# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## Vertex Energy Inc.

### Form: 10-Q

### Date Filed: 2017-05-10

Corporate Issuer CIK: 890447

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

# FORM 10-Q

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

**For the fiscal quarter ended March 31, 2017**

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

**FOR THE TRANSITION PERIOD FROM _____________ TO _____________**

Commission File Number **001-11476**

**VERTEX ENERGY, INC.**
*(Exact name of registrant as specified in its charter)*

| | |
|---|---|
| **NEVADA** | **94-3439569** |
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. Employer Identification No.)* |
| **1331 GEMINI STREET, SUITE 250**<br>**HOUSTON, TEXAS** | **77058** |
| *(Address of principal executive offices)* | *(Zip Code)* |

Registrant's telephone number, including area code: **866-660-8156**

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 ý No ❑

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

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 **ý**

State the number of shares of the issuer's common stock outstanding, as of the latest practicable date: 32,149,099 shares of common stock are issued and outstanding as of May 9, 2017.

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## PART I – FINANCIAL INFORMATION

**Item 1. Financial Statements**

### VERTEX ENERGY, INC.
### CONSOLIDATED BALANCE SHEETS
### (UNAUDITED)

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 6,596 | $ 1,701,435 |
| Escrow - current restricted cash | 1,506,675 | 1,504,723 |
| Accounts receivable, net | 7,017,873 | 10,952,219 |
| Inventory | 4,739,939 | 4,357,958 |
| Prepaid expenses | 1,395,345 | 2,669,117 |
| Total current assets | 14,666,428 | 21,185,452 |
| | | |
| Noncurrent assets | | |
| Fixed assets, at cost | 63,318,634 | 62,316,808 |
| Less accumulated depreciation | (13,421,992) | (12,286,874) |
| Fixed assets, net | 49,896,642 | 50,029,934 |
| Intangible assets, net | 15,133,428 | 15,252,332 |
| Other assets | 771,250 | 518,250 |
| TOTAL ASSETS | $ 80,467,748 | $ 86,985,968 |
| | | |
| **LIABILITIES, TEMPORARY EQUITY, AND EQUITY** | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | $ 8,118,326 | $ 9,440,696 |
| Dividends payable | 415,330 | 504,474 |
| Capital leases | 84,046 | 133,153 |
| Current portion of long-term debt, net of unamortized finance costs | 1,255,787 | 9,649,282 |
| Revolving note | 907,295 | 2,726,039 |
| Total current liabilities | 10,780,784 | 22,453,644 |
| Long-term liabilities | | |
| Long-term debt, net of unamortized finance costs | 10,873,343 | 1,848,111 |
| Derivative liability | 3,445,320 | 4,365,992 |
| Total liabilities | 25,099,447 | 28,667,747 |
| | | |
| **COMMITMENTS AND CONTINGENCIES (Note 3)** | — | — |
| | | |
| **TEMPORARY EQUITY** | | |
| Series B Preferred Stock, $0.001 par value per share; 10,000,000 shares designated, 3,327,028 and 3,229,409 shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively with a liquidation preference of $10,313,787 and $10,011,168 at March 31, 2017 and December 31, 2016, respectively. | 6,097,610 | 5,676,467 |
| Series B-1 Preferred Stock, $0.001 par value per share; 17,000,000 shares designated, 12,579,522 and 12,282,638 shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively with a liquidation preference of $19,624,054 and $19,160,915 at March 31, 2017 and December 31, 2016, respectively. | 14,327,186 | 13,927,788 |

| | | March 31, 2017 | | December 31, 2016 |
|---|---|---|---|---|
| **EQUITY** | | | | |
| 50,000,000 of total Preferred shares authorized: | | | | |
| Series A Convertible Preferred Stock, $0.001 par value; 5,000,000 shares designated, 462,644 and 492,716 shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively with a liquidation preference of $689,340 and $734,147 at March 31, 2017 and December 31, 2016, respectively. | | 463 | | 493 |
| | | | | |
| Series C Convertible Preferred Stock, $0.001 par value; 44,000 shares designated, 31,568 and 31,568 shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively with a liquidation preference of $3,156,800 and $3,156,800 at March 31, 2017 and December 31, 2016, respectively. | | 32 | | 32 |
| | | | | |
| Common stock, $0.001 par value per share; 750,000,000 shares authorized; 32,149,099 and 33,151,391 shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively, with zero and 1,108,928 shares held in escrow at March 31, 2017 and December 31, 2016, respectively. | | 32,149 | | 33,151 |
| Additional paid-in capital | | 66,837,299 | | 66,534,971 |
| Accumulated deficit | | (32,038,942) | | (27,958,578) |
| Total Vertex Energy, Inc. stockholders' equity | | 34,831,001 | | 38,610,069 |
| Non-controlling interest | | 112,504 | | 103,897 |
| Total Equity | $ | 34,943,505 | $ | 38,713,966 |
| TOTAL LIABILITIES, TEMPORARY EQUITY, AND EQUITY | $ | 80,467,748 | $ | 86,985,968 |

See accompanying notes to the consolidated financial statements

**VERTEX ENERGY, INC.**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
**(UNAUDITED)**

| | Three Months Ended March 31, 2017 | Three Months Ended March 31, 2016 |
|---|---|---|
| Revenues | $ 34,770,614 | $ 14,132,604 |
| Cost of revenues (exclusive of depreciation shown separately below) | 30,701,554 | 14,371,128 |
| Gross profit (loss) | 4,069,060 | (238,524) |
| | | |
| Operating expenses: | | |
| Selling, general and administrative expenses | 5,229,837 | 5,495,987 |
| Depreciation and amortization | 1,600,060 | 1,642,960 |
| Total operating expenses | 6,829,897 | 7,138,947 |
| Loss from operations | (2,760,837) | (7,377,471) |
| Other income (expense): | | |
| Interest income | 1,952 | 476 |
| Gain (loss) on sale of assets | (13,100) | 9,701,834 |
| Gain (loss) on change in value of derivative liability | 920,672 | (1,986,320) |
| Gain (loss) on futures contracts | — | 55,916 |
| Interest expense | (1,336,487) | (1,915,492) |
| Total other income (expense) | (426,963) | 5,856,414 |
| Loss before income tax | (3,187,800) | (1,521,057) |
| Income tax benefit (expense) | — | 117,646 |
| Net loss | (3,187,800) | (1,403,411) |
| Net income (loss) attributable to non-controlling interest | 8,607 | — |
| Net loss attributable to Vertex Energy, Inc. | $ (3,196,407) | $ (1,403,411) |
| | | |
| Accretion of discount on Series B and B-1 Preferred Stock | (433,201) | (386,658) |
| Accrual of dividends on Series B and B-1 Preferred Stock | (417,636) | (373,705) |
| Net loss available to common shareholders | $ (4,047,244) | $ (2,163,774) |
| Loss per common share | | |
| Basic | $ (0.12) | $ (0.07) |
| Diluted | $ (0.12) | $ (0.07) |
| Shares used in computing earnings per share | | |
| Basic | 32,953,812 | 29,304,722 |
| Diluted | 32,953,812 | 29,304,722 |

See accompanying notes to the consolidated financial statements

**VERTEX ENERGY, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**THREE MONTHS ENDED MARCH 31, 2017 AND 2016 (UNAUDITED)**

| | Three Months Ended | |
|---|---|---|
| | March 31, 2017 | March 31, 2016 |
| Cash flows from operating activities | | |
| Net loss | $ (3,187,800) | $ (1,403,411) |
| Adjustments to reconcile net loss to cash provided by (used in) operating activities | | |
| Stock based compensation expense | 148,736 | 124,599 |
| Depreciation and amortization | 1,600,060 | 1,593,584 |
| Rent paid by common stock | — | 244,000 |
| (Gain) Loss on sale of assets | 13,100 | (9,701,834) |
| (Increase) Decrease in fair value of derivative liability | (920,672) | 1,986,320 |
| Amortization of debt discount and deferred costs | 318,512 | 1,291,870 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 3,934,346 | 2,637,258 |
| Inventory | (381,981) | (1,016,556) |
| Prepaid expenses | 1,273,772 | 428,958 |
| Accounts payable and accrued expenses | (1,322,370) | (3,770,626) |
| Deferred revenue | — | 722,789 |
| Other assets | (253,000) | — |
| Net cash provided by (used in) operating activities | 1,222,703 | (6,863,049) |
| Cash flows from investing activities | | |
| Acquisition of Acadiana | (320,700) | — |
| Purchase of fixed assets | (1,100,962) | (1,216,916) |
| Proceeds from sales of Bango assets | — | 29,788,114 |
| Costs related to sale of Bango assets | — | (10,792,446) |
| Establish escrow account - restricted cash | (1,952) | (1,500,000) |
| Proceeds from sale of fixed assets | 62,594 | 20,900 |
| Net cash provided by (used in) investing activities | (1,361,020) | 16,299,652 |
| Cash flows from financing activities | | |
| Payment of debt issuance costs | (1,656,350) | — |
| Line of credit (payments) proceeds, net | (1,818,744) | (1,193,664) |
| Proceeds from sale of Series C Preferred Stock | — | 4,000,000 |
| Proceeds from note payable | 12,160,194 | 5,366,584 |
| Payments on note payable | (10,241,622) | (16,592,492) |
| Net cash used in financing activities | (1,556,522) | (8,419,572) |
| | | |
| Net change in cash and cash equivalents | (1,694,839) | 1,017,031 |
| Cash and cash equivalents at beginning of the period | 1,701,435 | 765,364 |
| Cash and cash equivalents at end of period | $ 6,596 | $ 1,782,395 |

| | | |
|---|---|---|
| SUPPLEMENTAL INFORMATION | | |
| Cash paid for interest | $ 260,352 | $ 474,573 |
| Cash paid (received) for income tax expense (benefit) | $ — | $ (117,646) |
| NON-CASH INVESTING AND FINANCING TRANSACTIONS | | |
| Conversion of Series A Preferred Stock into common stock | 30 | 120 |
| Conversion of Series B-1 Preferred Stock into common stock | $ 119,440 | $ — |
| Accretion of discount on Series B and B-1 Preferred Stock | $ 433,201 | $ 386,658 |
| Dividends-in-Kind accrued on Series B and B-1 Preferred Stock | $ 417,636 | $ 373,706 |
| Return of common shares for sale escrow | $ 1,109 | $ — |

See accompanying notes to the consolidated financial statements

### NOTE 1. BASIS OF PRESENTATION AND NATURE OF OPERATIONS

The accompanying unaudited consolidated interim financial statements of Vertex Energy, Inc. (the " Company" or "Vertex Energy" ) have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission ("SEC") and should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company's annual consolidated financial statements as filed with the SEC on Form 10-K on March 14, 2017 (the "Form 10-K"). The December 31, 2016 balance sheet was derived from the audited financial statements of our 2016 Form 10-K. In the opinion of management all adjustments, consisting of normal recurring adjustments necessary for a fair presentation of financial position and the results of operations for the interim periods presented, have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the consolidated financial statements which would substantially duplicate the disclosures contained in the audited consolidated financial statements for the most recent fiscal year 2016 as reported in Form 10-K have been omitted.

### NOTE 2. SUMMARY OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

**Inventory**

Inventories of products consist of feedstocks, refined petroleum products and recovered ferrous and non-ferrous metals and are reported at the lower of cost or market. Cost is determined using the first-in, first-out (“FIFO”) method. The Company reviews its inventory commodities whenever events or circumstances indicate that the value may not be recoverable.

**Impairment of long-lived assets**

The Company evaluates the carrying value and recoverability of its long-lived assets when circumstances warrant such evaluation by applying the provisions of the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") regarding long-lived assets. It requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of the assets. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value.

**Fair value of financial instruments**

Under the FASB ASC, we are permitted to elect to measure financial instruments and certain other items at fair value, with the change in fair value recorded in earnings. We elected not to measure any eligible items using the fair value option. Consistent with the Fair Value Measurement Topic of the FASB ASC, we implemented guidelines relating to the disclosure of our methodology for periodic measurement of our assets and liabilities recorded at fair market value.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-tier fair value hierarchy prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These tiers include:

- Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Our Level 1 assets primarily include our cash and cash equivalents. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities. The carrying amounts of accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term maturities of these financial instruments.

Nonfinancial assets and liabilities measured at fair value on a nonrecurring basis include certain nonfinancial assets and liabilities as may be acquired in a business combination and thereby measured at fair value.

**Income Taxes**

The Company accounts for income taxes in accordance with the FASB ASC Topic 740. The Company records a valuation allowance against net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and when temporary differences become deductible. The Company considers, among other available information, uncertainties surrounding the recoverability of deferred tax assets, scheduled reversals of deferred tax liabilities, projected future taxable income, and other matters in making this assessment.

As part of the process of preparing its consolidated financial statements, the Company is required to estimate its income taxes in each of the jurisdictions in which it operates. This process requires the Company to estimate its actual current tax liability and to assess temporary differences resulting from differing book versus tax treatment of items, such as deferred revenue, compensation and benefits expense and depreciation. These temporary differences result in deferred tax assets and liabilities, which are included within the Company's consolidated statements of financial condition. Significant management judgment is required in determining the Company's provision for income taxes, its deferred tax assets and liabilities and any valuation allowance recorded against its net deferred tax assets. If actual results differ from these estimates or the Company adjusts these estimates in future periods, the Company may need to adjust its valuation allowance, which could materially impact the Company's consolidated financial position and results of operations.

Tax contingencies can involve complex issues and may require an extended period of time to resolve. Changes in the level of annual pre-tax income can affect the Company's overall effective tax rate. Significant management judgment is required in determining the Company's provision for income taxes, its deferred tax assets and liabilities and any valuation allowance recorded against its net deferred tax assets. Furthermore, the Company's interpretation of complex tax laws may impact its recognition and measurement of current and deferred income taxes.

**Derivative liabilities**

In accordance with ASC 815-40-25 and ASC 815-10-15, Derivatives and Hedging and ASC 480-10-25, Liabilities-Distinguishing from Equity, convertible preferred shares are accounted for net, outside of shareholders' equity and warrants are accounted for as liabilities at their fair value during periods where they can be net cash settled in case of a change in control transaction. The warrants are accounted for as a liability at their fair value at each reporting period. The value of the derivative warrant liability will be re-measured at each reporting period with changes in fair value recorded as earnings. To derive an estimate of the fair value of these warrants, a Dynamic Black Scholes model is utilized which computes the impact of a possible change in control transaction upon the exercise of the warrant shares. This process relies upon inputs such as shares outstanding, our quoted stock prices, strike price and volatility assumptions to dynamically adjust the payoff of the warrants in the presence of the dilution effect.

**Debt Issuance Costs**

The Company follows the accounting guidance of ASU No 2015-03, "Simplifying the Presentation of Debt Issuance Costs", which requires that debt issuance costs related to a recognized debt liability be reported on the Consolidated Balance Sheet as a direct reduction from the carrying amount of that debt liability.

**Reclassification of Prior Year Presentation**

Certain prior period amounts have been reclassified to conform to current period presentation. These reclassifications had no effect on the reported results of operations.

**NOTE 3. CONCENTRATIONS, SIGNIFICANT CUSTOMERS, COMMITMENTS AND CONTINGENCIES**

At March 31, 2017 and 2016 and for each of the three months then ended, the Company’s revenues and receivables were comprised of the following customer concentrations:

| | Three Months Ended March 31, 2017 | | Three Months Ended March 31, 2016 | |
|---|---|---|---|---|
| | % of Revenues | % of Receivables | % of Revenues | % of Receivables |
| Customer 1 | 22% | —% | 1% | 7% |
| Customer 2 | 15% | 17% | 12% | 1% |
| Customer 3 | 11% | 8% | 11% | 8% |
| Customer 4 | —% | 12% | —% | 20% |
| Customer 5 | 5% | 11% | 1% | —% |
| Customer 6 | 4% | 4% | 15% | 13% |
| Customer 7 | —% | —% | 11% | —% |

At March 31, 2017 and 2016 and for each of the three months then ended, the Company's segment revenues were comprised of the following customer concentrations:

| | % of Revenue by Segment | | | % Revenue by Segment | | |
|---|---|---|---|---|---|---|
| | Three Months Ended March 31, 2017 | | | Three Months Ended March 31, 2016 | | |
| | **Black Oil** | **Refining** | **Recovery** | **Black Oil** | **Refining** | **Recovery** |
| Customer 1 | 100% | —% | —% | 100% | —% | —% |
| Customer 2 | 100% | —% | —% | 100% | —% | —% |
| Customer 3 | —% | 100% | —% | —% | 100% | —% |
| Customer 4 | —% | —% | 100% | —% | —% | 100% |
| Customer 5 | 100% | —% | —% | 100% | —% | —% |
| Customer 6 | 100% | —% | —% | 100% | —% | —% |
| Customer 7 | 100% | —% | —% | 100% | —% | —% |

The Company had one vendor that represented 10% of total purchases for the three months ended March 31, 2017 and one vendor that represented 15% of total purchases for the three months ended March 31, 2016 .

In February 2013, Bank of America agreed to lease the Company equipment to enhance the TCEP operation, which went into effect in April 2013. Under the current terms of the lease agreement, 16 monthly payments remain of approximately $13,328 each.

The Company's revenue, profitability and future rate of growth are substantially dependent on prevailing prices for petroleum-based products. Historically, the energy markets have been very volatile, and there can be no assurance that these prices will not be subject to wide fluctuations in the future. A substantial or extended decline in such prices could have a material adverse effect on the Company's financial position, results of operations, cash flows, and access to capital and on the quantities of petroleum-based products that the Company can economically produce.

*Litigation:*

The Company, in its normal course of business, is involved in various other claims and legal action. We are currently party to the following material litigation proceedings:

Vertex Refining LA, LLC ("Vertex Refining LA"), the wholly-owned subsidiary of Vertex Operating, LLC, our wholly-owned subsidiary ("Vertex Operating") was named as a defendant, along with numerous other parties, in five lawsuits filed on or about February 12, 2016, in the Second Parish Court for the Parish of Jefferson, State of Louisiana, Case No. 121749, by Russell Doucet et. al., Case No. 121750, by Kendra Cannon et. al., Case No. 121751, by Lashawn Jones et. al., Case No. 121752, by Joan Strauss et. al. and Case No. 121753, by Donna Allen et. al. The suits relate to alleged noxious and harmful emissions from our facility located in Marrero, Louisiana. The suits seek damages for physical and emotional injuries, pain and suffering, medical expenses and deprivation of the use and enjoyment of plaintiffs' homes. We intend to vigorously defend ourselves and oppose the relief sought in the complaints, provided that at this stage of the litigation, the Company has no basis for determining whether there is any likelihood of material loss associated with the claims and/or the potential and/or the outcome of the litigation.

E-Source Holdings, LLC ("E-Source"), the wholly-owned subsidiary of Vertex Operating, was named as a defendant (along with Motiva Enterprises, LLC, ("Motiva")) in a lawsuit filed in the Sixtieth (60th) Judicial District, Jefferson County, Texas, on April 22, 2015. Pursuant to the lawsuit, Whole Environmental, Inc. ("Whole"), made certain allegations against E-Source and Motiva. The claims include Breach of Contract and Quantum Meruit actions relating to asbestos abatement and remediation operations performed for defendants' at Motiva's facility in Port Arthur, Jefferson County, Texas. The plaintiff alleges it is due monies earned. Defendants have denied any amounts due to plaintiff. The suit seeks damages of approximately $864,000, along with pre-judgment and post-judgment interest, the fair value of certain property alleged to be converted by defendants and reimbursement of legal fees. E-Source has asserted a counterclaim against Whole for the filing of a mechanic's lien in excess of any amount(s) actually due as well as a cross-claim against Motiva. Under the terms of E-Source's contract with Motiva, Motiva was to pay all sums due to any sub-contractors of E-Source. If any additional monies are owed to Whole, those monies should be paid by Motiva. E-Source seeks to recover the balance due under its contract with Motiva of approximately $1,000,000. The case is set for trial in the summer of 2017. We intend to vigorously defend ourselves against the allegations made in the complaint. The Company has no basis of determining whether there is any likelihood of material loss associated with the claims and/or the potential and/or the outcome of the litigation.

**NOTE 4. DISPOSITION**

On January 28, 2016, the Company entered into an Asset Purchase Agreement (the " Sale Agreement") with Bango Oil, LLC ("Bango Oil") and Safety-Kleen Systems Inc. ("Safety-Kleen") pursuant to which the Company agreed to sell to Safety-Kleen the used oil re-refining plant on approximately 40 acres in Churchill County, Nevada (the "Bango Plant"), which we previously rented, and all equipment, tools and other tangible personal property located at the Bango Plant, which relate to or are used in connection with the operations of the Bango Plant (collectively, the "Bango Assets") for an aggregate purchase price of $ 35 million. As shown in the table below, a gain on sale of approximately $9.7 million was recorded associated with the sale. The gain on sale is included in the accompanying consolidated statement of operations.

| | | |
|---|---|---|
| Sales price (fair value) | $ | 35,000,000 |
| Release of lien on certain equipment at the Bango Plant | | (3,100,000) |
| Transaction Fees | | (2,111,886) |
| Net Proceeds | | 29,788,114 |
| Book Value at January 29, 2016 (date transaction closed) | | 20,039,553 |
| Gain on Sale | $ | 9,748,561 |

Net proceeds were used to pay an aggregate of $ 16.1 million toward the Credit Agreement with Goldman Sachs Bank (described in " Note 6. Line of Credit and Long-Term Debt"), $9.3 million to exercise the Purchase Option (described below) and $ 1.5 million for equipment and rail park lease acquisitions subsequently included in the Sale Agreement.

Additionally, at the closing, we placed $ 1.5 million in restricted cash and $ 1 million worth of our common stock (1,108,928 shares) into escrow with the shares to be released to us 12 months following the closing (which shares were released to us and cancelled in March 2017) and the cash held in escrow to be released to us 18 months after the closing, in order to satisfy any indemnification claims made by Safety-Kleen pursuant to the terms of the Sale Agreement. On June 30 and December 31 of each year that any of our shares of common stock are in escrow, in the event the value of the shares held in escrow is less than $1 million, based on the then market price of our common stock, we are required to increase the number of shares of common stock held in escrow to total $1 million in aggregate value (no adjustment was required as of March 31, 2017 or December 31, 2016).

Finally, the Sale Agreement required the Company to use sale proceeds to exercise the purchase option set forth in that certain Lease With Option For Membership Interest Purchase (the "Bango Lease") entered into on April 30, 2015, by and between us, Vertex Refining NV, LLC (" Vertex Refining NV") and Bango Oil, whereby, we had the option at any time during the term of the lease to purchase all of the equity interests of Bango Oil (the "Purchase Option"), effectively acquiring ownership of the Bango Plant for $9.3 million. The Membership Interest Purchase Agreement contains standard and customary representations of the parties and indemnification rights, subject in each case to a $3 million cap on aggregate indemnification. Upon the closing of the Membership Interest Purchase Agreement, we effectively obtained ownership of the Bango Plant, which we then sold to Safety-Kleen, and Bango Oil became a wholly-owned subsidiary of Vertex Refining NV.

**NOTE 5. ACCOUNTS RECEIVABLE**

Accounts receivable, net, consists of the following at:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| Accounts receivable trade | $ 8,658,147 | $ 12,598,493 |
| Allowance for doubtful accounts | (1,640,274) | (1,646,274) |
| Accounts receivable trade, net | $ 7,017,873 | $ 10,952,219 |

Accounts receivable trade represents amounts due from customers. Accounts receivable trade are recorded at invoiced amounts, net of reserves and allowances and do not bear interest. The Company uses its best estimate to determine the required allowance for doubtful accounts based on a variety of factors, including the length of time receivables are past due, economic trends and conditions affecting its customer base, significant one-time events and historical write-off experience. Specific provisions are recorded for individual receivables when we become aware of a customer's inability to meet its financial obligations. The Company reviews the adequacy of its reserves and allowances quarterly.

Receivable balances greater than 30 days past due are individually reviewed for collectability and if deemed uncollectible, are charged off against the allowance accounts after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any significant off balance sheet credit exposure related to its customers.

**NOTE 6. LINE OF CREDIT AND LONG-TERM DEBT**

*Credit and Guaranty Agreement and Revolving Credit Facility with Encina Business Credit, LLC*

Effective February 1, 2017, we, Vertex Operating, and substantially all of our other operating subsidiaries, other than E-Source Holdings, LLC ("E-Source"), entered into a Credit Agreement (the "EBC Credit Agreement") with Encina Business Credit, LLC as agent (the "Agent" or "EBC") and Encina Business Credit SPV, LLC and CrowdOut Capital LLC as lenders thereunder (the "EBC Lenders"). Pursuant to the EBC Credit Agreement, and the terms thereof, the EBC Lenders agreed to loan us up to $20 million, provided that the amount outstanding under the EBC Credit Agreement at any time cannot exceed 50% of the value of the operating plant facilities and related machinery and equipment owned by us (not including E-Source), based on the most recent appraisal of such facilities.

Amounts borrowed under the EBC Credit Agreement bear interest at 12%, 13% or 14% per annum, based on the ratio of (a) (i) consolidated EBITDA for such applicable period minus (ii) capital expenditures made during such period, minus (iii) the aggregate amount of income taxes paid in cash during such period (but not less than zero) to (b) the sum of (i) debt service charges plus (ii) the aggregate amount of all dividend or other distributions paid on capital stock in cash for the most recently completed 12 month period (which ratio falls into one of the three following tiers: less than 1 to 1; from 1 to 1 to less than 1.45 to 1; or equal to or greater than 1.45 to 1, which together with the value below, determines which interest rate is applicable) and average availability under the Revolving Credit Agreement (defined below) (which falls into two tiers: less than $2.5 million and greater than or equal to $2.5 million, which together with the calculation above, determines which interest rate is applicable), as described in greater detail in the EBC Credit Agreement (increasing by 2% per annum upon the occurrence of an event of default). Interest on amounts borrowed under the EBC Credit Agreement is payable by us in arrears, on the first business day of each month, beginning on the first business day of the first full month following the closing, together with required $75,000 monthly principal repayments. We also have the right to make voluntary repayments of the amount owed under the EBC Credit Agreement in amounts equal to or greater than $100,000, from time to time.

The EBC Credit Agreement terminates on February 1, 2020, on which date we are required to repay the outstanding balance owed thereunder and any accrued and unpaid interest thereon.

The amounts borrowed under the EBC Credit Agreement are guaranteed by us and our subsidiaries, other than E-Source, pursuant to a Guaranty and Security Agreement (the "Guaranty and Security Agreement"), whereby we also pledged substantially all of our assets and all of the securities of our subsidiaries (other than E-Source) as collateral securing the amount due under the terms of the EBC Credit Agreement. We also provided EBC mortgages on our Marrero, Louisiana, and Columbus, Ohio facilities to secure the repayment of outstanding amounts and agreed to provide mortgages on certain other real property to be delivered post-closing.

The EBC Credit Agreement contains customary representations, warranties and requirements for the Company to indemnify the EBC Lenders and their affiliates. The EBC Credit Agreement also includes various covenants (positive and negative) binding upon the Company, including, prohibiting us from undertaking acquisitions or dispositions unless they meet the criteria set forth in the EBC Credit Agreement, not incurring any capital expenditures in amount exceeding $3 million in any fiscal year that the EBC Credit Agreement is in place, and requiring us to maintain at least $2.5 million of average borrowing availability under the Revolving Credit Agreement (defined below) in any 30 day period. As of March 31, 2017, the average borrowing availability was $4,173,051, and the Company was in compliance with all covenants thereunder.

The EBC Credit Agreement includes customary events of default for facilities of a similar nature and size as the EBC Credit Agreement, including if an event of default occurs under any agreement evidencing $500,000 or more of indebtedness of the Company; we fail to make any payment when due under any material agreement; subject to certain exceptions, any judgment is entered against the Company in an amount exceeding $500,000; and also provides that an event of default occurs if a change in control of the Company occurs, which includes if (a) Benjamin P. Cowart, the Company's Chief Executive Officer, Chairman of the Board and largest shareholder and Chris Carlson, the Chief Financial Officer of the Company, cease to own and control legally and beneficially, collectively, either directly or indirectly, equity securities in Vertex Energy, Inc., representing more than 15% of the combined voting power of all securities entitled to vote for members of the board of directors or equivalent on a fully-diluted basis, (b) the acquisition of ownership, directly or indirectly, beneficially or of record, by any person or group of securities representing more than 30% of the aggregate ordinary voting power represented by the issued and outstanding securities of Vertex Energy, Inc., or (c) during any period of 12 consecutive months, a majority of the members of the board of directors of the Company cease to be composed of individuals (i) who were members of that board or equivalent governing body on the first day of such period, (ii) whose election or nomination to that board or equivalent governing body was approved by individuals referred to in clause (i) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body or (iii) whose election or nomination to that board or other equivalent governing body was approved by individuals referred to in clauses (i) and (ii) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body (collectively "Events of Default"). An event of default under the Revolving Credit Agreement (defined below), is also an event of default under the EBC Credit Agreement.

Effective February 1, 2017, we, Vertex Operating and substantially all of our operating subsidiaries, other than E-Source, entered into a Revolving Credit Agreement (the "Revolving Credit Agreement") with Encina Business Credit SPV, LLC as lender (" Encina") and EBC as the administrative agent. Pursuant to the Revolving Credit Agreement, and the terms thereof, Encina agreed to loan us, on a revolving basis, up to $10 million, subject to the terms of the Revolving Credit Agreement and certain lending ratios set forth therein, which provide that the amount outstanding thereunder cannot exceed an amount equal to the total of (a) the lesser of (A) the value (as calculated in the Revolving Credit Agreement) of our inventory which are raw materials or finished goods that are merchantable and readily saleable to the public in the ordinary course of our business ("EBC Eligible Inventory"), net of certain inventory reserves, multiplied by 85% of the appraised value of EBC Eligible Inventory, or (B) the value (as calculated in the Revolving Credit Agreement) of EBC Eligible Inventory, net of certain inventory reserves, multiplied by 65%, subject to a ceiling of $4 million, plus (b) the face amount of certain accounts receivables (net of certain reserves applicable thereto) multiplied by 85% (subject to adjustment as provided in the Revolving Credit Agreement); minus (c) the then-current amount of certain reserves that the agent may determine necessary for the Company to maintain.

Amounts borrowed under the Revolving Credit Agreement bear interest, subject to the terms of the Revolving Credit Agreement, at the one month LIBOR interest rate then in effect, subject to a floor of 0.25% (which interest rate is currently approximately 0.78% per annum), plus an additional 6.50% per annum (increasing by 2% per annum upon the occurrence of an event of default), provided that under certain circumstances amounts borrowed bear interest at the higher of (a) the "prime rate"; (b) the Federal Funds Rate, plus 0.50%; and (c) the LIBOR Rate for a one month interest period, plus 1.00%). Interest on amounts borrowed under the Revolving Credit Agreement is payable by us in arrears, on the first business day of each, beginning on the first business day of the first full month following the closing.

The Revolving Credit Agreement terminates on February 1, 2020, on which date we are required to repay the outstanding balance owed thereunder and any accrued and unpaid interest thereon. Borrowings under a revolving credit agreement that contain a subjective acceleration clause and also require a borrower to maintain a lockbox with the lender (whereby lockbox receipts may be applied to reduce the amount outstanding under the revolving credit agreement) are considered short-term obligations. As a result, the debt is classified as a current liability at March 31, 2017.

The amounts borrowed under the Revolving Credit Agreement are guaranteed by us and our subsidiaries other than E-Source pursuant to a separate Guaranty and Security Agreement, similar to the EBC Credit Agreement, described in greater detail above. We also provided Encina mortgages on our Marrero, Louisiana, and Columbus, Ohio facilities to secure the repayment of outstanding amounts.

The Revolving Credit Agreement contains customary representations, warranties and requirements for the Company to indemnify Encina and its affiliates. The Revolving Credit Agreement also includes various covenants (positive and negative) binding upon the Company, including, prohibiting us from undertaking acquisitions or dispositions unless they meet the criteria set forth in the Revolving Credit Agreement, not incurring any capital expenditures in amount exceeding $3 million in any fiscal year that the Revolving Credit Agreement is in place, and requiring us to maintain at least $ 2.5 million of average borrowing availability under the Revolving Credit Agreement in any 30 day period.

The Revolving Credit Agreement includes customary events of default for facilities of a similar nature and size as the Revolving Credit Agreement, including the same Events of Default as are described above under the description of the EBC Credit Agreement.

A total of $11,282,537 of the amount initially borrowed under the EBC Credit Agreement and Revolving Credit Agreement was used to repay amounts owed under (a) the Restated Credit Agreement with Goldman Sachs Bank USA, (b) our loan agreement with MidCap (defined below); and (c) the Fox Note (defined below), all of which have been repaid in full as of the date of this filing. Additionally, in connection with the repayment of such obligations, the Restated Goldman Credit Agreement and Midcap Loan Agreement, and our right to borrow funds thereunder were terminated.

The balance of the EBC Credit Agreement and the Revolving Credit Agreement as of March 31, 2017 are $11,925,000 and $907,295, respectively.

*Credit and Guaranty Agreement with Goldman Sachs Bank*

In May 2014, the Company entered into a Credit and Guaranty Agreement with Goldman Sachs Bank USA (as amended, the " Credit Agreement"). Pursuant to the agreement, Goldman Sachs Bank USA loaned the Company $40 million in the form of a term loan. As set forth in the Credit Agreement, the Company has the option to select whether loans made under the Credit Agreement bear interest at (a) the greater of (i) the prime rate in effect, (ii) the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System plus ½ of 1%, (iii) the sum of (A) the Adjusted LIBOR Rate and (B) 1%, and (iv) 4.5% per annum; or (b) the greater of (i) 1.50% and (ii) the applicable ICE Benchmark Administration Limited interest rate, divided by (x) one minus, (y) the Adjusted LIBOR Rate. Interest on the Credit Agreement is payable monthly in arrears.

The Credit Agreement was secured by all of the assets of the Company.

On March 26, 2015, the Company entered into a Second Amendment with Goldman Sachs Bank USA to amend the Credit Agreement to among other things, provide for the waiver of the prior defaults and to restructure certain covenants and other financial requirements of the Credit Agreement and to allow for our entry into the MidCap Loan Agreement.

The Credit Agreement contained customary representations, warranties, and covenants for facilities of similar nature and size as the Credit Agreement. The Credit Agreement also included various covenants binding the Company including limits on indebtedness the Company could incur and maintenance of certain financial ratios relating to consolidated EBITDA and debt leverage.

On January 29, 2016, we, Vertex Operating, certain of our other subsidiaries, Goldman Sachs Specialty Lending Holdings, Inc., as lender (" Lender") and Goldman Sachs Bank USA, a New York State-Chartered Bank, as Administrative Agent, Lead Arranger and Collateral Agent ("Agent") entered into an Amended and Restated Credit and Guaranty Agreement (the "Restated Credit Agreement"). The Restated Credit Agreement changed the Credit Agreement to an $8.9 million multi-draw term loan credit facility (of which approximately $ 6.4 million was outstanding and $ 2.5 million was available to be drawn pursuant to the terms of the Restated Credit Agreement on substantially similar terms as the then outstanding amounts owed to the Lender); modified the Credit Agreement to adjust certain EBITDA calculations in connection with the purchase of Bango Oil and the sale of the Bango Plant as described above; provided for approval for us to exercise the Purchase Option, enter into and effect the transactions contemplated by a Membership Interest Purchase Agreement, Subscription Agreement, and the Sale Agreement, and allowed for the issuance of the Fox Note (defined below) and a Mortgage securing such obligation, confirmed that we are required to make payments of $800,000 per quarter from June 30, 2016 through maturity (May 2, 2019); provided us a moratorium on the prepayment of amounts owed under the Restated Credit Agreement as a result of various financial ratios we are required to meet through December 31, 2016; provided for us to retain any business interruption insurance proceeds received in connection with the Bango Plant; provided for us to pay $16 million received at closing from the sale of the Bango Assets, all amounts released from escrow and any other cash proceeds in excess of $500,000 received from the Sale Agreement after closing to the Lender as prepayment of amounts due under the Restated Credit Agreement; allowed us the right to make certain permitted acquisitions moving forward, without further consent of the Lender, provided that among other requirements, such acquisitions are in the same business or line of business as the Company, that such acquired businesses have generated consolidated adjusted EBITDA for the four fiscal quarters preceding such acquisition in excess of capital expenditures for such period (taking into account adjustments acceptable to the Agent for synergies expected to be achieved within the 90 days following the closing of such acquisition), and that the funding for such acquisition comes from certain limited sources set forth in greater detail in the Restated Credit Agreement; adjusted certain fixed charge coverage ratios and leverage ratios we are required to meet on a quarterly basis from September 30, 2016 to maturity; required us to maintain at least $2 million of liquidity at all times; provided that events of default under the Credit Agreement include events of default under the Fox Note (defined below); and made various other updates and changes to take into account transactions which had occurred through the date of such agreement, and to remove expired and non-material terms of the prior Credit Agreement. The Credit Agreement was terminated effective February 1, 2017.

*MidCap Loan Agreement*

Effective March 27, 2015, the Company, Vertex Operating and all of the Company's other subsidiaries other than E-Source and Golden State Lubricant Works, LLC entered into a Loan and Security Agreement with MidCap Business Credit LLC ("MidCap" and the "MidCap Loan Agreement"). Pursuant to the MidCap Loan Agreement, MidCap agreed to loan us up to the lesser of (i) $7 million; and (ii) 85% of the amount of accounts receivable due to us which meet certain requirements set forth in the MidCap Loan Agreement ("Qualified Accounts"), plus the lesser of (y) $3 million and (z) 50% of the cost or market value, whichever is lower, of our raw material and finished goods which had not yet been sold, subject to the terms and conditions of the MidCap Loan Agreement ("Eligible Inventory"), minus any amount which MidCap may require from time to time in order to over secure amounts owed to MidCap under the MidCap Loan Agreement, as long as no event of default had occurred or was continuing under the terms of the MidCap Loan Agreement. The requirement of MidCap to make loans under the MidCap Loan Agreement was subject to certain standard conditions and requirements.

On November 9, 2015, we and certain of our subsidiaries entered into a First Amendment to Loan and Security Agreement (the " Midcap First Amendment"). The Midcap First Amendment amended the Midcap Loan Agreement to add Vertex Refining OH, LLC ("Vertex OH") as a party thereto; remove Vertex OH's requirement to enter into a negative pledge agreement with MidCap; created separate maximum borrowing base credit limits for Vertex OH's accounts and customers ($100,000 maximum per customer, subject to certain exceptions); excluded customers who are based outside of the U.S. or Canada from the credit limits if backed by a bank letter of credit or covered by a foreign receivables insurance policy; removed inventory of Vertex OH from the definition of Eligible Inventory under the Midcap Loan Agreement; and provided that additional affiliates of the Company may become party to the Midcap Loan Agreement by executing an assumption agreement and revolving note in favor of Midcap. The MidCap Loan Agreement was terminated effective February 1, 2017.

*Fox Note*

On January 29, 2016, Vertex OH, borrowed $ 5.15 million from Fox Encore 05 LLC, the prior owner of Bango Oil (" Fox Encore") and provided a Promissory Note to Fox Encore to reflect such borrowed funds (the "Fox Note"). The Fox Note bears interest at 10% percent per annum (15% upon the occurrence of an event of default), payable monthly in arrears beginning on February 29, 2016. The principal and all accrued and unpaid interest on the Fox Note is due on the earlier of (a) July 31, 2016 (as may be extended by Vertex OH as discussed below, the "Maturity Date"), or (b) upon acceleration of the Fox Note during the existence of an event of default as discussed therein. Provided that no event of default is then existing on the Fox Note or under any other loan document associated therewith, and certain other requirements as described in the Fox Note are met, Vertex OH has the right to three (3) extension options (each, an "Extension Option") pursuant to which Vertex OH may extend the Maturity Date for six (6) months each. The first extension extends the Maturity Date of the Fox Note until January 31, 2017 and Vertex OH exercised this Extension Option on June 16, 2016. The second extension would have extended the Maturity Date of the Fox Note until July 31, 2017, and the third extension would have extended the Maturity Date of the Fox Note until January 29, 2018. Upon exercising an Extension Option, Vertex OH is required to pay Fox Encore an extension fee equal to 3% of the then outstanding principal amount of the Fox Note, which amount is separate from, and is not applied toward, the outstanding indebtedness owed under the Fox Note; provided, however, upon exercise of the Extension Option, the 3% fee for such extension was not required to be paid in cash but instead only resulted in the termination of a prepayment discount described below. The Fox Note could be prepaid in whole or in part at any time without penalty, provided that if repaid in full by July 31, 2016, the amount to be repaid was to be decreased by $150,000. The Fox Note was secured by a Mortgage. The Fox Note included certain standard and customary financial reporting requirements, notice requirements, indemnification requirements, covenants and events of default. The Fox Note also included a provision allowing the Lender (or any other lender party to the Restated Credit Agreement) to purchase the Fox Note upon the occurrence of an event of default under the Restated Credit Agreement. In July 2016, we exercised the first Extension Option, extending the Maturity Date of the Fox Note to January 31, 2017. The Fox Note was repaid in full effective February 1, 2017.

*Texas Citizens Bank Loan Agreement*

The Company has notes payable to Texas Citizens Bank bearing interest at 5.5% per annum, maturing on January 7, 2020. The balances of the notes payable are $1,358,540 and $1,531,506 at March 31, 2017 and December 31, 2016, respectively.

*Insurance Premiums*

The Company financed insurance premiums through various financial institutions bearing interest rates from 4% to 4.52%. All such premium finance agreements have maturities of less than one year and have a balance of $425,710 at March 31, 2017 and a balance of $ 1,060,065 at December 31, 2016.

*Capital Leases*

On May 2, 2014, in connection with the closing of the Omega Refining acquisition, the Company assumed two capital leases. Payments made since 2014 have reduced the balance to $84,046 and $133,153 at March 31, 2017 and December 31, 2016, respectively.

The Company's outstanding debt facilities as of March 31, 2017 and December 31, 2016 are summarized as follows:

| Creditor | Loan Type | Origination Date | Maturity Date | Loan Amount | Balance on March 31, 2017 | Balance on December 31, 2016 |
|---|---|---|---|---|---|---|
| Encina Business Credit, LLC | Term Loan | February 1, 2017 | February 1, 2020 | $ 20,000,000 | $ 11,925,000 | $ — |
| Encina Business Credit SPV, LLC | Revolving Note | February 1, 2017 | February 1, 2020 | $ 10,000,000 | 907,295 | — |
| MidCap Revolving Line of Credit | Revolving Note | March, 2015 | March, 2017 (1) | $ 7,000,000 | — | 2,726,039 |
| Goldman Sachs USA | Term Loan - Restated Credit Agreement | January 29, 2016 | May 2, 2019 (1) | $ 8,900,000 | — | 4,000,000 |
| Fox Encore Promissory Note | Promissory Note | January 29, 2017 | July 31, 2017 (1) | $ 5,150,000 | — | 5,150,000 |
| Pacific Western Bank | Capital Lease | September, 2012 | August, 2017 | $ 3,154,860 | 84,046 | 133,153 |
| Texas Citizens Bank | Term Note | January, 2015 | January, 2020 | $ 2,045,500 | 1,358,540 | 1,531,506 |
| Various institutions | Insurance premiums financed | Various | < 1 year | $ 2,902,428 | 425,710 | 1,060,065 |
| Total | | | | | **$ 14,700,591** | **$ 14,600,763** |
| Deferred finance cost, net | | | | | (1,580,120) | (244,178) |
| Total, net of deferred finance costs | | | | | **$ 13,120,471** | **$ 14,356,585** |

(1) Paid in full and terminated on February 1, 2017

Future contractual maturities of notes payable are summarized as follows:

| Creditor | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Thereafter |
|---|---|---|---|---|---|---|
| Encina Business Credit, LLC | $ 907,295 | $ — | $ — | $ — | $ — | $ — |
| Encina Business Credit SPV, LLC | 900,000 | 900,000 | 900,000 | 9,225,000 | — | — |
| Pacific Western Bank | 84,046 | — | — | — | — | — |
| Texas Citizens Bank | 474,693 | 495,013 | 388,834 | — | — | — |
| Various institutions | 425,710 | — | — | — | — | — |
| Totals | 2,791,744 | 1,395,013 | 1,288,834 | 9,225,000 | — | — |
| Deferred finance costs, net | (544,616) | (517,752) | (517,752) | — | — | — |
| Totals, net of deferred finance costs | $ 2,247,128 | $ 877,261 | $ 771,082 | $ 9,225,000 | $ — | $ — |

**NOTE 7. EARNINGS PER SHARE**

Basic earnings per share includes no dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the periods presented. The calculation of basic earnings per share for the three months ended March 31, 2017 and March 31, 2016, respectively, includes the weighted average of common shares outstanding. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity, such as convertible preferred stock, stock options, warrants or convertible securities. Due to their anti-dilutive effect, the calculation of diluted earnings per share for the three months ended March 31, 2017 and March 31, 2016 excludes: 1) options to purchase 3,032,345 and 2,607,552 shares, respectively, of common stock, 2) warrants to purchase 7,353,061 and 4,252,135 shares, respectively, of common stock, 3) Series B Preferred Stock which is convertible into 3,327,028 and 8,283,234 shares, respectively, of common stock, 4) Series B1 Preferred Stock which is convertible into 12,579,522 and zero shares, respectively, of common stock, and 5) Series A Preferred and Series C Preferred Stock, convertible into common stock on a 1-for-one basis.

The following is a reconciliation of the numerator and denominator for basic and diluted earnings per share for the three months ended March 31, 2017 and 2016:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| **Basic Earnings per Share** | | |
| Numerator: | | |
| Net (loss) income available to common shareholders | $ (4,047,244) | $ (2,163,774) |
| Denominator: | | |
| Weighted-average shares outstanding | 32,953,812 | 29,304,722 |
| Basic earnings per share | $ (0.12) | $ (0.07) |
| | | |
| **Diluted Earnings per Share** | | |
| Numerator: | | |
| Net (loss) income available to common shareholders | $ (4,047,244) | $ (2,163,774) |
| Denominator: | | |
| Weighted-average shares outstanding | 32,953,812 | 29,304,722 |
| Effect of dilutive securities | | |
| Stock options and warrants | — | — |
| Preferred Stock | — | — |
| Diluted weighted-average shares outstanding | 32,953,812 | 29,304,722 |
| Diluted earnings per share | $ (0.12) | $ (0.07) |

**NOTE 8. COMMON STOCK**

The total number of authorized shares of the Company's common stock is 750,000,000 shares, $0.001 par value per share. As of March 31, 2017, there were 32,149,099 common shares issued and outstanding.

Each share of the Company's common stock is entitled to equal dividends and distributions per share with respect to the common stock when, as and if declared by the Company's board of directors. No holders of any shares of the Company's common stock have a preemptive right to subscribe for any of the Company's securities, nor are any shares of the Company's common stock subject to redemption or convertible into other securities. Upon liquidation, dissolution or winding-up of the Company and after payment of creditors and preferred shareholders of the Company, if any, the assets of the Company will be divided pro rata on a share-for-share basis among the holders of the Company's common stock. Each share of the Company's common stock is entitled to one vote. Shares of the Company's common stock do not possess any cumulative voting rights.

Common stock activity during the three months ended March 31, 2017 was as follows:

- On January 27, 2017, the Company issued 66,564 shares of common stock in connection with the conversion of 66,564 shares of Series B1 Convertible Preferred Stock.
- On January 30, 2017, the Company issued 10,000 shares of common stock in connection with the conversion of 10,000 shares of Series B1 Convertible Preferred Stock.
- On February 2, 2017, the Company issued 30,072 shares of common stock in connection with the conversion of 30,072 shares of our Series A Convertible Preferred Stock.
- On March 10, 2017, the 1,108,928 shares of common stock as part of the escrow fulfillment of the sale of the Vertex Refining NV assets to Safety-Kleen System, Inc. (the "Bango Sale"), were returned to the Company and cancelled.

## NOTE 9. PREFERRED STOCK AND DETACHABLE WARRANTS

The total number of authorized shares of the Company's preferred stock is 50,000,000 shares, $0.001 par value per share. The total number of designated shares of the Company's Series A Convertible Preferred Stock is 5,000,000 ("Series A Preferred"). The total number of designated shares of the Company's Series B Preferred Stock is 10,000,000. The total number of designated shares of the Company's Series B1 Preferred Stock is 17,000,000. The number of designated shares of the Company's Series C Preferred Stock is 44,000. As of March 31, 2017 and December 31, 2016, there were 462,644 shares and 492,716 shares of Series A Preferred Stock issued and outstanding, respectively. As of March 31, 2017 and December 31, 2016, there were 3,327,028 and 3,229,409 shares of Series B Preferred Stock issued and outstanding, respectively. In connection with the May 2016 Purchase Agreement described below under "Series B1 Preferred Stock and Temporary Equity", 3,575,070 shares of Series B Preferred Stock were repurchased and retired. As of March 31, 2017 and December 31, 2016, there were 12,579,522 and 12,282,638 shares of Series B1 Preferred Stock issued and outstanding, respectively. As of March 31, 2017 and December 31, 2016 there were 31,568 shares of Series C Preferred Stock issued and outstanding. The 31,568 shares of Series C Preferred Stock would convert into 3,156,800 shares of Common Stock.

### Series A Preferred

Holders of outstanding shares of Series A Preferred are entitled to receive dividends, when, as, and if declared by our Board of Directors. No dividends or similar distributions may be made on shares of capital stock or securities junior to our Series A Preferred until dividends in the same amount per share on our Series A Preferred have been declared and paid. In connection with a liquidation, winding-up, dissolution or sale of the Company, each share of our Series A Preferred is entitled to receive $1.49 prior to similar liquidation payments due on shares of our common stock or any other class of securities junior to the Series A Preferred. Shares of Series A Preferred are not entitled to participate with the holders of our common stock with respect to the distribution of any remaining assets of the Company.

Each share of Series A Preferred is entitled to that number of votes equal to the number of whole shares of common stock into which it is convertible. Generally, holders of our common stock and Series A Preferred vote together as a single class.

Shares of Series A Preferred automatically convert into shares of our common stock on the earliest to occur of the following:

- The affirmative vote or written consent of the holders of a majority of the then-outstanding shares of Series A Preferred;
- If the closing market price of our common stock averages at least $ 15.00 per share over a period of 20 consecutive trading days and the daily trading volume averages at least 7,500 shares over such period;
- If we consummate an underwritten public offering of our securities at a price per share not less than $ 10.00 and for a total gross offering amount of at least $10 million; or
- If a sale of the Company occurs resulting in proceeds to the holders of Series A Preferred of a per share amount of at least $ 10.00.
- Each share of Series A Preferred converts into one share of common stock, subject to adjustment.

### Series B Preferred Stock and Temporary Equity

Dividends on our Series B Preferred Stock accrue at an annual rate of 6% of the original issue price of the preferred stock ($3.10 per share), subject to increase under certain circumstances, and are payable on a quarterly basis. The dividends are payable by the Company, at the Company's election, in registered common stock of the Company (if available) or cash. In the event dividends are paid in registered common stock of the Company, the number of shares payable will be calculated by dividing (a) the accrued dividend by (b) 90% of the arithmetic average of the volume weighted average price (VWAP) of the Company's common stock for the 10 trading days immediately prior to the applicable date of determination (the "June 2015 Dividend Stock Payment Price"). Notwithstanding the foregoing, in no event may the Company pay dividends in common stock unless the applicable June 2015 Dividend Stock Payment Price is above $2.91. If the Company is prohibited from paying or chooses not to pay, the dividend in cash (due to contractual senior credit agreements or other restrictions) or is unable to pay the dividend in registered common stock, the dividend can be paid in kind in Series B Preferred Stock shares at $3.10 per share.

The Series B Preferred Stock include a liquidation preference (in the amount of $3.10 per share) which is junior to the Company's previously outstanding shares of preferred stock, senior credit facilities and other debt holders as provided in further detail in the designation and senior to the Series C Preferred Stock and pari passu with the Series B1 Preferred Stock.

The Series B Preferred Stock (including accrued and unpaid dividends) is convertible into shares of the Company's common stock at the holder's option at $3.10 per share (initially a one-for-one basis). If the Company's common stock trades at or above $6.20 per share for a period of 20 consecutive trading days, the Company may at such time force conversion of the Series B Preferred Stock (including accrued and unpaid dividends) into common stock of the Company.

The Series B Preferred Stock votes together with the common stock on an as-converted basis, provided that each holder's voting rights are subject to and limited by the Series B Beneficial Ownership Limitation described below.

The Company has the option to redeem the outstanding shares of Series B Preferred Stock at $3.10 per share, plus any accrued and unpaid dividends on such Series B Preferred Stock redeemed, at any time beginning on June 24, 2017, and the Company is required to redeem the Series B Preferred Stock at $3.10 per share, plus any accrued and unpaid dividends, on June 24, 2020. Notwithstanding either of the foregoing, the Series B Preferred Stock may not be redeemed unless and until amounts outstanding under the Company's senior credit facility have been paid in full, which has occurred to date.

The Series B Preferred Stock contains a provision prohibiting the conversion of such Series B Preferred Stock into common stock of the Company, if upon such conversion, the holder thereof would beneficially own more than 9.999% of the Company's then outstanding common stock (the "Series B Beneficial Ownership Limitation"). The Series B Beneficial Ownership Limitation does not apply to forced conversions undertaken by the Company pursuant to the terms of the designation (summarized above).

On June 24, 2015, we closed the transactions contemplated by the June 19, 2015 Unit Purchase Agreement (the " June 2015 Purchase Agreement") we entered into with certain institutional investors (the "June 2015 Investors"), pursuant to which the Company sold the Investors an aggregate of 8,064,534 units (the "June 2015 Units"), each consisting of (i) one share of Series B Preferred Stock and (ii) one warrant to purchase one-half of a share of common stock of the Company (each a "June 2015 Warrant" and collectively, the "June 2015 Warrants"). The Units were sold at a price of $3.10 per Unit (the "June 2015 Unit Price") (a 6.1% premium to the closing bid price of the Company's common stock on the NASDAQ Capital Market on the date the June 2015 Purchase Agreement was entered into which was $2.91 per share (the "June 2015 Closing Bid Price")). The June 2015 Warrants have an exercise price of $2.92 per share ($0.01 above the June 2015 Closing Bid Price). Total gross proceeds from the offering of the June 2015 Units (the "June 2015 Offering") were $25.0 million.

The Placement Agent received a commission equal to 6.5% of the gross proceeds (less $4.0 million raised from certain investors in the June 2015 Offering for which they received no fee) from the June 2015 Offering, for an aggregate commission of $1.365 million which was netted against the proceeds.

We used the net proceeds from the June 2015 Offering to repay amounts owed under the Goldman Credit Agreement in the amount of $15.1 million.

In addition, under the June 2015 Purchase Agreement, the Company agreed to register the shares of common stock issuable upon conversion of the Series B Preferred Stock and upon exercise of the June 2015 Warrants under the Securities Act of 1933, as amended, for resale by the June 2015 Investors. The Company committed to file a registration statement on Form S-1 by the 30th day following the closing of the June 2015 Offering (which filing date was met) and to cause the registration statement to become effective by the 90th day following the closing (or, in the event of a "full review" by the Securities and Exchange Commission, the 120th day following the closing), which registration statement was declared effective by the Securities and Exchange Commission (SEC) on August 6, 2015, provided that a post-effective amendment to that registration statement was declared effective by the SEC on August 31, 2016. The June 2015 Purchase Agreement provides for liquidated damages upon the occurrence of certain events, including, but not limited to, the failure by the Company to cause the registration statement to become effective by the deadlines set forth above. The amount of the liquidated damages is 1.0% of the aggregate subscription amount paid by a June 2015 Investor for the June 2015 Units affected by the event that are still held by the June 2015 Investor upon the occurrence of the event, due on the date immediately following the event that caused such failure (or the 30th day following such event if the event relates to the suspension of the registration statement as described in the June 2015 Purchase Agreement), and each 30 days thereafter, with such payments to be prorated on a daily basis during each 30 day period, subject to a maximum of an aggregate of 6% per annum.

Under the June 2015 Purchase Agreement, the Company agreed to indemnify the Investors for liabilities arising out of or relating to (i) any untrue statement of a material fact contained in the registration statement, (ii) any inaccuracy in the representations and warranties of the Company contained in the June 2015 Purchase Agreement or the failure of the Company to perform its obligations under the June 2015 Purchase Agreement and (iii) any failure by the Company to fulfill any undertaking included in the registration statement, subject to certain exceptions. The June 2015 Investors, severally, and not jointly agreed to indemnify the Company against (i) any failure by such June 2015 Investor to comply with the covenants and agreements contained in the June 2015 Purchase

Agreement and (ii) any untrue statement of a material fact contained in the registration statement to the extent such untrue statement was made in reliance upon and in conformity with written information furnished by or on behalf of that June 2015 Investor specifically for use in preparation of the registration statement, subject to certain exceptions.

The June 2015 Warrants were valued using the Dynamic Black Scholes Merton formula pricing model that computes the impact of share dilution upon the exercise of the warrant shares at approximately $7,028,067. The Black-Scholes inputs used were: expected dividend rate of 0%, expected volatility of 70%-100%, risk free interest rate of 1.59%, and expected term of 5.5 years. This valuation resulted in a beneficial conversion feature on the convertible preferred stock of approximately $5,737,796. This amount will be accreted over the term as a deemed dividend. Fees in the amount of $1.4 million relating to the stock placement were netted against proceeds. The June 2015 Warrants are exercisable beginning on December 26, 2015, and expire December 24, 2020.

In connection with the May 2016 Purchase Agreement described below under " Series B1 Preferred Stock and Temporary Equity", certain funds received in that offering totaling $11,189,838 were used to immediately repurchase and retire 3,575,070 shares of Series B Preferred Stock and pay the accrued but unpaid dividends due thereon and on certain other shares of Series B Preferred Stock held by those holders (the "Repurchases"). In connection with this transaction, $5,408,131 of unaccreted discount on these 3,575,070 shares of Series B Preferred Stock which were retired, was immediately recognized, which represents the pro-rata portion of the unaccreted discount.

The following table represents the carrying amount of the Series B Preferred Stock, classified as Temporary Equity on the accompanying Consolidated Balance Sheet, at inception and as of March 31, 2017 and December 31, 2016:

| Temporary Equity: | | |
|---|---|---|
| At Inception | | **June 24, 2015** |
| Face amount of Series B Preferred | $ | 25,000,000 |
| Less: warrant value | | 7,028,067 |
| Less: beneficial conversion feature | | 5,737,796 |
| Less: issuance costs and fees | | 1,442,462 |
| Carrying amount at inception | $ | 10,791,675 |

| | | **March 31, 2017** | | **December 31, 2016** |
|---|---|---|---|---|
| Face amount of Series B Preferred | $ | 25,000,000 | $ | 25,000,000 |
| Less: repurchase of 3,575,070 shares | | 11,189,838 | | 11,189,838 |
| Less: conversions of shares to common stock | | 5,386,341 | | 5,386,341 |
| Plus: dividends in kind | | 1,764,148 | | 1,164,701 |
| Less: unaccreted discount | | 4,090,359 | | 3,912,055 |
| Carrying amount | $ | 6,097,610 | $ | 5,676,467 |

In accordance with ASC 815-40-25 and ASC 815-10-15 Derivatives and Hedging and ASC 480-10-25 Liabilities-Distinguishing Liabilities from Equity as approved by shareholders, the convertible preferred shares are accounted for net outside of stockholders' equity at $6,097,610 with the June 2015 Warrants accounted for as liabilities at their fair value of $1,549,409 and $1,952,565 as of March 31, 2017 and December 31, 2016, respectively. The value of the derivative warrant liability will be re-measured at each reporting period with changes in fair value recorded as earnings. To derive an estimate of the fair value of these June 2015 Warrants, the Company utilized a Dynamic Black Scholes Merton formula that computes the impact of share dilution upon the exercise of the warrant shares. This process relies upon inputs such as shares outstanding, estimated stock prices, strike price and volatility assumptions to dynamically adjust the payoff of the June 2015 Warrants in the presence of the dilution effect. In the event the convertible preferred shares are redeemed, any redemption price in excess of the carrying amount of the convertible preferred stock would be treated as a dividend.

The changes in liabilities measured using significant unobservable inputs for the three months ended March 31, 2017 were as follows:

**Level Three Roll-Forward**

| Item | Level 3 | |
|---|---|---|
| Balance at December 31, 2015 | $ | 1,548,604 |
| May 2016 Series B1 Preferred Warrants (described below) | | 2,867,264 |
| Change in valuation of warrants | | (49,876) |
| Balance at December 31, 2016 | | 4,365,992 |
| Change in valuation of warrants | | (920,672) |
| Balance at March 31, 2017 | | 3,445,320 |

The warrants related to the June 2015 Series B Preferred Stock and the May 2016 Series B1 Preferred Stock were revalued at March 31, 2017 and December 31, 2016 using the Dynamic Black Scholes model that computes the impact of a possible change in control transaction upon the exercise of the warrant shares at approximately $(920,672). At March 31, 2017, the June 2015 Warrants and the May 2016 Warrants were valued at approximately $ 1,549,409 and $1,895,910, respectively. The Dynamic Black Scholes Merton inputs used were: expected dividend rate of 0%, expected volatility of 78%-100%, risk free interest rate of 1.14%, and expected term of 2.92 years (June 2015 Warrants) and 5.11 years (May 2016 Warrants).

The Certificate of Designation of the Series B Preferred Stock contains customary anti-dilution protection for proportional adjustments (e.g. stock splits).

The beneficial conversion feature (BCF) relates to potential differences between the effective conversion price (measured based on proceeds allocated to the Series B Preferred Stock) and the fair value of the stock into which Preferred B Shares are currently convertible (common stock).

If a conversion option embedded in a debt host instrument does not require separate accounting as a derivative instrument under ASC 815, the convertible hybrid instrument must be evaluated under ASC 470-20 for the identification of a possible BCF.

The BCF was initially recognized as an offsetting reduction to Series B Preferred Stock (debit) - Temporary Equity, with the credit being recognized in equity (additional paid-in capital).

The resulting issuance costs, discount, value allocated to warrants, and BCF should be accreted to the Series B Preferred Stock to ensure that the Series B Preferred Stock balance is equal to its face value as of the redemption or conversion date, if conversion is expected earlier.

The initial BCF of the Series B Preferred Stock was determined by calculating the intrinsic value of the conversion feature as follows:

| | | |
|---|---|---|
| Face amount of Series B Preferred Stock | $ | 25,000,000 |
| Less: allocated value of Warrants | | 7,028,067 |
| Allocated value of Series B Preferred Stock | $ | 17,971,933 |
| Shares of Common stock to be converted | | 8,064,534 |
| Effective conversion price | $ | 2.23 |
| Market price | $ | 2.94 |
| Intrinsic value per share | $ | 0.7115 |
| Intrinsic value of beneficial conversion feature | $ | 5,737,796 |

As of March 31, 2017 and December 31, 2016, respectively, a total of $139,186 and $214,227 of dividends were accrued on our outstanding Series B Preferred Stock (not including shares of Series B Preferred Stock converted into common stock in August 2015, as described above). We were prohibited from paying such dividends in shares of common stock because the applicable June 2015 Dividend Stock Payment Price was below $2.91. The "June 2015 Dividend Stock Payment Price" is calculated by dividing (a) the accrued dividends by (b) 90% of the arithmetic average of the volume weighted average price (VWAP) of the

Company's common stock for the 10 trading days immediately prior to the applicable date of determination. In the event the applicable June 2015 Dividend Stock Payment Price is below $2.91 we are required to pay such dividend in cash or in-kind in additional shares of Series B Preferred Stock, and we choose to pay such dividends in-kind.

**Series B1 Preferred Stock and Temporary Equity**

Dividends on our Series B1 Preferred Stock accrue at an annual rate of 6% of the original issue price of the preferred stock ($1.56 per share), subject to increases under certain circumstances, and are payable on a quarterly basis. The dividends are payable by the Company, at the Company's election, in registered common stock of the Company (if available) or cash. In the event dividends are paid in registered common stock of the Company, the number of shares payable will be calculated by dividing (a) the accrued dividend by (b) 90% of the arithmetic average of the volume weighted average price (VWAP) of the Company's common stock for the 10 trading days immediately prior to the applicable date of determination (the "May 2016 Dividend Stock Payment Price"). Notwithstanding the foregoing, in no event may the Company pay dividends in common stock unless the applicable May 2016 Dividend Stock Payment Price is above $1.52. If the Company is prohibited from paying, or chooses not to pay, the dividend in cash (due to contractual senior credit agreements or other restrictions) or is unable to pay the dividend in registered common stock, the dividend can be paid in kind in Series B1 Preferred Stock shares at $1.56 per share.

The Series B1 Preferred Stock include a liquidation preference (in the amount of $1.56 per share) which is junior to the Company's previously outstanding shares of preferred stock, except the Series B Preferred Stock, which it is pari passu with, senior credit facilities and other debt holders as provided in further detail in the designation and senior to the Series C Preferred Stock.

The Series B1 Preferred Stock (including accrued and unpaid dividends) is convertible into shares of the Company's common stock at the holder's option at $1.56 per share (initially a one-for-one basis). If the Company's common stock trades at or above $3.90 per share for a period of 20 consecutive trading days, after certain triggering events occur, the Company may at such time force conversion of the Series B1 Preferred Stock (including accrued and unpaid dividends) into common stock of the Company.

The Series B1 Preferred Stock votes together with the common stock on an as-converted basis, provided that each holder's voting rights are subject to and limited by the Series B1 Beneficial Ownership Limitation described below.

The Company has the option to redeem the outstanding shares of Series B1 Preferred Stock at $1.72 per share, plus any accrued and unpaid dividends on such Series B1 Preferred Stock redeemed, at any time beginning on June 24, 2017, and the Company is required to redeem the Series B Preferred Stock at $1.56 per share, plus any accrued and unpaid dividends, on June 24, 2020. Notwithstanding either of the foregoing, the Series B1 Preferred Stock may not be redeemed unless and until amounts outstanding under the Company's senior credit facility have been paid in full.

The Series B1 Preferred Stock and May 2016 Warrants (defined below) contain provisions prohibiting the conversion of such Series B1 Preferred Stock into common stock of the Company, if upon such conversion, the holder thereof would beneficially own more than 9.999% (4.999% for certain holders) of the Company's then outstanding common stock (the "Series B1 Beneficial Ownership Limitation"). The Series B1 Beneficial Ownership Limitation does not apply to forced conversions undertaken by the Company pursuant to the terms of the Designation (summarized above).

On May 10, 2016, we entered into a Unit Purchase Agreement (the " May 2016 Purchase Agreement") with certain institutional investors (the "May 2016 Investors"), pursuant to which, on May 13, 2016, the Company sold the May 2016 Investors an aggregate of 12,403,683 units (the "May 2016 Units"), each consisting of (i) one share of Series B1 Preferred Stock and (ii) one warrant to purchase one-quarter of a share of common stock of the Company (each a " May 2016 Warrant" and collectively, the "May 2016 Warrants"). The Units were sold at a price of $1.56 per Unit (the "May 2016 Unit Price") (a 2.6% premium to the closing bid price of the Company's common stock on the NASDAQ Capital Market on the date the May 2016 Purchase Agreement was entered into which was $1.52 per share (the "May 2016 Closing Bid Price")). The May 2016 Warrants have an exercise price of $1.53 per share ($0.01 above the May 2016 Closing Bid Price). Total gross proceeds from the offering of the Units (the "May 2016 Offering") were $19.4 million.

A total of $18,649,738 of the securities sold in the May 2016 Offering were purchased by investors who participated in the Company's prior June 2015 offering of Series B Preferred Stock and warrants to purchase shares of common stock. A total of 60% of the funds received from such investors were used to immediately repurchase such investors' Series B Preferred Stock. As a result, a total of $11,189,838 of the proceeds raised in the May 2016 Offering were used to immediately repurchase and retire 3,575,070 shares of Series B Preferred Stock (the "Repurchases").

The Placement Agent in the offering received a commission equal to 6.5% of the net proceeds from the May 2016 Offering, after affecting the Repurchases described above, for an aggregate commission of $0.53 million which was netted against the proceeds raised.

We used the net proceeds from the May 2016 Offering to repay amounts owed under the Credit Agreement in the amount of $0.8 million and the remaining proceeds were used for working capital purposes and potential acquisitions.

In addition, under the May 2016 Purchase Agreement, the Company agreed to register the shares of common stock issuable upon conversion of the Series B1 Preferred Stock and upon exercise of the May 2016 Warrants under the Securities Act of 1933, as amended, for resale by the May 2016 Investors. The Company committed to file a registration statement on Form S-1 by the 30th day following the closing of the May 2016 Offering (which filing date was met) and to cause the registration statement to become effective by the 90th day following the closing (or, in the event of a "full review" by the Securities and Exchange Commission, the 120th day following the closing), which registration statement was declared effective by the SEC on August 10, 2016. The May 2016 Purchase Agreement provides for liquidated damages upon the occurrence of certain events, including, but not limited to, the failure by the Company to cause the registration statement to become effective by the deadlines set forth above. The amount of the liquidated damages is 1.0% of the aggregate subscription amount paid by a May 2016 Investor for the May 2016 Units affected by the event that are still held by the May 2016 Investor upon the occurrence of the event, due on the date immediately following the event that caused such failure (or the 30th day following such event if the event relates to the suspension of the registration statement as described in the May 2016 Purchase Agreement), and each 30 days thereafter, with such payments to be prorated on a daily basis during each 30 day period, subject to a maximum of an aggregate of 6% per annum.

Under the May 2016 Purchase Agreement, the Company agreed to indemnify the May 2016 Investors for liabilities arising out of or relating to (i) any untrue statement of a material fact contained in the registration statement, (ii) any inaccuracy in the representations and warranties of the Company contained in the May 2016 Purchase Agreement or the failure of the Company to perform its obligations under the May 2016 Purchase Agreement and (iii) any failure by the Company to fulfill any undertaking included in the registration statement, subject to certain exceptions. The Investors, severally, and not jointly agreed to indemnify the Company against (i) any failure by such Investor to comply with the covenants and agreements contained in the May 2016 Purchase Agreement and (ii) any untrue statement of a material fact contained in the registration statement to the extent such untrue statement was made in reliance upon and in conformity with written information furnished by or on behalf of that Investor specifically for use in preparation of the registration statement, subject to certain exceptions.

The Company agreed pursuant to the May 2016 Purchase Agreement, that until 60 days following effectiveness of the registration statement filed, to register the shares of common stock underlying the Series B1 Preferred Stock and May 2016 Warrants (the "May 2016 Lock-Up Period"), to not offer or sell any common stock or securities convertible or exercisable into common stock, except pursuant to certain exceptions described in the May 2016 Purchase Agreement, and each of the Company's officers and directors agreed to not sell or offer for sale any shares of common stock until the end of the May 2016 Lock-Up Period, subject to certain exceptions.

The May 2016 Warrants were valued using the Dynamic Black Scholes Merton formula pricing model that computes the impact of share dilution upon the exercise of the May 2016 Warrant shares at approximately $2,867,264. The Dynamic Black Scholes Merton inputs used were: expected dividend rate of 0%, expected volatility of 70%-100%, risk free interest rate of 1.22%, and expected term of 5.5 years. This valuation resulted in a beneficial conversion feature on the convertible preferred stock of approximately $2,371,106. This amount will be accreted over the term as a deemed dividend. Fees in the amount of $0.6 million relating to the stock placement were netted against proceeds. The May 2016 Warrants are exercisable beginning on November 14, 2016, and expire on November 14, 2021.

The following table represents the carrying amount of the Series B1 Preferred Stock, classified as Temporary Equity on the accompanying Consolidated Balance Sheet, at inception (May 13, 2016), as of March 31, 2017, and December 31, 2016:

| Temporary Equity: | | |
|---|---|---|
| At Inception | | May 13, 2016 |
| Face amount of Series B1 Preferred | $ | 19,349,745 |
| Less: May 2016 Warrant value | | 2,867,264 |
| Less: May 2016 Beneficial Conversion Feature | | 2,371,106 |
| Less: May 2016 issuance costs and fees | | 607,880 |
| Carrying amount at inception | $ | 13,503,495 |

| | | March 31, 2017 | | December 31, 2016 |
|---|---|---|---|---|
| Face amount of Series B1 Preferred | $ | 19,349,745 | $ | 19,349,745 |
| Less: conversions of shares to common | | 748,306 | | 628,866 |
| Plus: dividends-in-kind | | 732,753 | | 435,369 |
| Less: unaccreted discount | | 5,007,006 | | 5,228,460 |
| Carrying amount | $ | 14,327,186 | $ | 13,927,788 |

In accordance with ASC 815-40-25 and ASC 815-10-15 Derivatives and Hedging and ASC 480-10-25 Liabilities-Distinguishing Liabilities from Equity, the convertible Series B1 Preferred Stock shares are accounted for net outside of stockholders' equity at $14,327,186 with the May 2016 Warrants accounted for as liabilities at their fair value of $1,895,910 and $2,413,427 as of March 31, 2017 and December 31, 2016, respectively. The value of the derivative warrant liability will be re-measured at each reporting period with changes in fair value recorded as earnings. To derive an estimate of the fair value of these warrants, the Company utilized a Dynamic Black Scholes Merton formula that computes the impact of share dilution upon the exercise of the May 2016 Warrants. This process relies upon inputs such as shares outstanding, estimated stock prices, strike price and volatility assumptions to dynamically adjust the payoff of the warrants in the presence of the dilution effect. In the event the convertible Series B1 Preferred Stock shares are redeemed, any redemption price in excess of the carrying amount of the convertible Series B1 Preferred Stock would be treated as a dividend.

The changes in liabilities measured using significant unobservable inputs for the three months ended March 31, 2017 are described above within the Level Three Roll-Forward table under Series B Preferred Stock and Temporary Equity.

The Certificate of Designation of the Series B1 Preferred Stock contains customary anti-dilution protection for proportional adjustments (e.g. stock splits). The May 2016 beneficial conversion feature (BCF) relates to the potential difference between the effective conversion price (measured based on proceeds allocated to the Series B1 Preferred Stock) and the fair value of the stock into which Series B1 Preferred Stock shares are currently convertible (common stock). If a conversion option embedded in a debt host instrument does not require separate accounting as a derivative instrument under ASC 815, the convertible hybrid instrument must be evaluated under ASC 470-20 for the identification of a possible BCF. The May 2016 BCF will be initially recognized as an offsetting reduction to Series B1 Preferred Stock (debit) - Temporary Equity, with the credit being recognized in equity (additional paid-in capital). The resulting May 2016 issuance costs, discount, value allocated to warrants, and BCF should be accreted to the Series B1 Preferred Stock to ensure that the Series B1 Preferred Stock balance is equal to its face value as of the redemption or conversion date, if conversion is expected earlier.

The May 2016 BCF was determined by calculating the intrinsic value of the conversion feature as follows:

| | | May 13, 2016 |
|---|---|---|
| Face amount of Series B1 Preferred Stock | $ | 19,349,756 |
| Less: allocated value of May 2016 Warrants | | 2,867,264 |
| Allocated value of Series B1 Preferred Stock | $ | 16,482,492 |
| Shares of Common stock to be converted | | 12,403,683 |
| Effective conversion price | $ | 1.33 |
| Market price | $ | 1.52 |
| Intrinsic value per share | $ | 0.19 |
| Intrinsic value of May 2016 beneficial conversion feature | $ | 2,371,106 |

As of March 31, 2017 and December 31, 2016, respectively, a total of $276,144 and $290,247 of dividends were accrued on our outstanding Series B1 Preferred Stock. We were prohibited from paying such dividends in shares of common stock because the applicable 2016 Dividend Stock Payment Price was below $1.52. In the event the applicable Dividend Stock Payment Price is below $1.52, we are required to pay such dividend in cash or in-kind in additional shares of Series B1 Preferred Stock, and we choose to pay such dividends in-kind.

**Series C Convertible Preferred Stock**

On January 29, 2016, we sold 44,000 shares of Series C Preferred Stock (as described below) in consideration for $4 million.

The Series C Convertible Preferred Stock ("Series C Preferred Stock"), authorized on January 29, 2016, does not accrue a dividend, but has participation rights on an as-converted basis, to any dividends paid on the Company's common stock (other than dividends paid solely in common stock). Each Series C Preferred Stock share has a $100 face value, and a liquidation preference (in the amount of $100 per share) which is junior to the Company's previously outstanding shares of preferred stock (including the Series B and B1 Preferred Stock), senior credit facilities and other debt holders as provided in further detail in the designation, but senior to the common stock.

The Series C Preferred Stock is convertible into shares of the Company's common stock at the holder's option at any time at $1.00 per share (initially each share of Series C Preferred Stock is convertible into 100 shares of common stock (subject to adjustments for stock splits and recapitalizations)). The Series C Preferred Stock votes together with the common stock on an as-converted basis (the "Voting Rights"), provided that each holder's voting rights are subject to and limited by the Series C Beneficial Ownership Limitation described below and provided further that notwithstanding any of the foregoing, solely for purposes of determining the Voting Rights, the Voting Rights accorded to such Series C Convertible Preferred Stock will be determined as if converted at $1.05 per share (the market value of the common stock as of the close of trading on the day prior to the original issuance date of the Series C Preferred Stock), and subject to equitable adjustment as discussed in the designation. There are no redemption rights associated with the Series C Preferred Stock.

The Series C Preferred Stock contains a provision prohibiting the conversion of the Series C Preferred Stock into common stock of the Company, if upon such conversion or exercise, as applicable, the holder thereof would beneficially own more than 4.999% of the Company's then outstanding common stock (the "Series C Beneficial Ownership Limitation"). The Series C Beneficial Ownership Limitation may be increased up and down on a per holder basis, with 61 days prior written notice from any holder, provided the Series C Beneficial Ownership Limitation may never be higher than 9.999%.

So long as any shares of Series C Preferred Stock are outstanding, we are prohibited from undertaking any of the following without first obtaining the approval of the holders of a majority of the outstanding shares of Series C Preferred Stock: (a) increasing or decreasing (other than by redemption or conversion) the total number of authorized shares of Series C Preferred Stock; (b) re-issuing any shares of Series C Preferred Stock converted; (c) creating, or authorizing the creation of, or issuing or obligating the Company to issue shares of, any class or series of capital stock unless the same ranks junior to (and not pari passu with) the Series C Preferred Stock with respect to the distribution of assets on the liquidation, dissolution or winding up of the Company, or increasing the authorized number of shares of any additional class or series of capital stock unless the same ranks junior to (and not pari passu with) the Series C Preferred Stock with respect to the distribution of assets on the liquidation, dissolution or winding up of the Company; (d) effecting an exchange, reclassification, or cancellation of all or a part of the Series C Preferred Stock (except pursuant to the terms of the designation); (e) effecting an exchange, or creating a right of exchange, of all or part of the shares of another class of shares into shares of Series C Preferred Stock (except pursuant to the terms of the designation); (f) issuing any additional shares of Series C Preferred Stock; (g) altering or changing the rights, preferences or privileges of the shares of Series C Preferred Stock so as to affect adversely the shares of such series; or (h) amending or waiving any provision of the Company's Articles of Incorporation or Bylaws relative to the Series C Preferred Stock so as to affect adversely the shares of Series C Preferred Stock in any material respect as compared to holders of other series of shares.

On August 2, 2016, the Company issued 1,243,200 shares of common stock in connection with the conversion of 12,432 shares of Series C Preferred Stock. The outstanding shares of Series C Preferred Stock at March 31, 2017 and December 31, 2016 totaled 31,568 shares.

**NOTE 10. SEGMENT REPORTING**

The Company's reportable segments include the Black Oil, Refining & Marketing and Recovery divisions. Segment information for the three months ended March 31, 2017 and 2016 is as follows:

**THREE MONTHS ENDED MARCH 31, 2017**

| | Black Oil | Refining & Marketing | Recovery | Total |
|---|---|---|---|---|
| Revenues | $ 24,804,083 | $ 5,394,041 | $ 4,572,490 | $ 34,770,614 |
| **Income (loss) from operations** | $ (2,670,103) | $ 15,706 | $ (106,440) | $ (2,760,837) |

**THREE MONTHS ENDED MARCH 31, 2016**

| | Black Oil | Refining & Marketing | Recovery | Total |
|---|---|---|---|---|
| Revenues | $ 10,133,494 | $ 2,626,455 | $ 1,372,655 | $ 14,132,604 |
| Income (loss) from operations | $ (6,983,184) | $ (276,304) | $ (117,983) | $ (7,377,471) |

**NOTE 11. INCOME TAXES**

Our effective tax rate of 0% on pretax income differs from the U.S. federal income tax of 34% because of the change in our valuation allowance.

The year to date loss at March 31, 2017 put the Company in an accumulated loss position for the cumulative 12 quarters then ended. For tax reporting purposes, we have net operating losses ("NOLs") of approximately $47.1 million as of March 31, 2017 that are available to reduce future taxable income. In determining the carrying value of our net deferred tax asset, the Company considered all negative and positive evidence. The Company has incurred a pre-tax loss of approximately $3.2 million from January 1, 2017 through March 31, 2017. As a result, the Company created a full valuation allowance of 100% to offset the entire balances of deferred tax assets and deferred tax liabilities.

**NOTE 12. ACQUISITION OF ACADIANA**

On February 2, 2017, the Company entered into an Asset Purchase Agreement (the "APA") with Acadiana Recovery, LLC ("Acadiana") pursuant to which the Company agreed to buy substantially all the customer relations, vehicles, equipment, supplies and tools of Acadiana for an aggregate purchase price of $710,350. This resulted in the recognition of $389,650 in fixed assets and $320,700 in intangible assets as of the acquisition date.

**NOTE 13. SUBSEQUENT EVENTS**

**Issuance of Series B and B1 Preferred Stock Shares In-Kind**

Pursuant to the terms of our Credit Agreement with our senior lender, we are prohibited from paying dividends in cash and therefore we paid the accrued dividends on our Series B Preferred Stock and Series B1 Preferred Stock, which accrued as of March 31, 2017, in-kind by way of the issuance of 49,172 restricted shares of Series B Preferred Stock pro rata to each of the then holders of our Series B Preferred Stock in April 2017 and the issuance of 185,914 restricted shares of Series B1 Preferred Stock pro rata to each of the then holders of our Series B1 Preferred Stock in April 2017. If converted in full, the 49,172 shares of Series B Preferred Stock would convert into 49,172 shares of common stock and the 185,914 shares of Series B1 Preferred Stock would convert into 185,914 shares of common stock.

**Acquisition of Nickco**

On May 1, 2017, the Company entered into and closed an Asset Purchase Agreement (the "APA") with Nickco Recycling, Inc. ("Nickco") pursuant to which the Company agreed to buy substantially all the processing equipment and the rolling stock of Nickco for aggregate consideration of $2,116,730. This included $1,096,730 in cash, 500,000 shares of restricted common stock and contingent consideration of 500,000 shares of common stock, which is payable only if the assets acquired meet a pre-agreed EBITDA target for the 12 calendar months ending on the last day of the 12th calendar month following closing.

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

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In some cases, you can identify forward-looking statements by the following words: "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "ongoing," "plan," "potential," "predict," "project," "should," or the negative of these terms or other comparable terminology, although not all forward-looking statements contain these words. Forward-looking statements are not a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time the statements are made and involve known and unknown risks, uncertainties and other factors that may cause our results, levels of activity, performance or achievements to be materially different from the information expressed or implied by the forward-looking statements in this Report. These factors include:

- risks associated with our outstanding credit facilities, including amounts owed, restrictive covenants, security interests thereon and our ability to repay such facilities and amounts due thereon when due;
- the level of competition in our industry and our ability to compete;
- our ability to respond to changes in our industry;
- the loss of key personnel or failure to attract, integrate and retain additional personnel;
- our ability to protect our intellectual property and not infringe on others' intellectual property;
- our ability to scale our business;
- our ability to maintain supplier relationships and obtain adequate supplies of feedstocks;
- our ability to obtain and retain customers;
- our ability to produce our products at competitive rates;
- our ability to execute our business strategy in a very competitive environment;
- trends in, and the market for, the price of oil and gas and alternative energy sources;
- our ability to maintain our relationship with KMTEX;
- the impact of competitive services and products;
- our ability to integrate acquisitions;
- our ability to complete future acquisitions;
- our ability to maintain insurance;
- potential future litigation, judgments and settlements;
- rules and regulations making our operations more costly or restrictive;
- changes in environmental and other laws and regulations and risks associated with such laws and regulations;
- economic downturns both in the United States and globally;
- risk of increased regulation of our operations and products;
- negative publicity and public opposition to our operations;
- disruptions in the infrastructure that we and our partners rely on;

- an inability to identify attractive acquisition opportunities and successfully negotiate acquisition terms;
- our ability to effectively integrate acquired assets, companies, employees or businesses;
- liabilities associated with acquired companies, assets or businesses;
- interruptions at our facilities;
- required earn-out payments and other contingent payments we are required to make;
- unexpected changes in our anticipated capital expenditures resulting from unforeseen required maintenance, repairs, or upgrades;
- our ability to acquire and construct new facilities;
- certain events of default which have occurred under our debt facilities and previously been waived;
- prohibitions on borrowing and other covenants of our debt facilities;
- our ability to effectively manage our growth;
- repayment of and covenants in our debt facilities;
- the lack of capital available on acceptable terms to finance our continued growth; and
- other risk factors included under "Risk Factors" in this Report.

You should read the matters described in "Risk Factors" and the other cautionary statements made in this Report, and incorporated by reference herein, as being applicable to all related forward-looking statements wherever they appear in this Report. We cannot assure you that the forward-looking statements in this Report will prove to be accurate and therefore prospective investors are encouraged not to place undue reliance on forward-looking statements. Other than as required by law, we undertake no obligation to update or revise these forward-looking statements, even though our situation may change in the future.

This information should be read in conjunction with the interim unaudited financial statements and the notes thereto included in this Quarterly Report on Form 10-Q, and the audited financial statements and notes thereto and "Part II", "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our Annual Report on Form 10-K for the year ended December 31, 2016 (the " Annual Report").

Certain capitalized terms used below and otherwise defined below, have the meanings given to such terms in the footnotes to our consolidated financial statements included above under "Part I - Financial Information" - "Item 1. Financial Statements".

In this Quarterly Report on Form 10-Q, we may rely on and refer to information regarding the refining, re-refining, used oil and oil and gas industries in general from market research reports, analyst reports and other publicly available information. Although we believe that this information is reliable, we cannot guarantee the accuracy and completeness of this information, and we have not independently verified any of it.

Please see the "Glossary of Selected Terms" incorporated by reference hereto as Exhibit 99.1, for a list of abbreviations and definitions used throughout this Report.
Unless the context requires otherwise, references to the "Company," "we," "us," "our," "Vertex", "Vertex Energy" and "Vertex Energy, Inc." refer specifically to Vertex Energy, Inc. and its consolidated subsidiaries.

In addition, unless the context otherwise requires and for the purposes of this report only:

- "Exchange Act" refers to the Securities Exchange Act of 1934, as amended;
- "SEC" or the "Commission" refers to the United States Securities and Exchange Commission; and
- "Securities Act" refers to the Securities Act of 1933, as amended.

## Where You Can Find Other Information

We file annual, quarterly, and current reports, proxy statements and other information with the Securities and Exchange Commission (" SEC"). Our SEC filings are available to the public over the Internet at the SEC's website at www.sec.gov and are available for download, free of charge, soon after such reports are filed with or furnished to the SEC, on the "Investor Relations," "SEC Filings" page of our website at www.vertexenergy.com. Information on our website is not part of this Report, and we do not desire to incorporate by reference such information herein. You may also read and copy any documents we file with the SEC at the SEC's Public Reference Room at 100 F Street N.E., Washington, D.C. 20549. You can also obtain copies of the document upon the payment of a duplicating fee to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC like us. Our SEC filings are also available to the public from the SEC's website at http://www.sec.gov. Copies of documents filed by us with the SEC are also available from us without charge, upon oral or written request to our Secretary, who can be contacted at the address and telephone number set forth on the cover page of this Report.

**Corporate History:**

We were formed as a Nevada corporation on May 14, 2008. Pursuant to an Amended and Restated Agreement and Plan of Merger dated May 19, 2008, by and between Vertex Holdings, L.P. (formerly Vertex Energy, L.P.), a Texas limited partnership ("Holdings"), us, World Waste Technologies, Inc., a California corporation ("WWT" or "World Waste"), Vertex Merger Sub, LLC, a California limited liability company and our wholly-owned subsidiary (" Merger Subsidiary"), and Benjamin P. Cowart, our Chief Executive Officer, as agent for our shareholders (as amended from time to time, the "Merger Agreement"). Effective on April 16, 2009, World Waste merged with and into Merger Subsidiary, with Merger Subsidiary continuing as the surviving corporation and becoming our wholly-owned subsidiary (the "Merger"). In connection with the Merger, (i) each outstanding share of World Waste common stock was canceled and exchanged for 0.10 shares of our common stock; (ii) each outstanding share of World Waste Series A preferred stock was canceled and exchanged for 0.4062 shares of our Series A preferred stock; and (iii) each outstanding share of World Waste Series B preferred stock was canceled and exchanged for 11.651 shares of our Series A Convertible Preferred Stock.

**Description of Business Activities:**

We are an environmental services company that recycles industrial waste streams and off-specification commercial chemical products. Our primary focus is recycling used motor oil and other petroleum by-products. We are engaged in operations across the entire petroleum recycling value chain including collection, aggregation, transportation, storage, re-refinement, and sales of aggregated feedstock and re-refined products to end users. We operate in three divisions Black Oil, Refining and Marketing, and Recovery.

We currently provide our services in 15 states, primarily in the Gulf Coast, Midwest and Mid-Atlantic regions of the United States. For the rolling twelve month period ending March 31, 2017, we aggregated approximately 110.5 million gallons of used motor oil and other petroleum by-product feedstocks and managed the re-refining of approximately 95.9 million gallons of used motor oil with our proprietary Thermal Chemical Extraction Process ("TCEP"), VGO, and Base Oil processes.

Our Black Oil division collects and purchases used motor oil directly from third-party generators, aggregates used motor oil from an established network of local and regional collectors, and sells used motor oil to our customers for use as a feedstock or replacement fuel for industrial burners. We operate a refining facility that uses our proprietary TCEP (which is currently not in operation) and we also utilize third-party processing facilities. We also acquired our Marrero, Louisiana facility, which facility re-refines used motor oil and also produces vacuum gas oil ("VGO") and our Myrtle Grove re-refining complex in Belle Chasse, Louisiana in May 2014 and at the same time we acquired Golden State Lubricant Works, LLC ("Golden State"), a blending and storage facility in Bakersfield, California which is no longer in operation as of the date of this report.

Our Refining and Marketing division aggregates and manages the re-refinement of used motor oil and other petroleum by-products and sells the re-refined products to end customers.

Our Recovery division includes a generator solutions company for the proper recovery and management of hydrocarbon streams as well as a company named E-Source Holdings, LLC ("E-Source"). E-Source provides dismantling, demolition, decommission and marine salvage services at industrial facilities throughout the Gulf Coast. E-Source also owns and operates a fleet of trucks and other vehicles that are used for shipping and handling equipment and scrap materials.

### *Black Oil Division*

Our Black Oil division is engaged in operations across the entire used motor oil recycling value chain including collection, aggregation, transportation, storage, refinement, and sales of aggregated feedstock and re-refined products to end users. We collect and purchase used oil directly from generators such as oil change service stations, automotive repair shops, manufacturing facilities, petroleum refineries, and petrochemical manufacturing operations. We own a fleet of 35 collection vehicles, which routinely visit generators to collect and purchase used motor oil. We also aggregate used oil from a diverse network of approximately 50 suppliers who operate similar collection businesses to ours.

We manage the logistics of transport, storage and delivery of used oil to our customers. We own a fleet of 19 transportation trucks and more than 150 aboveground storage tanks with over 7.3 million gallons of storage capacity. These assets are used by both the Black Oil division and the Refining and Marketing division. In addition, we also utilize third parties for the transportation and storage of used oil feedstocks. Typically, we sell used oil to our customers in bulk to ensure efficient delivery by truck, rail, or barge. In many cases, we have contractual purchase and sale agreements with our suppliers and customers, respectively. We believe these contracts are beneficial to all parties involved because it ensures that a minimum volume is purchased from collectors and generators, a minimum volume is sold to our customers, and we are able to minimize our inventory risk by a spread between the costs to acquire used oil and the revenues received from the sale and delivery of used oil. We also use our proprietary TCEP technology to re-refine used oil into marine fuel cutterstock and a higher-value feedstock for further processing (we are currently utilizing TCEP to pre-treat our used motor oil feedstock prior to shipping them to our facility in Marrero, Lousiana; but have not operated our TCEP for the purpose of producing finished cutterstock since the third quarter of fiscal 2015, due to market conditions). In addition, at our Marrero facility we produce a Vacuum Gas Oil (VGO) product that is sold to refineries as well as to the marine fuels market. At our Columbus, Ohio facility (Heartland Petroleum) we produce a base oil product that is sold to lubricant packagers and distributors.

### *Refining and Marketing Division*

Our Refining and Marketing division is engaged in the aggregation of feedstock, re-refining it into higher value end products, and selling these products to our customers, as well as related transportation and storage activities. We aggregate a diverse mix of feedstocks including used motor oil, petroleum distillates, transmix and other off-specification chemical products. These feedstock streams are purchased from pipeline operators, refineries, chemical processing facilities and third-party providers, and are also transferred from our Black Oil division. We have a toll-based processing agreement in place with KMTEX to re-refine feedstock streams, under our direction, into various end products that we specify. KMTEX uses industry standard processing technologies to re-refine our feedstocks into pygas, gasoline blendstock and marine fuel cutterstock. We sell all of our re-refined products directly to end-customers or to processing facilities for further refinement.

### *Recovery Division*

The Recovery division is a generator solutions company for the proper recovery and management of hydrocarbon streams. The Recovery division also provides industrial dismantling, demolition, decommissioning, investment recovery and marine salvage services in industrial facilities. The Company (through this division) owns and operates a fleet of eight trucks and heavy equipment used for processing, shipping and handling of reusable process equipment and other scrap commodities.

### *Biomass Renewable Energy*

We are also continuing to work on joint development commercial projects which focus on the separation of municipal solid waste into feedstocks for energy production. We are very selective in choosing opportunities that we believe will result in value for our shareholders. We can provide no assurance that the ongoing venture will successfully bring any projects to a point of financing or successful construction and operation.

### *Thermal Chemical Extraction Process*

We own the intellectual property for our patented TCEP. TCEP is a technology which utilizes thermal and chemical dynamics to extract impurities from used oil which increases the value of the feedstock. We intend to continue to develop our TCEP technology and design with the goal of producing additional re-refined products, including lubricating base oil.

TCEP differs from conventional re-refining technologies, such as vacuum distillation and hydrotreatment, by relying more heavily on chemical processes to remove impurities rather than temperature and pressure. Therefore, the capital requirements to build a TCEP plant are typically much less than a traditional re-refinery because large feed heaters, vacuum distillation columns, and a hydrotreating unit are not required. The end product currently produced by TCEP is used as fuel oil cutterstock. Conventional re-refineries produce lubricating base oils or product grades slightly lower than base oil that can be used as industrial fuels or transportation fuel blendstocks.

We currently estimate the cost to construct a new, fully-functional, commercial facility using our TCEP technology, with annual processing capacity of between 25 and 50 million gallons at another location would be approximately $10 - $15 million, which could fluctuate based on throughput capacity. The facility infrastructure would require additional capitalized expenditures which would depend on the location and site specifics of the facility. We are currently utilizing TCEP to pre-treat our used motor oil feedstocks prior to shipping them to our facility in Marrero, Louisiana; but have not operated our TCEP for the purpose of producing finished cutterstock since the third quarter of fiscal 2015, due to market conditions.

**Products and Services**

We generate substantially all of our revenue from the sale of five product categories. All of these products are commodities that are subject to various degrees of product quality and performance specifications.

*Used Motor Oil*

Used motor oil is a petroleum-based or synthetic lubricant that contains impurities such as dirt, sand, water, and chemicals.

*Fuel Oil*

Fuel Oil is a distillate fuel which is typically blended with lower quality fuel oils. The distillation of used oil and other petroleum by-products creates a fuel with low viscosity, as well as low sulfur, ash, and heavy metal content, making it an ideal blending agent.

*Pygas*

Pygas, or pyrolysis gasoline, is a product that can be blended with gasoline as an octane booster or that can be distilled and separated into its components, including benzene and other hydrocarbons.

*Gasoline Blendstock*

Naphthas and various distillate products used for blending or compounding into finished motor gasoline. These components can include reformulated gasoline blendstock for oxygenate blending (RBOB) but exclude oxygenates (alcohols and ethers), butane, and pentanes plus.

*Base Oil*

An oil to which other oils or substances are added to produce a lubricant. Typically the main substance in lubricants, base oils are refined from crude oil.

**Recent Events:**

*Credit and Guaranty Agreement and Revolving Credit Facility with Encina Business Credit, LLC*

Effective February 1, 2017, we, Vertex Operating, and substantially all of our other operating subsidiaries, other than E-Source, entered into a Credit Agreement (the "EBC Credit Agreement") with Encina Business Credit, LLC as agent (the "Agent" or "EBC") and Encina Business Credit SPV, LLC and CrowdOut Capital LLC as lenders thereunder (the "EBC Lenders"). Pursuant to the EBC Credit Agreement, and the terms thereof, the EBC Lenders agreed to loan us up to $20 million, provided that the amount outstanding under the EBC Credit Agreement at any time cannot exceed 50% of the value of the operating plant facilities and related machinery and equipment owned by us (not including E-Source), based on the most recent appraisal of such facilities.

Effective February 1, 2017, we, Vertex Operating and substantially all of our operating subsidiaries, other than E-Source, entered into a Revolving Credit Agreement (the "Revolving Credit Agreement") with Encina Business Credit SPV, LLC as lender ("Encina") and EBC as the administrative agent. Pursuant to the Revolving Credit Agreement, and the terms thereof, Encina agreed to loan us, on a revolving basis, up to $10 million, subject to the terms of the Revolving Credit Agreement and certain lending ratios set forth therein, which provide that the amount outstanding thereunder cannot exceed an amount equal to the total of (a) the lesser of (A) the value (as calculated in the Revolving Credit Agreement) of our inventory which are raw materials or finished goods that are merchantable and readily saleable to the public in the ordinary course of our business ("EBC Eligible Inventory"), net of certain inventory reserves, multiplied by 85% of the appraised value of EBC Eligible Inventory, or (B) the value (as calculated in the Revolving Credit Agreement) of EBC Eligible Inventory, net of certain inventory reserves, multiplied by 65%, subject to a ceiling of $4 million, plus (b) the face amount of certain accounts receivables (net of certain reserves applicable thereto) multiplied by 85% (subject to adjustment as provided in the Revolving Credit Agreement); minus (c) the then-current amount of certain reserves that the agent may determine necessary for the Company to maintain.

*Acquisition, Acadiana Recovery, LLC*

On February 2, 2017, the Company entered into an Asset Purchase Agreement (the "APA") with Acadiana Recovery, LLC ("Acadiana") pursuant to which the Company agreed to buy substantially all the customer relations, vehicles, equipment, supplies and tools of Acadiana for an aggregate purchase price of $710,350. This resulted in the recognition of $389,650 in fixed assets and $320,700 in intangible assets as of the acquisition date.

*Acquisition of Nickco Recycling, Inc.*

On May 1, 2017, the Company entered into and closed an Asset Purchase Agreement (the "APA") with Nickco Recycling, Inc. ("Nickco") pursuant to which the Company agreed to buy substantially all the processing equipment and the rolling stock of Nickco for aggregate consideration of $2,116,730. This included $1,096,730 in cash, 500,000 shares of restricted common stock and contingent consideration equal to 500,000 shares of common stock, which is payable only if the assets acquired meet a pre-agreed EBITDA target for the 12 calendar months ending on the last day of the 12th calendar month following closing.

## RESULTS OF OPERATIONS

Description of Material Financial Line Items:

*Revenues*

We generate revenues from three existing operating divisions as follows:

BLACK OIL - Revenues for our Black Oil division are comprised primarily of product sales from our re-refineries and feedstock sales (used motor oil) which are purchased from generators of used motor oil such as oil change shops and garages, as well as a network of local and regional suppliers. Volumes are consolidated for efficient delivery and then sold to third-party re-refiners and fuel oil blenders for the export market. In addition, through used oil re-refining, we re-refine used oil into different commodity products. The Houston, Texas TCEP facility finished product is then sold by barge as a fuel oil cutterstock. Through the operations at our Marrero, Louisiana facility, we produce a Vacuum Gas Oil (VGO) product from used oil re-refining which is then sold via barge to crude refineries to be utilized as an intermediate feedstock in the refining process. Through the operations at our Columbus, Ohio facility we produce a base oil finished product which is then sold via truck or rail car to end users for blending, packaging and marketing of lubricants.

REFINING AND MARKETING - The Refining and Marketing division generates revenues relating to the sales of finished products. The Refining and Marketing division gathers hydrocarbon streams in the form of petroleum distillates, transmix and other chemical products that have become off-specification during the transportation or refining process. These feedstock streams are purchased from pipeline operators, refineries, chemical processing facilities and third-party providers, and then processed at a third-party facility under our direction. The end products are typically three distillate petroleum streams (gasoline blendstock, pygas and fuel oil cutterstock), which are sold to major oil companies or to large petroleum trading and blending companies. The end products are delivered by barge and truck to customers.

RECOVERY - The Recovery division is a generator solutions company for the proper recovery and management of hydrocarbon streams. This division also provides dismantling, demolition, decommission and marine salvage services at industrial facilities. We own and operate a fleet of trucks and other vehicles used for shipping and handling equipment and scrap materials.

Our revenues are affected by changes in various commodity prices including crude oil, natural gas, #6 oil and metals.

*Cost of Revenues*

BLACK OIL - Cost of revenues for our Black Oil division are comprised primarily of feedstock purchases from a network of providers. Other cost of revenues include processing costs, transportation costs, purchasing and receiving costs, analytical assessments, brokerage fees and commissions, and surveying and storage costs.

REFINING AND MARKETING - The Refining and Marketing division incurs cost of revenues relating to the purchase of feedstock, purchasing and receiving costs, and inspection and processing of the feedstock into gasoline blendstock, pygas and fuel oil cutter by a third party. Cost of revenues also includes broker's fees, inspection and transportation costs.

RECOVERY - The Recovery division incurs cost of revenues relating to the purchase of hydrocarbon products, purchasing and receiving costs, inspection, demolition and transporting of metals and other salvage and materials. Cost of revenues also includes broker's fees, inspection and transportation costs.

Our cost of revenues are affected by changes in various commodity indices, including crude oil, natural gas, #6 oil and metals. For example, if the price for crude oil increases, the cost of solvent additives used in the production of blended oil products, and fuel cost for transportation cost from third party providers will generally increase. Similarly, if the price of crude oil falls, these costs may also decline.

*General and Administrative Expenses*

Our general and administrative expenses consist primarily of salaries and other employee-related benefits for executive, administrative, legal, financial and information technology personnel, as well as outsourced and professional services, rent, utilities, and related expenses at our headquarters, as well as certain taxes.

*Depreciation and Amortization Expenses*

Our depreciation and amortization expenses are primarily related to the property, plant and equipment and intangible assets acquired in connection with the Vertex Holdings, L.P. (formerly Vertex Energy, L.P.), a Texas limited partnership ("Holdings"), E-Source Holdings, LLC ("E-Source"), Omega Refining, LLC's ("Omega Refining") acquisitions and Warren Ohio Holdings Co., LLC, f/k/a Heartland Group Holdings, LLC (" Heartland") acquisitions, described in greater detail in our Annual Report.

**RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2017 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2016**

Set forth below are our results of operations for the three months ended March 31, 2017 as compared to the same period in 2016.

| | Three Months Ended March 31, 2017 | Three Months Ended March 31, 2016 | $ Change - Favorable (Unfavorable) | % Change - Favorable (Unfavorable) |
|---|---|---|---|---|
| Revenues | $ 34,770,614 | $ 14,132,604 | $ 20,638,010 | 146 % |
| Cost of revenues (exclusive of depreciation shown separately below) | 30,701,554 | 14,371,128 | (16,330,426) | (114)% |
| Gross profit (loss) | 4,069,060 | (238,524) | 4,307,584 | 1,806 % |
| | | | | |
| Selling, general and administrative expenses | 5,229,837 | 5,495,987 | 266,150 | 5 % |
| Depreciation and amortization | 1,600,060 | 1,642,960 | 42,900 | 3 % |
| Total operating expenses | 6,829,897 | 7,138,947 | 309,050 | 4 % |
| | | | | |
| Loss from operations | (2,760,837) | (7,377,471) | 4,616,634 | 63 % |
| | | | | |
| Other income (expense): | | | | |
| Other income (loss) | 1,952 | 476 | 1,476 | 310 % |
| Gain (loss) on asset sales | (13,100) | 9,701,834 | (9,714,934) | (100)% |
| Gain (loss) on change in value of derivative liability | 920,672 | (1,986,320) | 2,906,992 | 146 % |
| Gain (loss) on futures contracts | — | 55,916 | (55,916) | (100)% |
| Interest expense | (1,336,487) | (1,915,492) | 579,005 | 30 % |
| Total other income (expense) | (426,963) | 5,856,414 | (6,283,377) | (107)% |
| | | | | |
| Loss before income tax | (3,187,800) | (1,521,057) | (1,666,743) | (110)% |
| | | | | |
| Income tax benefit (expense) | — | 117,646 | (117,646) | (100)% |
| | | | | |
| Net loss | $ (3,187,800) | $ (1,403,411) | $ (1,784,389) | (127)% |
| Non-controlling interest | $ 8,607 | $ — | $ 8,607 | 100 % |
| Net loss attributable to Vertex Energy, Inc. | $ (3,196,407) | $ (1,403,411) | $ (1,792,996) | (128)% |

Each of our segments' income (loss) from operations during the three months ended March 31, 2017 and 2016 was as follows:

| | Three Months Ended March 31, | | $ Change - Favorable | % Change - Favorable |
|---|---|---|---|---|
| **Black Oil Segment** | 2017 | 2016 | (Unfavorable) | (Unfavorable) |
| Total revenue | $ 24,804,083 | $ 10,133,494 | $ 14,670,589 | 145 % |
| Total cost of revenue (exclusive of depreciation shown separately below) | 21,869,577 | 11,202,238 | (10,667,339) | (95)% |
| Gross profit (loss) | 2,934,506 | (1,068,744) | 4,003,250 | 375 % |
| Selling general and administrative expense | 4,370,863 | 4,630,662 | 259,799 | 6 % |
| Depreciation and amortization | 1,233,746 | 1,234,895 | 1,149 | — % |
| Loss from operations | $ (2,670,103) | $ (6,934,301) | $ 4,264,198 | 61 % |
| | | | | |
| **Refining Segment** | | | | |
| Total revenue | $ 5,394,041 | $ 2,626,455 | $ 2,767,586 | 105 % |
| Total cost of revenue (exclusive of depreciation shown separately below) | 4,647,616 | 2,099,665 | (2,547,951) | (121)% |
| Gross profit | 746,425 | 526,790 | 219,635 | 42 % |
| Selling general and administrative expense | 488,428 | 568,977 | 80,549 | 14 % |
| Depreciation and amortization | 242,291 | 234,117 | (8,174) | (3)% |
| Income (loss) from operations | $ 15,706 | $ (276,304) | $ 292,010 | 106 % |
| | | | | |
| **Recovery Segment** | | | | |
| Total revenue | $ 4,572,490 | $ 1,372,655 | $ 3,199,835 | 233 % |
| Total cost of revenue (exclusive of depreciation shown separately below) | 4,184,361 | 1,069,225 | (3,115,136) | (291)% |
| Gross profit | 388,129 | 303,430 | 84,699 | 28 % |
| Selling general and administrative expense | 370,545 | 296,841 | (73,704) | (25)% |
| Depreciation and amortization | 124,023 | 124,572 | 549 | — % |
| Loss from operations | $ (106,439) | $ (117,983) | $ 11,544 | 10 % |

Our revenues and cost of revenues are significantly impacted by fluctuations in commodity prices; increases in commodity prices typically result in increases in revenue and cost of revenues. Our gross profit is to a large extent a function of the market discount we are able to obtain in purchasing feedstock, as well as how efficiently management conducts operations.

Total revenues increased by 146% for the three months ended March 31, 2017 compared to the same period in 2016, due primarily to higher commodity prices and volumes during the three months ended March 31, 2017 compared to the same period in 2016. Total volume increased 43% during the three months ended March 31, 2017 compared to the same period in 2016. Volumes were impacted as a result of a fire at the Heartland facility which occurred at the facility in February 2016 and required the facility to be offline during the second half of the first quarter of fiscal 2016 and the first half of the second quarter. Gross profit increased by 1,806% for the three months ended March 31, 2017 compared to the three months ended March 31, 2016. The majority of this increase was the result of the adjustments in prices of feedstock during the fourth quarter of 2016 which resulted in positive gross profit during this period. In our collection division we successfully initiated a charge for services program. As a result of this program we currently have customers who are charged for each service performed and others who are charged a monthly fee for as many services performed in that month. The combination of our fee structure change along with our increased third party supply we were able to make progress in lowering our cost of feedstock during the fourth quarter.

Additionally, our per barrel margin increased 1,514% relative to the three months ended March 31, 2016. This increase was a result of decreased operational costs related to the Marrero and Heartland facilities in addition to improved margins in our feedstock and product values during the three months ended March 31, 2017, compared to the same period during 2016, as a result of the charges implemented through our collections division. The 114% decrease in cost of revenues for the three months ended March 31, 2017 compared to the three months ended March 31, 2016 is mainly a result of a slight increase in commodity prices and increases in volumes along with the charges implemented through our collections.

Our Black Oil division's volume increased approximately 50% during the three months ended March 31, 2017 compared to the same period in 2016. This increase was due to the increased amount of volume managed through our facilities. Volumes collected through our H&H Oil and Heartland collection facilities increased 22% during the three months ended March 31, 2017 compared to the same period in 2016. One of our key initiatives continues to be a focus on growing our own volumes of collected material and displacing the third party oil processed in our facilities.

Overall volumes of product sold increased 43% for the three months ended March 31, 2017 versus the same period in 2016. This is important for our business as it illustrates our reach into the market and expansion of overall market share.

In addition, commodity prices increased approximately 73% for the three months ended March 31, 2017 , compared to the same period in 2016. The average posting (U.S. Gulfcoast Residual Fuel No. 6 3%) for the three months ended March 31, 2017 increased $24.62 per barrel from a three month average of $21.01 for the three months ended March 31, 2016 to $45.64 per barrel for the three months ended March 31, 2017 .

We experienced no change in the volume of our TCEP refined product during the three months ended March 31, 2017, compared to the same period in 2016. Our TCEP technology was not operated to produce finished product during the three months ended March 31, 2017 or 2016, due to market conditions. The TCEP process is currently being utilized as a pre-treatment for the Used Motor Oil being purchased in the Texas Market and then being sent to our Marrero, Louisiana facility. We currently do not have an estimate as to when or if we may utilize this technology for the production of finished cutterstock in the future.

Overall volume for the Refining and Marketing division increased 14% during the three months ended March 31, 2017 as compared to the same period in 2016. This division experienced a decrease in production of 100% for its gasoline blendstock for the three months ended March 31, 2017 , compared to the same period in 2016. Our fuel oil cutter volumes increased 4% for the three months ended March 31, 2017 , compared to the same period in 2016. Our pygas volumes increased 44% for the three months ended March 31, 2017 as compared to the same period in 2016. These increases were a result of increases in volumes of feed to process.

Our Recovery division includes the business operations of Vertex Recovery Management. Revenues for this division increased 233% as a result of higher commodity prices and, higher volumes, which was offset by the decline of project based work related to our E-Source business during the three months ended March 31, 2017, compared to the same period in 2016. Volumes of petroleum products acquired during the three months ended March 31, 2017 , in our Recovery business were up 44% during the three months ended March 31, 2017, compared to the same period during 2016. This division through E-Source, periodically participates in project work that is not ongoing thus we expect to see fluctuations in revenue and gross profit from this division from period to period.

Overall gross profit increased 1,806% and our margin per barrel increased approximately 1,514% for the three months ended March 31, 2017 , compared to the same period in 2016. This increase was largely a result of increased volumes along with the increase in charge for oil in our Black Oil collection division.

We had selling, general, and administrative expenses of $ 5,229,837 for the three months ended March 31, 2017 , compared to $5,495,987 of selling, general, and administrative expenses for the prior year's period, a decrease of $266,150 or 5% from the prior period. This decrease is primarily due to the reductions made during the end of 2016 in our selling, general and administrative expenses generated by new business lines, specifically those business lines acquired from Omega Refining, Heartland and the E-Source acquisitions.

We had a loss from operations of $ 2,760,837 for the three months ended March 31, 2017 , compared to a loss from operations of $ 7,377,471 for the three months ended March 31, 2016, a decrease of $ 4,616,634 or 63% from the prior, year's three-month period. The decrease was mainly due to an increase in overall gross profit in 2017 of approximately $4.3 million.

We also had interest expense of $ 1,336,487 for the three months ended March 31, 2017 , compared to interest expense of $ 1,915,492 for the three months ended March 31, 2016, a decrease in interest expense of $ 579,005 or 30% from the prior period due to the payment of $16.1 million toward the Credit Agreement with Goldman Sachs Banks related to the Bango Sale during the quarter ended March 31, 2016, and the termination of the debt facilities with Goldman Sachs, Fox and Midcap that were paid off at the beginning of the three months ended March 31, 2017.

We had a (loss) and a gain, respectively, on the sale of assets of ($13,100) and $9,701,834 for the three months ended March 31, 2017 and 2016, respectively, mainly related to the purchase and sale of the Bango facility in January 2016.

We had a $ 920,672 gain on change in value of derivative liability for the three months ended March 31, 2017 , in connection with a beneficial conversion feature on certain warrants granted in June 2015 and May 2016, as described in greater detail in "Note 9.

Preferred Stock and Detachable Warrants " to the unaudited financial statements included herein under " Part I"-"Item 1 Financial Statements" compared to a loss on change in the value of our derivative liability of $1,986,320 in the prior year's period. This change was mainly due to fluctuation in the prices of our stock.

We had no futures contracts for the three months ended March 31, 2017 compared to a gain on futures contracts of $55,916 for the three months ended March 31, 2016. We periodically use futures contract to offset the effects of the market value changes in our hedged items, as well as to avoid significant volatility that might arise due to market exposure.

We had no income tax benefit or expense for the three months ended March 31, 2017 , compared to an income tax benefit of $117,646 for the three months ended March 31, 2016. For tax reporting purposes, we have net operating losses (“NOLs”) of approximately $47.1 million as of March 31, 2017, that are available to reduce future taxable income. In determining the carrying value of our net deferred tax asset, the Company considered all negative and positive evidence. The Company has incurred a cumulative pre-tax loss of approximately $3.2 million from January 1, 2016 through March 31, 2017. As a result, the Company created a full valuation allowance of 100% to offset the entire balances of deferred tax assets and deferred tax liabilities.

We had net loss of $3,187,800 for the three months ended March 31, 2017 , compared to a net loss of $ 1,403,411 for the three months ended March 31, 2016, an increase in net loss of $1,792,996 or 128% from the prior period for the reasons described above.

During the three months ended March 31, 2017 , the processing costs for our Refining and Marketing division located at KMTEX were $574,698. In addition, we have provided the results of operations for this segment of our business below during the same three month period.

**Three Months Ended March 31, 2017**

| | **Refining and Marketing** |
|---|---|
| Revenues | $ 5,394,041 |
| Loss from operations | $ 15,706 |

The following table sets forth the high and low spot prices during the three months ended March 31, 2017 , for our key benchmarks.

**2017**

| Benchmark | High | Date | Low | Date |
|---|---|---|---|---|
| U.S. Gulfcoast No. 2 Waterborne (dollars per gallon) | $ 1.56 | February 1 | $ 1.35 | March 22 |
| U.S. Gulfcoast Unleaded 87 Waterborne (dollars per gallon) | $ 1.68 | January 4 | $ 1.47 | March 10 |
| U.S. Gulfcoast Residual Fuel No. 6 3% (dollars per barrel) | $ 48.69 | January 5 | $ 41.16 | March 23 |
| NYMEX Crude oil (Dollars per barrel) | $ 54.45 | February 23 | $ 47.34 | March 21 |
| *Reported in Platt's US Marketscan (Gulf Coast)* | | | | |

The following table sets forth the high and low spot prices during the three months ended March 31, 2016 , for our key benchmarks.

**2016**

| Benchmark | High | Date | Low | Date |
|---|---|---|---|---|
| U.S. Gulfcoast No. 2 Waterborne (dollars per gallon) | $ 1.04 | January 4 | $ 0.78 | January 20 |
| U.S. Gulfcoast Unleaded 87 Waterborne (dollars per gallon) | $ 1.38 | March 24 | $ 0.89 | February 9 |
| U.S. Gulfcoast Residual Fuel No. 6 3% (dollars per barrel) | $ 25.23 | March 22 | $ 16.24 | January 19 |
| NYMEX Crude oil (Dollars per barrel) | $ 41.45 | March 22 | $ 26.21 | February 9 |
| *Reported in Platt's US Marketscan (Gulf Coast)* | | | | |

We saw a steady increase during the first three months of 2017, in each of the benchmark commodities we track compared to the same period in 2016.

Our margins are a function of the difference between what we are able to pay for raw materials and the market prices for the range of products produced. The various petroleum products produced are typically a function of crude oil indices and are quoted on multiple exchanges such as the New York Mercantile Exchange ("NYMEX"). These prices are determined by a global market and can be influenced by many factors, including but not limited to supply/demand, weather, politics, and global/regional inventory levels. As such, we cannot provide any assurances regarding results of operations for any future periods, as numerous factors outside of our control affect the prices paid for raw materials and the prices (for the most part keyed to the NYMEX) that can be charged for such products. Additionally, for the near term, results of operations will be subject to further uncertainty, as the global markets and exchanges, including the NYMEX, continue to experience volatility.

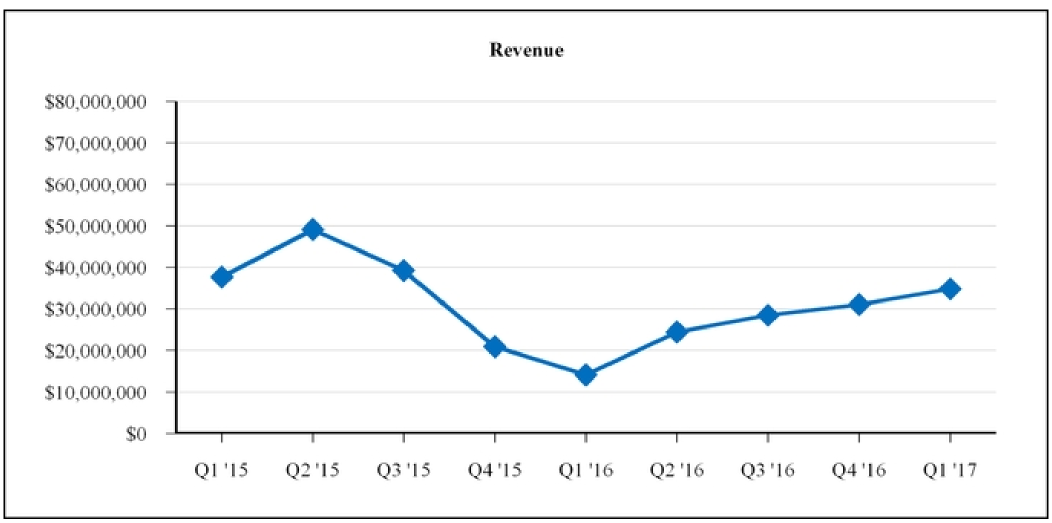
As our competitors bring new technologies to the marketplace, which will likely enable them to obtain higher values for the finished products created through their technologies from purchased black oil feedstock, we anticipate that they will be able to pay more for feedstock due to the additional value received from their finished product (i.e., as their margins increase, they are able to increase the prices they are willing to pay for feedstock). If we are not able to continue to refine and improve our technologies and gain efficiencies in our technologies, we could be negatively impacted by the ability of our competitors to bring new processes to market which compete with our processes, as well as their ability to outbid us for feedstock supplies.

If we are unable to effectively compete with additional technologies brought to market by our competitors, our finished products could be worth less and if our competitors are willing to pay more for feedstock than we are, they could drive up prices, which would cause our revenues to decrease (as described above, our revenues track the spread between the prices we purchase feedstock for and the prices we can sell finished product at), and cause our cost of sales to increase, respectively. Additionally, if we are forced to pay more for feedstock, our cash flows will be negatively impacted and our margins will decrease.

Set forth below, we have disclosed a quarter-by-quarter summary of our statements of operations for the first quarter of 2017, fiscal year 2016 and fiscal year 2015.

| | Fiscal 2017 | Fiscal 2016 | | | | Fiscal 2015 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| Revenues | $ 34,770,614 | $ 31,055,936 | $ 28,461,930 | $ 24,428,444 | $ 14,132,604 | $ 20,875,827 | $ 39,262,584 | $ 49,119,711 | $ 37,684,339 |
| Cost of Revenues (exclusive of depreciation shown separately below) | 30,701,554 | 25,758,117 | 22,462,171 | 19,168,398 | 14,371,128 | 20,497,691 | 34,104,949 | 43,635,177 | 38,008,456 |
| Gross Profit (loss) | 4,069,060 | 5,297,819 | 5,999,759 | 5,260,046 | (238,524) | 378,136 | 5,157,635 | 5,484,534 | (324,117) |
| Reduction of contingent liability | — | — | — | — | — | (6,069,000) | — | — | — |
| Selling, general and administrative expenses | 5,229,837 | 4,869,257 | 5,025,221 | 4,714,558 | 5,545,363 | 6,994,006 | 6,058,674 | 5,641,250 | 5,527,706 |
| Depreciation and amortization | 1,600,060 | 1,569,414 | 1,560,562 | 1,553,655 | 1,593,584 | 1,920,416 | 1,597,881 | 1,561,314 | 1,556,982 |
| Total operating expenses | 6,829,897 | 6,438,671 | 6,585,783 | 6,268,213 | 7,138,947 | 2,845,422 | 7,656,555 | 7,202,564 | 7,084,688 |
| Income (loss) from operations | (2,760,837) | (1,140,852) | (586,024) | (1,008,167) | (7,377,471) | (2,467,286) | (2,498,920) | (1,718,030) | (7,408,805) |
| Other income (expense): | | | | | | | | | |
| Provision for doubtful accounts | — | — | — | — | — | 1,995,180 | — | — | (2,650,000) |
| Other income (expense) | 1,952 | 1,522 | 1,490 | 2,486 | 476 | (4,475) | 11 | 10 | 8 |
| Gain (loss) on change in value of derivative liability | 920,672 | (674,309) | 1,065,217 | 1,645,288 | (1,986,320) | 2,844,430 | 818,051 | 1,816,982 | — |
| Goodwill impairment loss | — | — | — | — | — | (4,922,353) | — | — | — |
| Gain (loss) on futures contracts | — | (196,560) | (90,061) | (317,675) | 55,916 | 155,660 | 395,430 | — | — |
| Gain (loss) on sale of assets | (13,100) | (1,323) | (68,799) | — | 9,701,834 | 92,261 | (20,657) | 12,818 | (70,478) |
| Interest expense | (1,336,487) | (373,900) | (399,545) | (406,019) | (1,915,492) | (728,780) | (763,791) | (556,975) | (1,531,180) |
| Total other income (expense) | (426,963) | (1,244,570) | 508,302 | 924,080 | 5,856,414 | (568,077) | 429,044 | 1,272,835 | (4,251,650) |
| Income (loss) before income taxes | (3,187,800) | (2,385,422) | (77,722) | (84,087) | (1,521,057) | (3,035,363) | (2,069,876) | (445,195) | (11,660,455) |
| Income tax benefit (expense) | — | — | — | — | 117,646 | — | — | — | (5,306,000) |
| Net loss | **$ (3,187,800)** | **(2,385,422)** | **(77,722)** | **$ (84,087)** | **$ (1,403,411)** | **$ (3,035,363)** | **$ (2,069,876)** | **$ (445,195)** | **$ (16,966,455)** |
| Non-controlling interest | 8,607 | 13,372 | 30,234 | (41,427) | — | — | — | — | — |
| Net income (loss) | $ (3,196,407) | (2,398,794) | (107,956) | $ (42,660) | $ (1,403,411) | $ (3,035,363) | $ (2,069,876) | $ (445,195) | $ (16,966,455) |

The graph below charts our total quarterly revenue over time from January 1, 2015 to March 31, 2017:




In the table below, we have disclosed a quarter-by-quarter summary of our gross profit by segment for the first quarter of 2017, fiscal year 2016 and fiscal year 2015.

| GROSS PROFIT BY SEGMENT BY QUARTER | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fiscal 2017 | Fiscal 2016 | | | | Fiscal 2015 | | | |
| | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| **Black Oil** | | | | | | | | | |
| Revenues | $ 24,804,083 | $ 23,757,821 | $ 22,907,235 | $ 19,836,390 | $ 10,133,494 | $ 17,004,934 | $ 27,632,744 | $ 34,338,534 | $ 24,913,976 |
| Cost of revenues | 21,869,577 | 19,123,192 | 17,817,032 | 15,557,879 | 11,202,238 | 17,244,210 | 25,128,353 | 30,912,204 | 27,141,124 |
| Gross profit (loss) | $ 2,934,506 | $ 4,634,629 | $ 5,090,203 | $ 4,278,511 | $ (1,068,744) | $ (239,276) | $ 2,504,391 | $ 3,426,330 | $ (2,227,148) |
| | | | | | | | | | |
| **Refining & Marketing** | | | | | | | | | |
| Revenues | $ 5,394,041 | $ 3,168,730 | $ 4,436,111 | $ 2,923,481 | $ 2,626,455 | $ 2,687,922 | $ 8,752,135 | $ 11,447,889 | $ 8,266,120 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Cost of revenues | 4,647,616 | 2,893,913 | 3,610,051 | 2,169,238 | 2,099,665 | 2,270,299 | 8,281,753 | 9,956,771 | 7,305,402 |
| Gross profit (loss) | $ 746,425 | $ 274,817 | $ 826,060 | $ 754,243 | $ 526,790 | $ 417,623 | $ 470,382 | $ 1,491,118 | $ 960,718 |
| | | | | | | | | | |
| **Recovery** | | | | | | | | | |
| Revenues | $ 4,572,490 | $ 4,129,385 | $ 1,118,584 | $ 1,668,573 | $ 1,372,655 | $ 1,182,971 | $ 2,877,705 | $ 3,333,288 | $ 4,504,243 |
| Cost of revenues | 4,184,361 | 3,741,012 | 1,035,088 | 1,441,281 | 1,069,225 | 983,182 | 694,843 | 2,766,202 | 3,561,930 |
| Gross profit (loss) | $ 388,129 | $ 388,373 | $ 83,496 | $ 227,292 | $ 303,430 | $ 199,789 | $ 2,182,862 | $ 567,086 | $ 942,313 |

**Liquidity and Capital Resources**

The success of our current business operations has become dependent on repairs, and maintenance to our facilities and our ability to make routine capital expenditures, as well as our ability to manage our margins which are a function of the difference between what we are able to pay or charge for raw materials and the market prices for the range of products produced. We also must maintain relationships with feedstock suppliers and end-product customers, and operate with efficient management of overhead costs. Through these relationships, we have historically been able to achieve volume discounts in the procurement of our feedstock, thereby increasing the margins of our segments' operations. The resulting operating cash flow is crucial to the viability and growth of our existing business lines.

We had total assets of $80,467,748 as of March 31, 2017, compared to $86,985,968 at December 31, 2016. The decrease was mainly due to depreciation and amortization expense and cash used in operations.

We had total current liabilities of $ 10,780,784 as of March 31, 2017, compared to $22,453,644 at December 31, 2016. This decrease was largely due to the approximate $10.5 million pay down of the Goldman Sachs and Midcap debt as a result of the February 1, 2017 refinancing and classification as long term, as well as the approximately $1.5 million reduction in accounts payable and accrued expenses.

We had total liabilities of $ 25,099,447 as of March 31, 2017, including current liabilities of $ 10,780,784 and long-term debt of $ 10,873,343, which included $1,358,540 related to E-Source debt.

We had working capital of $3,885,644 as of March 31, 2017, compared to a working capital deficit of $1,268,192 as of December 31, 2016. The improvement in working capital from December 31, 2016 to March 31, 2017, is due to the reasons described above.

Our future operating cash flows will vary based on a number of factors, many of which are beyond our control, including commodity prices, the cost of recovered oil, and the ability to turn our inventory. Other factors that have affected and are expected to continue to affect earnings and cash flow are transportation, processing, and storage costs. Over the long term, our operating cash flows will also be impacted by our ability to effectively manage our administrative and operating costs. Additionally, we may incur capital expenditures related to new TCEP facilities in the future, in the event oil prices increase to a point necessary to make TCEP economically feasible and we determine, funding permitted, to construct additional TCEP facilities.

The Company financed insurance premiums through various financial institutions bearing interest rates from 4% to 4.52%. All such premium finance agreements have maturities of less than one year and have a balance of $425,710 at March 31, 2017.

The Company's outstanding debt facilities as of March 31, 2017 and December 31, 2016 are summarized as follows:

| Creditor | Loan Type | Origination Date | Maturity Date | Loan Amount | Balance on March 31, 2017 | Balance on December 31, 2016 |
|---|---|---|---|---|---|---|
| Encina Business Credit, LLC | Term Loan | February 1, 2017 | February 1, 2020 | $ 20,000,000 | $ 11,925,000 | $ — |
| Encina Business Credit SPV, LLC | Revolving Note | February 1, 2017 | February 1, 2020 | $ 10,000,000 | 907,295 | — |
| MidCap Revolving Line of Credit | Revolving Note | March, 2015 | March, 2017 (1) | $ 7,000,000 | — | 2,726,039 |
| Goldman Sachs USA | Term Loan - Restated Credit Agreement | January 29, 2016 | May 2, 2019 (1) | $ 8,900,000 | — | 4,000,000 |
| Fox Encore Promissory Note | Promissory Note | January 29, 2017 | July 31, 2017 (1) | $ 5,150,000 | — | 5,150,000 |
| Pacific Western Bank | Capital Lease | September, 2012 | August, 2017 | $ 3,154,860 | 84,046 | 133,153 |
| Texas Citizens Bank | Term Note | January, 2015 | January, 2020 | $ 2,045,500 | 1,358,540 | 1,531,506 |
| Various institutions | Insurance premiums financed | Various | < 1 year | $ 2,902,428 | 425,710 | 1,060,065 |
| Total | | | | | **14,700,591** | **14,600,763** |
| Deferred Finance Costs, Net | | | | | (1,580,120) | (244,178) |
| Total, Net of Deferred Finance Costs | | | | | **13,120,471** | **14,356,585** |

(1) Paid in full and terminated on February 1, 2017

Future contractual maturities of notes payable are summarized as follows:

| Creditor | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Thereafter |
|---|---|---|---|---|---|---|
| Encina Business Credit, LLC | $ 907,295 | $ — | $ — | $ — | $ — | $ — |
| Encina Business Credit SPV, LLC | 900,000 | 900,000 | 900,000 | 9,225,000 | — | — |
| Pacific Western Bank | 84,046 | — | — | — | — | — |
| Texas Citizens Bank | 474,693 | 495,013 | 388,834 | — | — | — |
| Various institutions | 425,710 | — | — | — | — | — |
| Totals | 2,791,744 | 1,395,013 | 1,288,834 | 9,225,000 | — | — |
| Deferred finance costs, net | (544,616) | (517,752) | (517,752) | — | — | — |
| Totals, net of deferred finance costs | $ 2,247,128 | $ 877,261 | $ 771,082 | $ 9,225,000 | $ — | $ — |

***Credit and Guaranty Agreement and Revolving Credit Facility with Encina Business Credit, LLC***

Effective February 1, 2017, we, Vertex Operating, and substantially all of our other operating subsidiaries, other than E-Source, entered into a Credit Agreement (the "EBC Credit Agreement") with Encina Business Credit, LLC as agent (the "Agent" or "EBC") and Encina Business Credit SPV, LLC and CrowdOut Capital LLC as lenders thereunder (the "EBC Lenders"). Pursuant to the EBC Credit Agreement, and the terms thereof, the EBC Lenders agreed to loan us up to $20 million, provided that the amount outstanding under the EBC Credit Agreement at any time cannot exceed 50% of the value of the operating plant facilities and related machinery and equipment owned by us (not including E-Source), based on the most recent appraisal of such facilities.

A total of $12 million was loaned to us by the EBC Lenders on February 1, 2017 pursuant to the terms of the EBC Credit Agreement, and a total of an additional $8 million in funding may be requested by us from the EBC Lenders, from time to time, subject to the terms of the EBC Credit Agreement, and the conditions for lending set forth therein, subject to a minimum of $500,000, or a multiple of $100,000 above such amount, being requested at any time.

Amounts borrowed under the EBC Credit Agreement bear interest at 12%, 13% or 14% per annum, based on the ratio of (a) (i) consolidated EBITDA for such applicable period minus (ii) capital expenditures made during such period, minus (iii) the aggregate amount of income taxes paid in cash during such period (but not less than zero) to (b) the sum of (i) debt service charges plus (ii) the aggregate amount of all dividend or other distributions paid on capital stock in cash for the most recently completed 12 month period (which ratio falls into one of the three following tiers: less than 1 to 1; from 1 to 1 to less than 1.45 to 1; or equal to or greater than 1.45 to 1, which together with the value below, determines which interest rate is applicable) and average availability under the Revolving Credit Agreement (defined below) (which falls into two tiers: less than $2.5 million and greater than or equal to $2.5 million, which together with the calculation above, determines which interest rate is applicable), as described in greater detail in the EBC Credit Agreement (increasing by 2% per annum upon the occurrence of an event of default). Interest on amounts borrowed under the EBC Credit Agreement is payable by us in arrears, on the first business day of each month, beginning on the first business day of the first full month following the closing, together with required $75,000 monthly principal repayments. We also have the right to make voluntary repayments of the amount owed under the EBC Credit Agreement in amounts equal to or greater than $100,000, from time to time.

The EBC Credit Agreement terminates on February 1, 2020, on which date we are required to repay the outstanding balance owed thereunder and any accrued and unpaid interest thereon.

We agreed to pay the agent certain fees in connection with the EBC Credit Agreement, including a fee equal to 0.5% of a portion of the undrawn portion of the EBC Credit Agreement per annum (equal to $30,000 at closing) and a termination fee, in the event the EBC Credit Agreement terminates prior to the maturity date thereof (or we reduce the amount available for loans thereunder), equal to 2% of the amount repaid (or the reduction in the amount available under the EBC Credit Agreement). Notwithstanding the above, during the period beginning six months prior to the maturity date and ending on the maturity date, no early termination fee is due if we provide prior written notice to the agent at least ninety (90) days prior to the applicable termination date.

The amounts borrowed under the EBC Credit Agreement are guaranteed by us and our subsidiaries, other than E-Source, pursuant to a Guaranty and Security Agreement (the "Guaranty and Security Agreement"), whereby we also pledged substantially all of our assets and all of the securities of our subsidiaries (other than E-Source) as collateral securing the amount due under the terms of the EBC Credit Agreement. We also provided EBC mortgages on our Marrero, Louisiana, and Columbus, Ohio facilities to secure the repayment of outstanding amounts and agreed to provide mortgages on certain other real property to be delivered post-closing.

We agreed to use the proceeds raised under the EBC Credit Agreement for working capital, capital expenditures, general corporate purposes and to refinance the Existing Credit Obligations (as defined below), and subject to the terms of the EBC Credit Agreement, to finance permitted acquisitions.

The EBC Credit Agreement contains customary representations, warranties and requirements for the Company to indemnify the EBC Lenders and their affiliates. The EBC Credit Agreement also includes various covenants (positive and negative) binding upon the Company, including, prohibiting us from undertaking acquisitions or dispositions unless they meet the criteria set forth in the EBC Credit Agreement, not incurring any capital expenditures in amount exceeding $3 million in any fiscal year that the EBC Credit Agreement is in place, and requiring us to maintain at least $2.5 million of average borrowing availability under the Revolving Credit Agreement (defined below) in any 30 day period.

We are required to repay the amounts borrowed under the EBC Credit Agreement in the event we complete any disposition of assets or securities, receive any funds in connection with any insurance proceeds, and/or upon the occurrence of certain other events, subject to certain exceptions described in the EBC Credit Agreement. Additionally, commencing with the first full fiscal month after which the initial principal amount of the loans advanced under the EBC Credit Agreement is equal to or greater than $17 million and for each fiscal quarter thereafter, we are required to prepay the amount due under the EBC Credit Agreement in an amount equal to 50% of our cash flow, less principal payments (including voluntary repayments) made under the EBC Credit Agreement, approved capital expenditures and certain other approved expenses.

The EBC Credit Agreement includes customary events of default for facilities of a similar nature and size as the EBC Credit Agreement, including if an event of default occurs under any agreement evidencing $500,000 or more of indebtedness of the Company; we fail to make any payment when due under any material agreement; subject to certain exceptions, any judgment is entered against the Company in an amount exceeding $500,000; and also provides that an event of default occurs if a change in control of the Company occurs, which includes if (a) Benjamin P. Cowart, the Company's Chief Executive Officer, Chairman of the Board and largest shareholder and Chris Carlson, the Chief Financial Officer of the Company, cease to own and control legally and beneficially, collectively, either directly or indirectly, equity securities in Vertex Energy, Inc., representing more than 15% of the combined voting power of all securities entitled to vote for members of the board of directors or equivalent on a fully-diluted basis, (b) the acquisition of ownership, directly or indirectly, beneficially or of record, by any person or group of securities representing more than 30% of the aggregate ordinary voting power represented by the issued and outstanding securities of Vertex Energy, Inc., or (c) during any period of 12 consecutive months, a majority of the members of the board of directors of the Company cease to be composed of individuals (i) who were members of that board or equivalent governing body on the first day of such period, (ii) whose election or nomination to that board or equivalent governing body was approved by individuals referred to in clause (i) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body or (iii) whose election or nomination to that board or other equivalent governing body was approved by individuals referred to in clauses (i) and (ii) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body (collectively "Events of Default"). An event of default under the Revolving Credit Agreement (defined below), is also an event of default under the EBC Credit Agreement.

Effective February 1, 2017, we, Vertex Operating and substantially all of our operating subsidiaries, other than E-Source, entered into a Revolving Credit Agreement (the "Revolving Credit Agreement") with Encina Business Credit SPV, LLC as lender (" Encina") and EBC as the administrative agent. Pursuant to the Revolving Credit Agreement, and the terms thereof, Encina agreed to loan us, on a revolving basis, up to $10 million, subject to the terms of the Revolving Credit Agreement and certain lending ratios set forth therein, which provide that the amount outstanding thereunder cannot exceed an amount equal to the total of (a) the lesser of (A) the value (as calculated in the Revolving Credit Agreement) of our inventory which are raw materials or finished goods that are merchantable and readily saleable to the public in the ordinary course of our business ("EBC Eligible Inventory"), net of certain inventory reserves, multiplied by 85% of the appraised value of EBC Eligible Inventory, or (B) the value (as calculated in the Revolving Credit Agreement) of EBC Eligible Inventory, net of certain inventory reserves, multiplied by 65%, subject to a ceiling of $4 million, plus (b) the face amount of certain accounts receivables (net of certain reserves applicable thereto) multiplied by 85% (subject to adjustment as provided in the Revolving Credit Agreement); minus (c) the then-current amount of certain reserves that the agent may determine necessary for the Company to maintain.

Amounts borrowed under the Revolving Credit Agreement bear interest, subject to the terms of the Revolving Credit Agreement, at the one month LIBOR interest rate then in effect, subject to a floor of 0.25% (which interest rate is currently approximately 0.78% per annum), plus an additional 6.50% per annum (increasing by 2% per annum upon the occurrence of an event of default), provided that under certain circumstances amounts borrowed bear interest at the higher of (a) the "prime rate"; (b) the Federal Funds Rate, plus 0.50%; and (c) the LIBOR Rate for a one month interest period, plus 1.00%). Interest on amounts borrowed under the Revolving Credit Agreement is payable by us in arrears, on the first business day of each, beginning on the first business day of the first full month following the closing.

The Revolving Credit Agreement terminates on February 1, 2020, on which date we are required to repay the outstanding balance owed thereunder and any accrued and unpaid interest thereon.

We agreed to pay the agent certain fees in connection with the Revolving Credit Agreement, including a commitment fee equal to 0.5% per annum, multiplied by the actual daily amount by which the amount outstanding under the Revolving Credit Agreement is less than the $10 million aggregate commitment thereunder during the immediately preceding quarter, payable monthly in arrears and a termination fee, in the event the Revolving Credit Agreement terminates prior to the maturity date thereof (or we reduce the amount available for loans thereunder), equal to 2% of the aggregate commitment amount (or the reduction in such amount) if terminated prior to the one year anniversary of our entry into the Revolving Credit Agreement, 1% of the aggregate commitment amount (or reduction in such amount) if terminated between the one year anniversary and two year anniversary of our entry into the Revolving Credit Agreement and 0.5% of the aggregate commitment amount (or reduction in such amount) if terminated after the two year anniversary of our entry into the Revolving Credit Agreement. Notwithstanding the above, during the period beginning six months prior to the maturity date and ending on the maturity date, no early termination fee is due if we provide prior written notice to the agent at least ninety (90) days prior to the applicable termination date.

We can request funds from time to time under the terms of the Revolving Credit Agreement, subject to us requesting a minimum of $500,000 ($100,000 upon certain events), or a multiple of $100,000 above such amount.

The amounts borrowed under the Revolving Credit Agreement are guaranteed by us and our subsidiaries other than E-Source pursuant to a separate Guaranty and Security Agreement, similar to the EBC Credit Agreement, described in greater detail above. We also provided Encina mortgages on our Marrero, Louisiana, and Columbus, Ohio facilities to secure the repayment of outstanding amounts.

We agreed to use the proceeds raised under the Revolving Credit Agreement for working capital, capital expenditures, general corporate purposes and to refinance the Existing Credit Obligations (as defined below).

The Revolving Credit Agreement contains customary representations, warranties and requirements for the Company to indemnify Encina and its affiliates. The Revolving Credit Agreement also includes various covenants (positive and negative) binding upon the Company, including, prohibiting us from undertaking acquisitions or dispositions unless they meet the criteria set forth in the Revolving Credit Agreement, not incurring any capital expenditures in amount exceeding $3 million in any fiscal year that the Revolving Credit Agreement is in place, and requiring us to maintain at least $2.5 million of average borrowing availability under the Revolving Credit Agreement in any 30 day period.

We are required to repay the amounts borrowed under the Revolving Credit Agreement in the event we complete any disposition of assets or securities, receive any funds in connection with any insurance proceeds, and/or in certain other events, subject to certain exceptions described in the Revolving Credit Agreement.

The Revolving Credit Agreement includes customary events of default for facilities of a similar nature and size as the Revolving Credit Agreement, including the same Events of Default as are described above under the description of the EBC Credit Agreement.

A total of $11,282,537 of the amount initially borrowed under the EBC Credit Agreement and Revolving Credit Agreement was used to repay amounts owed under (a) the Restated Credit Agreement with Goldman Sachs Bank USA (described below), (b) our loan agreement with MidCap (described below); and (c) the Fox Note (defined below under "Fox Note")(collectively, "Existing Credit Obligations"), all of which have been repaid in full as of the date of this filing. Additionally, in connection with the repayment of such obligations, the Restated Goldman Credit Agreement and Midcap Loan Agreement, and our right to borrow funds thereunder were terminated.

***Credit and Guaranty Agreement with Goldman Sachs Bank USA***

On May 2, 2014, the Company entered into a Credit and Guaranty Agreement (as amended from time to time, the " Goldman Credit Agreement") with Goldman Sachs Bank USA. Pursuant to the agreement, Goldman Sachs Bank USA loaned the Company $40,000,000 in the form of a term loan. As set forth in the Goldman Credit Agreement, the Company has the option to select whether loans made under the Goldman Credit Agreement bear interest at (a) the greater of (i) the prime rate in effect, (ii) the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System plus ½ of 1%, (iii) the sum of (A) the Adjusted LIBOR Rate and (B) 1%, and (iv) 4.5% per annum; or (b) the greater of (i) 1.50% and (ii) the applicable ICE Benchmark Administration Limited interest rate, divided by (x) one minus, (y) the Adjusted LIBOR Rate. Interest on the Goldman Credit Agreement is payable monthly in arrears.

The Goldman Sachs Bank USA financing arrangement is secured by all of the assets of the Company.

On January 29, 2016, we, Vertex Operating, certain of our other subsidiaries, Lender and Agent entered into an Amended and Restated Credit and Guaranty Agreement (the "Restated Goldman Credit Agreement"), which amended and restated the Goldman Credit Agreement. The Restated Goldman Credit Agreement changed the Goldman Credit Agreement to an $8.9 million multi-draw term loan credit facility (of which approximately $6.4 million was outstanding and $2.5 million was available to be drawn pursuant to the terms of the Restated Goldman Credit Agreement on substantially similar terms as the then outstanding amounts owed to the Lender); modified the Credit Agreement to adjust certain EBITDA calculations in connection with the purchase of Bango Oil and the sale of the Bango Plant as described above; provided for approval for us to exercise the Purchase Option, enter into and effect the transactions contemplated by the Membership Interest Purchase Agreement, Subscription Agreement, and the Sale Agreement, and allow for the issuance of the Fox Note (described below) and the Mortgage securing the amount owed thereunder; confirmed that we were required to make payments of $800,000 per quarter from June 30, 2016 through maturity (May 2, 2019); provided us a moratorium on the prepayment of amounts owed under the Restated Goldman Credit Agreement as a result of various financial ratios we were required to meet through December 31, 2016; provided for us to retain any business interruption insurance proceeds received in connection with the Bango Plant; provided for us to pay $16 million received at closing from the sale of the Bango Assets, all amounts released from escrow and any other cash proceeds in excess of $500,000 received from the Sale Agreement after closing to the Lender as prepayment of amounts due under the Restated Goldman Credit Agreement; allowed us the right to make certain permitted acquisitions moving forward, without further consent of the Lender, provided that among other requirements, such acquisitions are in the same business or line of business as the Company, that such acquired businesses have generated consolidated adjusted EBITDA for the four fiscal quarters preceding such acquisition in excess of capital expenditures for such period (taking into account adjustments acceptable to the Agent for synergies expected to be achieved within the 90 days following the closing of such acquisition), and that the funding for such acquisition comes from certain limited sources set forth in greater detail in the Restated Goldman Credit Agreement; adjusted certain fixed charge coverage ratios and leverage ratios we were required to meet on a quarterly basis from September 30, 2016 to maturity; required us to maintain at least $2 million of liquidity at all times; provided that events of default under the Goldman Credit Agreement include events of default under the Fox Note; and made various other updates and changes to take into account transactions which had occurred through the date of such agreement, and to remove expired and non-material terms of the prior Credit Agreement.

*Amendment No. 1 to Amended and Restated Credit and Guaranty Agreement*

On May 9, 2016, we entered into Amendment No. 1 to the Amended and Restated Credit Agreement ("Amendment No. 1"), which amended the Restated Credit Agreement. Pursuant to Amendment No. 1, we, Vertex Operating, substantially all of our other wholly-owned subsidiaries, the Lender and the Agent, agreed to amend the Restated Credit Agreement to (a) change the threshold constituting a change of control under the Restated Credit Agreement, from any time that Benjamin P. Cowart, our Chief Executive Officer, Chairman and largest stockholder, ceases to beneficially own and control at least 20% on a fully diluted basis of the economic and voting interests of our capital stock ("Fully-Diluted Capital Stock"), to any time that Mr. Cowart beneficially owns less than 10% of our Fully-Diluted Capital Stock; (b) extend the date that we are required to meet certain fixed charge coverage ratios from the quarter ending September 30, 2016, to the quarter ending March 31, 2017; (c) adjust the calculation of leverage ratio described in the Restated Credit Agreement; (d) allow for the May 2016 Offering (described below) and the required payment of $800,000 to the Lender in connection with such Offering (representing the payment originally due June 30, 2016); (e) provide that the financial covenants relating to fixed charge ratios and leverage ratios would not be tested for the quarters ending September 30, 2016 and December 31, 2016; (f) amend the required timing for certain other post-closing events to occur under the terms of the Restated Credit Agreement; and (g) include a release whereby we (and substantially all of our wholly-owned subsidiaries) released the Investor and Agent for any claims which we had, or could have had, as of the date the parties entered into Amendment No. 1.

On January 29, 2017, the amount borrowed under the EBC Credit Agreement and Revolving Credit Agreement was used to repay amounts owed under the Restated Goldman Credit Agreement, by and among us, the other financial institutions party thereto as lenders, and Goldman Sachs Bank USA, as administrative agent for the lenders, which have been repaid in full as of the date of this filing. Additionally, in connection with the repayment of such obligations, the Goldman Credit Agreement, our right to borrow funds thereunder were terminated.

***MidCap Loan Agreement***

Effective March 27, 2015, the Company, Vertex Operating and all of the Company's other subsidiaries other than E-Source and Golden State, entered into a Loan and Security Agreement with MidCap Business Credit LLC ("MidCap" and the "MidCap Loan Agreement"). Pursuant to the MidCap Loan Agreement, MidCap agreed to loan us up to the lesser of (i) $7 million; and (ii) 85% of the amount of accounts receivable due to us which meet certain requirements set forth in the MidCap Loan Agreement ("Qualified Accounts"), plus the lesser of (y) $3 million and (z) 50% of the cost or market value, whichever is lower, of our raw material and finished goods which have not yet been sold, subject to the terms and conditions of the MidCap Loan Agreement ("Eligible Inventory"), minus any amount which MidCap may require from time to time in order to over secure amounts owed to MidCap under the MidCap Loan Agreement, as long as no event of default has occurred or is continuing under the terms of the MidCap Loan Agreement. The requirement of MidCap to make loans under the MidCap Loan Agreement is subject to certain standard conditions and requirements.

We were required to make immediate pre-payments of outstanding principal owed under the MidCap Note in the amount certain thresholds are exceeded as set forth in the MidCap Loan Agreement. We were also required to provide MidCap certain monthly reports and accountings.

We agreed to pay MidCap certain fees in connection with the MidCap Loan Agreement including (a) a non-refundable fee equal to 0.75% of the $7 million credit limit ($52,500), which was due upon our entry into the MidCap Loan Agreement, and is due on each anniversary thereafter; (b) reimbursement for MidCap's audit fees incurred from time to time; a collateral monitoring charge of 0.20% of the greater of the average outstanding balance of the MidCap Note (as defined below) at the end of each month or $3 million; (c) a fee equal to 0.75% of the difference between the credit limit of $7 million and the greater of (i) the amount actually borrowed, and (ii) $3 million, as calculated in the MidCap Loan Agreement, payable monthly in arrears and added to the balance of the MidCap Note; and (d) a one-time placement fee equal to 0.50% of the $7 million credit limit which we paid upon our entry into the MidCap Loan Agreement.

The MidCap Loan Agreement contains customary representations, warranties, covenants for facilities of similar nature and size as the MidCap Loan Agreement, and requirements for the Company to indemnify MidCap for certain losses. The MidCap Loan Agreement also includes various covenants (positive and negative), binding the Company and its subsidiaries, including not permitting the availability for loans under the MidCap Loan Agreement to ever be less than 10% of the credit limit ($700,000); prohibiting us from creating liens on any collateral pledged under the MidCap Loan Agreement, subject to certain exceptions; and prohibiting us from paying any dividends on capital stock, advancing any money to any person, guarantying any debt, creating any indebtedness, and entering into any transactions with affiliates on terms more favorable than those of an arms-length third party transaction.

The MidCap Loan Agreement includes customary events of default for facilities of a similar nature and size as the MidCap Loan Agreement.

The MidCap Loan Agreement continues in effect until the second anniversary of the parties' entry into the Agreement, subject to the right of the parties, via mutual agreement, to extend such rights and agreement, provided that we have the right to terminate the MidCap Loan Agreement at any time with 60 days prior written notice. In the event we desire to terminate the MidCap Loan Agreement, we were required to pay MidCap a termination fee of $70,000, subject to certain exceptions in the MidCap Loan Agreement. We also have the right to terminate the agreement without providing 60 days' prior notice as long as we pay MidCap the equivalent amount of interest which would have been due (as calculated in the MidCap Loan Agreement) for such 60 day period, along with the $70,000 termination fee. In the event the MidCap Loan Agreement is terminated by MidCap upon the occurrence of an event of default, we were required to pay MidCap a fee of $70,000 upon such termination.

We also entered into a Revolving Note (the "MidCap Note") to evidence amounts borrowed from MidCap from time to time under the MidCap Loan Agreement. Interest on the MidCap Note accrues at a fluctuating rate equal to the aggregate of: (x) the prime rate then effect, and (y) 1.75% per annum, or at such other rate mutually agreed on from time to time by the parties, based upon the greater of (i) any balance owing under the MidCap Note at the close of each day; or (ii) a minimum assumed average daily loan balance of $3 million. Interest is payable in arrears, on the first day of each month that amounts are outstanding under the MidCap Note.

We and each of our subsidiaries subject to the MidCap Loan Agreement are jointly and severally liable for the repayment of amounts owed under the MidCap Note. Pursuant to the MidCap Loan Agreement, we granted MidCap a security interest in substantially all of our assets and provided MidCap junior mortgages on all real estate which we own, subject to the first priority mortgages of the Lender. Finally, MidCap and the Lender entered into an Intercreditor Agreement, which governs which of the lenders have first and second priority security interests over our assets which are pledged as collateral in order to secure repayment of the amounts owed pursuant to the Goldman Credit Agreement and MidCap Loan Agreement.

On November 9, 2015, we and certain of our subsidiaries entered into a First Amendment to Loan and Security Agreement (the "Midcap First Amendment"), which amended the Midcap Loan Agreement with Midcap. The Midcap First Amendment amended the Midcap Loan Agreement to add Vertex OH as a party thereto; remove Vertex OH's requirement to enter into a negative pledge agreement with Midcap; created separate maximum borrowing base credit limits for Vertex OH's accounts and customers ($100,000 maximum per customer, subject to certain exceptions); excluded customers who are based outside of the U.S. or Canada from the credit limits if backed by a bank letter of credit or covered by a foreign receivables insurance policy; removed inventory of Vertex OH from the definition of Eligible Inventory under the Midcap Loan Agreement; and provided that additional affiliates of the Company may become party to the Midcap Loan Agreement by executing an assumption agreement and revolving note in favor of Midcap.

On January 29, 2017, the amount borrowed under the EBC Credit Agreement and Revolving Credit Agreement was used to repay amounts owed under the MidCap Loan Agreement, which have been repaid in full as of the date of this filing. Additionally, in connection with the repayment of such obligations, the Midcap Loan Agreement, and our right to borrow funds thereunder were terminated.

***Fox Note***

On January 29, 2016, Vertex OH, borrowed $5.15 million from Fox Encore and provided a Promissory Note to Fox Encore to reflect such borrowed funds (the "Fox Note"). The Fox Note bears interest at 10% percent per annum (15% upon the occurrence of an event of default), payable monthly in arrears beginning on February 29, 2016. The principal and all accrued and unpaid interest on the Fox Note is due on the earlier of (a) July 31, 2016 (as may be extended by Vertex OH as discussed below, the "Maturity Date"), or (b) upon acceleration of the Fox Note during the existence of an event of default as discussed therein. Provided that no event of default is then existing on the Fox Note or under any other loan document associated therewith, and certain other requirements as described in the Fox Note are met, Vertex OH has the right to three (3) extension options (each, an "Extension Option") pursuant to which Vertex OH may extend the Maturity Date for six (6) months each. The first extension, which was exercised as of December 31, 2016, extended the Maturity Date of the Fox Note until January 31, 2017, the second extension will extend the Maturity Date of the Fox Note until July 31, 2017, and the third extension will extend the Maturity Date of the Fox Note until January 29, 2018. Upon exercising an Extension Option, Vertex OH is required to pay Fox Encore an extension fee equal to 3% of the then outstanding principal amount of the Fox Note, which amount is separate from, and is not applied toward, the outstanding indebtedness owed under the Fox Note; provided, however, that if Vertex OH elects to exercise the Extension Option to extend the Maturity Date to January 31, 2017, (which had been exercised as of December 31, 2016), the 3% fee for such extension is not to be paid in cash but is instead added to the outstanding principal balance of the Fox Note. The Fox Note may be prepaid in whole or in part at any time without penalty, provided that if repaid in full by July 31, 2016, the amount to be repaid was to be decreased by $150,000. The Fox Note is secured by the Mortgage described below. The Fox Note includes certain standard and customary financial reporting requirements, notice requirements, indemnification requirements, covenants and events of default.

On January 29, 2017, the amount borrowed under the EBC Credit Agreement and Revolving Credit Agreement was used to repay amounts owed under the Fox Note, which has been repaid in full as of the date of this filing.

***Texas Citizens Bank Loan Agreement***

On January 7, 2015, E-Source entered into a loan agreement with Texas Citizens Bank to consolidate various smaller debt obligations. The loan Agreement provides a term note in the amount of $2,045,500 that matures on January 7, 2020 and had a balance of $1,358,540 as of March 31, 2017. Borrowings bear a fixed interest rate of 5.5% per annum and interest is calculated from the date of each advance until repayment in full or maturity. The loan has 59 scheduled monthly payments of $45,147 which includes principal and interest. The loan is collateralized by all of the assets of E-Source. The loan contains customary representations, warranties, and covenants for facilities of similar nature and size.

***Unit Offering***

On May 13, 2016, we closed the transactions contemplated by the May 10, 2016 Unit Purchase Agreement (the " May 2016 Purchase Agreement") with certain accredited investors (the "Investors"), pursuant to which we sold the Investors an aggregate of approximately 12 million units (the " May 2016 Units"), each consisting of (i) one share of Series B1 Preferred Stock of the Company, $0.001 par value per share (the "Series B1 Preferred Stock") and (ii) one warrant to purchase one-quarter of a share of common stock of the Company, $0.001 par value per share (each a "May 2016 Warrant" and collectively, the "May 2016 Warrants"). The May 2016 Units were sold at a price of $1.56 per Unit (the " May 2016 Unit Price") (a 2.6% premium to the closing bid price of the Company's common stock on the NASDAQ Capital Market on the date the Purchase Agreement was entered into which was $1.52 per share (the "May 2016 Closing Bid Price")). The May 2016 Warrants have an exercise price of $1.53 per share ($0.01 above the Closing Bid Price). Total gross proceeds from the offering of the Units (the "May 2016 Offering") were $19.3 million.

A total of approximately $18.6 million of the securities sold in the May 2016 Offering were purchased by investors who participated in the Company's prior June 2015 offering of Series B Preferred Stock and warrants to purchase shares of common stock. 60% of the funds received from such investors were used to immediately repurchase such investors' Series B Preferred Stock. As a result, a total of approximately $11.2 million of the proceeds raised in the May 2016 Offering were used to immediately repurchase and retire approximately 3.6 million shares of Series B Preferred Stock and pay accrued interest on such repurchased shares through the closing date (the "Repurchases"), leaving net proceeds of approximately $8.1 million, before deducting placement agents' fees and offering expenses. Of these net proceeds, $800,000 was used to pay amounts owed to the Lender, as discussed above and the remaining proceeds for working capital purposes and potential acquisitions.

Craig-Hallum Capital Group LLC (the "Placement Agent") acted as exclusive placement agent in connection with the May 2016 Offering. The Placement Agent received a commission equal to 6.5% of the net proceeds after affecting the Repurchases described above, from the May 2016 Offering, for an aggregate commission of approximately $530,000.

The Company's Chief Executive Officer and Chairman, Benjamin P. Cowart, and the Company's Chief Financial Officer and Secretary, Chris Carlson, each purchased 32,052 Units ($50,000 of May 2016 Units) in the May 2016 Offering and in connection with such purchases was issued 32,052 shares of Series B1 Preferred Stock and May 2016 Warrants to purchase 8,013 shares of common stock.

The May 2016 Offering terms and the terms of the Series B1 Preferred Stock are described in greater detail in the Current Reports on Form 8-K filed with the Securities and Exchange Commission on May 10, 2016 and May 13, 2016.

*Need for additional funding*

Our re-refining business will require significant capital to design and construct any new facilities. The facility infrastructure would be an additional capitalized expenditure to these proposed process costs and would depend on the location and site specifics of the facility.

Management believes that the amount available under our EBC Credit Agreement and Revolving Credit Agreement, in addition to projected earnings over the next several years, will provide sufficient liquidity to fund our operations for the foreseeable future. If it is necessary, we will seek additional financing for future operations, acquisitions or other future developments and to repay amounts owed to our creditors or to redeem our outstanding preferred securities. The required funds may be raised through the sale of common stock, preferred stock, debt, or convertible debt, which may include the grant of warrants. Our inability to obtain sufficient funds from external sources when such funds are needed will have a material adverse effect on our plan of operations, results of operations and financial condition.

Additionally, as part of our ongoing efforts to maintain a capital structure that is closely aligned with what we believe to be the potential of our business and goals for future growth, which is subject to cyclical changes in commodity prices, we will be exploring additional sources of external liquidity. The receptiveness of the capital markets to an offering of debt or equities cannot be assured and may be negatively impacted by, among other things, debt maturities, current market conditions, and potential stockholder dilution. The sale of additional securities, if undertaken by us and if accomplished, may result in dilution to our shareholders. However, such future financing may not be available in amounts or on terms acceptable to us, or at all.

In addition to the above, we may also seek to acquire additional businesses or assets. In addition, the Company could consider selling assets if a more strategic acquisition presents itself. Finally, in the event we deem such transaction in our best interest, we may enter into a business combination or similar transaction in the future.

There is currently only a limited market for our common stock, and as such, we anticipate that such market will be illiquid, sporadic and subject to wide fluctuations in response to several factors moving forward, including, but not limited to:

(1) actual or anticipated variations in our results of operations;

(2) the market for, and volatility in, the market for oil and gas;

(3) our ability or inability to generate new revenues; and

(4) the number of shares in our public float.

Furthermore, because our common stock is traded on the NASDAQ Capital Market, our stock price may be impacted by factors that are unrelated or disproportionate to our operating performance. These market fluctuations, as well as general economic, political and market conditions, such as recessions, interest rates or international currency fluctuations may adversely affect the market price of our common stock. Additionally, at present, we have a limited number of shares in our public float, and as a result, there could be extreme fluctuations in the price of our common stock.

We believe that our stock prices (bid, ask and closing prices) may not relate to the actual value of our company, and may not reflect the actual value of our common stock. Shareholders and potential investors in our common stock should exercise caution before making an investment in our common stock, and should not rely on the publicly quoted or traded stock prices in determining our common stock value, but should instead determine the value of our common stock based on the information contained in our public reports, industry information, and those business valuation methods commonly used to value private companies.

**Cash flows for the three months ended March 31, 2017 compared to the three months ended March 31, 2016:**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| Beginning cash and cash equivalents | $ 1,701,435 | $ 765,364 |
| Net cash provided by (used in): | | |
| Operating activities | 1,222,703 | (6,863,049) |
| Investing activities | (1,361,020) | 16,299,652 |
| Financing activities | (1,556,522) | (8,419,572) |
| Net increase (decrease) in cash and cash equivalents | (1,694,839) | 1,017,031 |
| Ending cash and cash equivalents | $ 6,596 | $ 1,782,395 |

Net cash provided by operating activities was $ 1,222,703 for the three months ended March 31, 2017 , as compared to net cash used in operating activities of $6,863,049 during the corresponding period in 2016. Our primary sources of liquidity are cash flows from our operations and the availability to borrow funds under our credit and loan facilities, as well as private sales of securities. The primary reason for the increase in cash provided by operating activities for the three month period ended March 31, 2017, compared to the same period in 2016, was the one-time gain on sale of assets during the three months ended March 31, 2016, and the reduction in accounts payable and accrued expenses, offset by the reduction in accounts receivable and prepaid expenses.

Investing activities used in cash of $ 1,361,020 for the three months ended March 31, 2017, as compared to having provided $16,299,652 of cash during the corresponding period in 2016 due mainly to the net proceeds from our sale of our Nevada facility ("Bango Plant") of $19 million during the three months ended March 31, 2016.

Financing activities used cash of $1,556,522 for the three months ended March 31, 2017 , as compared to using cash of $8,419,572 of cash during the corresponding period in 2016. The financing activities for the three months ended March 31, 2017 were comprised of net payments on the line of credit of approximately $1.8 million, and note proceeds of approximately $12 million (in connection with our entry into the EBC Credit Agreement and Revolving Credit Agreement), offset by an approximate $12 million pay down of our long-term debt (relating to amounts paid under the Goldman Credit Agreement and Midcap Loan Agreement).

**Critical Accounting Policies and Use of Estimates**

Our financial statements are prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Management regularly evaluates its estimates and judgments, including those related to revenue recognition, goodwill, intangible assets, long-lived assets valuation, and legal matters. Actual results may differ from these estimates. (See Note 1 to the financial statements included herein).

*Revenue Recognition*

Revenue for each of our divisions is recognized when persuasive evidence of an arrangement exists, goods are delivered, sales price is determinable, and collection is reasonably assured. Revenue is recognized upon delivery by truck and railcar of feedstock to our re-refining customers and upon product leaving our terminal facilities via barge. Revenue is also recognized as recovered scrap materials are sold.

*Business Combinations*

The Company accounts for business combinations using the acquisition method of accounting. The results of operations for the acquired entities are included in the Company's consolidated financial results from their associated acquisition dates. The Company allocates the purchase price of acquisitions to the tangible assets, liabilities, and identifiable intangible assets acquired based on their estimated fair values. A portion of purchase price for our acquisitions is contingent upon the realization of certain operating results. The fair values assigned to identifiable intangible assets acquired and contingent consideration were determined by third party specialists engaged by the Company on a case by case basis. The excess of the purchase price over the fair value of the identified assets and liabilities has been recorded as goodwill. If the purchase price is under the fair value of the identified assets and liabilities, a bargain purchase is recognized and included in income from continuing operations.

*Fair value of financial instruments*

Under the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC"), we are permitted to elect to measure financial instruments and certain other items at fair value, with the change in fair value recorded in earnings. We elected not to measure any eligible items using the fair value option. Consistent with the Fair Value Measurement Topic of the FASB ASC, we implemented guidelines relating to the disclosure of our methodology for periodic measurement of our assets and liabilities recorded at fair market value.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-tier fair value hierarchy prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These tiers include:

- Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Our Level 1 assets primarily include our cash and cash equivalents. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

*Impairment of long-lived assets*

The Company evaluates the carrying value and recoverability of its long-lived assets when circumstances warrant such evaluation by applying the provisions of the FASB ASC regarding long-lived assets. It requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of the assets. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value. The Company determined that no long-lived asset impairment existed at March 31, 2017.

*Derivative liabilities*

The Company, in accordance with ASC 815-40-25 and ASC 815-10-15 Derivatives and Hedging and ASC 480-10-25 Liabilities-Distinguishing from Equity, convertible preferred shares are accounted for net, outside of shareholders' equity and warrants are accounted for as liabilities at their fair value during periods where they can be net cash settled in case of a change in control transaction. The warrants are accounted for as a liability at their fair value at each reporting period. The value of the derivative warrant liability will be re-measured at each reporting period with changes in fair value recorded as earnings. To derive an estimate of the fair value of these warrants, a Dynamic Black Scholes model is utilized that computes the impact of a possible change in control transaction upon the exercise of the warrant shares. This process relies upon inputs such as shares outstanding, estimated stock prices, strike price and volatility assumptions to dynamically adjust the payoff of the warrants in the presence of the dilution effect.

*Preferred Stock Classification*

A mandatorily redeemable financial instrument shall be classified as a liability unless the redemption is required to occur only upon the liquidation or termination of the reporting entity. A financial instrument issued in the form of shares is mandatorily redeemable if it embodies an unconditional obligation requiring the issuer to redeem the instrument by transferring its assets at a specified or determinable date (or dates) or upon an event certain to occur. A financial instrument that embodies a conditional obligation to redeem the instrument by transferring assets upon an event not certain to occur becomes mandatorily redeemable-and, therefore, becomes a liability-if that event occurs, the condition is resolved, or the event becomes certain to occur. The Series B Preferred Stock requires the Company to redeem such preferred stock on the fifth anniversary of the issuance of the Series B Preferred stock and the Series B1 Preferred Stock requires the Company to redeem such preferred stock on the same date as the Series B Preferred Stock. SEC reporting requirements provide that any possible redemption outside of the control of the Company requires the preferred stock to be classified outside of permanent equity.

**Market Risk**

Our revenues and cost of revenues are affected by fluctuations in the value of energy related products.  We attempt to mitigate much of the risk associated with the volatility of relevant commodity prices by using our knowledge of the market to obtain feedstock at attractive costs, by efficiently managing the logistics associated with our products, by turning our inventory over quickly and by selling our products into markets where we believe we can achieve the greatest value.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to interest rate risks primarily through borrowings under various bank facilities. Interest on these facilities is based upon variable interest rates using LIBOR or Prime as the base rate.

At March 31, 2017, the Company had about $12.83 million of variable-rate term debt outstanding. At this borrowing level, a hypothetical relative increase of 10% in interest rates would have an unfavorable but insignificant impact on the Company's pre-tax earnings and cash flows. The primary interest rate exposure on variable-rate debt is based on the LIBOR rate (0.98% at March 31, 2017) plus 6.50% per year.

We are exposed to market risks related to the volatility of crude oil and refined oil products. Our financial results can be significantly affected by changes in these prices which are driven by global economic and market conditions. We attempt to mitigate much of the risk associated with the volatility of relevant commodity prices by using our knowledge of the market to obtain feedstock at attractive costs, by efficiently managing the logistics associated with our products, by turning our inventory over quickly, and by selling our products into markets where we believe we can achieve the greatest value.

**Item 4. Controls and Procedures**

Evaluation of Disclosure Controls and Procedures

We have established and maintain a system of disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our reports filed with the Securities and Exchange Commission pursuant to the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Commission and that such information is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosures.

Management, with the participation of our CEO and CFO, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. As of March 31, 2017, based on the evaluation of these disclosure controls and procedures, and in light of the material weakness we found in our internal controls over financial reporting as of December 31, 2016 (as described in greater detail in our annual report on Form 10-K for the year ended December 31, 2016), our CEO and CFO have concluded that our disclosure controls and procedures *were not effective to* provide reasonable assurance that information required to be disclosed in our reports filed with the Securities and Exchange Commission pursuant to the Exchange Act, is recorded properly, processed, summarized and reported within the time periods specified in the rules and forms of the Commission and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosures.

In light of the material weaknesses described above, we had performed additional analysis and other post-quarter procedures to ensure our consolidated financial statements are prepared in accordance with generally accepted accounting principles and we had contracted with experts, where necessary, for assistance in analyzing and determining the proper accounting and financial reporting treatment for various of the Company's complicated business transactions. Additionally, accounting and financial reporting personnel had been hired to strengthen the Company's resources and financial reporting expertise Accordingly, management has concluded that the financial statements fairly present in all material respects our financial condition, results of operations and cash flows as at, and for, the periods presented in this report.

Changes in Internal Control Over Financial Reporting

We regularly review our system of internal control over financial reporting to ensure we maintain an effective internal control environment. There were no changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time, we may become party to litigation or other legal proceedings that we consider to be a part of the ordinary course of our business.

Vertex Refining LA, LLC, the wholly-owned subsidiary of Vertex Operating, was named as a defendant, along with numerous other parties, in five lawsuits filed on or about February 12, 2016, in the Second Parish Court for the Parish of Jefferson, State of Louisiana, Case No. 121749, by Russell Doucet et. al., Case No. 121750, by Kendra Cannon et. al., Case No. 121751, by Lashawn Jones et. al., Case No. 121752, by Joan Strauss et. al. and Case No. 121753, by Donna Allen et. al. The suits relate to alleged noxious and harmful emissions from our facility located in Marrero, Louisiana. The suits seek damages for physical and emotional injuries, pain and suffering, medical expenses and deprivation of the use and enjoyment of plaintiffs' homes. We intend to vigorously defend ourselves and oppose the relief sought in the complaints, provided that at this stage of the litigation, the Company has no basis for determining whether there is any likelihood of material loss associated with the claims and/or the potential and/or the outcome of the litigation.

E-Source, a wholly-owned subsidiary of Vertex Operating, was named as a defendant (along with Motiva Enterprises, LLC, ("Motiva")) in a lawsuit filed in the Sixtieth (60th) Judicial District, Jefferson County, Texas, on April 22, 2015. Pursuant to the lawsuit, Whole Environmental, Inc. ("Whole"), made certain allegations against E-Source, and Motiva. The claims include Breach of Contract and Quantum Meruit actions relating to asbestos abatement and remediation operations performed for defendants at Motiva's facility in Port Arthur, Jefferson County, Texas. The plaintiff alleges it is due monies earned. Defendants have denied any amounts due plaintiff. The suit seeks damages of approximately $864,000, along with pre-judgment and post-judgment interest, the fair value of certain property alleged to be converted by defendants and reimbursement of legal fees. E-Source has asserted a counterclaim against Whole for the filing of a mechanic's lien in excess of any amount(s) actually due as well as a cross-claim against Motiva. Under the terms of E-Source's contract with Motiva, Motiva was to pay all sums due to any sub-contractors of E-Source. If any additional monies are owed to Whole, those monies should be paid by Motiva. E-Source seeks to recover the balance due under its contract with Motiva of approximately $1,000,000. The case is set for trial in the summer of 2017. We intend to vigorously defend ourselves against the allegations made in the complaint. The Company has no basis of determining whether there is any likelihood of material loss associated with the claims and/or the potential and/or the outcome of the litigation.

**Item 1A. Risk Factors**

There have been no material changes from the risk factors previously disclosed in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed with the Commission on March 14, 2017, under the heading "Risk Factors", and investors should review the risks provided in the Form 10-K, prior to making an investment in the Company. The business, financial condition and operating results of the Company can be affected by a number of factors, whether currently known or unknown, including but not limited to those described in the Form 10-K for the year ended December 31, 2016, under "Risk Factors", any one or more of which could, directly or indirectly, cause the Company's actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any of these factors, in whole or in part, could materially and adversely affect the Company's business, financial condition, operating results and stock price.

**Item 2. Recent Sales of Unregistered Securities**

For the period from October 1, 2016 to December 31, 2016, a total of approximately $214,227 of dividends accrued on our outstanding Series B Preferred Stock and for the period from October 1, 2016 to December 31, 2016, a total of approximately $290,246 of dividends accrued on our outstanding Series B1 Preferred Stock. We chose to pay dividends in-kind by way of the issuance of 48,447 restricted shares of Series B Preferred Stock pro rata to each of the then holders of our Series B Preferred Stock in January 2017 and the issuance of 184,297 restricted shares of Series B1 Preferred Stock pro rata to each of the then holders of our Series B1 Preferred Stock in January 2017. If converted in full, the 48,447 shares of Series B Preferred Stock would convert into 48,447 shares of common stock and the 184,297 shares of Series B1 Preferred Stock would convert into 184,297 shares of common stock.

For the period from January 1, 2017 to March 31, 2017, a total of approximately $152,433 of dividends accrued on our outstanding Series B Preferred Stock and for the period from January 1, 2017 to March 31, 2017, a total of approximately $290,026 of dividends accrued on our outstanding Series B1 Preferred Stock. We chose to pay such dividends in-kind by way of the issuance of 49,172 restricted shares of Series B Preferred Stock pro rata to each of the then holders of our Series B Preferred Stock in April 2017 and the issuance of 185,914 restricted shares of Series B1 Preferred Stock pro rata to each of the then holders of our Series B1 Preferred Stock in April 2017. If converted in full, the 49,172 shares of Series B Preferred Stock would convert into 49,172 shares of common stock and the 185,914 shares of Series B1 Preferred Stock would convert into 185,914 shares of common stock.

As the issuance of the Series B Preferred Stock and Series B1 Preferred Stock in-kind in satisfaction of the dividends did not involve a "sale" of securities under Section 2(a)(3) of the Securities Act, we believe that no registration of such securities, or exemption from registration for such securities, was required under the Securities Act. Notwithstanding the above, to the extent such shares are deemed "sold or offered", we claim an exemption from registration pursuant to Section 4(a)(2) and/or Rule 506 of Regulation D of the Securities Act, since the transaction did not involve a public offering, the recipients were "accredited investors", and acquired the securities for investment only and not with a view towards, or for resale in connection with, the public sale or distribution thereof. The securities are subject to transfer restrictions, and the certificates evidencing the securities contain an appropriate legend stating that such securities have not been registered under the Securities Act and may not be offered or sold absent registration or pursuant to an exemption therefrom and are further subject to the terms of the escrow agreement. The securities were not registered under the Securities Act and such securities may not be offered or sold in the United States absent registration or an exemption from registration under the Securities Act and any applicable state securities laws.

In January 2017, two holders of our Series B1 Convertible Preferred Stock converted 66,564 and 10,000 shares, respectively, of our Series B1 Convertible Preferred Stock into 66,564 and 10,000 shares, respectively, shares of our common stock pursuant to the conversion rights set forth in the designation of the Series B1 Convertible Preferred Stock.

In January 2017, a holder of our Series A Convertible Preferred Stock converted 30,072 shares of our Series A Convertible Preferred Stock into 30,072 shares of our common stock pursuant to the conversion rights set forth in the designation of the Series A Convertible Preferred Stock.

We claim an exemption from registration provided by Section 3(a)(9) of the Securities Act for such issuances, as the securities were exchanged by us with our existing security holders in a transaction where no commission or other remuneration was paid or given directly or indirectly for soliciting such exchange. As a result of the conversions described above, there are 462,644 outstanding shares of Series A Convertible Preferred Stock, which if converted in full, would convert into 462,644 shares of common stock; 3,327,028 outstanding shares of Series B Convertible Preferred Stock, which if converted in full, would convert into 3,327,028 shares of common stock; and 12,579,522 outstanding shares of Series B1 Convertible Preferred Stock, which if converted in full, would convert into 12,579,522 shares of common stock as of the date of this filing.

In March 2017, we cancelled 1,108,928 shares of our common stock which had been held in escrow in connection with the January 2016 Bango Oil Asset Purchase Agreement in order to satisfy any indemnification claims made by Safety-Kleen pursuant to the terms of the Sale Agreement, of which no indemnification claims were made. An additional $1.5 million remains in escrow for potential indemnification claims through July 28, 2017.

On May 1, 2017, the Company entered into and closed an Asset Purchase Agreement with Nickco Recycling, Inc. pursuant to which the Company agreed to buy substantially all the processing equipment and the rolling stock of Nickco for aggregate consideration of $2,116,730. This included $1,096,730 in cash, 500,000 shares of restricted common stock and contingent consideration equal to 500,000 shares of common stock, which is payable only if the assets acquired meet a pre-agreed EBITDA target for the 12 calendar months ending on the last day of the 12$^{th}$ calendar month following closing. We claim an exemption from registration pursuant to Section 4(a)(2) and/or Rule 506 of Regulation D of the Securities Act, since the transaction did not involve a public offering, the recipients were " accredited investors", and acquired the securities for investment only and not with a view towards, or for resale in connection with, the public sale or distribution thereof. The securities are subject to transfer restrictions, and the certificates evidencing the securities contain (and will contain) an appropriate legend stating that such securities have not been registered under the Securities Act and may not be offered or sold absent registration or pursuant to an exemption therefrom and are further subject to the terms of the escrow agreement. The securities were not registered under the Securities Act and such securities may not be offered or sold in the United States absent registration or an exemption from registration under the Securities Act and any applicable state securities laws.

Use of Proceeds From Sale of Registered Securities

None.

Issuer Purchases of Equity Securities

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information.**

None.

**Item 6.  Exhibits**

See the Exhibit Index following the signature page to this Quarterly Report on Form 10-Q for a list of exhibits filed or furnished with this report, which Exhibit Index is incorporated herein by reference.

## SIGNATURES

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

**VERTEX ENERGY, INC.**

| | |
|---|---|
| Date: May 9, 2017 | *By: /s/ Benjamin P. Cowart*<br>Benjamin P. Cowart<br>Chief Executive Officer<br>(Principal Executive Officer) |
| Date: May 9, 2017 | *By: /s/ Chris Carlson*<br>Chris Carlson<br>Chief Financial Officer<br>(Principal Financial/Accounting Officer) |

## EXHIBIT INDEX

| | | | Incorporated by Reference | | | |
|---|---|---|---|---|---|---|
| Exhibit Number | Description of Exhibit | Filed or Furnished Herewith | Form | Exhibit | Filing Date/Period End Date | File No. |
| 10.1 | Credit Agreement dated as of February 1, 2017, by and among Vertex Energy Operating, LLC, as the Lead Borrower for the Borrowers named therein, the Guarantors named therein, Encina Business Credit, LLC as Agent and the Lenders party thereto | | 8-K | 10.1 | 2/7/2017 | 001-11476 |
| 10.2 | ABL Credit Agreement dated as of February 1, 2017, by and among Vertex Energy Operating, LLC, as the Lead Borrower for the Borrowers named therein, the Guarantors named therein, Encina Business Credit, LLC as Agent and the Lenders party thereto | | 8-K | 10.2 | 2/7/2017 | 001-11476 |
| 10.3 | Form of Guaranty and Security Agreement, dated as of February 1, 2017, by and among Vertex Energy Operating, LLC, Bango Oil LLC, Vertex Refining NV, LLC, Vertex Refining OH, LLC, Vertex Merger Sub, LLC, Vertex Refining LA, LLC, Vertex II GP, LLC, Vertex Acquisition Sub, LLC, Cedar Marine Terminals, LP, Vertex Recovery, L.P., Golden State Lubricants Works, LLC, Crossroad Carriers, L.P., Vertex Recovery Management, LLC, Vertex Recovery Management LA, LLC H & H Oil, L.P., and Vertex Energy, Inc. and each other grantor from time to time party thereto and Encina Business Credit, LLC, as Agent | | 8-K | 10.3 | 2/7/2017 | 001-11476 |
| 10.4 (###) | Third Amendment to Processing Agreement between KMTEX LLC and Vertex Energy, Inc., entered into on December 14, 2016, and effective January 1, 2017 | | 10-K | 10.66 | 12/31/2016 | 001-11476 |
| 16.1 | Letter dated April 5, 2017 From Hein & Associates LLP | | 8-K | 16.1 | 4/6/2017 | 001-11476 |
| 31.1 | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act* | X | | | | |
| 31.2 | Certification of Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act* | X | | | | |
| 32.1 | Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act** | X | | | | |
| 32.2 | Certification of Principal Accounting Officer Pursuant to Section 906 of the Sarbanes-Oxley Act** | X | | | | |
| 99.1 | Glossary of Selected Terms | | 10-K | 99.1 | 12/31/2012 | 001-11476 |
| 101.INS | XBRL Instance Document | X | | | | |
| 101.SCH | XBRL Taxonomy Extension Schema Document | X | | | | |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document | X | | | | |

| | | |
|---|---|---|
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document | X |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document | X |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | X |

* Filed herewith.

** Furnished herewith.

### Certain portions of this document as filed herewith (which portions have been replaced by “***’s”) have been omitted in connection with a request for Confidential Treatment which has been submitted to the Commission in connection with this filing. This entire exhibit including the omitted confidential information has been filed separately with the Commission.

**EXHIBIT 31.1**

**CERTIFICATION PURSUANT TO**
**SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Benjamin P. Cowart, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Vertex Energy, Inc.;

2. Based on my knowledge, this 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 period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer and I are 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 have:

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

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our 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 report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this 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 fourth fiscal quarter in the case of a Quarterly Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our 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 (or persons performing the equivalent functions):

   (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 9, 2017

By: /s/ Benjamin P. Cowart
Benjamin P. Cowart
Chief Executive Officer
(Principal Executive Officer)

**EXHIBIT 31.2**

**CERTIFICATION PURSUANT TO**
**SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Chris Carlson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Vertex Energy, Inc.;

2. Based on my knowledge, this 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 period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer and I are 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 have:

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

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our 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 report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this 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 fourth fiscal quarter in the case of a Quarterly Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our 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 (or persons performing the equivalent functions):

   (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 9, 2017

By: /s/ Chris Carlson
Chris Carlson
Chief Financial Officer
(Principal Financial/Accounting Officer)

**EXHIBIT 32.1**

**CERTIFICATION PURSUANT TO 18 U.S.C. SS. 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Vertex Energy, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2017, as filed with the Securities and Exchange Commission (the "Report"), I, Benjamin P. Cowart, Principal Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 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; and

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

Date: May 9, 2017

By: /s/ Benjamin P. Cowart
Benjamin P. Cowart
Chief Executive Officer
(Principal Executive Officer)

**EXHIBIT 32.2**

**CERTIFICATION PURSUANT TO 18 U.S.C. SS. 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Vertex Energy, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2017, as filed with the Securities and Exchange Commission (the "Report"), I, Chris Carlson, Principal Accounting Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 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; and

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

Date: May 9, 2017

By: /s/ Chris Carlson
Chris Carlson
Chief Financial Officer
(Principal Financial/Accounting Officer)