SECURITIES & EXCHANGE COMMISSION EDGAR FILING

BLUE DOLPHIN ENERGY CO

Form: 10-Q

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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 **March 31, 2019**

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 No. **0-15905**

BLUE DOLPHIN ENERGY COMPANY

(Exact name of registrant as specified in its charter)

Delaware	**73-1268729**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
801 Travis Street, Suite 2100, Houston, Texas	**77002**
(Address of principal executive offices)	(Zip Code)

713-568-4725

(Registrant's telephone number, including area code)

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 website, 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☒
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Number of shares of common stock, par value $0.01 per share outstanding as of May 16, 2019: 10,975,514

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value	BDCO	OTCQX

TABLE OF CONTENTS

INTRODUCTION

This Quarterly Report for the period ended March 31, 2019 (this "Quarterly Report") is a document that U.S. public companies file with the Securities and Exchange Commission ("SEC") every year. Part I, Item 1. of the Quarterly Report contains financial information, including consolidated financial statements and related notes. Part I, Item 2. of this Quarterly Report provides management's discussion and analysis of our financial condition and results of operations. We hope investors will find it useful to have this information in a single document.

In this Quarterly Report, "Blue Dolphin," "we," "our," and "us" are used interchangeably to refer to Blue Dolphin Energy Company individually or to Blue Dolphin Energy Company and its subsidiaries collectively, as appropriate to the context. Information in this Quarterly Report is current as of the filing date, unless otherwise specified.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

In this Quarterly Report, and from time to time throughout the year, we share our expectations for our future performance. These forward-looking statements include statements about our business plans; our expected financial performance, including the anticipated effect of strategic actions; previously reported material weakness in our internal control over financial reporting; economic, political and market conditions; and other factors that could affect our future results of operations or financial condition, including, without limitation, statements under the section entitled "Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations," "Part II, Item 1. Legal Proceedings," and "Part II, Item 1A. Risk Factors." Any statements we make that are not matters of current reportage or historical fact should be considered forward-looking. Such statements often include words such as "believe," "expect," "anticipate," "intend," "plan," "estimate," "will," and similar expressions. By their nature, these types of statements are uncertain and are not guarantees of our future performance. Our forward-looking statements represent our estimates and expectations at the time of disclosure. However, circumstances change constantly, often unpredictably, and investors should not place undue reliance on these statements. Many events beyond our control will determine whether our expectations will be realized. We disclaim any current intention or obligation to revise or update any forward-looking statements, or the factors that may affect their realization, whether considering new information, future events or otherwise, and investors should not rely on us to do so.

In accordance with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, "Part I, Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (the "Annual Report"), and "Part II, Item 1A. Risk Factors" in this Quarterly Report explain some of the important factors that may cause actual results to be materially different from those that we anticipate.

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GLOSSARY OF SELECTED ENERGY, FINANCIAL, AND OTHER TERMS

Below are abbreviations and definitions of certain commonly used oil and gas industry terms, as well as key financial performance measures used by management, that are used in this Quarterly Report.

Regarding financial terms, management uses U.S. generally accepted accounting principles ("GAAP") and certain non-GAAP performance measures to assess our results of operations. Certain performance measures used by management to assess our operating results and the effectiveness of our business segment are considered non-GAAP performance measures. These performance measures may differ from similar calculations used by other companies within the petroleum industry, thereby limiting their usefulness as a comparative measure. We refer to certain refinery throughput and production data in the explanation of our period-over-period changes in results of operations. For our consolidated results, we refer to our consolidated statements of operations in the explanation of our period-over-period changes in results of operations.

Energy Terms

Atmospheric gas oil ("AGO"). The heaviest product boiled by a crude distillation tower operating at atmospheric pressure. This fraction ordinarily sells as distillate fuel oil, either in pure form or blended with cracked stocks. Certain ethylene plants, called heavy oil crackers, can take AGO as feedstock.

Barrel ("bbl"). A unit of volume equal to 42 U.S. gallons.

Barrels per Day ("bpd"). A measure of the bbls of daily output produced in a refinery or transported through a pipeline.

Complexity. A numerical score that denotes, for a given refinery, the extent, capability, and capital intensity of the refining processes downstream of the crude distillation tower. Refinery complexities range from the relatively simple crude distillation tower ("topping unit"), which has a complexity of 1.0, to the more complex deep conversion ("coking") refineries, which have a complexity of 12.0.

Condensate. Liquid hydrocarbons that are produced in conjunction with natural gas. Although condensate is sometimes like crude oil, it is usually lighter.

Crude distillation tower. A tall column-like vessel in which crude oil and condensate is heated and its vaporized components are distilled by means of distillation trays. This process turns crude oil and other inputs into intermediate and finished petroleum products. (Commonly referred to as a crude distillation unit or an atmospheric distillation unit.)

Crude oil. A mixture of thousands of chemicals and compounds, primarily hydrocarbons. Crude oil quality is measured in terms of density (light to heavy) and sulfur content (sweet to sour). Crude oil must be broken down into its various components by distillation before these chemicals and compounds can be used as fuels or converted to more valuable products.

Depropanizer unit. A distillation column that is used to isolate propane from a mixture containing butane and other heavy components.

Distillates. The result of crude distillation and therefore any refined oil product. Distillate is more commonly used as an abbreviated form of middle distillate. There are mainly four (4) types of distillates: (i) very light oils or light distillates (such as naphtha), (ii) light oils or middle distillates (such as our jet fuel), (iii) medium oils, and (iv) heavy oils (such as our low-sulfur diesel and heavy oil-based mud blendstock ("HOBM"), reduced crude, and AGO).

Distillation. The first step in the refining process whereby crude oil and condensate is heated at atmospheric pressure in the base of a distillation tower. As the temperature increases, the various compounds vaporize in succession at their various boiling points and then rise to prescribed levels within the tower per their densities, from lightest to heaviest. They then condense in distillation trays and are drawn off individually for further refining. Distillation is also used at other points in the refining process to remove impurities.

Feedstocks. Crude oil and other hydrocarbons, such as condensate and/or intermediate products, that are used as basic input materials in a refining process. Feedstocks are transformed into one or more finished products.

Finished petroleum products. Materials or products which have received the final increments of value through processing operations, and which are being held in inventory for delivery, sale, or use.

Intermediate petroleum products. A petroleum product that might require further processing before it is saleable to the ultimate consumer. This further processing might be done by the producer or by another processor. Thus, an intermediate petroleum product might be a final product for one company and an input for another company that will process it further.

Jet fuel. A high-quality kerosene product primarily used in aviation. Kerosene-type jet fuel (including Jet A and Jet A-1) has a carbon number distribution between about 8 and 16 carbon atoms per molecule; wide-cut or naphtha-type jet fuel (including Jet B) has between about 5 and 15 carbon atoms per molecule.

Leasehold interest. The interest of a lessee under an oil and gas lease.

Light crude. A liquid petroleum that has a low density and flows freely at room temperature. It has a low viscosity, low specific gravity, and a high American Petroleum Institute gravity due to the presence of a high proportion of light hydrocarbon fractions.

Naphtha. A refined or partly refined light distillate fraction of crude oil. Blended further or mixed with other materials it can make high-grade motor gasoline or jet fuel. It is also a generic term applied to the lightest and most volatile petroleum fractions.

Petroleum. A naturally occurring flammable liquid consisting of a complex mixture of hydrocarbons of various molecular weights and other liquid organic compounds. The name petroleum covers both the naturally occurring unprocessed crude oils and petroleum products that are made up of refined crude oil.

Product Slate. Represents type and quality of products produced.

Propane. A by-product of natural gas processing and petroleum refining. Propane is one of a group of liquified petroleum gases. Others include butane, propylene, butadiene, butylene, isobutylene and mixtures thereof.

Refined petroleum products. Refined petroleum products are derived from crude oil and condensate that have been processed through various refining methods. The resulting products include gasoline, home heating oil, jet fuel, diesel, lubricants and the raw materials for fertilizer, chemicals, and pharmaceuticals.

Refinery. Within the oil and gas industry, a refinery is an industrial processing plant where crude oil and condensate is separated and transformed into petroleum products.

Sour crude. Crude oil containing sulfur content of more than 0.5%.

Stabilizer unit. A distillation column intended to remove the lighter boiling compounds, such as butane or propane, from a product.

Sweet crude. Crude oil containing sulfur content of less than 0.5%.

Sulfur. Present at various levels of concentration in many hydrocarbon deposits, such as petroleum, coal, or natural gas. Also, produced as a by-product of removing sulfur-containing contaminants from natural gas and petroleum. Some of the most commonly used hydrocarbon deposits are categorized per their sulfur content, with lower sulfur fuels usually selling at a higher, premium price and higher sulfur fuels selling at a lower, or discounted, price.

Topping unit. A type of petroleum refinery that engages in only the first step of the refining process -- crude distillation. A topping unit uses atmospheric distillation to separate crude oil and condensate into constituent petroleum products. A topping unit has a refinery complexity range of 1.0 to 2.0.

Throughput. The volume processed through a unit or a refinery or transported through a pipeline.

Turnaround. Scheduled large-scale maintenance activity wherein an entire process unit is taken offline for a week or more for comprehensive revamp and renewal.

Yield. The percentage of refined petroleum products that is produced from crude oil and other feedstocks.

Financial and Performance Measures

Capacity Utilization Rate. A percentage measure that indicates the amount of available capacity that is being used in a refinery or transported through a pipeline. With respect to the crude distillation tower, the rate is calculated by dividing total refinery throughput or total refinery production on a bpd basis by the total capacity of the crude distillation tower (currently 15,000 bpd).

Cost of Goods Sold. Reflects the cost of crude oil and condensate, fuel use, and chemicals.

Downtime. Scheduled and/or unscheduled periods in which the crude distillation tower is not operating. Downtime may occur for a variety of reasons, including bad weather, power failures, and preventive maintenance.

Gross Margin. Calculated as gross profit divided by total revenue; reflected as a percentage (%).

Gross Profit. Calculated as total revenue less cost of goods sold; reflected as a dollar ($) amount.

Operating Days. Represents the number of days in a period in which the crude distillation tower operated. Operating days is calculated by subtracting downtime in a period from calendar days in the same period.

Other conversion costs. Represents the combination of direct labor costs and manufacturing overhead costs. These are the costs that are necessary to convert our raw materials into refined petroleum products.

Other Operating Expenses. Represents costs associated with our pipeline assets and leasehold interests in oil and gas properties.

Refining Gross Profit per Bbl. Calculated as refinery operations revenue less total cost of goods sold divided by the volume, in bbls, of refined petroleum products sold during the period; reflected as a dollar ($) amount per bbl.

Total Refinery Production. Refers to the volume processed as output through the crude distillation tower. Refinery production includes finished petroleum products, such as jet fuel, and intermediate petroleum products, such as naphtha, HOBM and AGO.

Total Refinery Throughput. Refers to the volume processed as input through the crude distillation tower. Refinery throughput includes crude oil and condensate and other feedstocks.

Other Defined Terms

Final Arbitration Award. Damages and attorney fees and related expenses awarded to GEL Tex Marketing, LLC ("GEL"), an affiliate of Genesis Energy, L.P. ("Genesis") by an arbitrator on August 11, 2017 (the "Final Arbitration Award"), in arbitration proceedings between LE and GEL (the "GEL Arbitration") related to a contractual dispute involving a Crude Oil Supply and Throughput Services Agreement (the "Crude Supply Agreement") and a Joint Marketing Agreement (the "Joint Marketing Agreement"), each between LE and GEL and dated August 12, 2011.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Consolidated Balance Sheets (Unaudited)

	March 31, 2019	December 31, 2018
	(in thousands except share amounts)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 29	$ 14
Restricted cash	49	49
Accounts receivable, net	1,118	379
Accounts receivable, related party	482	-
Prepaid expenses and other current assets	876	1,786
Deposits	194	194
Inventory	1,843	1,510
Refundable federal income tax	166	108
Total current assets	4,757	4,040
LONG-TERM ASSETS		
Total property and equipment, net	64,256	64,697
Operating lease right-of-use assets	754	-
Restricted cash, noncurrent	1,602	1,602
Surety bonds	230	230
Deferred tax assets, net	50	108
Total long-term assets	66,892	66,637
TOTAL ASSETS	$ 71,649	$ 70,677
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Long-term debt less unamortized debt issue costs, current portion, in default	$ 34,645	$ 34,863
Long-term debt, related party, current portion, in default	7,459	7,041
Interest payable, in default	3,324	2,939
Interest payable, related party, in default	1,694	1,534
Accounts payable	2,309	2,719
Accounts payable, related party	1,680	1,529
Current portion of long-term operating leases	164	-
Asset retirement obligations, current portion	2,580	2,580
Accrued expenses and other current liabilities	1,948	1,571
Accrued arbitration award payable	19,628	21,128
Total current liabilities	75,431	75,904
LONG-TERM LIABILITIES		
Long-term operating leases, net of current portion	698	-
Total long-term liabilities	698	-
TOTAL LIABILITIES	76,129	75,904
Commitments and contingencies (Note 17)		
STOCKHOLDERS' DEFICIT		
Common stock ($0.01 par value, 20,000,000 shares authorized; 10,975,514 shares issued at both March 31, 2019 and December 31, 2018)	110	110
Additional paid-in capital	36,936	36,936
Accumulated deficit	(41,526)	(42,273)
TOTAL STOCKHOLDERS' DEFICIT	(4,480)	(5,227)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 71,649	$ 70,677

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations (Unaudited)

	Three Months Ended March 31,	
	2019	2018
	(in thousands, except share and per-share amounts)	
REVENUE FROM OPERATIONS		
Refinery operations	$ 67,858	$ 71,512
Tolling and terminaling	1,069	734
Total revenue from operations	68,927	72,246
COST OF GOODS SOLD		
Crude oil, fuel use, and chemicals	63,187	68,086
Other conversion costs	2,329	2,406
Total cost of goods sold	65,516	70,492
Gross Profit	3,411	1,754
COST OF OPERATIONS		
Management fee	150	154
Other operating expenses	57	44
General and administrative expenses	670	660
Depreciation and amortization	590	455
Accretion of asset retirement obligations	-	66
Total cost of operations	1,467	1,379
Income from operations	1,944	375
OTHER INCOME (EXPENSE)		
Easement, interest and other income	-	1
Interest and other expense	(1,197)	(744)
Total other income (expense)	(1,197)	(743)
Income (loss) before income taxes	747	(368)
Income tax benefit	-	217
Net income (loss)	$ 747	$ (151)
Income (loss) per common share:		
Basic	$ 0.07	$ (0.01)
Diluted	$ 0.07	$ (0.01)
Weighted average number of common shares outstanding:		
Basic	10,975,514	10,925,513
Diluted	10,975,514	10,925,513

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended March 31,	
	2019	2018
	(in thousands)	
OPERATING ACTIVITIES		
Net income (loss)	$ 747	$ (151)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	590	455
Deferred income tax	-	(217)
Amortization of debt issue costs	32	32
Accretion of asset retirement obligations	-	66
Changes in operating assets and liabilities		
Accounts receivable	(739)	818
Accounts receivable, related party	(482)	307
Prepaid expenses and other current assets	910	(223)
Deposits and other assets	-	(16)
Inventory	(333)	766
Accrued arbitration award	(1,500)	(1,500)
Accounts payable, accrued expenses and other liabilities	593	312
Accounts payable, related party	151	152
Net cash provided by (used in) operating activities	(31)	801
INVESTING ACTIVITIES		
Capital expenditures	(123)	(540)
Net cash used in investing activities	(123)	(540)
FINANCING ACTIVITIES		
Payments on debt	(250)	(240)
Net activity on related-party debt	419	217
Net cash provided by (used in) financing activities	169	(23)
Net change in cash, cash equivalents, and restricted cash	15	238
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT BEGINNING OF PERIOD	1,665	2,146
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF PERIOD	$ 1,680	$ 2,384
Supplemental Information:		
Non-cash investing and financing activities:		
Financing of capital expenditures via accounts payable and capital leases	$ -	$ 82
Financing of guaranty fees via long-term debt, related party	$ 158	$ 163
Interest paid	$ 361	$ 558
Income taxes paid	$ -	$ -

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(1) Organization

Nature of Operations. Blue Dolphin Energy Company is a publicly-traded Delaware corporation primarily engaged in the refining and marketing of petroleum products. We also provide tolling and storage terminaling services. Our assets, which are in Nixon, Texas, primarily include a 15,000-bpd crude distillation tower and more than 1.0 million bbls of petroleum storage tanks (collectively the "Nixon Facility"). Pipeline transportation and oil and gas operations are no longer active.

Structure and Management. Blue Dolphin is controlled by Lazarus Energy Holdings, LLC ("LEH"). LEH operates and manages all Blue Dolphin properties pursuant to an Amended and Restated Operating Agreement (the "Amended and Restated Operating Agreement"). Jonathan Carroll is Chairman of the Board of Directors (the "Board"), Chief Executive Officer, and President of Blue Dolphin, as well as a majority owner of LEH. Together, LEH and Jonathan Carroll owned 79.8% of our common stock, par value $0.01 per share (the "Common Stock") at March 31, 2019. (See "Note (9) Related-Party Transactions," "Note (11) Long-Term Debt, Net" and "Note (17) Commitments and Contingencies – Financing Agreements" for additional disclosures related to LEH, the Amended and Restated Operating Agreement, and Jonathan Carroll.)

We have the following active subsidiaries:

- Blue Dolphin Pipe Line Company, a Delaware corporation ("BDPL");
- Blue Dolphin Petroleum Company, a Delaware corporation;
- Blue Dolphin Services Co., a Texas corporation ("BDSC");
- Lazarus Energy, LLC, a Delaware limited liability company ("LE");
- Lazarus Refining & Marketing, LLC, a Delaware limited liability company ("LRM"); and
- Nixon Product Storage, LLC, a Delaware limited liability company ("NPS").

In June 2018, Blue Dolphin acquired 100% of the issued and outstanding membership interests of NPS from Lazarus Midstream Partners, L.P., an affiliate of LEH, pursuant to an Assignment Agreement. The assignment was accounted for as a combination of entities under common control. See "Note (5) NPS Assignment" of this Quarterly Report for further information related to the NPS assignment.

See "Part I, Item 1. Business" and "Part I, Item 2. Properties" in our Annual Report for additional information regarding our operating subsidiaries, principal facilities, and assets.

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Going Concern. Management has determined that certain factors raise substantial doubt about our ability to continue as a going concern. These factors include the following:

- *Final Arbitration Award and Settlement Agreement* – As previously disclosed, LE was involved in arbitration proceedings (the "GEL Arbitration") with GEL Tex Marketing, LLC ("GEL"), an affiliate of Genesis Energy, LP ("Genesis"), related to a contractual dispute involving a Crude Oil Supply and Throughput Services Agreement (the "Crude Supply Agreement") and a Joint Marketing Agreement (the "Joint Marketing Agreement"), each between LE and GEL and dated August 12, 2011. On August 11, 2017, the arbitrator delivered the Final Arbitration Award. The Final Arbitration Award denied all of LE's claims against GEL and granted substantially all the relief requested by GEL in its counterclaims. Among other matters, the Final Arbitration Award awarded damages and GEL's attorneys' fees and related expenses to GEL in the aggregate amount of $31.3 million. After the initial $3.7 million payment to GEL in September 2017, LE has made payments to GEL of $0.5 million per month. As of the date of this Quarterly Report, LE has paid $11.7 million to GEL towards reducing the outstanding balance of the Final Arbitration Award.

  A hearing on confirmation of the Final Arbitration Award was scheduled to occur on September 18, 2017 in state district court in Harris County, Texas. Prior to the scheduled hearing, LE and GEL jointly notified the court that the hearing would be continued for a period of no more than 90 days after September 18, 2017 (the "Continuance Period"), to facilitate settlement discussions between the parties. On September 26, 2017, LE and Blue Dolphin, together with LEH and Jonathan Carroll, entered into a Letter Agreement with GEL, effective September 18, 2017 (the "GEL Letter Agreement"), confirming the parties' agreement to the continuation of the confirmation hearing during the Continuance Period, subject to the terms of the GEL Letter Agreement. The GEL Letter Agreement was subsequently amended nine times to extend the Continuance Period through July 2018.

  LE, NPS, and Blue Dolphin, together with LEH, Carroll & Company Financial Holdings, L.P. ("C&C"), and Jonathan Carroll (collectively referred to herein as the "Lazarus Parties"), entered into that certain Settlement Agreement with GEL, dated as of July 20, 2018 (as may be further amended, restated, supplemented or otherwise modified from time to time, the "Settlement Agreement"), whereby GEL and the Lazarus Parties agreed to mutually release all claims against each other and to file a stipulation of dismissal with prejudice in connection with the GEL Arbitration (the "Settlement"), subject to the terms and conditions set forth in the Settlement Agreement. The Settlement is conditioned upon payment by the Lazarus Parties to GEL of $10.0 million in cash (the "Settlement Payment"). Until either the Settlement Payment is made or the Settlement Agreement is terminated, the Lazarus Parties must pay GEL $0.5 million in cash at the end of each calendar month (the "Interim Payments"). The Interim Payments will not be applied to reduce the amount of the Settlement Payment, but such payments will reduce the Final Arbitration Award. At the time of the Settlement, the difference between the Settlement Payment and the amount we have accrued on our consolidated balance sheet for arbitration award payable will be recognized as a gain on our consolidated statement of operations. At March 31, 2019 and December 31, 2018, accrued arbitration award payable on our consolidated balance sheet was $19.6 million and $21.1 million, respectively.

  The Settlement Agreement restricts the Lazarus Parties from taking certain actions without the prior written consent of GEL, including: (i) the incurrence of any debt not specifically excepted in the Settlement Agreement, (ii) the establishment of any liens not specifically excepted in the Settlement Agreement, (iii) the disposition of any assets other than certain ordinary course sales to unaffiliated third parties, payments to unaffiliated third-party trade creditors and scheduled debt payments, (iv) the entrance into any transactions with affiliates not specifically excepted in the Settlement Agreement, (v) the failure to pay debts generally as they become due, and (vi) the entrance into a bankruptcy, reorganization or similar proceeding. A violation of any of the restrictions in the Settlement Agreement or failure of the Lazarus Parties to make Interim Payments as they become due, will constitute an event of default under the Settlement Agreement which, subject to certain cure periods, would allow GEL to terminate the Settlement Agreement and enforce its rights under the Final Arbitration Award.

The Lazarus Parties are exploring the possibility of obtaining a commercial loan or other financing in an aggregate principal amount equal to the Settlement Payment (the "Settlement Financing"), subject to obtaining the consent of Veritex Community Bank ("Veritex"), as lender under certain loan agreements with the Lazarus Parties and their affiliates. Under the Settlement Agreement, the Lazarus Parties are required to work in good faith and take reasonable actions necessary to obtain the Settlement Financing in accordance with the terms of the Settlement Agreement. Prior to the consummation of the Settlement Financing, the Lazarus Parties are required to: (i) cause NPS to consummate the Settlement Financing and restrict its ability to commence a bankruptcy case, (ii) assign to NPS certain tank leases that will constitute collateral for the Settlement Financing, and (iii) cause NPS to assume joint and several liability for all or a portion of the Final Arbitration Award. The failure to achieve certain milestones in connection with obtaining the Settlement Financing will constitute an event of default under the Settlement Agreement, which would allow GEL to terminate the Settlement Agreement and enforce its rights under the Final Arbitration Award.

Simultaneously with the execution of the Settlement Agreement, Jonathan Carroll and C&C entered into a Security Agreement pursuant to which Jonathan Carroll and C&C agreed to secure up to $10.0 million of LE's obligations under the Final Arbitration Award with a security interest in their equity in LEH.

Unless extended in writing by GEL, the Settlement Agreement will terminate on July 31, 2019 if the Settlement Payment is not made on or before such date, and the Settlement Agreement may be terminated by GEL following the occurrence of an event of default under the Settlement Agreement, as described above. Pursuant to the Settlement Agreement, the parties agreed to terminate the GEL Letter Agreement, and GEL agreed not to take any action to execute or collect on the Final Arbitration Award and to take all action necessary to continue the District Court Action until the earlier of: (i) the date on which the Settlement Payment is paid or (ii) the termination of the Settlement Agreement. On February 1, 2019, GEL filed a proposed order granting a joint motion to continue the District Court Action. (See "Note (18) Subsequent Events" for additional disclosures related to the Settlement Agreement.)

Blue Dolphin can provide no assurance that the conditions necessary to consummation of the Settlement will be met. If certain conditions are not met or the Settlement Agreement is terminated, GEL may seek to enforce the Final Award against the Lazarus Parties, in which case, Blue Dolphin and its affiliates would likely be required to seek protection under bankruptcy laws.

- *Defaults Under Veritex Secured Loan Agreements* – LE and LRM each have loans with a 100% USDA guarantee Veritex, as successor in interest to Sovereign Bank by merger, in the original aggregate amount of $35.0 million.

  Events of Default. Veritex delivered to obligors notices of default under secured loan agreements with Veritex, stating that the Final Arbitration Award constitutes an event of default under the secured loan agreements. The occurrence of an event of default permits Veritex to declare the amounts owed under these loan agreements immediately due and payable, exercise its rights with respect to collateral securing obligors' obligations under these loan agreements, and/or exercise any other rights and remedies available.

  Veritex has not accelerated or called due the secured loan agreements considering the Settlement Agreement, which Veritex must ultimately approve. Instead, Veritex has expressly reserved all of its rights, privileges and remedies related to events of default under the secured loan agreements and informed obligors that it would consider a final confirmation of the Final Arbitration Award to be a material event of default under the loan agreements. The debt associated with these loans was classified within the current portion of long-term debt on our consolidated balance sheets at March 31, 2019 and December 31, 2018 due to existing events of default related to the Final Arbitration Award as well as the uncertainty of LE and LRM's ability to meet financial covenants in the secured loan agreements in the future.

Financial Covenant Defaults. In addition to existing events of default related to the Final Arbitration Award, at March 31, 2019, LE and LRM were in violation of certain financial covenants in secured loan agreements with Veritex. Covenant defaults under the secured loan agreements would permit Veritex to declare the amounts owed under these loan agreements immediately due and payable, exercise its rights with respect to collateral securing obligors' obligations under these loan agreements, and/or exercise any other rights and remedies available. The debt associated with these loans was classified within the current portion of long-term debt on our consolidated balance sheets at March 31, 2019 and December 31, 2018 due to existing events of default related to the Final Arbitration Award as well as the uncertainty of LE and LRM's ability to meet the financial covenants in the future.

Veritex has been working with LE and LRM and continues to be aware and party to all discussions and arrangements with GEL surrounding the executed settlement agreement and all amendments and extensions with GEL. We can provide no assurance that the conditions necessary for consummation of the Settlement will be met. If certain conditions are not met or the Settlement Agreement is terminated, GEL may seek to enforce the Final Arbitration Award against the Lazarus Parties. Further, we can provide no assurance as to whether Veritex, as first lienholder, will approve the Settlement. If Veritex does not approve the Settlement, Veritex may exercise its rights and remedies under the secured loan agreements. In either case: (i) our business operations, including crude oil and condensate procurement and our customer relationships; financial condition; and results of operations will be materially affected, (ii) Blue Dolphin and its affiliates would likely be required to seek protection under bankruptcy laws, and (iii) the trading prices of our common stock and the value of an investment in our common stock could significantly decrease, which could lead to holders of our common stock losing their investment in our common stock in its entirety. (See "Note (18) Subsequent Events" for additional disclosures related to the Veritex secured loan agreements.)

- *Consecutive Quarterly Net Losses and Working Capital Deficits* – Despite consecutive quarterly net losses during 2018, we reported net income of $0.7 million, or income of $0.07 per share, for the three months ended March 31, 2019. Comparatively, we reported a net loss of $0.2 million, or a loss of $0.01 per share, for the three months ended March 31, 2018.

  At March 31, 2019, we had a working capital deficit of $70.7 million. Excluding the current portion of long-term debt, we had a working capital deficit of $28.6 million at March 31, 2019. At December 31, 2018, we had a working capital deficit of $71.9 million. Excluding the current portion of long-term debt, we had a working capital deficit of $30.0 million at December 31, 2018.

Operating Risks. Successful execution of our business strategy depends on several key factors, including the Settlement with GEL, having adequate working capital, obtaining credit to meet operational needs and regulatory requirements, maintaining safe and reliable operations at the Nixon Facility, meeting contractual obligations, and having favorable margins on refined petroleum products. Management believes that it is continuing to take the appropriate steps to improve our operations and financial stability. However, there can be no assurance that our business strategy will be successful, that LEH and its affiliates will continue to fund our working capital needs, or that we will be able to obtain additional financing or meet financial assurance (bonding) requirements on commercially reasonable terms or at all. If Veritex does not approve the Settlement or exercises its rights and remedies under the secured loan agreements or if the Settlement Agreement with GEL is terminated and GEL seeks to confirm and enforce the Final Arbitration Award, our business, financial condition, and results of operations will be materially adversely affected, and Blue Dolphin and its affiliates would likely be required to seek protection under bankruptcy laws. (See "Part I, Item 1. Business – Business Strategy" in this Quarterly Report for additional disclosures related to our business plan and initiatives management has taken to date.)

For additional disclosures related to the Final Arbitration Award, the Settlement Agreement, defaults under secured loan agreements, our business strategy, and risk factors that could materially affect our future business, financial condition and results of operations, refer to the following section in this Quarterly Report:

- Item 1. Financial Statements:
  - Note (9) Related-Party Transactions
  - Note (11) Long-Term Debt, Net
  - Note (17) Commitments and Contingencies – Legal Matters
  - Note (18) Subsequent Events

- Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations:
  - Final Arbitration Award and Settlement Agreement
  - Results of Operations
  - Liquidity and Capital Resources

Refer to the following sections in our Annual Report on Form 10-K for the period ended December 31, 2018 (the "Annual Report"):

- Part I, Item 1. Business – Business Strategy

- Part I, Item 1A. Risk Factors

- Part I, Item 3. Legal Proceedings

(2) Basis of Presentation

The accompanying unaudited consolidated financial statements, which include Blue Dolphin and its subsidiaries, have been prepared in accordance with GAAP for interim consolidated financial information pursuant to the rules and regulations of the SEC under Article 10 of Regulation S-X and the instructions to Form 10-Q. Accordingly, certain information and footnote disclosures normally included in our audited financial statements have been condensed or omitted pursuant to the SEC's rules and regulations. Significant intercompany transactions have been eliminated in the consolidation. In management's opinion, all adjustments considered necessary for a fair presentation have been included, disclosures are adequate, and the presented information is not misleading.

The consolidated balance sheet as of December 31, 2018 was derived from the audited financial statements at that date. The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report. Operating results for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2019, or for any other period.

(3) Significant Accounting Policies

The summary of significant accounting policies of Blue Dolphin is presented to assist in understanding our consolidated financial statements. Our consolidated financial statements and accompanying notes are representations of management, who is responsible for their integrity and objectivity. These accounting policies conform to GAAP and have been consistently applied in the preparation of our consolidated financial statements.

Use of Estimates. We have made several estimates and assumptions related to the reporting of our consolidated assets and liabilities and to the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with GAAP. We believe our current estimates are reasonable and appropriate; however, actual results could differ from those estimated.

Cash and Cash Equivalents. Cash and cash equivalents represent liquid investments with an original maturity of three months or less. Cash balances are maintained in depository and overnight investment accounts with financial institutions that, at times, may exceed insured deposit limits. We monitor the financial condition of the financial institutions and have experienced no losses associated with these accounts.

Restricted Cash. Restricted cash, current portion primarily represents a payment reserve account held by Veritex as security for payments under a loan agreement. Restricted cash, noncurrent represents funds held in the Veritex disbursement account for payment of construction related expenses to build new petroleum storage tanks.

Accounts Receivable and Allowance for Doubtful Accounts. Accounts receivable are presented net of any necessary allowance(s) for doubtful accounts. Receivables are recorded at the invoiced amount and generally do not bear interest. An allowance for doubtful accounts is established, when necessary, based on past experience and other factors which, in management's judgment, deserve consideration in estimating bad debts. Management assesses collectability primarily based on the current aging status of the customer's account, our historical collection experience with the customer, and the customer's financial condition. Based on a review of these factors, management establishes or adjusts the allowance for specific customers and the accounts receivable portfolio as a whole. We had an allowance for doubtful accounts of $0.1 million and $0.1 million at both March 31, 2019 and December 31, 2018.

Inventory. Our inventory primarily consists of refined petroleum products, crude oil and condensate, and chemicals. Inventory is valued at lower of cost or net realizable value with cost being determined by the average cost method, and net realizable value being determined based on estimated selling prices less any associated delivery costs. If the net realizable value of our refined petroleum products inventory declines to an amount less than our average cost, we record a write-down of inventory and an associated adjustment to cost of goods sold. (See “Note (7) Inventory” for additional disclosures related to our inventory.)

Property and Equipment.

Refinery and Facilities. Management expects to continue making improvements to the crude distillation tower based on operational needs and technological advances. Additions to refinery and facilities assets are capitalized. Expenditures for repairs and maintenance are expensed as incurred.

We record refinery and facilities at cost less any adjustments for depreciation or impairment. Adjustment of the asset and the related accumulated depreciation accounts are made for the refinery and facilities asset’s retirement and disposal, with the resulting gain or loss included in the consolidated statements of operations. For financial reporting purposes, depreciation of refinery and facilities assets is computed using the straight-line method using an estimated useful life of 25 years beginning when the refinery and facilities assets are placed in service. We did not record any impairment of our refinery and facilities assets for the periods presented.

Pipelines and Facilities. Our pipelines and facilities are recorded at cost less any adjustments for depreciation or impairment. Depreciation is computed using the straight-line method over estimated useful lives ranging from 10 to 22 years. In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) guidance on accounting for the impairment or disposal of long-lived assets, management performed periodic impairment testing of our pipeline and facilities assets in the fourth quarter of 2016. Upon completion of that testing, our pipeline assets were fully impaired. All pipeline transportation services to third parties have ceased, existing third-party wells along our pipeline corridor have been permanently abandoned, and no new third-party wells are being drilled near our pipelines.

Oil and Gas Properties. Our oil and gas properties are accounted for using the full-cost method of accounting, whereby all costs associated with acquisition, exploration and development of oil and gas properties, including directly related internal costs, are capitalized on a cost center basis. Amortization of such costs and estimated future development costs are determined using the unit-of-production method. All leases associated with our oil and gas properties have expired, and our oil and gas properties were fully impaired in 2011.

Construction in Progress. Construction in progress expenditures, including capitalized interest, relate to construction and refurbishment activities at the Nixon Facility. These expenditures are capitalized as incurred. Depreciation begins once the asset is placed in service.

(See “Note (8) Property, Plant and Equipment, Net” for additional disclosures related to our refinery and facilities assets, oil and gas properties, pipelines and facilities assets, and construction in progress.)

Revenue Recognition.

We adopted the provisions of FASB ASU (defined below) 2014-09, *Revenue from Contracts with Customers (ASC 606)* , on January 1, 2018, as described below in "New Pronouncements Adopted." Accordingly, our revenue recognition accounting policy has been revised to reflect the adoption of this standard.

Refinery Operations Revenue. Revenue from the sale of refined petroleum products is recognized when product is sold to the customer in fulfillment of performance obligations. Each load of refined petroleum product is separately identifiable and represents a distinct performance obligation to which the transaction price is allocated. Performance obligations are met when control is transferred to the customer. Control is transferred to the customer when the product has been lifted or, in cases where the product is not lifted immediately (bill and hold arrangements), when the product is added to the customer's bulk inventory as stored at the Nixon Facility.

We consider a variety of facts and circumstances in assessing the point of control transfer, including but not limited to: whether the purchaser can direct the use of the refined petroleum product, the transfer of significant risks and rewards, our rights to payment, and transfer of legal title. In each case, the term between sale and when payment is due is not significant. Transportation, shipping, and handling costs incurred are included in cost of goods sold. Excise and other taxes that are collected from customers and remitted to governmental authorities are not included in revenue.

Tolling and Terminaling Revenue. Tolling and terminaling represents fees pursuant to: (i) tolling agreements, whereby a customer agrees to pay a certain fee per gallon or barrel for throughput volumes moving through the naphtha stabilizer unit and a fixed monthly reservation fee for use of the naphtha stabilizer unit and (ii) tank storage agreements, whereby a customer agrees to pay a certain fee per tank based on tank size over a period of time for the storage of products.

We typically satisfy performance obligations for tolling and terminaling operations with the passage of time. We determine the transaction price at agreement inception based on the guaranteed minimum amount of revenue over the term of the agreement. We allocate the transaction price to the single performance obligation that exists under the agreement, and we recognize revenue in the amount for which we have a right to invoice. Generally, payment terms do not exceed 30 days.

Revenue from tank storage customers may, from time to time, include fees for ancillary services, such as in-tank and tank-to-tank blending. These services are considered optional to the customer, and the price we charge for such services is not included in the fixed cost under the customer's tank storage agreement. Ancillary services are considered a separate performance obligation by us under the tank storage agreement. The performance obligation is satisfied when the requested service has been performed in the applicable period.

Income Taxes.

We account for income taxes under FASB ASC guidance related to income taxes, which requires recognition of income taxes based on amounts payable with respect to the current reporting period and the effects of deferred taxes for the expected future tax consequences of events that have been included in our financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial accounting and tax basis of assets and liabilities, as well as for operating losses and tax credit carryforwards using enacted tax rates in effect for the year in which the differences are expected to reverse.

As of each reporting date, management considers new evidence, both positive and negative, to determine the realizability of deferred tax assets. Management considers whether it is more likely than not that a portion or all of the deferred tax assets will be realized, which is dependent upon the generation of future taxable income prior to the expiration of any net operating loss ("NOL") carryforwards. When management determines that it is more likely than not that a tax benefit will not be realized, a valuation allowance is recorded to reduce deferred tax assets. A significant piece of objective negative evidence evaluated was cumulative losses incurred over the three-year period ended December 31, 2018. Such objective evidence limits the ability to consider other subjective evidence, such as projections for future growth. Based on this evaluation, we recorded a valuation allowance against the deferred tax assets for which realization was not deemed more likely than not as of March 31, 2019 and December 31, 2018. We expect to recover deferred tax assets related to the Alternative Minimum Tax ("AMT") credit carryforwards. In addition, we have NOL carryforwards that remain available for future use.

The benefit of an uncertain tax position is recognized in the financial statements if it meets a minimum recognition threshold. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more-likely-than-not criteria, the benefit recorded in the financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement. At March 31, 2019 and December 31, 2018, there were no uncertain tax positions for which a reserve or liability was necessary. (See “Note (15) Income Taxes” for further information related to income taxes.)

Impairment or Disposal of Long-Lived Assets. In accordance with FASB ASC guidance on accounting for the impairment or disposal of long-lived assets, we periodically evaluate our long-lived assets for impairment. Additionally, we evaluate our long-lived assets when events or circumstances indicate that the carrying value of these assets may not be recoverable. The carrying value is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or group of assets. If the carrying value exceeds the sum of the undiscounted cash flows, an impairment loss equal to the amount by which the carrying value exceeds the fair value of the asset or group of assets is recognized. Significant management judgment is required in the forecasting of future operating results that are used in the preparation of projected cash flows and, should different conditions prevail or judgments be made, material impairment charges could be necessary. As a result of the Final Arbitration Award, which represents a significant adverse change that could affect the value of a long-lived asset, management performed potential impairment testing of our refinery and facilities assets in the fourth quarter of 2018. Upon completion of that testing, we determined that no impairment was necessary at December 31, 2018. We did not record any impairment of our refinery and facilities assets for the periods presented.

Asset Retirement Obligations. FASB ASC guidance related to asset retirement obligations (“AROs”) requires that a liability for the discounted fair value of an ARO be recorded in the period in which incurred, and the corresponding cost capitalized by increasing the carrying amount of the related long-lived asset. The liability is accreted towards its future value each period, and the capitalized cost is depreciated over the useful life of the related asset. If the liability is settled for an amount other than the recorded amount, a gain or loss is recognized.

Management has concluded that there is no legal or contractual obligation to dismantle or remove the refinery and facilities assets. Further, management believes that these assets have indeterminate lives under FASB ASC guidance for estimating AROs because dates or ranges of dates upon which we would retire these assets cannot reasonably be estimated at this time. When a legal or contractual obligation to dismantle or remove the refinery and facilities assets arises and a date or range of dates can reasonably be estimated for the retirement of these assets, we will estimate the cost of performing the retirement activities and record a liability for the fair value of that cost using present value techniques.

We recorded an ARO liability related to future asset retirement costs associated with dismantling, relocating, or disposing of our offshore platform, pipeline systems, and related onshore facilities, as well as for plugging and abandoning wells and restoring land and sea beds. We developed these cost estimates for each of our assets based upon regulatory requirements, structural makeup, water depth, reservoir characteristics, reservoir depth, equipment demand, current retirement procedures, and construction and engineering consultations. Because these costs typically extend many years into the future, estimating future costs are difficult and require management to make judgments that are subject to future revisions based upon numerous factors, including changing technology, political, and regulatory environments. We review our assumptions and estimates of future abandonment costs on an annual basis. (See “Note (12) Asset Retirement Obligations” for additional information related to our AROs.)

Computation of Earnings Per Share. We apply the provisions of FASB ASC guidance for computing earnings per share (“EPS”). The guidance requires the presentation of basic EPS, which excludes dilution and is computed by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. The guidance requires dual presentation of basic EPS and diluted EPS on the face of our consolidated statements of operations and requires a reconciliation of the denominator of basic EPS and diluted EPS. Diluted EPS is computed by dividing net income available to common stockholders by the diluted weighted average number of common shares outstanding, which includes the potential dilution that could occur if securities or other contracts to issue shares of common stock were converted to common stock that then shared in the earnings of the entity.

The number of shares related to options, warrants, restricted stock, and similar instruments included in diluted EPS is based on the "Treasury Stock Method" prescribed in FASB ASC guidance for computation of EPS. This method assumes theoretical repurchase of shares using proceeds of the respective stock option or warrant exercised, and, for restricted stock, the amount of compensation cost attributed to future services that has not yet been recognized and the amount of any current and deferred tax benefit that would be credited to additional paid-in-capital upon the vesting of the restricted stock, at a price equal to the issuer's average stock price during the related earnings period. Accordingly, the number of shares includable in the calculation of EPS in respect of the stock options, warrants, restricted stock, and similar instruments is dependent on this average stock price and will increase as the average stock price increases. (See "Note (16) Earnings Per Share" for additional information related to EPS.)

New Pronouncements Adopted. The FASB issues an Accounting Standards Update ("ASU") to communicate changes to the FASB ASC, including changes to non-authoritative SEC content. Recently adopted ASUs include:

ASUs 2019-01, 2018-20, 2018-11, 2018-10, and 2016-02, Leases (Topic 842). In February 2016, FASB amended its accounting guidance for leases. Subsequently, FASB issued several clarifications and updates. The guidance requires a lessee to recognize assets and liabilities on the balance sheet arising from leases with terms greater than 12 months. While lessor guidance is relatively unchanged, certain amendments were made to confirm with changes made to lessee accounting and the amended revenue recognition guidance. The new guidance continues to classify leases as either finance or operating, with classification affecting the presentation and pattern of expense and income recognition, in the statement of operations. It also requires additional quantitative and qualitative disclosures about leasing arrangements. We adopted the new guidance on January 1, 2019 using the modified retrospective approach, which was applied beginning on the adoption date. Comparative information has not been restated and continues to be reported under the accounting guidance in effect for those periods. The adoption did not have a material effect on our consolidated statements of operations or cash flows. On the adoption date we recognized operating lease right-of-use assets, net of pre-existing deferred rent, and operating lease liabilities on our consolidated balance sheet of approximately $0.8 million and $0.9 million, respectively.

ASU 2018-09, Codification Improvements. In July 2018, FASB issued ASU 2018-09. This guidance affects a wide variety of topics in the codification and represents changes to clarify, correct errors in, or make minor improvements to the codification. The amendments make the codification easier to understand and easier to apply by eliminating inconsistencies and providing clarifications. The amendments apply to all reporting entities within the scope of the affected accounting guidance. Some of the amendments in ASU 2018-09 do not require transition guidance and will be effective upon issuance. However, many of the amendments do have transition guidance with effective dates for annual periods beginning after December 15, 2018, for public business entities. Adoption of this guidance did not have a significant impact on our consolidated financial statements.

ASU 2014-09, Revenue from Contracts with Customers (ASC 606). We adopted this accounting pronouncement effective January 1, 2018, using a modified retrospective approach, which required us to apply the new revenue standard to: (i) all new revenue contracts entered into after January 1, 2018 and (ii) all existing revenue contracts as of January 1, 2018. In accordance with this approach, our consolidated revenues for the periods prior to January 1, 2018 will not be revised. In November 2018, FASB issued ASU 2018-18, *Collaborative Arrangements (Topic 808)*. ASU 2018-18 clarifies the interaction between ASC 808 and ASC 606. Our implementation activities related to ASC 606 are complete, and we did not have any material differences in the amount or timing of revenues as a result of the adoption of ASC 606. Our largest revenue streams consist of orders received from our customers for crude-oil derived specialty products based on market prices. These revenues are recognized at a point in time upon transfer of control of the product in accordance with contractual terms. With respect to ASC 808, we are not party to a collaborative agreement with a third party.

New Pronouncements Issued, Not Yet Effective. The following are recently issued, but not yet effective, ASU's that may influence our consolidated financial position, results of operations, or cash flows:

ASU 2018-17, Consolidation (Topic 810). In October 2018, FASB issued ASU 2018-17. This ASU provides targeted improvements to related-party guidance for variable interest entities. In particular, indirect interests held through related parties in common control arrangements should be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. For entities other than private companies, the amendments in ASU 2018-17 are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. We do not expect adoption of this guidance to have a significant impact on our consolidated financial statements.

ASU 2018-05, Income Taxes (Topic 740). In March 2018, FASB issued ASU 2018-05. This guidance amends SEC paragraphs in ASC 740, Income Taxes, to reflect SAB 118, which provides guidance for companies that are not able to complete their accounting for the income tax effects of the Tax Cuts and Jobs Act in the period of enactment. This guidance also includes amendments to the XBRL Taxonomy. For public business entities, the amendments in ASU 2018-05 are effective for fiscal years ending after December 15, 2020. Early adoption is permitted. We do not expect adoption of this guidance to have a significant impact on our consolidated financial statements.

Other new pronouncements issued but not yet effective are not expected to have a material impact on our financial position, results of operations, or liquidity.

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(4) Revenue and Segment Information

We have two reportable business segments: (i) Refinery Operations and (ii) Tolling and Terminaling. Refinery operations relate to the refining and marketing of petroleum products at our 15,000-bpd crude distillation tower. Tolling and terminaling operations relate to tolling and storage terminaling services under related-party and third-party lease agreements. Both operations are conducted at the Nixon Facility.

Revenue from Contracts with Customers.

- *Disaggregation of Revenue* - Revenue is presented in the table below under "Segment Information" disaggregated by business segment because this is the level of disaggregation that management has determined to be beneficial to users of our financial statements.
- *Receivables from Contracts with Customers* - Our receivables from contracts with customers are reflected as receivables, net as presented on our consolidated balance sheets.
- *Remaining Performance Obligations* - The majority of our contracts with customers are spot contracts and therefore have no remaining performance obligations.

Segment Information.

Business segment information for the periods indicated (and as of the dates indicated) was as follows:

	Three Months Ended March 31,							
	2019				2018			
	(in thousands)							
	Segments				Segment			
	Refinery Operations	Tolling and Terminaling	Corporate & Other	Total	Refinery Operations	Tolling and Terminaling	Corporate & Other	Total
Net revenues (excluding intercompany fees and sales)	$ 67,858	$ 1,069	$ -	$ 68,927	$ 71,512	$ 734	$ -	$ 72,246
Intercompany fees and sales	(606)	606	-	-	(671)	671	-	-
Operation costs and expenses [1]	(65,152)	(364)	(57)	(65,573)	(70,151)	(341)	(110)	(70,602)
Segment contribution margin	$ 2,100	$ 1,311	$ (57)	$ 3,354	$ 690	$ 1,064	$ (110)	$ 1,644
General and administrative expenses	(332)	(43)	(445)	(820)	(394)	(42)	(378)	(814)
Depreciation and amortization	(465)	(99)	(26)	(590)	(409)	(46)	-	(455)
Interest and other non-operating expenses, net				(1,197)				(743)
Income (loss) before income taxes				747				(368)
Income tax benefit				-				217
Net income (loss)				$ 747				$ (151)
Capital expenditures	$ 40	$ 83	$ -	$ 123	$ 336	$ 204	$ -	$ 540
Identifiable assets	$ 50,340	$ 18,880	$ 2,429	$ 71,649	$ 52,460	$ 18,912	$ 1,006	$ 72,378

[1] Operation costs within Refinery Operations includes the arbitration award and associated fees. Operation cost within Tolling and Terminaling includes terminal operating expenses, an allocation of other costs (e.g. insurance and maintenance), and associated refinery fuel use costs. Operation cost within Corporate and Other includes expenses associated with our pipeline assets and oil and gas leasehold interests (such as accretion).

(5) NPS Assignment

In June 2018, Blue Dolphin obtained 100% of the issued and outstanding membership interest of NPS, a Delaware limited liability company, from Lazarus Midstream Partners, L.P. ("Lazarus Midstream"), an affiliate of LEH, pursuant to an Assignment Agreement. The transaction represents transfer of a vacant shell entity owned by Lazarus Midstream to Blue Dolphin for the nominal fee of $10.00. The assignment of interest facilitates the Lazarus Parties exploring the possibility of obtaining the Settlement Financing under the Settlement Agreement.

The assignment was accounted for as a combination of entities under common control. Accordingly, the recognized assets and liabilities of NPS were transferred at their carrying amounts at the date of transfer and the results of operations are included for the three months ended March 31, 2019. NPS did not have significant assets, liabilities or results of operations for the three months ended March 31, 2018. NPS holds a leasehold interest in petroleum storage tanks at the Nixon Facility. NPS' revenues and expenses are included in our Tolling and Terminaling business segment.

(6) Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets as of the dates indicated consisted of the following:

	March 31, 2019	December 31, 2018
	(in thousands)	
Prepaid insurance	$ 791	$ 437
Other prepaids	85	183
Prepaid crude oil and condensate	-	1,166
	$ 876	$ 1,786

(7) Inventory

Inventory as of the dates indicated consisted of the following:

	March 31, 2019	December 31, 2018
	(in thousands)	
Crude oil and condensate	$ 1,365	$ 861
AGO	206	276
Chemicals	107	106
Naphtha	138	143
Propane	20	17
LPG mix	7	5
HOBM	-	102
	$ 1,843	$ 1,510

(8) Property, Plant and Equipment, Net

Property, plant and equipment, net, as of the dates indicated consisted of the following:

	March 31, 2019	December 31, 2018
	(in thousands)	
Refinery and facilities	$ 66,308	$ 63,058
Land	566	566
Other property and equipment	747	747
	67,621	64,371
Less: Accumulated depletion, depreciation, and amortization	(10,993)	(10,429)
	56,628	53,942
Construction in progress	7,628	10,755
	$ 64,256	$ 64,697

We capitalize interest cost incurred on funds used to construct property, plant, and equipment. Capitalized interest, which is recorded as part of the asset to which it relates, is depreciated over the asset's useful life. Interest cost capitalized, which is currently included in construction in progress, was $0.7 million and $1.3 million at March 31, 2019 and December 31, 2018, respectively. Capital expenditures at the Nixon Facility are being funded by working capital derived from revenue from operations and LEH and its affiliates (including Jonathan Carroll), as well as from long-term debt from Veritex that was secured in 2015 for expansion of the Nixon Facility. Unused amounts under the Veritex loans are reflected in restricted cash (current and non-current portions) on our consolidated balance sheets and will be available for use once events of default associated with the Final Arbitration Award are remedied. See "Note (11) Long-Term Debt, Net" for additional disclosures related to borrowings for capital spending.

(9) Related-Party Transactions

Blue Dolphin and certain of its subsidiaries are party to several agreements with LEH and its affiliates. Management believes that these related-party transactions were consummated on terms equivalent to those that prevail in arm's-length transactions.

Related Parties.

LEH. LEH is our controlling shareholder. Jonathan Carroll, Chairman of the Board, Chief Executive Officer, and President of Blue Dolphin, is the majority owner of LEH. Together, LEH and Jonathan Carroll owned 79.8% of our Common Stock at March 31, 2019. Related-party agreements with LEH include: (i) an Amended and Restated Operating Agreement with Blue Dolphin and LE, (ii) a Jet Fuel Sales Agreement with LE, (iii) a Loan Agreement with BDPL, (iv) an Amended and Restated Promissory Note with Blue Dolphin, and (v) an office sublease-agreement with BDSC. Additionally, in June 2018, Blue Dolphin obtained 100% of the issued and outstanding membership interest of NPS from Lazarus Midstream for the nominal fee of $10.00 pursuant to an Assignment Agreement. (See "Note (5) NPS Assignment" for further discussion related to the NPS transaction.)

Ingleside Crude, LLC ("Ingleside"). Ingleside is a related party of LEH and Jonathan Carroll. Blue Dolphin is party to an Amended and Restated Promissory Note with Ingleside.

Lazarus Marine Terminal I, LLC ("LMT"). LMT is a related party of LEH and Jonathan Carroll. LE is party to a Dock Tolling Agreement with LMT.

Jonathan Carroll. Jonathan Carroll is Chairman of the Board, Chief Executive Officer, and President of Blue Dolphin. Related-party agreements with Jonathan Carroll include: (i) Amended and Restated Guaranty Fee Agreements with LE and LRM and (ii) an Amended and Restated Promissory Note with Blue Dolphin. The guaranty fee agreements and the promissory note relate to LE and LRM USDA-guaranteed loans.

Currently, we depend on LEH and its affiliates (including Jonathan Carroll and Ingleside) for financing when revenue from operations and borrowings under bank facilities are insufficient to meet our liquidity needs. Such borrowings are reflected in our consolidated balance sheets in accounts payable, related party, and/or long-term debt, related party.

Operations Related Agreements.

Amended and Restated Operating Agreement. LEH operates and manages all Blue Dolphin properties pursuant to the Amended and Restated Operating Agreement. The Amended and Restated Operating Agreement, which was restructured in 2017 following cessation of crude supply and marketing activities under the Crude Supply Agreement and Joint Marketing Agreement with GEL, expires: (i) April 1, 2020, (ii) upon written notice by either party to the Amended and Restated Operating Agreement of a material breach by the other party, or (iii) upon 90 days' notice by the Board if the Board determines that the Amended and Restated Operating Agreement is not in our best interest. LEH receives a management fee calculated as 5% of certain of our direct operating expenses. During the fourth quarter of 2018, the management fee was changed to be calculated based on year to date operating expenses incurred, regardless of whether they were paid for by LEH or LE. The management fee was previously reflected within refinery operating expenses in our consolidated statements of operations.

Jet Fuel Sales Agreement. LE sells jet fuel to LEH pursuant to a Jet Fuel Sales Agreement. LEH resells the jet fuel purchased from LE to a government agency. LEH bids for jet fuel contracts are evaluated under preferential pricing terms due to its HUBZone certification. The Jet Fuel Sales Agreement terminates on the earliest to occur of: (a) a one-year term expiring March 31, 2020 plus a 30-day carryover or (b) delivery of a maximum quantity of jet fuel as defined therein. Sales to LEH under the Jet Fuel Sales Agreement are reflected within refinery operations revenue in our consolidated statements of operations.

Dock Tolling Agreement. In May 2016, LE entered a Dock Tolling Agreement with LMT to facilitate loading and unloading of petroleum products by barge at LMT's dock facility in Ingleside, Texas. The Dock Tolling Agreement has a five-year term and may be terminated at any time by the agreement of both parties. LE pays LMT a flat reservation fee monthly. The reservation fee includes tolling volumes up to 84,000 gallons per day. Excess tolling volumes are subject to an increased per gallon rate. Amounts expensed as tolling fees under the Dock Tolling Agreement are reflected in cost of goods sold in our consolidated statements of operations.

Office Sub-Lease Agreement. In January 2018, BDSC entered into an Office Space Agreement with LEH to lease office space at our headquarters building in Houston, Texas. The Office Space Agreement has a term of sixty-eight (68) months expiring on August 31, 2023. Under the Office Space Agreement, LEH's base rent is approximately $0.02 million per month. The Office Space Agreement includes rent abatement periods.

Financial Agreements.

We currently rely on LEH and its affiliates (including Jonathan Carroll) to fund our working capital requirements. LEH and its affiliates (Ingleside and Jonathan Carroll) have provided working capital to Blue Dolphin in the form of a term loan and non-cash advances (such as conversion of accounts payable to debt under promissory notes). Our long-term debt, related party is currently in default.

There can be no assurance that LEH and its affiliates will continue to fund our working capital requirements. Outstanding principal and accrued interest owed under these financial agreements are reflected in long-term debt, related party, current portion in our consolidated balance sheets.

*BDPL Loan Agreement (*In Default*).* BDPL has a 2016 loan agreement and related security agreement with LEH as lender (the "BDPL Loan Agreement"). The BDPL Loan Agreement is currently in default due to non-payment. Key terms of the BDPL Loan Agreement are as follow:

Principal Amount:	$4.0 million
Maturity Date:	August 2018
Principal and Interest Payment:	$500,000 annually
Interest Rate:	16.00%

The proceeds of the BDPL Loan Agreement were used for working capital. There are no financial maintenance covenants associated with the BDPL Loan Agreement. The BDPL Loan Agreement is secured by certain property owned by BDPL. Outstanding principal owed to LEH under the BDPL Loan Agreement is reflected in long-term debt, related party, current portion in our consolidated balance sheets. Accrued interest under the BDPL Loan Agreement is reflected in interest payable, related party, current portion in our consolidated balance sheets.

*Promissory Notes (*In Default*).* Working capital provided to Blue Dolphin in the form of non-cash advances whereby accounts payable, related party was converted to debt under promissory notes are reflected below. The promissory notes matured in January 2019. Interest, which is compounded annually, is still accruing at a rate of 8.00% and is reported as part of the outstanding balance. The promissory notes are currently in default due to non-payment.

- *June LEH Note* – The June LEH Note reflects amounts owed to LEH at March 31, 2019 under the Amended and Restated Operating Agreement.
- *March Ingleside Note* – The March Ingleside Note reflects amounts owed to Ingleside at March 31, 2019 under the Amended and Restated Tank Lease Agreement.
- *March Carroll Note* –The March Carroll Note reflects amounts owed to Jonathan Carroll at March 31, 2019 under the guaranty fee agreements. Jonathan Carroll has received no payments under the promissory note, either in cash or common stock, since May 2017.

Amended and Restated Guaranty Fee Agreements. Jonathan Carroll was required to provide a guarantee for repayment of funds borrowed and interest accrued under certain LE and LRM USDA-guaranteed loans. For his personal guarantee, LE and LRM each entered a Guaranty Fee Agreement with Jonathan Carroll whereby he earns a fee equal to 2.00% per annum of the outstanding principal balance owed under the loan agreements. Effective in April 2017, the Guaranty Fee Agreements were amended and restated (the "Amended and Restated Guaranty Fee Agreements") to reflect payment in cash and shares of Blue Dolphin Common Stock. Amounts owed to Jonathan Carroll under Amended and Restated Guaranty Fee Agreements are reflected within long-term debt, related party, net of current portion in our consolidated balance sheets. Guaranty fees are recognized monthly as incurred and are included in interest and other expense in our consolidated statements of operations. (See "Note (11) Long-Term Debt, Net – Amended and Restated Guaranty Fee Agreements" for a breakdown of guaranty fee expenses for each secured loan agreement.) Jonathan Carroll has received no payments under guaranty fee agreements, either in cash or common stock, since May 2017.

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Financial Statements Impact.

Consolidated Balance Sheets. Accounts payable, related party to LMT associated with the Dock Tolling Agreement were $1.7 million and $1.5 million at March 31, 2019 and December 31, 2018, respectively.

Long-term debt, related party, current portion, in default and interest payable, related party, in default as of the dates indicated was as follows:

	March 31, 2019	December 31, 2018
	(in thousands)	
LEH:		
June LEH Note	$ 821	$ 611
BDPL Loan Agreement	5,694	5,534
LEH total	6,515	6,145
Ingleside		
March Ingleside Note	1,308	1,283
Jonathan Carroll		
March Carroll Note	1,330	1,147
	9,153	8,575
Less: Long-term debt, related party, current portion, in default	(7,459)	(7,041)
Less: Interest payable, related party, in default	(1,694)	(1,534)
	$ -	$ -

Consolidated Statements of Operations. Revenue from related parties was as follows:

	Three Months Ended March 31,			
	2019		2018	
	(in thousands, except percent amounts)			
Refinery operations				
LEH	$ 20,809	30.2%	$ 20,567	28.5%
Other customers	47,049	68.3%	50,945	70.5%
Tolling and terminaling				
Other customers	1,069	1.5%	734	1.0%
	$ 68,927	100.0%	$ 72,246	100.0%

Fees associated with the Dock Tolling Agreement with LMT totaled $0.2 million for both three-month periods ended March 31, 2019 and 2018. Lease payments received under the office sub-lease agreement with LEH totaled $0.01 million for the three months ended March 31, 2019 and 2018.

The management fee was flat, totaling approximately $0.2 million in both three-month periods ended March 31, 2019 and 2018.

Interest expense associated with the BDPL Loan Agreement, the Amended and Restated Guaranty Fee Agreements, and the related-party promissory notes (the June LEH Note, the March Ingleside Note, and the March Carroll Note) for the periods indicated was as follows:

	Three Months Ended March 31,	
	2019	2018
	(in thousands)	
Jonathan Carroll		
Guaranty Fee Arrangements	$ 158	$ 163
March Carroll Note	25	-
LEH		
BDPL Loan Agreement	160	160
June LEH Note	6	-
Ingleside		
March Ingleside Note	26	47
	$ 375	$ 370

(10) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities as of the dates indicated consisted of the following:

	March 31, 2019	December 31, 2018
	(in thousands)	
Insurance	$ 539	$ 61
Board of director fees payable	435	273
Unearned revenue	343	434
Easement payable	205	223
Excise and income taxes payable	185	47
Customer deposits	109	109
Property taxes	82	48
Other payable	50	265
Accrued rent	-	111
	$ 1,948	$ 1,571

(11) Long-Term Debt, Net

USDA Guaranteed Loans. Certain of our long-term debt is guaranteed by the United States Department of Agriculture (the “USDA”). The USDA, acting through its agencies, administers a federal rural credit program that makes direct loans and guarantees portions of loans made and serviced by USDA-qualified lenders for various purposes. Each USDA guarantee is a full faith and credit obligation of the United States with the USDA guaranteeing up to 100% of the principal amount of guaranteed loans. The lender on each USDA guaranteed loan is required by regulation to retain the unguaranteed portion of the guaranteed loan, to service the entire underlying guaranteed loan, including the USDA-guaranteed portion and the unguaranteed portion, and to remain mortgage and/or secured party of record. The USDA-guaranteed portion and the unguaranteed portion of the loan are to be secured by the same collateral with equal lien priority. The USDA-guaranteed portion of a loan cannot be paid later than, or in any way be subordinated to, the related unguaranteed portion. During 2015, LE and LRM obtained loans each with a USDA guarantee of 100% through Sovereign as lender (now Veritex, as successor in interest to Sovereign by merger) in the aggregate amount of $35.0 million. The LE $25.0 million USDA-guaranteed loan is referenced herein as the “First Term Loan Due 2034”. The LRM $10.0 million USDA-guaranteed loan is referenced herein as the “Second Term Loan Due 2034”.

Amended and Restated Guaranty Fee Agreements. As a condition of the First Term Loan Due 2034 and Second Term Loan Due 2034, Jonathan Carroll was required to provide a guarantee for repayment of funds borrowed and interest accrued under the USDA-guaranteed loans. LEH, LRM and Blue Dolphin also cross-guaranteed the First Term Loan Due 2034 and Second Term Loan Due 2034. (See “Note (9) Related-Party Transactions” for additional disclosures related to LEH, Jonathan Carroll, and the Amended and Restated Guaranty Fee Agreements.) Guaranty fees earned by Jonathan Carroll for the periods indicated, which were included in interest expense, were as follows:

	Three Months Ended March 31,	
	2019	2018
	(in thousands)	
First Term Loan Due 2034	$ 112	$ 116
Second Term Loan Due 2034	46	47
	$ 158	$ 163

Defaults in USDA-Guaranteed Loan Agreements. As described elsewhere in this Quarterly Report, Veritex notified LE and LRM that the Final Arbitration Award constitutes an event of default under the First Term Loan Due 2034 and the Second Term Loan Due 2034. In addition to existing events of default related to the Final Arbitration Award, at March 31, 2019, LE and LRM were in violation of the debt service coverage ratio, the current ratio, and debt-to-net worth ratio financial covenants related to the First Term Loan Due 2034 and Second Term Loan 2034. LE also failed to replenish a payment reserve account as required under the First Term Loan Due 2034. The occurrence of events of default under the First Term Loan Due 2034 and Second Term Loan Due 2034 permits Veritex to declare the amounts owed under the First Term Loan Due 2034 and Second Term Loan Due 2034 immediately due and payable, exercise its rights with respect to collateral securing LE and LRM’s obligations under the loan agreements, and/or exercise any other rights and remedies available. Veritex has not accelerated or called due the First Term Loan Due 2034 and Second Term Loan Due 2034 considering the Settlement Agreement, which Veritex must ultimately approve. Instead, Veritex has expressly reserved all its rights, privileges and remedies related to events of default under the First Term Loan Due 2034 and Second Term Loan Due 2034 and informed LE and LRM that it would consider a final confirmation of the Final Arbitration Award to be a material event of default under the loan agreements. Additionally, Veritex must ultimately approve the Settlement. Any exercise by Veritex of its rights and remedies under the First Term Loan Due 2034 and Second Term Loan Due 2034 would have a material adverse effect on our business, financial condition, and results of operations and would likely require Blue Dolphin to seek protection under bankruptcy laws. (See “Note (1) Organization – Going Concern” and “– Operating Risks” and "Note (18) Subsequent Events" for additional disclosures related to the First Term Loan Due 2034 and Second Term Loan Due 2034, the Final Arbitration Award and financial covenant violations.)

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Long-Term Debt, Net Outstanding Balances. Long-term debt, net represents the outstanding principal of long-term debt less associated debt issue costs. [See "Note (9) Related-Party Transactions" for additional disclosures with respect to related-party long-term debt.] As described within this "Note (11") Long-Term Debt, Net," certain of our long-term debt is currently in default. Long-term debt, net as of the dates indicated consisted of the following:

	March 31, 2019	December 31, 2018
	(in thousands)	
First Term Loan Due 2034 (in default)	$ 22,376	$ 22,550
Second Term Loan Due 2034 (in default)	9,234	9,300
Notre Dame Debt (in default)	4,978	4,978
Capital leases	31	41
	$ 36,619	$ 36,869
Less: Current portion of long-term debt, net	(34,645)	(34,863)
Less: Unamortized debt issue costs	(1,974)	(2,006)
	$ -	$ -

Unamortized debt issue costs, which relate to secured loan agreements with Veritex, as of the dates indicated consisted of the following:

	March 31, 2019	December 31, 2018
	(in thousands)	
First Term Loan Due 2034 (in default)	$ 1,674	$ 1,674
Second Term Loan Due 2034 (in default)	768	768
Less: Accumulated amortization	(468)	(436)
	$ 1,974	$ 2,006

Amortization expense was $0.03 million for the three months ended March 31, 2019 and 2018.

Accrued interest associated with long-term debt, net is reflected as interest payable, in default in our consolidated balance sheets. Accrued interest as of the dates indicated consisted of the following:

	March 31, 2019	December 31, 2018
	(in thousands)	
Notre Dame Debt (in default)	$ 3,041	$ 2,843
Second Term Loan Due 2034 (in default)	108	53
First Term Loan Due 2034 (in default)	175	43
	3,324	2,939
Less: Interest payable, in default	(3,324)	(2,939)
Long-term interest payable, net of current portion	$ -	$ -

First Term Loan Due 2034 (In Default). Key terms of the First Term Loan Due 2034 are as follow:

Principal Amount:	$25.0 million
Maturity Date:	June 2034
Principal and Interest Payment:	$0.2 million monthly
Interest Rate:	Wall Street Journal Prime Rate plus 2.75%

A portion of the proceeds of the First Term Loan Due 2034 were used to refinance approximately $8.5 million of debt owed under a previous debt facility with American First National Bank. Remaining proceeds are being used primarily to construct new petroleum storage tanks at the Nixon Facility. The First Term Loan Due 2034, which is 100% USDA-guaranteed, is secured by: (i) a first lien on the Nixon Facility's business assets (excluding accounts receivable and inventory), (ii) assignment of all Nixon Facility contracts, permits, and licenses, (iii) absolute assignment of Nixon Facility rents and leases, including tank rental income, (iv) a payment reserve account held by Veritex, and (v) a pledge of $5.0 million of a life insurance policy on Jonathan Carroll. The First Term Loan Due 2034 contains representations and warranties, affirmative, restrictive, and financial covenants, as well as events of default which are customary for bank facilities of this type.

Pursuant to a construction rider in the First Term Loan Due 2034, proceeds available for use were placed in a disbursement account whereby Veritex makes payments for construction related expenses. Amounts held in the disbursement account are reflected as restricted cash (current portion) and restricted cash, noncurrent in our consolidated balance sheets. (See "Note (18) Subsequent Events" for additional disclosures related to the Veritex secured loan agreements.)

Second Term Loan Due 2034 (In Default). Key terms of the Second Term Loan Due 2034 are as follow:

Principal Amount:	$10.0 million
Maturity Date:	December 2034
Principal and Interest Payment:	$0.1 million monthly
Interest Rate:	Wall Street Journal Prime Rate plus 2.75%

A portion of the proceeds of the Second Term Loan Due 2034 were used to refinance a previous bridge loan from Veritex in the amount of $3.0 million, the funds of which were used to purchase idle refinery equipment for refurbishment and use at the Nixon Facility. Remaining proceeds are being used primarily to construct additional new petroleum storage tanks at the Nixon Facility. The Second Term Loan Due 2034, which is 100% USDA-guaranteed, is secured by: (i) a second priority lien on the rights of LE in the crude distillation tower and the other collateral of LE pursuant to a security agreement; (ii) a first priority lien on the real property interests of LRM; (iii) a first priority lien on all of LRM's fixtures, furniture, machinery and equipment; (iv) a first priority lien on all of LRM's contractual rights, general intangibles and instruments, except with respect to LRM's rights in its leases of certain specified tanks, with respect to which Veritex has a second priority lien in such leases subordinate to a prior lien granted by LRM to Veritex to secure obligations of LRM under a term loan that matured in 2017; and (v) all other collateral as described in the security documents. The Second Term Loan Due 2034 contains representations and warranties, affirmative, restrictive, and financial covenants, as well as events of default which are customary for bank facilities of this type.

Pursuant to a construction rider in the Second Term Loan Due 2034, proceeds available for use were placed in a disbursement account whereby Veritex makes payments for construction related expenses. Amounts held in the disbursement account are reflected as restricted cash (current portion) and restricted cash, noncurrent in our consolidated balance sheets. (See "Note (18) Subsequent Events" for additional disclosures related to the Veritex secured loan agreements.)

Notre Dame Debt (In Default). LE entered a loan with Notre Dame Investors, Inc. as evidenced by a promissory note that is currently held by John Kissick (the "Notre Dame Debt"). Key terms of the Notre Dame Debt are as follow:

Original Principal Amount:	$8.0 million
Additional Principal:	$3.7 million
Maturity Date:	January 2018
Principal and Interest Payment:	None; payment rights subordinated to senior lender
Default Interest Rate:	16.00%

Pursuant to a Sixth Amendment to the Notre Dame Debt, entered on November 14, 2017 and made effective September 18, 2017, the Notre Dame Debt was amended to increase the principal amount by $3.7 million (the "Additional Principal"). The Additional Principal was used to make payments to GEL to reduce the balance of the Final Arbitration Award in the amount of $3.6 million in accordance with the GEL Letter Agreement. Pursuant to a Subordination Agreement dated June 2015, the holder of the Notre Dame Debt agreed to subordinate its right to payments, as well as any security interest and liens on the Nixon Facility's business assets, in favor of Veritex as holder of the First Term Loan Due 2034. To date, no payments have been made to Notre Dame Investors, Inc. under the Notre Dame Debt.

The Notre Dame Debt is secured by a Deed of Trust, Security Agreement and Financing Statements (the "Subordinated Deed of Trust"), which encumbers the crude distillation tower and general assets of LE. There are no financial maintenance covenants associated with the Notre Dame Debt.

Capital Leases. In January 2018, LE entered a 24-month capital lease for the purchase of a 20-ton crane for use at the Nixon Facility. The lease requires a negligible monthly payment and matures in January 2020.

A summary of equipment held under long-term capital leases as of the dates indicated follows:

	March 31, 2019	December 31, 2018
	(in thousands)	
Crane	$ 94	$ 94
Less: accumulated depreciation	(17)	(14)
	$ 77	$ 80

(12) Asset Retirement Obligations

Refinery and Facilities. Management has concluded that there is no legal or contractual obligation to dismantle or remove the refinery and facilities assets. Management believes that the refinery and facilities assets have indeterminate lives under FASB ASC guidance for estimating AROs because dates or ranges of dates upon which we would retire these assets cannot reasonably be estimated at this time. When a legal or contractual obligation to dismantle or remove the refinery and facilities assets arises and a date or range of dates can reasonably be estimated for the retirement of these assets, we will estimate the cost of performing the retirement activities and record a liability for the fair value of that cost using present value techniques.

Pipelines and Facilities and Oil and Gas Properties. We have AROs associated with the dismantlement and abandonment in place of our pipelines and facilities assets, as well as the plugging and abandonment of our oil and gas properties. We recorded a discounted liability for the fair value of an ARO with a corresponding increase to the carrying value of the related long-lived asset at the time the asset was installed or placed in service, and we depreciated the amount added to property and equipment and recognized accretion expense relating to the discounted liability over the remaining life of the asset. At December 31, 2018, the liability was fully accreted.

Due to the length of inactivity of our pipelines and facilities assets, BDPL is required by the Bureau of Ocean Energy Management (“BOEM”) to abandon-in-place certain pipelines and remove an anchor platform in federal waters. BDPL has been in communications with BOEM and the Bureau of Safety and Environmental Enforcement (“BSEE”) related to abandonment operations and associated pipeline financial assurance requirements. Management anticipates performing abandonment operations during 2019, however, timing depends several factors, including resource availability and weather. As of the date of this Quarterly Report, decommissioning work has not yet commenced.

Plugging and abandonment costs are recorded during the period incurred or as information becomes available to substantiate actual and/or probable costs.

Changes to our ARO liability for the periods indicated were as follows:

	March 31, 2019	December 31, 2018
	(in thousands)	
Asset retirement obligations, at the beginning of the period	$ 2,580	$ 2,315
Accretion expense	-	265
	2,580	2,580
Less: asset retirement obligations, current portion	(2,580)	(2,580)
Long-term asset retirement obligations, at the end of the period	$ -	$ -

(13) Concentration of Risk

Bank Accounts. Financial instruments that potentially subject us to concentrations of risk consist primarily of cash, trade receivables and payables. We maintain our cash balances at financial institutions located in Houston, Texas. In the U.S., the Federal Deposit Insurance Corporation (the "FDIC") insures certain financial products up to a maximum of $250,000 per depositor. At March 31, 2019 and December 31, 2018, we had cash balances (including restricted cash) of more than the FDIC insurance limit per depositor in the amount of $1.2 million.

Key Supplier.

Operation of the Nixon refinery depends on our ability to purchase adequate amounts of crude oil and condensate, which is primarily dependent on our liquidity and access to capital. We currently have in place a month-to-month evergreen crude supply contract with a major integrated oil and gas company. This supplier currently provides us with adequate amounts of crude oil and condensate on favorable terms, and we expect the supplier to continue to do so for the foreseeable future. Our ability to purchase adequate amounts of crude oil and condensate could be adversely affected if the Settlement Agreement is terminated and GEL seeks to confirm and enforce the Final Arbitration Award, as well as other factors, including as net losses, working capital deficits, and financial covenant defaults in secured loan agreements.

Significant Customers. We routinely assess the financial strength of our customers and have not experienced significant write-downs in our accounts receivable balances. Therefore, we believe that our accounts receivable credit risk exposure is limited.

For the three months ended March 31, 2019, we had 4 customers that accounted for approximately 97% of our refined petroleum product sales. LEH was 1 of these 4 significant customers and accounted for approximately 31% of our refined petroleum product sales. At March 31, 2019, these 4 customers represented approximately $0.8 million in accounts receivable. LEH represented approximately $0 in accounts receivable. LEH purchases our jet fuel and resells the jet fuel to a government agency. LEH bids for jet fuel contracts are evaluated under preferential pricing terms due to its HUBZone certification. (See "Note (9) Related-Party Transactions," "Note (11) Long-Term Debt, Net," and "Note (17) Commitments and Contingencies – Financing Agreements" for additional disclosures related to LEH.)

For the three months ended March 31, 2018, we had 3 customers that accounted for approximately 77% of our refined petroleum product sales. LEH was 1 of these 3 significant customers and accounted for approximately 29% of our refined petroleum product sales. At March 31, 2018, these 3 customers represented approximately $0.3 million in accounts receivable. LEH represented approximately $0.3 million in accounts receivable.

Refined Petroleum Product Sales. Our refined petroleum products are primarily sold in the U.S. However, with the opening of the Mexican diesel market to private companies, we occasionally sell low-sulfur diesel to customers that export to Mexico. Total refined petroleum product sales by distillation (from light to heavy) for the periods indicated consisted of the following:

	Three Months Ended March 31,			
	2019		2018	
LPG mix	$ 8	0.0%	$ 3	0.0%
Naphtha	13,795	20.3%	16,318	22.8%
Jet fuel	20,809	30.7%	20,567	28.8%
HOBM	16,160	23.8%	16,429	23.0%
AGO	17,086	25.2%	18,195	25.4%
	$ 67,858	100.0%	$ 71,512	100.0%

(14) Leases

We adopted the new lease accounting guidance using the modified retrospective method and applied it to all leases based on the contract terms in effect as of January 1, 2019. For existing contracts, we carried forward our historical assessment of: (i) whether contracts are or contain leases, (ii) lease classification, and (iii) initial direct costs.

As of March 31, 2019, BDSC had a single operating lease related to our principal office space in Houston, Texas. The operating lease expires in 2023. We have the option to extend the lease term for one additional five (5) year period if notice of intent to extend is provided to the lessor at least twelve (12) months before the end of the current term. LEH subleases a portion of our leased office space (see “Note (9) Related-Party Transactions” related to the LEH office sub-lease agreement). Sublease income received from LEH totaled $0.01 million for both three-month periods ended March 31, 2019 and 2018.

We recorded the related right-of-use asset and lease liability as the present value of the fixed lease payments over the lease term. Since the operating lease does not provide a readily-determinable discount rate, we use our incremental borrowing rate to discount lease payments to present value. The following table presents the lease-related assets and liabilities recorded on the consolidated balance sheet:

Operating Lease	Classification on Consolidated Balance Sheet	Three Months Ended March 31, 2019
		(in thousands)
Assets		
Right-of-use assets	Operating lease right-of-use assets	$ 754
Total lease assets		754
Liabilities		
Current	Current portion of long-term operating leases	164
Noncurrent	Long-term operating leases, net of current portion	698
Total lease liabilities		$ 862

Operating Lease	
Weighted average remaining lease term in years	4.42
Weighted average discount rate	8.25%

Lease costs for operating leases, which is recognized as part of depreciation and amortization expense, totaled $0.05 million for the three months ended March 31, 2019. Cash paid for amounts included in the measurement of operating lease liabilities totaled $0.05 million for the three months ended March 31, 2019.

As of March 31, 2019, maturities of operating lease liabilities for the periods indicated were as follows:

	Operating Leases
	(in thousands)
2019	$ 171
2020	230
2021	234
2022	237
2023	161
Total minimum rental payments	1,032
Less: imputed interest	(171)
	$ 862

(15) Income Taxes

The provision for income tax benefit (expense) as of the dates indicated consisted of the following:

	March 31, 2019	December 31, 2018
	(in thousands)	
Current		
Federal	$ -	$ 108
State	-	43
Deferred		
Impact of change in enacted tax rates	-	-
Change in valuation allowance	-	109
Total provision for income taxes	$ -	$ 260

The state of Texas has a Texas margins tax ("TMT"), which is a form of business tax imposed on gross margin. Although TMT is imposed on an entity's gross profit rather than on its net income, certain aspects of TMT make it like an income tax. Accordingly, TMT is treated as an income tax for financial reporting purposes.

Effective Tax Rate. Beginning in 2018, our effective tax rate differed from the U.S. federal statutory rate primarily due to AMT credits made refundable by the Tax Cuts and Jobs Act. At the date of enactment of the Tax Cuts and Jobs Act, we re-measured our deferred tax assets and liabilities using a rate of 21%, which is the rate expected to be in place when such deferred assets and liabilities are expected to reverse in the future. The re-measurement was offset by a change in our valuation allowance, resulting in there being no impact on our net deferred tax assets.

Deferred income taxes as of the dates indicated consisted of the following:

	March 31, 2019	December 31, 2018
	(in thousands)	
Deferred tax assets:		
Net operating loss and capital loss carryforwards	$ 11,479	$ 11,260
Accrued arbitration award payable	2,586	2,850
Business interest expense	833	704
Start-up costs (crude oil and condensate processing facility)	657	678
Asset retirement obligations liability/deferred revenue	541	542
AMT credit and other	50	108
Total deferred tax assets	16,146	16,142
Deferred tax liabilities:		
Basis differences in property and equipment	(5,409)	(5,153)
Total deferred tax liabilities	(5,409)	(5,153)
	10,737	10,989
Valuation allowance	(10,687)	(10,881)
Deferred tax assets, net	$ 50	$ 108

Deferred Income Taxes. Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax basis, as well as from NOL carryforwards. We state those balances at the enacted tax rates we expect will be in effect when taxes are paid. NOL carryforwards and deferred tax assets represent amounts available to reduce future taxable income.

NOL Carryforwards. Under IRC Section 382, a corporation that undergoes an “ownership change” is subject to limitations on its use of pre-change NOL carryforwards to offset future taxable income. Within the meaning of IRC Section 382, an “ownership change” occurs when the aggregate stock ownership of certain stockholders (generally 5% shareholders, applying certain look-through rules) increases by more than fifty (50) percentage points over such stockholders' lowest percentage ownership during the testing period (generally three years). For income tax purposes, we experienced ownership changes in 2005, relating to a series of private placements, and in 2012, because of a reverse acquisition, that limit the use of pre-change NOL carryforwards to offset future taxable income. In general, the annual use limitation equals the aggregate value of common stock at the time of the ownership change multiplied by a specified tax-exempt interest rate. The 2012 ownership change will subject approximately $16.3 million in NOL carryforwards that were generated prior to the ownership change to an annual use limitation of approximately $0.6 million per year. Unused portions of the annual use limitation amount may be used in subsequent years. Because of the annual use limitation, approximately $6.7 million in NOL carryforwards that were generated prior to the 2012 ownership change will expire unused. NOL carryforwards that were generated after the 2012 ownership change and prior to 2018 are not subject to an annual use limitation under IRC Section 382 and may be used for a period of 20 years in addition to available amounts of NOL carryforwards generated prior to the ownership change. NOL carryforwards that were generated after 2017 may only be used to offset 80% of taxable income and are carried forward indefinitely.

NOL carryforwards that remained available for future use for the periods indicated were as follow (amounts shown are net of NOLs that will expire unused because of the IRC Section 382 limitation):

	Net Operating Loss Carryforward		
	Pre-Ownership Change	Post-Ownership Change	Total
		(in thousands)	
Balance at December 31, 2017	$ 9,614	$ 30,219	$ 39,833
Net operating losses	-	7,106	7,106
Balance at December 31, 2018	$ 9,614	$ 37,325	$ 46,939
Net operating losses	-	1,036	1,036
Balance at March 31, 2019	$ 9,614	$ 38,361	$ 47,975

Valuation Allowance. As of each reporting date, management considers new evidence, both positive and negative, to determine the realizability of deferred tax assets. Management considers whether it is more likely than not that some portion or all the deferred tax assets will be realized, which is dependent upon the generation of future taxable income prior to the expiration of any NOL carryforwards. At March 31, 2019 and December 31, 2018, management determined that cumulative losses incurred over the prior three-year period provided significant objective evidence that limited the ability to consider other subjective evidence, such as projections for future growth. Based on this evaluation, we recorded a valuation allowance against the deferred tax assets for which realization was not deemed more likely than not as of March 31, 2019 and December 31, 2018.

(16) Earnings Per Share

A reconciliation between basic and diluted income per share for the periods indicated was as follows:

	Three Months Ended March 31,	
	2019	2018
	(in thousands, except share and per share amounts)	
Net income (loss)	$ 747	$ (151)
Basic and diluted loss per share	$ 0.07	$ (0.01)
Basic and Diluted		
Weighted average number of shares of common stock outstanding and potential dilutive shares of common stock	10,975,514	10,925,513

Diluted EPS is computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding. Diluted EPS for three months ended March 31, 2019 and 2018 was the same as basic EPS as there were no stock options or other dilutive instruments outstanding.

(17) Commitments and Contingencies

Legal Matters.

Final Arbitration Award and Settlement Agreement. See “Note (1) Organization – Going Concern – Final Arbitration Award and Settlement Agreement” and "Part II, Item 1. Legal Proceedings” for additional disclosures related to the Final Arbitration Award and the Settlement Agreement.

Veritex Secured Loan Agreement Events of Default. See “Note (1) Organization – Going Concern – Defaults under Secured Loan Agreements” and “Note (11) Long-Term Debt, Net” for disclosures related to defaults under Veritex secured loan agreements.

Other Legal Matters. We are involved in lawsuits, claims, and proceedings incidental to the conduct of our business, including mechanic’s liens, contract-related disputes, administrative proceedings, and financial assurance (bonding) requirements with regulatory bodies. Management is in discussion with all concerned parties and does not believe that such matters will have a material adverse effect on our financial position, earnings, or cash flows. However, there can be no assurance that such discussions will result in a manageable outcome or that we will be able to meet financial assurance (bonding) requirements. If Veritex does not approve the Settlement or exercises its rights and remedies under the secured loan agreements or if the Settlement Agreement with GEL is terminated and GEL seeks to confirm and enforce the Final Arbitration Award, our business, financial condition, and results of operations will be materially adversely affected, and Blue Dolphin and its affiliates would likely be required to seek protection under bankruptcy laws.

Amended and Restated Operating Agreement. See “Note (9) Related-Party Transactions” for additional disclosures related to the Amended and Restated Operating Agreement.

Financing Agreements. See “Note (11) Long-Term Debt, Net” for additional disclosures related to financing agreements.

Guarantees. LEH and Jonathan Carroll provided guarantees on certain Blue Dolphin-related long-term debt. The maximum amount of any guarantee is reduced as payments are made. See “Note (11) Long-Term Debt, Net” for additional disclosures related to guarantees.

Health, Safety and Environmental Matters. Our operations are subject to extensive federal, state, and local environmental, health, and safety regulations governing, among other things, the generation, storage, handling, use and transportation of petroleum products and hazardous substances; the emission and discharge of materials into the environment; waste management; characteristics and composition of jet fuel and other products; and the monitoring, reporting and control of air emissions. Our operations also require numerous permits and authorizations under various environmental, health, and safety laws and regulations. Failure to obtain and comply with these permits or environmental, health, or safety laws generally could result in fines, penalties or other sanctions, or a revocation of our permits.

Nixon Facility Expansion. We have made and continue to make capital and efficiency improvements at the Nixon Facility. Therefore, we incurred and will continue to incur capital expenditures related to these improvements, which include, among other things, facility and land improvements and completion of a petroleum storage tank.

Supplemental Pipeline Bonds. In a letter dated March 30, 2018, the Bureau of Ocean Energy Management (“BOEM”) ordered BDPL to provide additional supplemental bonds or acceptable financial assurance of approximately $4.8 million (the “Separate Orders”) within sixty (60) calendar days of receipt of the letter. The Separate Orders relate to five (5) existing pipeline rights-of-way. BOEM issued an INC for each Separate Order dated June 8, 2018 and received by BDPL on June 11, 2018. BOEM asserts that the INCs authorize BOEM to impose financial penalties on BDPL if it does not comply with the Separate Orders within twenty (20) days. BOEM asserts that potential penalties accrue for each day BDPL failed to comply after June 28, 2018. BDPL appealed the INCs on August 8, 2018. The Interior Board of Land Appeals (the “IBLA”) has granted five extension requests that extend BDPL’s deadline for filing a Statement of Reasons with the IBLA until July 21, 2019. BDPL’s pending appeal of the INCs does not relieve BDPL of its obligations to provide additional financial assurance in accordance with the Separate Orders, or of BOEM’s authority to impose financial penalties.

BDPL has initiated settlement discussions with BOEM to resolve the Separate Orders and the INCs. There can be no assurance that BOEM will: (i) accept a proposal for a reduced amount of supplemental financial assurance, (ii) not require additional supplemental pipeline bonds related to BDPL's existing pipeline rights-of-way, and/or (iii) not impose penalties under the INCs. As a result, we are unable to predict the outcome of the Separate Orders, the settlement discussions with BOEM or their ultimate impact, if any, on our business, financial condition or results of operations. Accordingly, we have not recorded a liability on our consolidated balance sheet as of March 31, 2019. As of March 31, 2019 and December 31, 2018, BDPL maintained approximately $0.9 million in credit and cash-backed pipeline rights-of-way bonds issued to the BOEM. If BDPL is required by BOEM to provide significant additional supplemental bonds or acceptable financial assurance or is assessed significant penalties under the INCs, we will experience a significant and material adverse effect on our operations, liquidity, and financial condition.

(18) Subsequent Events

Line of Credit Agreement

On May 3, 2019, NPS and Pilot Travel Centers LLC ("Pilot") entered into a Line of Credit, Guarantee and Security Agreement (the "Line of Credit"), whereby Pilot agreed to extend a line of credit to NPS in an aggregate principal amount of up to $12.8 million. The Line of Credit will primarily be used to finance NPS' purchase of crude oil from Pilot pursuant to certain purchase and supply agreements (the "Pilot Supply Agreements") and to provide working capital. The Line of Credit is secured by (i) NPS receivables, (ii) NPS assets, including a tank lease (the "Tank Lease"), and (iii) LRM receivables. On May 3, 2019, as an inducement to Pilot's entry into the Line of Credit, Blue Dolphin and Pilot entered into a Pledge Agreement (the "Pledge Agreement") whereby Blue Dolphin pledged its equity interests in NPS to Pilot to secure NPS' obligations under the Line of Credit.

On May 10, 2019, LE, NPS, Pilot and Veritex entered into a Subordination and Attornment Agreement (the "Subordination Agreement"), providing that, if Veritex in its capacity as a secured lender of LE and LRM were to foreclose on LE property that NPS was leasing from LE pursuant to the Tank Lease, Veritex would permit the continued performance of obligations under the Tank Lease so long as certain conditions are met. The effectiveness of the Subordination Agreement is subject to certain conditions, including the agreement and concurrence of the USDA.

Veritex Consent

In a notice to obligors dated April 30, 2019 (the "Veritex Consent'), Veritex agreed, subject to the agreement and concurrence of the USDA and the replenishment of a payment reserve account required by the loan agreements on or before August 31, 2019, to waive certain covenant defaults and forbear from enforcing its remedies under the secured loan agreements. Any exercise by Veritex of its rights and remedies under such secured loan agreements would have a material adverse effect on our business, financial condition, and results of operations and would likely require Blue Dolphin to seek protection under bankruptcy laws. See "Note (1) Organization – Going Concern" and "–Operating Risks" and "Note (11) Long-Term Debt, Net" for additional disclosures related to the First Term Loan Due 2034 and Second Term Loan Due 2034 and financial covenant violations.

Fifth Amendment to Settlement Agreement

As previously reported, pursuant to the Settlement Agreement, GEL and the Lazarus Parties agreed to mutually release all claims against each other and to file a stipulation of dismissal with prejudice in connection with the Final Arbitration Award, subject to the terms and conditions set forth in the Settlement Agreement, including payment by the Lazarus Parties to GEL of the Settlement Payment. On May 6, 2019, the Lazarus Parties and GEL entered into a Fifth Amendment to the Settlement Agreement (the "Fifth Amendment"). The Fifth Amendment provides for, among other things, GEL's consent to the Lazarus Parties entering into the Line of Credit and an extension to October 31, 2019 of the date on which the Settlement Agreement will terminate if the Settlement Payment and a $0.5 million deferred interim installment payment (the "Deferred Interim Installment Payment") are not made on or before such date. As of the filing date of this Quarterly Report, the Lazarus Parties had paid GEL the Settlement Payment. The Deferred Interim Installment Payment must therefore be paid no later than October 31, 2019. Under the Fifth Amendment, GEL has the right to terminate the Settlement Agreement earlier following the occurence of an event of default. See "Note (1) Organization–Going Concern–Final Arbitration Award and Settlement Agreement" for further information regarding the Settlement Agreement.

The foregoing description of the Line of Credit, the Pilot Supply Agreements, the Pledge Agreement, the Subordination Agreement, the Veritex Consent and the Fifth Amendment does not purport to be complete. As promptly as reasonably practicable after the filing of this Quarterly Report, Blue Dolphin intends to file a Current Report on Form 8-K providing additional information regarding the material terms of these documents, and the foregoing description is qualified in its entirety by reference to that Current Report on Form 8-K.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019 (the Quarterly Report"), references to "Blue Dolphin," "we," "us" and "our" are to Blue Dolphin Energy Company and its subsidiaries, unless otherwise indicated or the context otherwise requires. You should read the following discussion together with the financial statements and the related notes included elsewhere in this Quarterly Report, as well as with the risk factors, financial statements, and related notes included thereto in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (the "Annual Report").

Forward Looking Statements

Certain statements included in this Quarterly Report, including in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1935. Forward-looking statements represent management's beliefs and assumptions based on currently available information. Forward-looking statements relate to matters such as our industry, business strategy, goals and expectations concerning our market position, future operations, margins, profitability, capital expenditures, liquidity and capital resources, access to supplies of crude oil and condensate, commitments and contingencies, and other financial and operating information. We have used the words "anticipate," "assume," "believe," "budget," "continue," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "will," "future," and similar terms and phrases to identify forward-looking statements.

Forward-looking statements reflect our current expectations regarding future events, results, or outcomes. These expectations may or may not be realized. Some of these expectations may be based upon assumptions or judgments that prove to be incorrect. In addition, our business and operations involve numerous risks and uncertainties, many of which are beyond our control, which could result in our expectations not being realized, or materially affect our financial condition, results of operations and cash flows. Actual events, results and outcomes may differ materially from our expectations due to a variety of factors. Although it is not possible to identify all these factors, they include, among others, the following and other factors described under the heading "Risk Factors" in the Annual Report and this Quarterly Report:

Risks Related to Our Business and Industry

- Failure to meet the terms and conditions set forth in the Settlement Agreement, including but not limited to securing the Settlement Financing, could have a material adverse effect on our business, financial condition, and results of operations and could materially adversely affect the value of an investment in our common stock. (See "Part I, Item 1. Financial Statements – Note (1) Organization – Going Concern – Final Arbitration Award and Settlement Agreement" for disclosures related to the Settlement Agreement).
- Inadequate liquidity to sustain operations due to the unfavorable outcome in the arbitration of the contract-related dispute with GEL, net losses, working capital deficits, and other factors, including defaults under secured loan agreements, any of which could have a material adverse effect on us.
- Defaults under our secured loan agreements could have a material adverse effect on our business, financial condition, and results of operations and materially adversely affect the value of an investment in our common stock.
- Our substantial debt in the current portion of long-term debt, which is currently in default, could adversely affect our financial health and make us more vulnerable to adverse economic conditions.
- Our business, financial condition and operating results may be adversely affected by increased costs of capital or a reduction in the availability of credit.
- LEH holds a significant interest in us, and related-party transactions with LEH and its affiliates may cause conflicts of interest that may adversely affect us.
- The dangers inherent in oil and gas operations could expose us to potentially significant losses, costs or liabilities and reduce our liquidity.
- The geographic concentration of our assets creates a significant exposure to the risks of the regional economy and other regional adverse conditions.
- Competition from companies having greater financial and other resources could materially and adversely affect our business and results of operations.

- Environmental laws and regulations could require us to make substantial capital expenditures to remain in compliance or to remediate current or future contamination that could give rise to material liabilities.
- We are subject to strict laws and regulations regarding personnel and process safety, and failure to comply with these laws and regulations could have a material adverse effect on our results of operations, financial condition and profitability.
- Our insurance policies may be inadequate or expensive.
- Our ability to use net operating loss ("NOL") carryforwards to offset future taxable income for U.S. federal income tax purposes is subject to limitation.
- Terrorist attacks, cyber-attacks, threats of war, or actual war may negatively affect our operations, financial condition, results of operations, and cash flows.

Risks Related to Our Operations

- Management has determined that there is, and the report of our independent registered public accounting firm expresses, substantial doubt about our ability to continue as a going concern.
- Refining margins are volatile, and a reduction in refining margins will adversely affect the amount of cash we will have available for working capital.
- The price volatility of crude oil, other feedstocks, refined petroleum products, and fuel and utility services may have a material adverse effect on our earnings, cash flows and liquidity.
- Our future success depends on our ability to acquire sufficient levels of crude oil on favorable terms to operate the Nixon refinery.
- Downtime at the Nixon refinery could result in lost margin opportunity, increased maintenance expense, increased inventory, and a reduction in cash available for payment of our obligations.
- We may have capital needs for which our internally generated cash flows and other sources of liquidity may not be adequate. Further, LEH and its affiliates (including Jonathan Carroll) may, but are not required to, fund our working capital requirements in the event our internally generated cash flows and other sources of liquidity are inadequate.
- Our business may suffer if any of the executive officers or other key personnel discontinue employment with us. Furthermore, a shortage of skilled labor or disruptions in our labor force may make it difficult for us to maintain productivity.
- Loss of market share by a key customer, one of which is LEH, or consolidation among our customer base could harm our operating results.
- The sale of refined petroleum products to the wholesale market is our primary business, and if we fail to maintain and grow the market share of our refined petroleum products, our operating results could suffer.
- We are dependent on third parties for the transportation of crude oil and condensate into and refined petroleum products out of our Nixon Facility, and if these third parties become unavailable to us, our ability to process crude oil and condensate and sell refined petroleum products to wholesale markets could be materially and adversely affected.
- Our suppliers source a substantial amount, if not all, of our crude oil and condensate from the Eagle Ford Shale and may experience interruptions of supply from that region.
- Our refining operations and customers are primarily located within the Eagle Ford Shale and changes in the supply/demand balance in this region could result in lower refining margins.
- Regulation of GHG emissions could increase our operational costs and reduce demand for our products.

Risks Related to Our Pipelines and Oil and Gas Properties

- Orders by BOEM to increase bonds or other sureties to maintain compliance with BOEM's regulations, or the assessment of penalties for failure to do so, could significantly impact our operations, liquidity, and financial condition.
- More stringent requirements imposed by BOEM and BSEE related to the decommissioning, plugging, and abandonment of wells, platforms, and pipelines could materially increase our estimate of future AROs.

Any one of these factors or a combination of these factors could materially affect our future results of operations and could influence whether any forward-looking statements ultimately prove to be accurate. Our forward-looking statements are not guarantees of future performance, and actual results and future performance may differ materially from those suggested in any forward-looking statements. We do not intend to update these statements unless we are required to do so.

Going Concern

See “Part I, Item 1. Financial Statements – Note (1) Organization – Going Concern” and "Note (18) Subsequent Events" regarding factors m anagement has determined raise substantial doubt about our ability to continue as a going concern.

Operating Risks

See “Part I, Item 1. Financial Statements – Note (1) Organization – Operating Risks” and "Note (18) Subsequent Events" regarding factors that have negatively impacted execution of our business plan.

Company Overview

Blue Dolphin is a publicly-traded Delaware corporation primarily engaged in the refining and marketing of petroleum products. We also provide tolling and storage terminaling services. Our assets, which are located in Nixon, Texas, primarily include a 15,000-bpd crude distillation tower and approximately 1.1 million bbls of petroleum storage tanks (collectively the “Nixon Facility”). Pipeline transportation and oil and gas operations are no longer active. Blue Dolphin maintains a website at http://www.blue-dolphin-energy.com. Information on or accessible through Blue Dolphin’s website is not incorporated by reference in or otherwise made a part of this Quarterly Report.

Major Influences on Results of Operations

Refinery Operations

As a margin-based business, our refinery operations are primarily affected by gross profit per bbl, product slate, and refinery downtime.

Price Differentials per Bbl

Gross profit per bbl, which reflects the dollar per bbl price difference between crude oil and condensate (input) and refined petroleum products (output), is the most significant driver of refining margins, and they have historically been subject to wide fluctuations. Our per bbl cost to acquire crude oil and condensate and the dollar per bbl price for which our refined petroleum products are ultimately sold depend on the economics of supply and demand. Supply and demand are affected by numerous factors, most, if not all, of which are beyond our control, including:

- Domestic and foreign market conditions, political affairs, and economic developments;
- Import supply levels and export opportunities;
- Existing domestic inventory levels;
- Operating and production levels of competing refineries;
- Expansion and/or upgrades of competitors’ facilities;
- Governmental regulations (e.g., mandated renewable fuels standards, proposed climate change laws and regulations, and increased mileage standards for vehicles);
- Weather conditions;
- Availability of and access to transportation infrastructure;
- Availability of competing fuels (e.g., renewables); and
- Seasonal fluctuations.

Product Slate

Management periodically determines whether to change the refinery’s product mix, as well as maintain, increase, or decrease inventory levels based on various factors. These factors include the crude oil pricing market in the U.S. Gulf Coast region, the refined petroleum products market in the same region, the relationship between these two markets, fulfilling contract demands, and other factors that may impact our operations, financial condition, and cash flows.

Refinery Downtime

The safe and reliable operation of the refinery is key to our financial performance and results of operations, and we are particularly vulnerable to disruptions in our operations because all our refining operations are conducted at a single facility. Although operating at anticipated levels, the refinery is still in a recommissioning phase and may require unscheduled downtime for unanticipated reasons, including maintenance and repairs, voluntary regulatory compliance measures, or cessation or suspension by regulatory authorities.

Occasionally, the Nixon refinery experiences a temporary shutdown due to power outages from high winds and thunderstorms. In such cases, we must initiate a standard refinery start-up process, which can last several days. We are typically able to resume normal operations the next day. Any scheduled or unscheduled downtime will result in lost margin opportunity, potential increased maintenance expense and a reduction of refined petroleum products inventory, which could reduce our ability to meet our payment obligations.

Tolling and Terminaling Operations

The Nixon Facility's petroleum storage tanks and infrastructure are primarily suited for crude oil and condensate and refined petroleum products, such as naphtha, jet fuel, diesel and fuel oil. Our storage terminaling operations are primarily affected by:

- price (in terms of storage fees) and available capacity;
- industry factors including changes in the prices of petroleum products that affect demand for storage services; and
- utilization rates of our competitors (local demand).

Key Relationships

Relationship with LEH

Blue Dolphin and certain of its subsidiaries are currently parties to a variety of agreements with LEH and its affiliates and a counter-party. Related-party agreements with LEH include: (i) an Amended and Restated Operating Agreement with Blue Dolphin and LE, (ii) a Jet Fuel Sales Agreement with LE, (iii) a Loan Agreement with BDPL, (iv) an Amended and Restated Promissory Note with Blue Dolphin, and (v) an office sub-lease agreement with BDSC. In addition, we currently rely on advances from LEH and its affiliates (including Jonathan Carroll) to fund our working capital requirements. There can be no assurances that LEH and its affiliates will continue to fund our working capital requirements. (See "Part I, Item 1. Financial Statements – Note (9) Related-Party Transactions" for additional disclosures related to agreements that we have in place with LEH and its affiliates.)

Relationship with Crude Supplier

Operation of the Nixon refinery depends on our ability to purchase adequate amounts of crude oil and condensate, which is primarily dependent on our liquidity and access to capital. We currently have in place a month-to-month evergreen crude supply contract with a major integrated oil and gas company. This supplier currently provides us with adequate amounts of crude oil and condensate on favorable terms, and we expect the supplier to continue to do so for the foreseeable future. Our ability to purchase adequate amounts of crude oil and condensate could be adversely affected if the Settlement Agreement is terminated and GEL seeks to confirm and enforce the Final Arbitration Award, as well as other factors, including as net losses, working capital deficits, and financial covenant defaults in secured loan agreements.

Management believes that it is taking the appropriate steps to improve our operations and financial stability. If our business strategy is unsuccessful, it could affect our ability to acquire adequate supplies of crude oil and condensate under the existing contract or otherwise. Further, because our existing crude supply contract is a month-to-month arrangement, there can be no assurance that crude oil and condensate supplies will continue to be available under this contract in the future.

Results of Operations

Certain Prior Quarter amounts as defined herein have been reclassified in order to conform to the Current Quarter presentation. Specifically, certain changes to the presentation of prior period statements of operations have been made to conform to the current period presentation, primarily relating to: (i) a retitling from 'cost of sales' to 'cost of goods sold,' which includes all costs directly attributable to the generation of the related revenue, as defined by GAAP and (ii) a breakout of the 'management fee' under the Amended and Restated Operating Agreement, which was previously reported within 'refinery operating expenses'. These changes had no effect on the reported results of operations.

Consolidated Results

Three Months Ended March 31, 2019 (the "Current Quarter") Compared to March 31, 2018 (the "Prior Quarter").

Total Revenue from Operations. For the Current Quarter, we had total revenue from operations of $68.9 million compared to total revenue from operations of $72.2 million for the Prior Quarter, a decrease of nearly 5%. Approximately 99% of our revenue is derived from refinery operations while 1% is derived from tolling and terminaling. Refinery operations revenue decreased approximately $3.7 million in the Current Quarter compared to the Prior Quarter. The decrease in refinery operations revenue was due to lower commodity pricing per bbl on refined petroleum products sold, which was partially decreased by higher sales volume in the Current Quarter compared to the Prior Quarter. For the same period, tolling and terminaling revenue increased approximately $0.3 million, or approximately 46%, as a result of increased storage fees under new and renewed customer agreements.

Total Cost of Goods Sold. Total cost of goods sold was $65.5 million for the Current Quarter compared to $70.5 million for the Prior Quarter. The 7% decrease in total cost of goods sold in the Current Quarter compared to the Prior Quarter related to lower commodity prices per bbl for crude oil and chemicals, which was partially offset by increased throughput volume.

Gross Profit / Gross Margin. For the Current Quarter, gross profit totaled $3.4 million, or approximately 5%, compared to gross profit of $1.8 million, or approximately 2%, for the Prior Quarter. The increase in gross profit between the periods primarily related to more favorable margins per bbl and increased tank rental revenue in the Current Quarter compared to the Prior Quarter.

Management Fee. The management fee under the Amended and Restated Operating Agreement was flat, totaling approximately $0.2 million in both the Current Quarter and the Prior Quarter. (See "Part I, Item 1. Financial Statements – Note (9) Related-Party Transactions" for additional disclosures related to the Amended and Restated Operating Agreement.)

General and Administrative Expenses. General and administrative expenses were flat in the Current Quarter compared to the Prior Quarter at $0.7 million.

Depreciation and Amortization. We recorded depreciation and amortization expenses of $0.6 million in the Current Quarter compared to $0.5 million in the Prior Quarter, an increase of approximately 30%. The increase related to placement in service of a new boiler and new petroleum storage tanks.

Other Expense. Total other expense was $1.0 million in the Current Quarter compared to $0.7 million in the Prior Quarter. Nearly all of other expense related to interest expense associated with the secured loan agreements with Veritex and related-party debt.

Income Tax Benefit. We recognized an income tax benefit of $0 in the Current Quarter compared to $0.2 million in the Prior Quarter. Income tax benefit in the Prior Quarter related to a refundable Alternative Minimum Tax that was paid in prior periods. (See "Part I, Item 1. Financial Statements – Note (15) Income Taxes" for additional disclosures related to income taxes.)

Net Income (Loss). For the Current Quarter, we reported net income of $0.7 million, or income of $0.07 per share, compared to a net loss of $0.2 million, or loss of $0.01 per share, for the Prior Quarter. The increase in net income between the periods was primarily attributable to more favorable margins per bbl, increased sales throughput volume, and increased tank rental revenue in the Current Quarter compared to the Prior Quarter.

Non-GAAP Financial Measures

To supplement our consolidated results, management uses refining gross profit per bbl, a non-GAAP financial measure, to help investors evaluate our core operating results and allow for greater transparency in reviewing our overall financial, operational and economic performance. Refining gross profit per bbl is reconciled to GAAP-based results below. Refining gross profit per bbl should not be considered an alternative for GAAP results. Refining gross profit per bbl is provided to enhance an overall understanding of our core financial performance for the applicable periods and is an indicator that management believes is relevant and useful. Refining gross profit per bbl may differ from similar calculations used by other companies within the petroleum industry, thereby limiting its usefulness as a comparative measure. (See “Part I, Item 1. Financial Statements” for comparative GAAP results.)

Refining Gross Profit per Bbl – For the Current Quarter, refining gross profit per bbl was $2.28 compared to $1.03 per bbl for the Prior Quarter, reflecting an increase of $1.25 per bbl. The increase between the periods primarily related to more favorable refining margins per bbl and increased sales throughput volume in the Current Quarter compared to the Prior Quarter. (See “Glossary of Selected Energy and Financial Terms” in this Quarterly Report for the definition of gross margin per bbl.)

	Three Months Ended March 31,	
	2019	2018
	(in thousands except per bbl amounts)	
Refinery operations revenue	$ 67,858	$ 71,512
Less: Total cost of goods sold	(65,516)	(70,492)
	2,342	1,020
Sales (Bbls)	1,029	993
Gross Margin per Bbl	$ 2.28	$ 1.03

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Refinery Operations Throughput and Production Data

Operational metrics for the refinery for the periods indicated were as follow:

	Three Months Ended March 31,	
	2019	2018
Calendar Days	90	90
Refinery downtime	(11)	(16)
Operating Days	79	74
Total refinery throughput (bbls)	1,047,059	1,008,443
Operating days:		
bpd	13,254	13,628
Capacity utilization rate	88.4%	90.9%
Calendar days:		
bpd	11,634	11,205
Capacity utilization rate	77.6%	74.7%
Total refinery production (bbls)	1,022,829	978,552
Operating days:		
bpd	12,947	13,224
Capacity utilization rate	86.3%	88.2%
Calendar days:		
bpd	11,365	10,873
Capacity utilization rate	75.8%	72.5%

Note: The small difference between total refinery throughput (volume processed as input) and total refinery production (volume processed as output) represents a combination of multiple factors including refinery fuel use, elimination of some impurities originally present in the crude oil, loss, and other factors.

During the Current Quarter, the refinery experienced 11 days of downtime primarily related to a maintenance turnaround and equipment repairs. During the Prior Quarter, the refinery experienced 16 days of downtime related to repair and maintenance of the naphtha stabilizer unit and short maintenance turnarounds.

For the Current Quarter compared to the Prior Quarter, total refinery throughput bbls and total refinery production bbls increased primarily as a result of less downtime.

Refined Petroleum Product Sales Summary.

See “Part I, Item 1. Financial Statements – Note (13) Concentration of Risk” for a discussion of refined petroleum product sales.

Liquidity and Capital Resources

Overview.

We currently rely on revenue from operations, LEH and its affiliates (including Jonathan Carroll), and borrowings under bank facilities to meet our liquidity needs. Primary uses of cash include: (i) payment to LEH for our direct operating expenses under the Amended and Restated Operating Agreement, (ii) payments on long-term debt and the Final Arbitration Award, (iii) purchase of crude oil and condensate, and (iv) construction in progress.

As discussed elsewhere within this “Liquidity and Capital Resources” section, management has determined that there is substantial doubt about our ability to continue as a going concern due to consecutive quarterly net losses, inadequate working capital, the Final Arbitration Award, and defaults under secured loan agreements. See “Part I, Item 1. Financial Statements – Note (1) Organization – Going Concern” and "Note (18) Subsequent Events" for additional disclosures related to the Final Arbitration Award, the Settlement Agreement with GEL, defaults under secured loan agreements, and the going concern.

Management believes that it is taking the appropriate steps to improve our operations and financial stability. If our business strategy is unsuccessful, it could affect our ability to acquire adequate supplies of crude oil and condensate under our existing contract or otherwise. Further, because our existing crude supply contract is an evergreen arrangement, there can be no assurance that crude oil and condensate supplies will continue to be available under our crude supply contract in the future.

Our results of operations and liquidity are highly dependent upon the margins that we receive for our refined petroleum products. The dollar per bbl price difference between crude oil and condensate (input) and refined petroleum products (output), is the most significant driver of refining margins, and they have historically been subject to wide fluctuations. There can be no assurance that margins for refined petroleum products will be favorable, LEH and its affiliates will continue to fund our working capital needs in periods of working capital deficits, or we will be able to obtain additional financing on commercially reasonable terms or at all. Further, if Veritex Community Bank (“Veritex”) does not approve the Settlement or the Settlement Agreement with GEL is terminated and GEL seeks to confirm and enforce the Final Arbitration Award, our business, financial condition, and results of operations will be materially adversely affected, and Blue Dolphin would likely be required to seek protection under bankruptcy laws.

Crude Oil and Condensate Supply.

Operation of the Nixon refinery depends on our ability to purchase adequate amounts of crude oil and condensate, which is primarily dependent on our liquidity and access to capital. We currently have in place a month-to-month evergreen crude supply contract with a major integrated oil and gas company. This supplier currently provides us with adequate amounts of crude oil and condensate on favorable terms, and we expect the supplier to continue to do so for the foreseeable future. Our ability to purchase adequate amounts of crude oil and condensate could be adversely affected if the Settlement Agreement is terminated and GEL seeks to confirm and enforce the Final Arbitration Award, as well as other factors, including net losses, working capital deficits, and financial covenant defaults in secured loan agreements.

Cash Flow.

Our cash flow from operations for the periods indicated was as follows:

	Three Months Ended March 31,	
	2019	2018
	(in thousands)	
Beginning cash, cash equivalents, and restricted cash	$ 1,665	$ 2,146
Cash flow from operations		
Adjusted profit from operations	1,369	185
Change in assets and current liabilities	(1,400)	616
Total cash flow from operations	(31)	801
Cash inflows (outflows)		
Payments on debt	(250)	(240)
Net activity on related-party debt	419	217
Capital expenditures	(123)	(540)
Total cash inflows (outflows)	46	(563)
Total change in cash flows	15	238
Ending cash, cash equivalents, and restricted cash	$ 1,680	$ 2,384

For the Current Quarter, we experienced a cash flow deficit of $0.03 million compared to cash flow from operations of $0.8 million for the Prior Quarter. The $0.8 million decrease in cash flow from operations between the periods was primarily the result of an increase in inventory and accounts receivable.

Working Capital.

We had a working capital deficit of $70.7 million at March 31, 2019, compared to a working capital deficit of $71.9 million at December 31, 2018. Excluding the current portion of long-term debt, we had a working capital deficit of $28.6 million and $30.0 million at March 31, 2019 and December 31, 2018, respectively.

As discussed elsewhere within this “Liquidity and Capital Resources” section, the Final Arbitration Award has affected our ability to obtain working capital through financing. If the Settlement Agreement with GEL is terminated and GEL seeks to confirm and enforce the Final Arbitration Award: (i) our business operations, including crude oil and condensate procurement and our customer relationships; financial condition; and results of operations will be materially affected, and (ii) Blue Dolphin and its affiliates would likely be required to seek protection under bankruptcy laws.

We currently rely on LEH and its affiliates (including Jonathan Carroll) to fund our working capital requirements. There can be no assurance that LEH and its affiliates (including Jonathan Carroll) will continue to fund our working capital requirements.

Capital Spending.

Since 2015, the Nixon Facility has been undergoing a capital improvement expansion project. Capital improvements have primarily related to construction of new petroleum storage tanks to significantly increase petroleum storage capacity. However, smaller efficiency improvements have been made as well. Increased petroleum storage capacity: (i) assists with de-bottlenecking the facility, (ii) supports increased refinery throughput up to approximately 30,000 bpd, and (iii) provides an opportunity to generate additional tolling and terminaling revenue. When the expansion project is complete, petroleum storage capacity at the Nixon Facility will exceed 1.2 million bbls, an increase of more than 0.9 million bbls.

For the next 12 to 18 months, we expect to continue to incur capital expenditures related to facility and land improvements and completion of an unfinished petroleum storage tank. Capital spending at the Nixon Facility is being funded by working capital derived from revenue from operations and LEH and its affiliates (including Jonathan Carroll), as well as from long-term debt from Veritex that was secured in 2015 for expansion of the Nixon Facility. Unused amounts under the Veritex loans are reflected in restricted cash (current and non-current portions) on our consolidated balance sheets and will be available for use once events of default associated with the Final Arbitration Award are remedied. See “Part I, Item 1. Financial Statements – Note (11) Long-Term Debt, Net” for additional disclosures related to borrowings for capital spending.

We account for our capital expenditures in accordance with GAAP. We also distinguish between capital expenditures that are for maintenance and those that are for expansion. We classify a capital expenditure as maintenance if it maintains capacity or throughput. A classification of expansion is used if the capital expenditure is expected to increase capacity or throughput. The distinction between maintenance and expansion is made consistent with our accounting policies and is generally a straightforward process. However, in certain circumstances the distinction can be a matter of management judgment and discretion.

Budgeting and approval of maintenance capital expenditures is done throughout the year on a project-by-project basis. We budget for and make maintenance capital expenditures that are necessary to maintain safe and efficient operations, meet customer needs and comply with operating policies and applicable law. We may budget for and make additional maintenance capital expenditures that we expect to produce economic benefits such as increasing efficiency and/or lowering future expenses. Budgeting and approval of expansion capital expenditures are generally made periodically on a project-by-project basis in response to specific investment opportunities identified by our business segments.

Contractual Obligations and Debt Agreements.

See the following notes under “Part I, Item 1. Financial Statements” regarding:

- *GEL*. “Note (1) Organization – Going Concern – Final Arbitration Award and Settlement Agreement” for disclosures related to the Final Arbitration Award to GEL and Settlement Agreement with GEL.
- *Related-Party.* “Note (9) Related-Party Transactions” for a summary of the agreements we have in place with related parties.
- *Long-Term Debt*. “Note (11) Long-Term Debt, Net” for a summary of our long-term debt.
- *Operating Lease*. “Note (14) Leases” for disclosures related to our operating lease.
- *Supplemental Pipeline Bonds*. “Note (17) Commitments and Contingencies – Supplemental Pipeline Bonds” for a discussion of supplemental pipeline bonding requirements.

Indebtedness.

The principal balances outstanding plus accrued interest on our long-term debt, net (including related-party) for the periods indicated were as follow:

	March 31, 2019	December 31, 2018
	(in thousands)	
First Term Loan Due 2034 (in default)	$ 22,551	$ 22,593
Second Term Loan Due 2034 (in default)	9,342	9,353
Notre Dame Debt (in default)	8,019	7,821
BDPL Loan Agreement (in default)	5,694	5,534
March Ingleside Note (in default)	1,308	1,283
March Carroll Note (in default)	1,330	1,147
June LEH Note (in default)	340	611
Capital Leases	31	41
	$ 49,096	$ 48,383
Less: Current portion of long-term debt, net	(42,104)	(41,904)
Less: Unamortized debt issue costs	(1,974)	(2,006)
Less: Interest payable and interest payable, related party	(5,018)	(4,473)
	$ -	$ -

Principal payments on long-term debt totaled $0.3 million in the Current Quarter compared to $0.2 million in the Prior Quarter. As of the date of this Quarterly Report, LE and LRM were current on monthly payments under the First Term Loan Due 2034 and Second Term Loan Due 2034. There have been no payments under the Notre Dame Debt to date and no payments to Jonathan Carroll under the March Carroll Note since May 2017.

As described elsewhere in this Quarterly Report, Veritex notified obligors that the Final Arbitration Award constitutes an event of default under the First Term Loan Due 2034 and Second Term Loan Due 2034. In addition to existing events of default related to the Final Arbitration Award, March 31, 2019, LE and LRM were in violation of the debt service coverage ratio, the current ratio, and debt to net worth ratio financial covenants related to the secured loan agreements. LE also failed to replenish a payment reserve account as required. The occurrence of events of default under the secured loan agreements permits Veritex to declare the amounts owed under the secured loan agreements immediately due and payable, exercise its rights with respect to collateral securing obligors' obligations under the loan agreements, and/or exercise any other rights and remedies available.

Veritex has not accelerated or called due the secured loan agreements considering the Settlement Agreement, which Veritex must ultimately approve. Instead, Veritex has expressly reserved all its rights, privileges and remedies related to events of default under the secured loan agreements and informed obligors that it would consider a final confirmation of the Final Arbitration Award to be a material event of default under the loan agreements. Veritex has been working with LE and LRM and continues to be aware and party to all discussions and arrangements with GEL surrounding the Settlement. Veritex must ultimately approve the Settlement. However, if Veritex does not approve the Settlement or exercises its rights and remedies under the secured loan agreements or the Settlement Agreement with GEL is terminated and GEL seeks to confirm and enforce the Final Arbitration Award, our business, financial condition, and results of operations will be materially adversely affected, and Blue Dolphin would likely be required to seek protection under bankruptcy laws.

See "Part I, Item 1. Financial Statements – Note (1) Organization – Going Concern" and "– Operating Risks", as well as "Note (11) Long-Term Debt, Net" for additional disclosures related to long-term debt financial covenant violations and events of default.

See "Contractual Obligations – Related-Party" within the Liquidity and Capital Resources section for additional disclosures with respect to related-party indebtedness.

Off-Balance Sheet Arrangements

None.

Critical Accounting Policies

Long-Lived Assets. See “Part I, Item 1. Financial Statements – Note (3) Significant Accounting Policies – Property and Equipment”.

Revenue Recognition. See “Part I, Item 1. Financial Statements – Note (3) Significant Accounting Policies – Revenue Recognition”.

Inventory. See “Part I, Item 1. Financial Statements – Note (3) Significant Accounting Policies – Inventory”.

Asset Retirement Obligations. See “Part I, Item 1. Financial Statements – Note (3) Significant Accounting Policies – Asset Retirement Obligations” and “— Note (12) Asset Retirement Obligations”.

Income Taxes. See “Part I, Item 1. Financial Statements – Note (3) Significant Accounting Policies – Income Taxes” and “– Note (15) Income Taxes”.

Recently Adopted Accounting Guidance

See “Part I, Item 1. Financial Statements – Note (3) Significant Accounting Policies – New Pronouncements Adopted”.

New Pronouncements Issued, Not Yet Effective

See “Part I, Item 1. Financial Statements – Note (3) Significant Accounting Policies – New Pronouncements Issued, Note Yet Effective”.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision of, and with the participation of our management, including our Chief Executive Officer (principal executive officer and principal financial officer), we conducted an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this Quarterly Report. Based on our evaluation, our Chief Executive Officer (principal executive officer and principal financial officer) concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act, are recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms.

Changes in Internal Control over Financial Reporting

Management concluded that our internal control over financial reporting was effective as of December 31, 2018. In connection with the adoption on January 1, 2019 of new accounting guidance for leases, we implemented new processes and internal controls related to our leases.

Except as described above, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the three months ended March 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. (See "Part I, Item 4. Controls and Procedures – Evaluation of Disclosure Controls and Procedures" of this Quarterly Report for a discussion related to controls and procedures.)

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Final Arbitration Award

See "Part I, Item 1. Financial Statements – Note (1) Organization – Going Concern – Final Arbitration Award and Settlement Agreement" of this Quarterly Report for disclosures related to the Final Arbitration Award to GEL and the Settlement Agreement between the Lazarus Parties and GEL.

Other Legal Matters

We are involved in lawsuits, claims, and proceedings incidental to the conduct of our business, including mechanic's liens, contract-related disputes, administrative proceedings, and financial assurance (bonding) requirements with regulatory bodies. Management is in discussion with all concerned parties and does not believe that such matters will have a material adverse effect on our financial position, earnings, or cash flows. However, there can be no assurance that such discussions will result in a manageable outcome or that we will be able to meet financial assurance (bonding) requirements. If Veritex does not approve the Settlement or exercises its rights and remedies under the secured loan agreements or if the Settlement Agreement with GEL is terminated and GEL seeks to confirm and enforce the Final Arbitration Award, our business, financial condition, and results of operations will be materially adversely affected, and Blue Dolphin and its affiliates would likely be required to seek protection under bankruptcy laws.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this Quarterly Report, careful consideration should be given to the risk factors discussed under "Part I, Item 1A. Risk Factors" and elsewhere in our Annual Report. These risks and uncertainties could materially and adversely affect our business, financial condition and results of operations. Our operations could also be affected by additional factors that are not presently known to us or by factors that we currently consider immaterial to our business. There have been no material changes in our assessment of our risk factors from those set forth in our Annual Report.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

See "Part I, Item. 1. Financial Statements – Note (11) Long-Term Debt, Net" for disclosures related to defaults on our debt.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibits Index

No.	Description
10.1	Fourth Amendment to the Settlement Agreement, dated as of March 19, 2019, by and among Lazarus Energy, LLC, Blue Dolphin Energy Company, Lazarus Energy Holdings, LLC, Nixon Product Storage, LLC, Carroll & Company Financial Holdings, L.P., Jonathan Carroll and GEL Tex Marketing, LLC, incorporated by reference to the Current Report on Form 8-K filed by the Company on March 21, 2019 (file no. 000-15905).
31.1*	Jonathan P. Carroll Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Jonathan P. Carroll Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Schema Document.
101.CAL*	XBRL Calculation Linkbase Document.
101.LAB*	XBRL Label Linkbase Document.
101.PRE*	XBRL Presentation Linkbase Document.
101.DEF*	XBRL Definition Linkbase Document.

* Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Quarterly Report to be signed on its behalf by the undersigned, thereunto duly authorized.

BLUE DOLPHIN ENERGY COMPANY
(Registrant)

May 16, 2019

By: /s/ JONATHAN P. CARROLL
Jonathan P. Carroll
Chief Executive Officer, President,
Assistant Treasurer and Secretary
(Principal Executive Officer, Principal Financial Officer, and Principal Accounting Officer)

EXHIBIT 31.1

I, Jonathan P. Carroll, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Blue Dolphin Energy Company (the "Registrant").

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this quarterly report;

3. Based on my knowledge, the financial statements and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and I have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this quarterly report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

   d) Disclosed in this quarterly report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's first fiscal quarter in the case of this quarterly report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit Committee of the Registrant's Board of Directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 16, 2019

/s/ JONATHAN P. CARROLL
Jonathan P. Carroll
Chief Executive Officer, President, Assistant Treasurer and Secretary
(Principal Executive Officer and Principal Financial Officer)

Exhibit 32.1

CERTIFICATION OF
PRINCIPAL EXECUTIVE OFFICER AND
PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Blue Dolphin Energy Company (the "Blue Dolphin") on Form 10-Q for the period ended March 31, 2019 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Jonathan P. Carroll, Chief Executive Officer, President, Assistant Treasurer and Secretary (Principal Executive Officer and Principal Financial Officer) of Blue Dolphin, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Blue Dolphin.

/s/ JONATHAN P. CARROLL
Jonathan P. Carroll
Chief Executive Officer, President, Assistant Treasurer and Secretary
(Principal Executive Officer and Principal Financial Officer)

May 16, 2019