14, 2016 to the unitholders of record as of June 30, 2016.

Income from oil royalties decreased to \$26,697 for the three months ended June 30, 2016 from \$39,574 realized for the comparable period in 2015, primarily due to a decrease in the price of oil. The volume of oil sold in the three months ended June 30, 2016 increased to 889 bbls from 819 bbls realized for the comparable period in 2015, and the average price realized for oil decreased to \$30.03 per bbl for the three months ended June 30, 2016 from \$48.32 per bbl realized for the comparable period in 2015.

Income from natural gas royalties decreased to \$9,041 for the three months ended June 30, 2016 from \$36,959 realized for the comparable period in 2015, primarily due to a decrease in the price and production of natural gas. The volume of natural gas sold in the three months ended June 30, 2016 decreased to 5,979 mcf from 12,263 mcf realized for the comparable period in 2015, and the average price realized for natural gas decreased to \$1.51 per mcf from \$3.01 per mcf realized for the comparable period in 2015.

The following table presents the quantities of oil and natural gas sold and the average price realized for the three months ended June 30, 2016 and 2015.

	Three Months Ended June 30,	
	2016	2015
	(Unaudited)	(Unaudited)
<b>Oil</b>		
Bbls sold .....	889	819
Average price .....	\$ 30.03	\$ 48.32
<b>Natural gas</b>		
Mcf sold .....	5,979	12,263
Average price .....	\$ 1.51	\$ 3.01

General and administrative expenses decreased to \$69,705 for the three months ended June 30, 2016 from \$80,536 for the comparable period in 2015 primarily due to the timing of payments of, and a reduction in, professional fees and expenses paid in the quarter.

## Results of Operations – Six Months Ended June 30, 2016 Compared to the Six Months Ended June 30, 2015

Income from oil and natural gas royalties decreased to \$117,939 during the six months ended June 30, 2016 from \$166,545 realized for the comparable period in 2015. The decrease was primarily due to a decrease in the price of oil and natural gas and a decrease in the production of natural gas, offset by an increase in the production of oil.

Distributable income decreased to \$24,586 for the six months ended June 30, 2016 compared to \$68,544 for the comparable period in 2015.

Income from oil royalties decreased to \$86,371 for the six months ended June 30, 2016 from \$95,344 realized for the comparable period in 2015, primarily due to a decrease in the price of oil. The volume of oil sold in the six months ended June 30, 2016 increased to 2,418 bbls from 1,613 bbls realized for the comparable period in 2015, and the average price realized for oil decreased to \$35.72 per bbl for the six months ended June 30, 2016 from \$59.11 per bbl realized for the comparable period in 2015.

Income from natural gas royalties decreased to \$31,568 for the six months ended June 30, 2016 from \$71,201 realized for the comparable period in 2015, primarily due to a decrease in the price of natural gas. The volume of natural gas sold in the six months ended June 30, 2016 decreased to 18,349 mcf from 21,210 mcf realized for the comparable period in 2015, and the average price realized for natural gas decreased to \$1.72 per mcf from \$3.36 per mcf realized for the comparable period in 2015.

The following table presents the quantities of oil and natural gas sold and the average price realized for the six months ended June 30, 2016 and 2015.

	<u>Six Months Ended June 30,</u>	
	<u>2016</u>	<u>2015</u>
	(Unaudited)	(Unaudited)
<b>Oil</b>		
Bbls sold .....	2,418	1,613
Average price .....	\$ 35.72	\$ 59.11
<b>Natural gas</b>		
Mcf sold .....	18,349	21,210
Average price .....	\$ 1.72	\$ 3.36

General and administrative expenses decreased to \$90,364 for the six months ended June 30, 2016 from \$98,011 for the comparable period in 2015 primarily due to the timing of payments of, and a reduction in, professional fees and expenses paid in the quarter.

### Forward-Looking Statements

The statements discussed in this Quarterly Report on Form 10-Q regarding Tidelands' 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, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This report uses the words "anticipate," "believe," "budget," "continue," "estimate," "expect," "intend," "may," "plan," 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 Tidelands' financial condition, and/or state other "forward-looking" information. Actual results may differ from expected results because of: reductions in prices 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; changes in regulations; general economic conditions; actions and policies of petroleum producing nations; other changes in domestic and international energy markets; the resignation of the Trustee; and the expiration, termination or release of leases subject to Tidelands' interests. Additional risks are set forth in Tidelands' Annual Report on Form 10-K for the year ended December 31, 2015, as updated by the risks set forth in this Quarterly Report on Form 10-Q. Events may occur in the future that Tidelands is unable to accurately predict, or over which it has 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 Quarterly Report on Form 10-Q. Except as required by applicable securities laws, Tidelands does not undertake any obligation to update or revise any forward-looking statements.

## **Website**

Tidelands makes available, free of charge, Tidelands' Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to such reports at its website at [www.tirtz-tidelands.com](http://www.tirtz-tidelands.com). Each of these reports will be posted on this website as soon as reasonably practicable after such report is electronically filed with or furnished to the SEC.

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

Tidelands did not experience any material changes in market risk during the period covered by this Quarterly Report on Form 10-Q. Tidelands' market risk is described in more detail in "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in Tidelands' Annual Report on Form 10-K for the year ended December 31, 2015.

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

### **Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

Southwest Bank, as Trustee of the Trust, is responsible for establishing and maintaining Tidelands' disclosure controls and procedures. Tidelands' disclosure controls and procedures include controls and other procedures that are designed to ensure that information required to be disclosed by Tidelands in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by Tidelands in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Trustee as appropriate to allow timely decisions regarding required disclosure.

As of June 30, 2016, the Trustee carried out an evaluation of the effectiveness of the design and operation of Tidelands' disclosure controls and procedures pursuant to Rules 13a-15(b) and 15d-15(b) of the Exchange Act. Based upon that evaluation, the Trustee concluded that Tidelands' disclosure controls and procedures were effective as of June 30, 2016.

### **Changes in Internal Control Over Financial Reporting**

There have not been any changes in Tidelands' internal control over financial reporting during the quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, Tidelands' internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed under the heading “Item 1A. Risk Factors” in Tidelands’ Annual Report filed on Form 10-K for the year ended December 31, 2015, other than as set forth below:

**Oil and natural gas prices, which are subject to fluctuations, have declined substantially from historical highs and may remain depressed for the foreseeable future. The depression in oil and natural gas prices has resulted in, and is expected to continue to result in, lower royalty payments to Tidelands and lower cash distributions to its unitholders.**

Tidelands’ quarterly distributions are highly dependent upon the prices realized from the sale of oil and natural gas. During 2015 and 2016, oil and natural gas prices experienced a significant decline and the depression of oil and natural gas prices may continue for the foreseeable future. This decline in oil and natural gas prices has had, and could continue to have, a material adverse effect on Tidelands’ distributable income. Any sustained decline in Tidelands’ distributable income would cause a decrease in the value of cash distributions to its unitholders and could result in Tidelands being unable to make a cash distribution to its unitholders in one or more quarters, as well as result in a decrease in the market price for the units. As a result of recent declines in Tidelands’ distributable income, it was unable to make its scheduled July 2016 distribution to its unitholders of record as of June 30, 2016 because there were no funds available for distribution after the payment of expenses.

Historically, oil and natural gas prices have been volatile and are likely to continue to be volatile in the future due to factors beyond Tidelands’ control. These factors include, but are not limited to:

- political conditions worldwide, in particular political disruption, terrorist activities, war or other armed conflicts in oil producing regions, especially in the Middle East;
- worldwide economic conditions;
- weather conditions;
- the supply and price of domestic and foreign oil and natural gas;
- the level of consumer demand;
- the price and availability of alternative fuels;
- the proximity to, and capacity of, transportation facilities; and
- the effect of worldwide energy conservation measures.

Moreover, government regulations, such as regulation of natural gas transportation and price controls, can affect oil and natural gas product prices in the long term.

The volatility of oil and natural gas prices reduces the predictability of future cash distributions to unitholders. Substantially all of the oil and natural gas produced from the Royalty Area is being sold under short-term or multi-month contracts at market clearing prices or on the spot market.

**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”**

Southwest Bank, trustee of Tidelands Royalty Trust  
“B” and not in its individual capacity or otherwise

August 15, 2016

By: /s/ Ron E. Hooper

Ron E. Hooper  
*Senior Vice President*

**Tidelands Royalty Trust "B"**  
**c/o Southwest Bank, Trustee**  
**PO Box 962020**  
**Fort Worth, TX 76162-2020**