# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## Vertex Energy Inc.

### Form: 10-Q

### Date Filed: 2019-11-08

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 September 30, 2019**

**❑ 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 HOUSTON, TEXAS** | **77058** |
| *(Address of principal executive offices)* | *(Zip Code)* |

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, $0.001 Par Value Per Share | VTNR | The NASDAQ Stock Market LLC (Nasdaq Capital Market) |

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 every Interactive Data File required to be submitted 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 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** ý | **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: 41,849,406 shares of common stock are issued and outstanding as of November 7, 2019.

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## PART I – FINANCIAL INFORMATION

**Item 1. Financial Statements**

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

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 2,303,725 | $ 1,249,831 |
| Restricted cash | 100,088 | 1,600,000 |
| Accounts receivable, net | 10,405,711 | 9,027,990 |
| Federal income tax receivable | 205,818 | 137,212 |
| Inventory | 5,878,408 | 8,091,397 |
| Derivative commodity asset | — | 695,941 |
| Prepaid expenses | 6,534,981 | 2,740,541 |
| Total current assets | 25,428,731 | 23,542,912 |
| | | |
| Noncurrent assets | | |
| Fixed assets, at cost | 69,437,842 | 66,762,388 |
| Less accumulated depreciation | (23,550,224) | (19,874,896) |
| Fixed assets, net | 45,887,618 | 46,887,492 |
| Finance lease right-of-use assets | 904,691 | 397,515 |
| Operating lease right-of use assets | 36,242,861 | — |
| Intangible assets, net | 11,590,876 | 12,578,519 |
| Federal income tax receivable | 68,605 | 137,211 |
| Other assets | 616,759 | 616,759 |
| TOTAL ASSETS | $ 120,740,141 | $ 84,160,408 |

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| **LIABILITIES, TEMPORARY EQUITY, AND EQUITY** | | |
| Current liabilities | | |
| Accounts payable | $ 7,745,380 | $ 8,791,529 |
| Accrued expenses | 2,275,006 | 2,535,347 |
| Dividends payable | 419,082 | 403,002 |
| Finance lease liability-current | 214,045 | 95,857 |
| Operating lease liability-current | 6,005,502 | — |
| Current portion of long-term debt, net of unamortized finance costs | 2,794,624 | 1,325,240 |
| Derivative commodity liability | 1,510,573 | — |
| Revolving note | 5,387,639 | 3,844,636 |
| Total current liabilities | 26,351,851 | 16,995,611 |
| Long-term liabilities | | |
| Long-term debt, net of unamortized finance costs | 12,658,000 | 14,402,179 |
| Finance lease liability-long-term | 665,926 | 276,355 |
| Operating lease liability-long-term | 30,237,359 | — |
| Contingent consideration | — | 15,564 |
| Derivative warrant liability | 1,149,977 | 1,481,692 |
| Total liabilities | 71,063,113 | 33,171,401 |
| | | |
| **COMMITMENTS AND CONTINGENCIES (Note 3)** | — | — |
| | | |
| **TEMPORARY EQUITY** | | |
| Series B Convertible Preferred Stock, $0.001 par value per share; 10,000,000 shares designated, 3,769,505 and 3,604,827 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively with a liquidation preference of $11,685,466 and $11,174,964 at September 30, 2019 and December 31, 2018, respectively. | 10,442,193 | 8,900,208 |
| Series B1 Convertible Preferred Stock, $0.001 par value per share; 17,000,000 shares designated, 10,417,966 and 10,057,597 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively with a liquidation preference of $16,252,027 and $15,689,851 at September 30, 2019 and December 31, 2018, respectively. | 14,454,821 | 13,279,755 |
| Redeemable non-controlling interest | 4,000,000 | — |
| Total Temporary Equity | 28,897,014 | 22,179,963 |
| **EQUITY** | | |
| 50,000,000 of total Preferred shares authorized: | | |
| Series A Convertible Preferred Stock, $0.001 par value; 5,000,000 shares designated, 419,859 and 419,859 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively with a liquidation preference of $625,590 and $625,590 at September 30, 2019 and December 31, 2018, respectively. | 420 | 420 |
| Common stock, $0.001 par value per share; 750,000,000 shares authorized; 41,849,406 and 40,174,821 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively. | 41,850 | 40,175 |
| Additional paid-in capital | 79,719,745 | 75,131,122 |
| Accumulated deficit | (59,788,939) | (47,800,886) |
| Total Vertex Energy, Inc. stockholders' equity | 19,973,076 | 27,370,831 |
| Non-controlling interest | 806,938 | 1,438,213 |
| Total Equity | 20,780,014 | 28,809,044 |
| TOTAL LIABILITIES, TEMPORARY EQUITY, AND EQUITY | $ 120,740,141 | $ 84,160,408 |

See accompanying notes to the consolidated financial statements

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Revenues | $ 37,799,259 | $ 50,632,948 | $ 120,777,263 | $ 138,918,913 |
| Cost of revenues (exclusive of depreciation and amortization shown separately below) | 32,372,316 | 42,593,367 | 103,732,086 | 114,434,776 |
| Gross profit | 5,426,943 | 8,039,581 | 17,045,177 | 24,484,137 |
| Operating expenses: | | | | |
| Selling, general and administrative expenses | 6,153,184 | 5,658,659 | 17,529,784 | 16,668,692 |
| Depreciation and amortization | 1,815,582 | 1,806,839 | 5,333,485 | 5,234,014 |
| Total operating expenses | 7,968,766 | 7,465,498 | 22,863,269 | 21,902,706 |
| Income (loss) from operations | (2,541,823) | 574,083 | (5,818,092) | 2,581,431 |
| Other income (expense): | | | | |
| Other income | 918,153 | — | 920,071 | 659 |
| Gain on sale of assets | — | — | 31,443 | 51,523 |
| Gain (loss) on change in value of derivative warrant liability | 1,290,792 | (2,169,133) | 331,715 | (2,124,971) |
| Interest expense | (826,005) | (798,800) | (2,322,780) | (2,448,771) |
| Total other income (expense) | 1,382,940 | (2,967,933) | (1,039,551) | (4,521,560) |
| Loss before income tax | (1,158,883) | (2,393,850) | (6,857,643) | (1,940,129) |
| Income tax benefit (expense) | — | — | — | — |
| Net loss | (1,158,883) | (2,393,850) | (6,857,643) | (1,940,129) |
| Net loss attributable to non-controlling interest and redeemable non-controlling interest | (67,102) | (105,970) | (374,862) | 76,305 |
| Net loss attributable to Vertex Energy, Inc. | (1,091,781) | (2,287,880) | (6,482,781) | (2,016,434) |
| | | | | |
| Accretion of redeemable noncontrolling interest to redemption value | (1,849,930) | — | (1,849,930) | — |
| Accretion of discount on Series B and B1 Preferred Stock | (550,774) | (1,152,968) | (1,644,374) | (2,351,472) |
| Dividends on Series B and B1 Preferred Stock | (419,096) | (1,194,524) | (1,238,766) | (2,284,121) |
| Net loss available to common shareholders | $ (3,911,581) | $ (4,635,372) | $ (11,215,851) | $ (6,652,027) |
| Loss per common share | | | | |
| Basic | $ (0.09) | $ (0.13) | $ (0.28) | $ (0.20) |
| Diluted | $ (0.09) | $ (0.13) | $ (0.28) | $ (0.20) |
| Shares used in computing earnings per share | | | | |
| Basic | 41,376,335 | 35,144,113 | 40,626,700 | 33,843,721 |
| Diluted | 41,376,335 | 35,144,113 | 40,626,700 | 33,843,721 |

See accompanying notes to the consolidated financial statements

**VERTEX ENERGY, INC.**
**CONSOLIDATED STATEMENTS OF EQUITY**
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018**
**(UNAUDITED)**

| | Nine Months Ended September 30, 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Common Stock | | Series A Preferred | | | | | |
| | Shares | $.001 Par | Shares | $0.001 Par | Additional Paid-In Capital | Retained Earnings | Non-controlling Interest | Total Equity |
| Balance on January 1, 2019 | 40,174,821 | $ 40,175 | 419,859 | $ 420 | $ 75,131,122 | $ (47,800,886) | $ 1,438,213 | $ 28,809,044 |
| Share based compensation expense, total | — | — | — | — | 143,063 | — | — | 143,063 |
| Conversion of Series B1 Preferred stock to common | 96,160 | 96 | — | — | 149,914 | (30,242) | — | 119,768 |
| Dividends on Series B and B1 | — | — | — | — | — | (406,795) | — | (406,795) |
| Accretion of discount on Series B and B1 | — | — | — | — | — | (530,433) | — | (530,433) |
| Net loss | — | — | — | — | — | (4,963,564) | (105,431) | (5,068,995) |
| Balance on March 31, 2019 | 40,270,981 | $ 40,271 | 419,859 | $ 420 | $ 75,424,099 | $ (53,731,920) | $ 1,332,782 | $ 23,065,652 |
| Exercise of options to common | 75,925 | 76 | — | — | 4,424 | — | — | 4,500 |
| Share based compensation expense, total | — | — | — | — | 171,002 | — | — | 171,002 |
| Dividends on Series B and B1 | — | — | — | — | — | (412,875) | — | (412,875) |
| Accretion of discount on Series B and B1 | — | — | — | — | — | (532,925) | — | (532,925) |
| VRM LA distribution | — | — | — | — | — | — | (285,534) | (285,534) |
| Net loss | — | — | — | — | — | (427,436) | (202,329) | (629,765) |
| Balance on June 30, 2019 | 40,346,906 | $ 40,347 | 419,859 | $ 420 | $ 75,599,525 | $ (55,105,156) | $ 844,919 | $ 21,380,055 |
| Exercise of options to common | 2,500 | 3 | — | — | 2,572 | — | — | 2,575 |
| Share based compensation expense, total | — | — | — | — | 159,426 | — | — | 159,426 |
| Dividends on Series B and B1 | — | — | — | — | — | (419,096) | — | (419,096) |
| Accretion of discount on Series B and B1 | — | — | — | — | — | (550,774) | — | (550,774) |
| Adjustment of carrying mount of non-controlling interest | — | — | — | — | 970,809 | — | — | 970,809 |
| Accretion of redeemable non-controlling interest to redemption value | — | — | — | — | — | (1,849,930) | — | (1,849,930) |
| Issuance of common stock and warrants | 1,500,000 | 1,500 | — | — | 2,987,413 | (772,202) | — | 2,216,711 |
| Net loss | — | — | — | — | — | (1,091,781) | (37,981) | (1,129,762) |
| Balance on September 30, 2019 | 41,849,406 | $ 41,850 | 419,859 | $ 420 | $ 79,719,745 | $ (59,788,939) | $ 806,938 | $ 20,780,014 |

## Nine Months Ended September 30, 2018

| | Common Stock | | Series A Preferred | | Series C Preferred | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | $.001 Par | Shares | $.001 Par | Shares | $0.001 Par | Additional Paid-In Capital | Retained Earnings | Non-controlling Interest | Total Equity |
| Balance on January 1, 2018 | 32,658,176 | $ 32,658 | 453,567 | $ 454 | 31,568 | $ 32 | $ 67,768,509 | $ (39,816,300) | $ 399,005 | $ 28,384,358 |
| Share based compensation expense, total | — | — | — | — | — | — | 145,971 | — | — | 145,971 |
| Conversion of Series B1 Preferred stock to common | 500,000 | 500 | — | — | — | — | 779,500 | (184,437) | — | 595,563 |
| Dividends on Series B and B1 | — | — | — | — | — | — | — | (554,917) | — | (554,917) |
| Accretion of discount on Series B and B1 | — | — | — | — | — | — | — | (457,853) | — | (457,853) |
| Net income (loss) | — | — | — | — | — | — | — | (2,258,622) | 50,539 | (2,208,083) |
| Balance on March 31, 2018 | 33,158,176 | $ 33,158 | 453,567 | $ 454 | 31,568 | $ 32 | $ 68,693,980 | $ (43,272,129) | $ 449,544 | $ 25,905,039 |
| Exercise of options to common | 241 | — | — | — | — | — | — | — | — | — |
| Share based compensation expense, total | — | — | — | — | — | — | 183,750 | — | — | 183,750 |
| Conversion of Series A Preferred stock to common | 33,708 | 34 | (33,708) | (34) | — | — | — | — | — | — |
| Conversion of Series B Preferred stock to common | 32,149 | 33 | — | — | — | — | 99,629 | (36,700) | — | 62,962 |
| Conversion of Series B1 Preferred stock to common | 133,264 | 133 | — | — | — | — | 207,759 | (48,689) | — | 159,203 |
| Dividends on Series B and B1 | — | — | — | — | — | — | — | (534,680) | — | (534,680) |
| Accretion of discount on Series B and B1 | — | — | — | — | — | — | — | (470,825) | — | (470,825) |
| Net income | — | — | — | — | — | — | — | 2,530,068 | 131,736 | 2,661,804 |
| Balance on June 30, 2018 | 33,357,538 | $ 33,358 | 419,859 | $ 420 | 31,568 | $ 32 | $ 69,185,118 | $ (41,832,955) | $ 581,280 | $ 27,967,253 |
| Correction of non-controlling interest | — | — | — | — | — | — | — | 101,718 | (101,718) | — |
| Share based compensation expense, total | — | — | — | — | — | — | 165,058 | — | — | 165,058 |
| Fixed assets contributed capital VRMLA | — | — | — | — | — | — | — | — | 857,738 | 857,738 |
| Conversion of Series C Preferred stock to common | 3,156,800 | 3,157 | — | — | (31,568) | (32) | (3,125) | — | — | — |
| Conversion of Series B1 Preferred stock to common | 2,326,552 | 2,326 | — | — | — | — | 3,627,095 | (637,270) | — | 2,992,151 |
| Dividends on Series B and B1 | — | — | — | — | — | — | — | (1,194,524) | — | (1,194,524) |
| Accretion of discount on Series B and B1 | — | — | — | — | — | — | — | (515,698) | — | (515,698) |
| Net income | — | — | — | — | — | — | — | (2,287,880) | (105,970) | (2,393,850) |
| Balance on September 30, 2018 | 38,840,890 | $ 38,841 | 419,859 | $ 420 | — | $ — | $ 72,974,146 | $ (46,366,609) | $ 1,231,330 | $ 27,878,128 |

See accompanying notes to the consolidated financial statements

**VERTEX ENERGY, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018 (UNAUDITED)**

| | Nine Months Ended | |
|---|---|---|
| | September 30, 2019 | September 30, 2018 |
| Cash flows from operating activities | | |
| Net loss | $ (6,857,643) | $ (1,940,129) |
| Adjustments to reconcile net loss to cash provided by (used in) operating activities | | |
| Stock based compensation expense | 473,491 | 494,779 |
| Depreciation and amortization | 5,333,485 | 5,234,014 |
| Gain on sale of assets | (31,443) | (51,523) |
| Contingent consideration reduction | (15,564) | — |
| Reduction in allowance for bad debt | (389,943) | — |
| (Decrease) increase in fair value of derivative warrant liability | (331,715) | 2,124,971 |
| Loss on commodity derivative contracts | 2,691,833 | 1,859,234 |
| Net cash settlements on commodity derivatives | (3,446,274) | (2,386,897) |
| Amortization of debt discount and deferred costs | 430,431 | 474,360 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (987,778) | (3,091,273) |
| Inventory | 2,212,989 | (341,329) |
| Prepaid expenses | (833,485) | (1,072,076) |
| Accounts payable | (1,046,149) | 534,689 |
| Accrued expenses | (260,341) | (1,175,692) |
| Other assets | — | (253,642) |
| Net cash (used in) provided by operating activities | (3,058,106) | 409,486 |
| Cash flows from investing activities | | |
| Acquisition of SES | — | (269,826) |
| Internally developed software | (380,216) | — |
| Purchase of fixed assets | (2,907,330) | (1,813,904) |
| Proceeds from sale of fixed assets | 86,846 | 6,848 |
| Net cash used in investing activities | (3,200,700) | (2,076,882) |
| Cash flows from financing activities | | |
| Payments on finance leases | (113,241) | (34,660) |
| Proceeds from exercise of stock options | 7,075 | — |
| Distribution VRM LA | (285,534) | — |
| Contributions received from redeemable noncontrolling interest | 3,150,000 | — |
| Proceeds received from issuance of common stock and warrants | 2,216,711 | — |
| Line of credit (payments) proceeds, net | 1,543,003 | 1,408,206 |
| Proceeds from note payable | 2,809,139 | 4,024,964 |
| Payments on note payable | (3,514,365) | (2,996,556) |
| Net cash provided by financing activities | 5,812,788 | 2,401,954 |
| Net change in cash, cash equivalents and restricted cash | (446,018) | 734,558 |
| Cash, cash equivalents, and restricted cash at beginning of the period | 2,849,831 | 1,105,787 |
| Cash, cash equivalents, and restricted cash at end of period | $ 2,403,813 | $ 1,840,345 |

| | | |
|---|---|---|
| SUPPLEMENTAL INFORMATION | | |
| Cash paid for interest | $ 1,887,012 | $ 2,034,275 |
| Cash paid for taxes | $ — | $ — |
| NON-CASH INVESTING AND FINANCING TRANSACTIONS | | |
| Conversion of Series A Preferred Stock into common stock | $ — | $ 34 |
| Conversion of Series B Preferred Stock into common stock | $ — | $ 99,629 |
| Conversion of Series B1 Preferred Stock into common stock | $ 149,914 | $ 4,614,354 |
| Accretion of discount on Series B and B1 Preferred Stock | $ 1,644,374 | $ 2,351,472 |
| Dividends-in-kind accrued on Series B and B1 Preferred Stock | $ 1,238,766 | $ 2,284,121 |
| Equipment acquired under finance leases | $ 621,000 | $ 450,098 |
| Initial adjustment of carrying amount redeemable noncontrolling interest | $ 970,809 | $ — |
| Accretion of redeemable noncontrolling interest to redemption value | $ 1,849,930 | $ — |

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 for the year ended December 31, 2018, contained in the Company's annual report, as filed with the SEC on Form 10-K on March 6, 2019 (the "Form 10-K"). The December 31, 2018 balance sheet was derived from the audited financial statements of our 2018 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 2018 as reported in Form 10-K have been omitted.

### Uses and Sources of Liquidity

The Company’s primary need for liquidity is to fund working capital requirements of the Company’s businesses, capital expenditures and for general corporate purposes, including debt repayment. The Company has incurred operating losses for the past several years, and accordingly, the Company has taken a number of actions to continue to support its operations and meet its obligations.

During 2018, the Company continued to face a challenging competitive environment and while it continues to focus on its overall profitability, including managing expenses, it reported a loss in 2018 and funded operating activities with cash from investing and financing activities. Moving forward, the Company expects to generate additional liquidity from strategic initiatives including monetization of assets and raising funds from debt and equity financing transactions. The Company expects that these actions will be executed in alignment with the anticipated timing of its liquidity needs.

We had a working capital deficit of $ 923,120 as of September 30, 2019, compared to working capital of $6,547,301 as of December 31, 2018. The decline in working capital from December 31, 2018 to September 30, 2019, is mainly due to the current portion of the operating lease liability in connection with the implementation of the new lease accounting requirements, an increase in derivative commodity liability, and an increase in the balance of the Company's revolving note, offset by an increase in prepaid expenses.

To address the liquidity deficiency and operating losses, the Company is considering pursuing a number of actions, including: 1) seeking to obtain additional funds through public or private financing sources; 2) restructuring existing debts from creditors; 3) seeking to reduce operating costs; 4) minimizing projected capital costs for the remainder of 2019 and 2020; and 5) exploring opportunities to sell or lease non-income producing assets.

The Company’s historical operating results indicate substantial doubt exists related to its ability to continue as a going concern. However, the Company believes it is probable that the actions discussed above will occur and mitigate the substantial doubt raised by its historical operating results and satisfy its estimated liquidity needs 12 months from the issuance of the financial statements. However, the Company cannot predict, with certainty, the outcome of its actions to generate liquidity, including the availability of additional debt or equity financing, or whether such actions would generate the expected liquidity as currently planned. In addition, the Company's Preferred Stock contains certain limitations on the Company's ability to sell assets, which could impact the Company's ability to complete asset sale transactions or the Company's ability to use proceeds from those transactions to fund its operations. Therefore, any planned actions must take into account the ability to transact within any applicable restrictions under these agreements and securities. If the Company continues to experience operating losses and is not able to generate additional liquidity through the mechanisms described above or through some combination of other actions, while not expected, it may be forced to secure additional sources of funds, which may or may not be available to us. Additionally, a failure to generate additional liquidity could negatively impact the Company’s access to materials or services that are important to the operation of its business.

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

### Cash, Cash Equivalents and Restricted Cash

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the consolidated balance sheets to the same such amounts shown in the consolidated statements of cash flows.

| | September 30, 2019 | September 30, 2018 |
|---|---|---|
| Cash and cash equivalents | $ 2,303,725 | $ 1,740,345 |
| Restricted cash | 100,088 | 100,000 |
| Cash and cash equivalents and restricted cash as shown in the consolidated statements of cash flows | $ 2,403,813 | $ 1,840,345 |

The Company placed all the restricted cash in a money market account, to serve as collateral for payment of a credit card.

**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. The Company determined that no long-lived asset impairment existed at September 30, 2019.

**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.

Our Level 2 liabilities include our marked to market changes in the estimated value of our open derivative contracts held at the balance sheet date.

Our Level 3 liabilities include our marked to market changes in the estimated value of our derivative warrants issued in connection with our Series B Preferred Stock and Series B1 Preferred Stock.

The Company estimates the fair values of the crude oil swaps and collars based on published forward commodity price curves for the underlying commodity as of the date of the estimate for which published forward pricing is readily available. The determination of the fair values above incorporates various factors including the impact of the Company's non-performance risk and the credit standing of the counterparty involved in the Company's derivative contracts. In addition, the Company routinely monitors the creditworthiness of its counterparty.

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 unaudited consolidated balance sheets, net of valuation allowance. 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. Furthermore, the Company's interpretation of complex tax laws may impact its recognition and measurement of current and deferred income taxes.

**Derivative Transactions**

All derivative instruments are recorded on the accompanying balance sheets at fair value. These derivative transactions are not designated as cash flow hedges under FASB ASC 815, Derivatives and Hedges. Accordingly, these derivative contracts are marked-to-market and any changes in the estimated value of derivative contracts held at the balance sheet date are recognized in the accompanying statements of operations as net gain or loss on derivative contracts. The derivative assets or liabilities are classified as either current or noncurrent assets or liabilities based on their anticipated settlement date. The Company nets derivative assets and liabilities for counterparties where it has a legal right of offset.

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 in 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, risk-free interest rate 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 ASC 835-30, Interest-Imputation of Interest, 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.

**Revenue Recognition**

We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. Revenue is recognized when our performance obligations under the terms of a contract with our customers are satisfied. Recognition occurs when the Company transfers control by completing the specified services at the point in time the customer benefits from the services performed or once our products are delivered. Revenue is measured as the amount of consideration we expect to receive in exchange for completing our performance obligations. Sales tax and other taxes we collect with revenue-producing activities are excluded from revenue. In the case of contracts with multiple performance obligations, the Company allocates the transaction price to each performance obligation based on the relative stand-alone selling prices of the various goods and/or services encompassed by the contract. We do not have any material significant payment terms, as payment is generally due within 30 days after the performance obligation has been satisfactorily completed. The Company has elected the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that we otherwise would have recognized is one year or less. In applying the guidance in Topic 606, there were no judgments or estimates made that the Company deems significant.

The nature of the Company's contracts give rise to certain types of variable consideration. The Company estimates the amount of variable consideration to include in the estimated transaction price based on historical experience, anticipated performance and its best judgment at the time and to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved.

From time to time, our fuel oil customers in our black oil segment may request that we store product which they purchase from us in our facilities. We recognize revenues for these "bill and hold" sales once the following criteria have been met: (1) there is a substantive reason for the arrangement, (2) the product is segregated and identified as the customer's asset, (3) the product is ready for delivery to the customer, and (4) we cannot use the product or direct it to another customer.

**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.

**Contingent Consideration**

During the nine months ended September 30, 2019, the Company wrote off the remaining portion of the contingent consideration related to the July 2017 Ygriega Environmental Services, LLC ("Ygriega") acquisition earn-out due to the fact that collected oil gallons targets required for the payout of such earn-out, were not met.

**Other Income**

During the quarter ended September 30, 2019, the Company received a payment of $907,500 related to the proceeds of an insurance settlement for a fire that had occurred at the used oil re-refining plant located in Churchill County, Nevada, which we previously rented. The insurance settlement satisfies a previous loan we made to Omega Refining, LLC to fund operating expenses at that facility. The Company previously determined this loan was uncollectible and wrote it off.

**Redeemable Noncontrolling Interest**

As more fully described in " Note 14. Myrtle Grove Share Purchase and Subscription Agreement ", the Company is party to a put/call option agreement with the holder of MG SPV's non-controlling interest. The put option permits the MG SPV's non-controlling interest holder, at any time on or after the earlier of (a) the fifth anniversary of the Closing Date and (ii) the occurrence of certain triggering events (a "MG Redemption") to require MG SPV to redeem the non-controlling interest from the holder of such interest. Per the agreement, the cash purchase price for such redeemed Class B Units is the greater of (y) the fair market value of such units (without discount for illiquidity, minority status or otherwise) as determined by a qualified third party agreed to in writing by a majority of the holders seeking an MG Redemption and Vertex Operating (provided that Vertex Operating still owns Class A Units on such date) and (z) the original per-unit price for such Class B Units plus fifty percent (50%) of the aggregate capital invested by the Class B Unit holders through such MG Redemption date. The agreement also permits the Company to acquire the non-controlling interest from the holder thereof upon certain events. Applicable accounting guidance requires an equity instrument that is redeemable for cash or other assets to be classified outside of permanent equity if it is redeemable (a) at a fixed or determinable price on a fixed or determinable date, (b) at the option of the holder, or (c) upon the occurrence of an event that is not solely within the control of the issuer. Based on this guidance, the Company has classified the MG SPV non-controlling interest between the liabilities and equity sections of the accompanying September 30, 2019 and December 31, 2018 consolidated balance sheets. If an equity instrument subject to the guidance is currently redeemable, the instrument is adjusted to its maximum redemption amount at the balance sheet date. If the equity instrument subject to the guidance is not currently redeemable but it is probable that the equity instrument will become redeemable (for example, when the redemption depends solely on the passage of time), the guidance permits either of the following measurement methods: (a) accrete changes in the redemption value over the period from the date of issuance (or from the date that it becomes probable that the instrument will become redeemable, if later) to the earliest redemption date of the instrument using an appropriate methodology, or (b) recognize changes in the redemption value immediately as they occur and adjust the carrying amount of the instrument to equal the redemption value at the end of each reporting period. The amount presented in temporary equity should be no less than the initial amount reported in temporary equity for the instrument. Because the MG SPV equity instrument will become redeemable solely based on the passage of time, the Company determined that it is probable that the MG SPV equity instrument will become redeemable. Company has elected to apply the second of the two measurement options described above. An adjustment to the carrying amount of a non-controlling interest from the application of the above guidance does not impact net income in the consolidated financial statements. Rather, such adjustments are treated as equity transactions.

**Recently Adopted Accounting Pronouncements**

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (ASU 2016-02), *Leases (Topic 842)*. ASU 2016-02 requires companies to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. We adopted ASU 2016-02, *Leases (Topic 842)* effective January 1, 2019 and will not recast comparative periods in transition to the new standard. In addition, we elected certain practical expedients which permit us to not reassess whether existing contracts are or contain leases, to not reassess the lease classification of any existing leases, to not reassess initial direct costs for any existing leases, and to not separate lease and nonlease components for all classes of underlying assets. We also made an accounting policy election to keep leases with an initial term of 12 months or less off of the balance sheet for all classes of underlying assets. Adoption of the new standard resulted in an increase in the Company's assets and liabilities of approximately $37.8 million. The ASU did not have an impact on our consolidated results of operations or cash flows. Additional information and disclosures required by this new standard are contained in "Note 13. Leases".

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

At September 30, 2019 and 2018 and for each of the nine months then ended, the Company's revenues and receivables were comprised of the following customer concentrations:

| | Nine Months Ended September 30, 2019 | | Nine Months Ended September 30, 2018 | |
|---|---|---|---|---|
| | % of Revenues | % of Receivables | % of Revenues | % of Receivables |
| Customer 1 | 35% | 25% | 37% | 37% |
| Customer 2 | 12% | —% | 8% | —% |
| Customer 3 | 8% | 15% | —% | —% |

At September 30, 2019 and 2018 and for each of the nine months then ended, the Company's segment revenues were comprised of the following customer concentrations:

| | % of Revenue by Segment | | | % Revenue by Segment | | |
|---|---|---|---|---|---|---|
| | Nine Months Ended September 30, 2019 | | | Nine Months Ended September 30, 2018 | | |
| | Black Oil | Refining | Recovery | Black Oil | Refining | Recovery |
| Customer 1 | 41% | —% | —% | 47% | —% | —% |
| Customer 2 | 14% | —% | —% | 10% | —% | —% |
| Customer 3 | 10% | —% | —% | —% | —% | —% |

The Company had no vendors that represented 10% of total purchases or payables for the three and nine months ended September 30, 2019 and 2018.

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, access to capital, and 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 claims and legal action. In the opinion of management, the outcome of these claims and actions will not have a material adverse impact upon the financial position of the Company. We are currently party to the following material litigation proceedings:

Vertex Refining LA, LLC ("Vertex Refining LA"), 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.

**NOTE 4. REVENUES**

**Disaggregation of Revenue**

The following table presents our revenues disaggregated by revenue source:

| | Three Months Ended September 30, 2019 | | | |
|---|---|---|---|---|
| | Black Oil | Refining & Marketing | Recovery | Total |
| **Primary Geographical Markets** | | | | |
| Northern United States | $ 12,325,941 | $ — | $ — | $ 12,325,941 |
| Southern United States | 20,004,590 | 3,076,454 | 2,392,274 | 25,473,318 |
| | $ 32,330,531 | $ 3,076,454 | $ 2,392,274 | $ 37,799,259 |
| **Sources of Revenue** | | | | |
| Petroleum products | $ 32,330,531 | $ 3,076,454 | $ 668,249 | $ 36,075,234 |
| Metals | — | — | 1,724,025 | 1,724,025 |
| Total revenues | $ 32,330,531 | $ 3,076,454 | $ 2,392,274 | $ 37,799,259 |

| | Nine Months Ended September 30, 2019 | | | |
|---|---|---|---|---|
| | Black Oil | Refining & Marketing | Recovery | Total |
| **Primary Geographical Markets** | | | | |
| Northern United States | $ 31,530,289 | $ — | $ — | $ 31,530,289 |
| Southern United States | 71,523,240 | 9,212,477 | 8,511,257 | 89,246,974 |
| | $ 103,053,529 | $ 9,212,477 | $ 8,511,257 | $ 120,777,263 |
| **Sources of Revenue** | | | | |
| Petroleum products | $ 103,053,529 | $ 9,212,477 | $ 2,522,362 | $ 114,788,368 |
| Metals | — | — | 5,988,895 | 5,988,895 |
| Total revenues | $ 103,053,529 | $ 9,212,477 | $ 8,511,257 | $ 120,777,263 |

| | Three Months Ended September 30, 2018 | | | |
|---|---|---|---|---|
| | Black Oil | Refining & Marketing | Recovery | Total |
| **Primary Geographical Markets** | | | | |
| Northern United States | $ 12,361,348 | $ — | $ — | $ 12,361,348 |
| Southern United States | 28,038,716 | 7,313,630 | 2,919,254 | 38,271,600 |
| | $ 40,400,064 | $ 7,313,630 | $ 2,919,254 | $ 50,632,948 |
| **Sources of Revenue** | | | | |
| Petroleum products | $ 40,400,064 | $ 7,313,630 | $ 547,184 | $ 48,260,878 |
| Metals | — | — | 2,372,070 | 2,372,070 |
| Total revenues | $ 40,400,064 | $ 7,313,630 | $ 2,919,254 | $ 50,632,948 |

| | Nine Months Ended September 30, 2018 | | | |
|---|---|---|---|---|
| | Black Oil | Refining & Marketing | Recovery | Total |
| **Primary Geographical Markets** | | | | |
| Northern United States | $ 31,314,405 | $ — | $ — | $ 31,314,405 |
| Southern United States | 79,792,036 | 17,381,741 | 10,430,731 | 107,604,508 |
| | $ 111,106,441 | $ 17,381,741 | $ 10,430,731 | $ 138,918,913 |
| **Sources of Revenue** | | | | |
| Petroleum products | $ 111,106,441 | $ 17,381,741 | $ 1,607,596 | $ 130,095,778 |
| Metals | — | — | 8,823,135 | 8,823,135 |
| Total revenues | $ 111,106,441 | $ 17,381,741 | $ 10,430,731 | $ 138,918,913 |

*Petroleum products*- We derive a majority of our revenues from the sale of recovered/re-refined petroleum products, which include Base Oil, VGO (Vacuum Gas Oil), Pygas, Gasoline, Cutterstock and Fuel Oils.

*Metals*- Consist of recoverable ferrous and non-ferrous recyclable metals from manufacturing and consumption. Scrap metal can be recovered from pipes, barges, boats, building supplies, surplus equipment, tanks, and other items consisting of metal composition. These materials are segregated, processed, cut-up and sent back to a steel mill for re-purposing.

**NOTE 5. ACCOUNTS RECEIVABLE**

Accounts receivable, net, consists of the following at September 30, 2019 and December 31, 2018:

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Accounts receivable trade | $ 10,817,099 | $ 9,859,758 |
| Allowance for doubtful accounts | (411,388) | (831,768) |
| Accounts receivable trade, net | $ 10,405,711 | $ 9,027,990 |

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 90 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, LLC, our wholly-owned subsidiary ("Vertex Operating"), and substantially all of our other operating subsidiaries, other than E-Source Holdings, LLC ("E-Source", provided that E-Source is no longer in operations and we no longer undertake dismantling, demolition, decommission and marine salvage services which were the operations of 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.

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 interest rate is 14% at September 30, 2019.

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 post-closing mortgage properties provided were in Baytown, Pflugerville and Corpus Christi, Texas.

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 an amount exceeding $3.0 million in any fiscal year that the EBC Credit Agreement is in place, and requiring us to maintain at least $2.0 million of borrowing availability under the Revolving Credit Agreement (defined below) in any 30 day period.

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" and together with the EBC Credit Agreement, the " Credit Agreements") 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. At September 30, 2019, the maximum amount available to be borrowed was $3,372,089, based on the above borrowing base calculation.

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 2.10% 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 month, beginning on the first business day of the first full month following the closing.

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 $3.0 million in any fiscal year that the Revolving Credit Agreement is in place, and requiring us to maintain at least $ 2.0 million of 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.

The principal balances of the EBC Credit Agreement and the Revolving Credit Agreement as of September 30, 2019 are $13,558,000 and $5,387,639, respectively.

*Credit Agreement Amendments*

On July 25, 2019, (a) EBC, the EBC Lenders, and Vertex Operating, entered into a Third Amendment and Limited Waiver to Credit Agreement, effective on July 26, 2019, pursuant to which the EBC Lenders agreed to amend the EBC Credit Agreement; and (b) the EBC Lenders and Vertex Operating entered into a Third Amendment and Limited Waiver to ABL Credit Agreement, effective on July 26, 2019, pursuant to which the EBC Lenders agreed to amend the Revolving Credit Agreement (collectively, the “Waivers”). The Waivers amended the credit agreements to: extend the due date of amounts owed thereunder from February 1, 2020 to February 1, 2021; to increase the amount of permitted indebtedness allowable thereunder from $500,000 to $750,000; to increase the amount of capital expenditures we are authorized to make in fiscal 2019 from $3.0 million to $3.5 million, and to set the amount of capital expenditures we are authorized to make in fiscal 2020 and thereafter at $3.0 million; and to decrease the minimum amount of availability required under the credit agreements to $1.5 million at any time from July 26, 2019 to August 31, 2019, and $2.0 million at any time thereafter. The Waivers also provided for waivers by the lenders of certain restrictions in the credit agreements which would have prevented us from consummating the MG Share Purchase and Heartland Transaction (each defined below under Note 14), subject to certain conditions, including us paying at least $1.1 million to the lenders from the amount received pursuant to the MG Purchase Agreement (which amount has been paid to date) and at least $9.0 million (unless otherwise agreed by the lenders) of the amount to be received by us pursuant to terms of the Heartland Option, if exercised, in the event the transactions contemplated thereby close (which has not been and which transaction has not closed, to date), to the lenders.

*Insurance Premiums*

The Company financed insurance premiums through various financial institutions bearing interest rates from 4.00% to 4.90% per annum. All such premium finance agreements have maturities of less than one year and have a balance of $2,085,927 at September 30, 2019 and $999,152 at December 31, 2018.

*Finance Leases*

On March 1, 2018, the Company obtained one finance lease. Payments are $908 per month for three years and the amount of the finance lease obligation has been reduced to $14,898 at September 30, 2019.

On May 29, 2018, the Company obtained one finance lease. Payments are $26,305 per quarter for four years and the amount of the finance lease obligation has been reduced to $286,011 at September 30, 2019.

During April and May 2019, the Company obtained five finance leases. Payments are approximately $11,710 per month for five years and the amount of the finance lease obligation has been reduced to $579,062 at September 30, 2019.

The Company's outstanding debt facilities as of September 30, 2019 and December 31, 2018 are summarized as follows:

| Creditor | Loan Type | Origination Date | Maturity Date | Loan Amount | Balance on September 30, 2019 | Balance on December 31, 2018 |
|---|---|---|---|---|---|---|
| Encina Business Credit, LLC | Term Loan | February 1, 2017 | February 1, 2021 | $ 20,000,000 | $ 13,558,000 | $ 15,350,000 |
| Encina Business Credit SPV, LLC | Revolving Note | February 1, 2017 | February 1, 2021 | $ 10,000,000 | 5,387,639 | 3,844,636 |
| Wells Fargo Equipment Lease-Ohio | Finance Lease | April-May, 2019 | April-May, 2024 | $ 621,000 | 579,062 | — |
| Tetra Capital Lease | Finance Lease | May, 2018 | May, 2022 | $ 419,690 | 286,011 | 349,822 |
| Well Fargo Equipment Lease-VRM LA | Finance Lease | March, 2018 | March, 2021 | $ 30,408 | 14,898 | 22,390 |
| Various institutions | Insurance premiums financed | Various | < 1 year | $ 2,902,428 | 2,085,927 | 999,152 |
| Total | | | | | **21,911,537** | **20,566,000** |
| Deferred finance costs, net | | | | | (191,303) | (621,733) |
| Total, net of deferred finance costs | | | | | **$ 21,720,234** | **$ 19,944,267** |

Future contractual maturities of notes payable as of September 30, 2019 are summarized as follows:

| Creditor | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Thereafter |
|---|---|---|---|---|---|---|
| Encina Business Credit, LLC | $ 900,000 | $ 12,658,000 | $ — | $ — | $ — | $ — |
| Encina Business Credit SPV, LLC | 5,387,639 | — | — | — | — | — |
| Well Fargo Equipment Lease- Ohio | 113,383 | 122,357 | 125,642 | 132,259 | 85,421 | |
| Tetra Capital Lease | 90,249 | 96,530 | 99,232 | — | — | — |
| Well Fargo Equipment Lease- VRM LA | 10,413 | 4,485 | — | — | — | — |
| Various institutions | 2,085,927 | — | — | — | — | — |
| Totals | 8,587,611 | 12,881,372 | 224,874 | 132,259 | 85,421 | — |
| Deferred finance costs, net | (191,303) | — | — | — | — | — |
| Totals, net of deferred finance costs | $ 8,396,308 | $ 12,881,372 | $ 224,874 | $ 132,259 | $ 85,421 | $ — |

**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. Diluted earnings per share reflects 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 September 30, 2019 and 2018 excludes: 1) options to purchase 4,218,250 and 3,438,837 shares, respectively, of common stock, 2) warrants to purchase 8,853,056 and 7,353,056 shares, respectively, of common stock, 3) Series B Preferred Stock which is convertible into 3,769,505 and 3,551,549 shares, respectively, of common stock, 4) Series B1 Preferred Stock which is convertible into 10,417,966 and 11,074,331 shares, respectively, of common stock, and 5) Series A Preferred Stock which is convertible into 419,859 of common stock as of September 30, 2019 and 2018. Due to their anti-dilutive effect, the calculation of diluted earnings per share for the nine months ended September 30, 2019 and 2018 excludes: 1) options to purchase 4,218,250 and 3,438,837 shares, respectively, of common stock, 2) warrants to purchase 8,853,056 and 7,353,056 shares, respectively, of common stock, 3) Series B Preferred Stock which is convertible into 3,769,505 and 3,499,059 shares, respectively, of common stock, 4) Series B1 Preferred Stock which is convertible into 10,417,966 and 13,105,989 shares, respectively, of common stock, and 5) Series A Preferred Stock which is convertible into 419,859 shares of common stock as of September 30, 2019 and 2018.

The following is a reconciliation of the numerator and denominator for basic and diluted earnings per share for the three and nine months ended September 30, 2019 and 2018:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Basic Earnings per Share** | | | | |
| Numerator: | | | | |
| Net loss available to common shareholders | $ (3,911,581) | $ (4,635,372) | $ (11,215,851) | $ (6,652,027) |
| Denominator: | | | | |
| Weighted-average shares outstanding | 41,376,335 | 35,144,113 | 40,626,700 | 33,843,721 |
| Basic loss per share | $ (0.09) | $ (0.13) | $ (0.28) | $ (0.20) |
| **Diluted Earnings per Share** | | | | |
| Numerator: | | | | |
| Net loss available to common shareholders | $ (3,911,581) | $ (4,635,372) | $ (11,215,851) | $ (6,652,027) |
| Denominator: | | | | |
| Weighted-average shares outstanding | 41,376,335 | 35,144,113 | 40,626,700 | 33,843,721 |
| Effect of dilutive securities | | | | |
| Stock options and warrants | — | — | — | — |
| Preferred stock | — | — | — | — |
| Diluted weighted-average shares outstanding | 41,376,335 | 35,144,113 | 40,626,700 | 33,843,721 |
| Diluted loss per share | $ (0.09) | $ (0.13) | $ (0.28) | $ (0.20) |

**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 September 30, 2019, there were 41,849,406 common shares issued and outstanding.

During the nine months ended September 30, 2019 , the Company issued 1,596,160 shares of common stock in connection with the Tensile Share Purchase and Subscription Agreement and conversions of Series B1 Convertible Preferred Stock into common stock of the Company, pursuant to the terms of such securities. In addition, the Company issued 78,425 shares of common stock in connection with the exercise of options.

During the nine months ended September 30, 2018 , the Company issued 6,182,473 shares of common stock in connection with the conversion of Series B, Series B1, Series C, and Series A Convertible Preferred Stock into common stock of the Company, pursuant to the terms of such securities. In addition, the Company issued 241 shares of common stock in connection with the exercise of options.

## 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 Convertible Preferred Stock is 10,000,000. The total number of designated shares of the Company's Series B1 Convertible Preferred Stock is 17,000,000. As of September 30, 2019 and December 31, 2018, there were 419,859 shares of Series A Preferred Stock issued and outstanding. As of September 30, 2019 and December 31, 2018, there were 3,769,505 and 3,604,827 shares of Series B Preferred Stock issued and outstanding, respectively. As of September 30, 2019 and December 31, 2018, there were 10,417,966 and 10,057,597 shares of Series B1 Preferred Stock issued and outstanding, respectively.

### 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), cash or in-kind in Series B Preferred Stock at $3.10 per share.

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. However, the certificate of designation of the Series B Preferred Stock provides that the mandatory redemption date is automatically extended in the event that the terms of the Company's senior credit facility prohibit the redemption of such Series B Preferred Stock and because the senior credit facility prohibits such redemption, the Company anticipates the redemption date of the Series B Preferred Stock being extended past June 24, 2020, until such date, if ever, as the Company's senior credit facilities no longer prohibit such redemption. Effective on June 24, 2020, in the event the Series B Preferred Stock is not redeemed by the Company due to the provisions of the Company's senior credit facilities, the dividend rate of such preferred stock increases to 10% per annum.

The Warrants issued in connection with the Series B Preferred Stock (Series B Warrants) were initially 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 $7,028,067. 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 preferred shares are accounted for net outside of stockholders' equity with the Warrants accounted for as liabilities at their fair value. The initial value assigned to the derivative warrant liability was recognized through a corresponding discount to the Series B Preferred Stock. The value of the derivative warrant liability will be re-measured at each reporting period with changes in fair value recorded in earnings. The initial valuation of the warrants resulted in a beneficial conversion feature on the convertible preferred stock of $5,737,796. The amounts related to the warrant discount and beneficial conversion feature 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 following table represents the activity related to the Series B Preferred Stock, classified as Temporary Equity on the accompanying unaudited consolidated balance sheet, during the nine months ended September 30, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Balance at beginning of period | $ 8,900,208 | $ 7,190,467 |
| Less: conversions of shares to common | — | (62,962) |
| Plus: discount accretion | 1,031,483 | 815,373 |
| Plus: dividends in kind | 510,502 | 489,282 |
| Balance at end of period | $ 10,442,193 | $ 8,432,160 |

The Series B Warrants and Series B1 Warrants were revalued at September 30, 2019 and December 31, 2018 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 $1,149,977 and $1,481,692, respectively. At September 30, 2019, the Series B Warrants and Series B1 Warrants were valued at approximately $ 111,790 and $1,038,187, respectively. The Dynamic Black Scholes Merton inputs used were: expected dividend rate of 0%, expected volatility of 66%-100%, risk free interest rate of 1.69% (Series B Warrants) and 1.60% (Series B1 Warrants), and expected term of 1.50 years (Series B Warrants) and 2.50 years (Series B1 Warrants).

At September 30, 2019 and December 31, 2018, a total of $ 175,305 and $167,642 of dividends were accrued on our outstanding Series B Preferred Stock, respectively. During the three months ended September 30, 2019 and 2018, we paid dividends in-kind in additional shares of Series B Preferred Stock of $172,704 and $162,719, respectively.

**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), 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), cash, or in-kind in Series B1 Preferred Stock at $1.56 per share.

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 B1 Preferred Stock at $1.56 per share, plus any accrued and unpaid dividends, on June 24, 2020. However, the certificate of designation of the Series B1 Preferred Stock provides that the mandatory redemption date is automatically extended in the event that the terms of the Company's senior credit facility prohibit the redemption of such Series B1 Preferred Stock and because the senior credit facility prohibits such redemption, the Company anticipates the redemption date of the Series B1 Preferred Stock being extended past June 24, 2020, until such date, if ever, as the Company's senior credit facilities no longer prohibit such redemption. Effective on June 24, 2020, in the event the Series B1 Preferred Stock is not redeemed by the Company due to the provisions of the Company's senior credit facilities, the dividend rate of such preferred stock increases to 10% per annum.

The Warrants issued in connection with the Series B1 Preferred Stock offering (Series B1 Warrants) were initially 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 $2,867,264. 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 with the May 2016 Warrants accounted for as liabilities at their fair value. The initial value assigned to the derivative warrant liability was recognized through a corresponding discount to the Series B1 Preferred Stock. The value of the derivative warrant liability will be re-measured at each reporting period with changes in fair value recorded in earnings. This initial valuation of the warrants resulted in a beneficial conversion feature on the convertible preferred stock of $2,371,106. The amounts related to the warrant discount and beneficial conversion feature 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 following table represents the activity related to the Series B1 Preferred Stock, classified as Temporary Equity on the accompanying Consolidated Balance Sheet, for the nine months ended September 30, 2019, and 2018:

| | 2019 | 2018 |
|---|---|---|
| Balance at beginning of period | $ 13,279,755 | $ 15,769,478 |
| Less: conversions of shares to common | (119,768) | (3,746,917) |
| Plus: discount accretion | 582,649 | 629,003 |
| Plus: dividends in kind | 712,185 | 1,736,240 |
| Balance at end of period | $ 14,454,821 | $ 14,387,804 |

As of September 30, 2019 and December 31, 2018, respectively, a total of $243,777 and $ 235,360 of dividends were accrued on our outstanding Series B1 Preferred Stock. During the three months ended September 30, 2019 and 2018, we paid dividends in-kind in additional shares of Series B1 Preferred Stock of $240,185 and $460,035, respectively.

The following is an analysis of changes in the derivative liability for the nine months ended September 30:

| Level Three Roll-Forward | | |
|---|---|---|
| | 2019 | 2018 |
| Balance at beginning of period | $ 1,481,692 | $ 2,245,408 |
| Change in valuation of warrants | (331,715) | 2,124,971 |
| Balance at end of period | $ 1,149,977 | $ 4,370,379 |

**NOTE 10. SEGMENT REPORTING**

The Company's reportable segments include the Black Oil, Refining & Marketing and Recovery divisions. Segment information for the three and nine months ended September 30, 2019 and 2018 is as follows:

**THREE MONTHS ENDED SEPTEMBER 30, 2019**

| | Black Oil | Refining & Marketing | Recovery | Total |
|---|---|---|---|---|
| Revenues | $ 32,330,531 | $ 3,076,454 | $ 2,392,274 | $ 37,799,259 |
| **Loss from operations** | $ (1,782,849) | $ (177,697) | $ (581,277) | $ (2,541,823) |

**THREE MONTHS ENDED SEPTEMBER 30, 2018**

| | Black Oil | Refining & Marketing | Recovery | Total |
|---|---|---|---|---|
| Revenues | $ 40,400,064 | $ 7,313,630 | $ 2,919,254 | $ 50,632,948 |
| **Income (loss) from operations** | $ 1,769,439 | $ (418,482) | $ (776,874) | $ 574,083 |

**NINE MONTHS ENDED SEPTEMBER 30, 2019**

| | Black Oil | Refining & Marketing | Recovery | Total |
|---|---|---|---|---|
| Revenues | $ 103,053,529 | $ 9,212,477 | $ 8,511,257 | $ 120,777,263 |
| **Loss from operations** | $ (3,949,202) | $ (713,119) | $ (1,155,771) | $ (5,818,092) |

**NINE MONTHS ENDED SEPTEMBER 30, 2018**

| | Black Oil | Refining & Marketing | Recovery | Total |
|---|---|---|---|---|
| Revenues | $ 111,106,441 | $ 17,381,741 | $ 10,430,731 | $ 138,918,913 |
| **Income (loss) from operations** | $ 3,979,619 | $ (1,119,522) | $ (278,666) | $ 2,581,431 |

## NOTE 11. INCOME TAXES

Our effective tax rate of 0% on pretax income differs from the U.S. federal income tax rate of 21% because of the change in our valuation allowance.

The year to date loss at September 30, 2019 puts 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 $66.1 million as of September 30, 2019 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 generated a pre-tax loss of approximately $6.5 million from January 1, 2019 through September 30, 2019.

## NOTE 12. COMMODITY DERIVATIVE INSTRUMENTS

The Company utilizes derivative instruments to manage its exposure to fluctuations in the underlying commodity prices of its inventory. The Company's management sets and implements hedging policies, including volumes, types of instruments and counterparties, to support oil prices at targeted levels and manage its exposure to fluctuating prices.

The Company’s derivative instruments consist of swap and futures arrangements for oil. In a commodity swap agreement, if the agreed-upon published third-party index price (“index price”) is lower than the swap fixed price, the Company receives the difference between the index price and the swap fixed price. If the index price is higher than the swap fixed price, the Company pays the difference. For futures arrangements, the Company receives the difference positive or negative between an agreed-upon strike price and the market price.

The mark-to-market effects of these contracts as of September 30, 2019 and December 31, 2018, are summarized in the following table. The notional amount is equal to the total net volumetric derivative position during the period indicated. The fair value of the crude oil swap agreements is based on the difference between the strike price and the New York Mercantile Exchange futures price for the applicable trading months.

| As of September 30, 2019 | | | | | |
|---|---|---|---|---|---|
| Contract Type | Contract Period | Weighted Average Strike Price (Barrels) | | Remaining Volume (Barrels) | Fair Value |
| Swap | Oct. 2019- Jan. 2020 | $ | 37.25 | 210,000 | $ (1,456,700) |
| Swap | Oct. 2019- Jan. 2020 | $ | 76.90 | 210,000 | $ (153,636) |
| Futures | Oct. 2019- Jan. 2020 | $ | 79.50 | 60,000 | $ 99,763 |

| As of December 31, 2018 | | | | | |
|---|---|---|---|---|---|
| Contract Type | Contract Period | Weighted Average Strike Price (Barrels) | | Remaining Volume (Barrels) | Fair Value |
| Swap | Dec. 2018-Feb. 2019 | $ | 48.78 | 60,000 | $ (1,048,400) |
| Swap | Dec. 2018-Feb. 2019 | $ | 68.69 | 60,000 | $ 1,097,124 |
| Futures | Feb. 2019-Mar. 2019 | $ | 70.42 | 69,000 | $ 394,317 |
| Futures | Dec. 2018-Feb. 2019 | $ | 45.41 | 30,000 | $ 252,900 |

The carrying values of the Company's derivatives positions and their locations on the consolidated balance sheets as of September 30, 2019 and December 31, 2018 are presented in the table below.

| Balance Sheet Classification | Contract Type | | 2019 | 2018 |
|---|---|---|---|---|
| | Crude oil swaps | $ | (1,610,336) $ | 48,724 |
| | Crude oil futures | | 99,763 | 647,217 |
| Derivative commodity asset (liability) | | $ | (1,510,573) $ | 695,941 |

For the three months ended September 30, 2019 and 2018, we recognized a $1,622,056 and $647,149, respectively, loss on commodity derivative contracts on the consolidated statements of operations as part of our costs of revenues. For the nine months ended September 30, 2019 and 2018, we recognized a $2,691,833 and $1,859,234, respectively, loss on commodity derivative contracts on the consolidated statements of operations as part of our costs of revenues.

**NOTE 13. LEASES**

The Company has various lease agreements including leases of plant, facilities, railcar, and equipment. Some leases include options to purchase, terminate or extend for one or more years. These options are included in the lease term when it is reasonably certain that the option will be exercised.

Leases with an initial term of 12 months or less are not recorded on our consolidated balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term. Leases with initial terms in excess of 12 months are recorded as operating or financing leases in our consolidated balance sheet.

Lease assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As most of our leases do not provide an implicit rate, we use secured incremental borrowing rates based on the information available at commencement date, including lease term, in determining the present value of future payments. The operating lease asset also includes any lease payments made and excludes lease incentives and initial direct costs incurred. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised.

At inception, the Company determines if an arrangement contains a lease and whether that lease meets the classification criteria of a finance or operating lease. Some of the Company's lease arrangements contain lease components (e.g. minimum rent payments) and non-lease components (e.g. maintenance, labor charges, etc.). The Company generally does not separate lease and nonlease components for all classes of underlying assets. For certain equipment leases, such as freight car, vehicles and work equipment, the Company accounts for the lease and non-lease components as a single lease component.

Certain of the Company's lease agreements include rental payments that are adjusted periodically for an index or rate. The leases are initially measured using the projected payments adjusted for the index or rate in effect at the commencement date. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

**Finance Leases**

Finance leases are included in finance lease right-of-use lease assets and finance lease liability current and long-term liabilities on the unaudited consolidated balance sheets. The associated amortization expense and interest expense are included in depreciation and amortization and interest expense, respectively, on the unaudited consolidated statements of operations. Total finance lease costs for the three and nine months ended September 30, 2019 were $65,675 and $141,549, respectively. Please see "Note 6. Line of Credit and Long-Term Debt" for more details.

**Operating Leases**

Operating leases are included in operating lease right-of-use lease assets, and operating current and long-term lease liabilities on the consolidated balance sheets. Lease expense for operating leases is recognized on a straight-line basis over the lease term. Variable lease expense is recognized in the period in which the obligation for those payments is incurred. Lease expense for equipment is included in cost of revenues and other rents are included in selling, general and administrative expense on the consolidated statements of operations and are reported net of lease income. Lease income is not material to the results of operations for the three and nine months ended September 30, 2019. Total operating lease costs for the three and nine months ended September 30, 2019 were $1.6 million and $4.7 million, respectively.

**Cash Flows**

An initial right-of-use asset of $37.8 million was recognized as a non-cash asset addition with the adoption of the new lease accounting standard. Cash paid for amounts included in operating lease liabilities was $1.6 million during the nine months ended September 30, 2019 and is included in operating cash flows. Cash paid for amounts included in finance lease was $113,241 during the nine months ended September 30, 2019 and is included in financing cash flows.

Maturities of our lease liabilities for all operating leases are as follows as of September 30, 2019:

| | Facilities | Equipment | Plant | Railcar | Total |
|---|---|---|---|---|---|
| Year 1 | $ 733,420 | $ 161,539 | $ 4,060,417 | $ 1,050,126 | $ 6,005,502 |
| Year 2 | 550,070 | 161,539 | 4,060,417 | 715,076 | 5,487,102 |
| Year 3 | 367,770 | 67,338 | 4,060,417 | 97,176 | 4,592,701 |
| Year 4 | 315,000 | — | 4,060,417 | 5,112 | 4,380,529 |
| Year 5 | 300,000 | — | 4,060,417 | — | 4,360,417 |
| Thereafter | 2,450,000 | — | 34,540,011 | — | 36,990,011 |
| Total lease payments | $ 4,716,260 | $ 390,416 | $ 54,842,096 | $ 1,867,490 | $ 61,816,262 |
| Less: interest | (1,716,201) | (27,868) | (23,702,742) | (126,590) | (25,573,401) |
| Present value of lease liabilities | $ 3,000,059 | $ 362,548 | $ 31,139,354 | $ 1,740,900 | $ 36,242,861 |

The weighted average remaining lease terms and discount rates for all of our operating leases were as follows as of September 30, 2019:

| Remaining lease term and discount rate: | September 30, 2019 |
|---|---|
| Weighted average remaining lease terms (years) | |
| Lease facilities | 5.35 |
| Lease equipment | 2.42 |
| Lease plant | 13.51 |
| Lease railcar | 1.60 |
| Weighted average discount rate | |
| Lease facilities | 9.13% |
| Lease equipment | 8.00% |
| Lease plant | 9.37% |
| Lease railcar | 8.00% |

**Significant Judgments**

Significant judgments include the discount rates applied, the expected lease terms, lease renewal options and residual value guarantees. There are several leases with renewal options or purchase options. Using the practical expedient, the Company utilized existing lease classifications as of December 31, 2018.

The purchase options are not expected to have a material impact on the lease obligation. There are several facility and plant leases which have lease renewal options from one to twenty years.

The largest facility lease has an initial term through 2032. That lease does not have an extension option. For the two plant leases both have multiple 5-year extension options for a total of 20 years. Two extension options have been included in the lease right to use asset and lease obligation at September 30, 2019.

The Company will reassess the lease terms and purchase options when there is a significant change in circumstances or when the Company elects to exercise an option that had previously been determined that it was not reasonably certain to do so.

**NOTE 14. MYRTLE GROVE SHARE PURCHASE AND SUBSCRIPTION AGREEMENT**

On July 26, 2019 (the "Closing Date"), Vertex Refining Myrtle Grove LLC, a Delaware limited liability company, which entity was formed as a special purpose vehicle in connection with the transactions, described in greater detail below ("MG SPV"), Vertex Operating, Tensile-Myrtle Grove Acquisition Corporation ("Tensile-MG"), an affiliate of Tensile, and solely for the purposes of the MG Guaranty (defined below), we entered into and closed the transactions contemplated by a Share Purchase and Subscription Agreement (the "MG Share Purchase").

Prior to entering into the MG Share Purchase, Vertex Operating's wholly-owned subsidiary, Vertex Refining LA, LLC (" Vertex LA"), transferred all of the operating assets owned by it and related to the planned development of the MG Refinery (as defined below), which the parties agreed had a fair market value of $22,666,667, to MG SPV in consideration for 21,667 Class A Units and 1,000 Class B Units of MG SPV, which units were distributed to Vertex Operating. At the closing of the MG Share Purchase (on the Closing Date), Vertex Operating sold 1,000 of the Class B Units to Tensile-MG for consideration of $1 million and Tensile-MG, purchased an additional 3,000 Class B Units directly from MG SPV for $3 million (less Tensile's fees and expenses incurred in connection with the transaction, not to exceed $850,000).

As a result of the transaction, Tensile, through Tensile-MG, acquired an approximate 15.58% ownership interest in MG SPV, which in turn now owns the Company's Belle Chasse, Louisiana, re-refining complex (the "MG Refinery").

We, as required, used all proceeds we received from the sale of the Class B Units to pay down the EBC Credit Agreement. Amounts received by MG SPV from its direct sale of Class B Units to Tensile-MG may only be used for additional investments in the MG refinery or for day to day operations at the MG refinery. At September 30, 2019, $1.9 million reported as cash and cash equivalents on the balance sheet is restricted to MG refinery investments or operating expenses.

The MG Share Purchase includes customary representations and warranties and requires Myrtle-Grove SPV to indemnify Tensile-MG (and its related parties), Vertex Operating to indemnify Tensile-MG (and its related parties), and Tensile-MG to indemnify the Company (and its related parties), against various matters (subject to minimum losses being incurred by Myrtle-Grove SPV (and its related parties, as applicable) of $226,000 and a maximum liability by Myrtle-Grove SPV for all losses of Myrtle-Grove SPV of $3,400,000, subject to certain exceptions). Additionally, Myrtle-Grove SPV's maximum indemnification liability under the agreement is not to exceed $4 million, except in the case of fraud, intentional misrepresentation or criminal activity.

The MG Share Purchase also provided for a guarantee by the Company to Tensile-MG of the payment obligations of Myrtle-Grove SPV and Vertex Operating as set forth in the MG Share Purchase, including the indemnification rights summarized above (the "MG Guaranty").

In connection with the closing of the MG Share Purchase, MG SPV, Vertex Operating and the Company entered into an environmental remediation and indemnity agreement, whereby we agreed to indemnify and hold Tensile-MG harmless against certain potential environmental liabilities.

As discussed above, after the consummation of the transactions set forth in the MG Share Purchase, MG SPV is owned 84.42% by Vertex Operating and 15.58% by Tensile-MG. The Class B Units held by Tensile-MG are convertible into Class A Units at the option of Tensile-MG, as provided in the Limited Liability Company Agreement of MG SPV dated July 25, 2019 (the "MG Company Agreement"), based on a conversion price (initially one-for-one) which may be reduced from time to time if new Units of MG SPV are issued, and automatically convert into Series A Units upon certain events described in the MG Company Agreement.

Additionally, the Class B Unit holders may force MG SPV to redeem the outstanding Class B Units at any time on or after the earlier of (a) the fifth anniversary of the Closing Date and (ii) the occurrence of a Triggering Event (defined below)(an "MG Redemption"). The cash purchase price for such redeemed Class B Units is the greater of (y) the fair market value of such units (without discount for illiquidity, minority status or otherwise) as determined by a qualified third party agreed to in writing by a majority of the holders seeking an MG Redemption and Vertex Operating (provided that Vertex Operating still owns Class A Units on such date) and (z) the original per-unit price for such Class B Units plus fifty percent (50%) of the aggregate capital invested by the Class B Unit holders through such MG Redemption date. "Triggering Events" mean (a) any dissolution, winding up or liquidation of the Company, Vertex Operating or any significant subsidiary of Vertex Operating, (b) any sale, lease, license or disposition of any material assets of the Company, Vertex Operating or any significant subsidiary of Vertex Operating, (c) any transaction or series of related transactions (whether by merger, exchange, contribution, recapitalization, consolidation, reorganization, combination or otherwise) involving the Company, Vertex Operating or any significant subsidiary of Vertex Operating, the result of which is that the holders of the voting securities of the relevant entity as of the Closing Date are no longer the beneficial owners, in the aggregate, after giving effect to such transaction or series of transactions, directly or indirectly, of more than fifty percent (50%) of the voting power of the outstanding voting securities of the entity, subject to certain other requirements set forth in the MG Company Agreement, (d) the failure to consummate the Heartland Closing (defined below) by June 30, 2020 (a "Failure to Close"), (e) the failure of Vertex Operating to operate MG SPV in good faith with appropriate resources, or (f) the material failure of the Company and its affiliates to comply with the terms of the contribution agreement, whereby the Company contributed assets and operations to MG SPV.

On or after the third anniversary of the Closing Date, the Company or any of its subsidiaries, may elect to purchase all of the outstanding units of MG SPV held by Tensile-MG (or any assignee of Tensile-MG) as discussed in the MG Company Agreement.

On the Closing Date, and as a required term of the closing of the MG Share Purchase, Tensile entered into a Subscription Agreement dated July 25, 2019, and effective on July 26, 2019, in favor of the Company (the "Subscription Agreement"), pursuant to which it subscribed to purchase (a) 1,500,000 shares of our common stock (the "Tensile Shares"), and (b) warrants to purchase 1,500,000 shares of our common stock, which were documented by a Common Stock Purchase Warrant (the "Warrants" and the shares of common stock issuable upon exercise thereof, the " Warrant Shares") in consideration for $2.22 million or $1.48 per share and warrant.

The Warrants have an exercise price of $2.25 per share and a term of ten years. The Warrants also include a beneficial ownership limitation which prohibits Tensile from exercising any Warrants, if upon such exercise, Tensile, together with its affiliates, would, subject to limited exceptions, beneficially own in excess of 4.999% of the number of shares of our common stock outstanding immediately after the exercise. Tensile may elect to change this beneficial ownership limitation from 4.999% to up to 9.999% of the number of shares of our common stock outstanding immediately after the exercise upon 61 days' prior written notice to us.

In connection with the subscription, we and Tensile entered into a Registration Rights and Lock-Up Agreement dated July 25, 2019 (the " Lock-Up Agreement"), pursuant to which we agreed to use commercially reasonable efforts to register the Tensile Shares and Warrant Shares prior to the end of the Initial Lock-Up (defined below) and Tensile agreed to not sell any of the Tensile Shares or Warrant Shares for a period of one year following the Closing Date (the "Initial Lock-Up") and to sell no more than 300,000 of such Tensile Shares and Warrant Shares in any 90 day period during the four years thereafter (the "Volume Limitations"), each, subject to certain exemptions set forth therein.

The Initial Lock-Up, but not the Volume Limitation, terminates if (i) the Heartland Closing does not occur by June 30, 2020 and/or (ii) if our common stock is not traded on Nasdaq or a similar market for a period of more than five consecutive trading days. Upon any termination of the Initial Lock-Up pursuant to the preceding sentence, in the event Tensile holds any Tensile Shares, Warrant Shares or any Warrants, we are required to disclose publicly all material nonpublic information disclosed to Tensile prior to the date of such termination.

We also provided Tensile-Heartland Acquisition Corporation ("Tensile-Heartland"), an affiliate of Tensile, an option (the "Heartland Option"), exercisable at any time prior to June 30, 2020, to the extent certain pilot studies to be conducted by MG SPV meet the standards of Tensile-Heartland, in its sole discretion, or the outcome of such studies are waived by Tensile-Heartland, to execute and close (within 30 days from such date of exercise by Tensile-Heartland) the acquisition of a 65% interest in a special purpose entity which will be formed to hold ownership of our

Heartland refinery, similar to what we have done with our Myrtle Grove facility as discussed above (the " Heartland Transaction"). Under the terms of that transaction, if closed, the Company will retain a 35% stake in the SPV and the Company will receive $13.5 million of non-recourse cash to its balance sheet.

**Redeemable Noncontrolling Interest**

As a result of the MG Share Purchase (as defined and discussed above), Tensile Capital Partners Master Fund LP, an investment fund based in San Francisco, California ("Tensile"), through Tensile-Myrtle Grove Acquisition Corporation, acquired an approximate 15.58% ownership interest in Vertex Refining Myrtle Grove LLC, a Delaware limited liability company, which entity was formed as a special purpose vehicle in connection with the transactions. This is considered a redeemable noncontrolling equity interest, as it is redeemable in the future and not solely within our control.

The initial carrying amount that is recognized in temporary equity for redeemable noncontrolling interests is the initial carrying amount determined in accordance with the accounting requirements for noncontrolling interests in ASC 810-10. In accordance with ASC 810-10-45-23, changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary are accounted for as equity transactions. Therefore, the Company recognized no gain or loss in consolidated net income and the carrying amount of the noncontrolling interest was adjusted to reflect the change in our ownership interest of the subsidiary. The difference of $970,809 between the fair value of the consideration received of $3,150,000 and the carrying amount of the noncontrolling interest determined in accordance with ASC 810-10 of $2,179,191, was recognized in additional paid in capital.

After initial recognition, in accordance with ASC 480-10-S99-3A, the Company applied a two-step approach to measure noncontrolling interests at the balance sheet date. First, the Company applied the measurement guidance in ASC 810-10 by attributing a portion of the subsidiaries net loss of $29,121 to the noncontrolling interest. Second, the Company applied the subsequent measurement guidance in ASC 480-10-S99-3A, which indicates that the noncontrolling interest's carrying amount is the higher of (1) the cumulative amount that would result from applying the measurement guidance in ASC 810-10 in the first step or (2) the redemption value. Pursuant to ASC 480-10-S99-3A, for a security that is probable of becoming redeemable in the future, the Company adjusted the carrying amount of the redeemable noncontrolling interests to what would be the redemption value assuming the security was redeemable at the balance sheet date. This adjustment of $1,849,930 increased the carrying amount of redeemable noncontrolling interests to the redemption value as of September 30, 2019 of$4,000,000. Adjustments to the carrying amount of redeemable noncontrolling interests to redemption value are reflected in retained earnings.

The table below presents the reconciliation of changes in redeemable noncontrolling interest.

| | | September 30, 2019 |
|---|---|---|
| Beginning balance | $ | — |
| Capital contribution from non-controlling interest | | 3,150,000 |
| Initial adjustment of carrying amount of non-controlling interest | | (970,809) |
| Net loss attributable to redeemable non-controlling interest | | (29,121) |
| Accretion of non-controlling interest to redemption value | | 1,849,930 |
| Ending balance | $ | 4,000,000 |

**Encina Credit Agreement Amendments**

In connection with the transactions contemplated by the MG Share Purchase, the Company amended its EBC Credit Agreement and Revolving Credit Agreement, as further described in "Note 6. Line of Credit and Long-Term Debt".

**NOTE 15. SUBSEQUENT EVENTS**

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

We paid the accrued dividends on our Series B Preferred Stock and Series B1 Preferred Stock, which were accrued as of September 30, 2019, in-kind by way of the issuance of 56,550 restricted shares of Series B Preferred Stock pro rata to each of the then holders of our Series B Preferred Stock in October 2019 and the issuance of 156,276 restricted shares of Series B1 Preferred Stock pro rata to each of the then holders of our Series B1 Preferred Stock in October 2019. If converted in full, the 56,550 shares of Series B Preferred Stock would convert into 56,550 shares of common stock and the 156,276 shares of Series B1 Preferred Stock would convert into 156,276 shares of common stock.

**Stock Option Agreements**

On October 9, 2019, the Board of Directors granted one employee options to purchase an aggregate of 75,000 shares of common stock at an exercise price of $1.13 per share with a 5 year term (subject to continued employment), vesting at the rate of 1/4th of such options per year on the first 4 anniversaries of the grant, under our 2013 Stock Incentive Plan, as amended, in consideration for services rendered and to be rendered to the Company.

On October 29, 2019, the Board of Directors granted the same employee options to purchase an aggregate of 125,000 shares of common stock at an exercise price of $1.00 per share with a 5 year term (subject to continued employment), vesting at the rate of 1/4th of such options per year on the first 4 anniversaries of the grant, under our 2019 Equity Incentive Plan, in consideration for services rendered and to be rendered to the Company.

**2019 Equity Incentive Plan**

On October 29, 2019, the Board of Directors adopted the Company's 2019 Equity Incentive Plan (the "2019 Plan"). Notwithstanding such adoption, in accordance with the rules of the Nasdaq Capital Market, following the date of adoption, but prior to the Shareholder Approval Date (as defined below), the Company may only grant stock options, but no shares of common stock or other securities, under the 2019 Plan. Additionally, (i) until the Shareholder Approval Date, no stock options can be exercised, and (ii) if Shareholder Approval is not received, the 2019 Plan is to be unwound, and the outstanding stock options granted thereunder cancelled (the "Nasdaq Pre-Approval Requirements"). Shareholder approval of the 2019 Plan is to be obtained in accordance with the Company's Articles of Incorporation and Bylaws, each as amended and applicable laws, within twelve (12) months of the date of adoption (the "Shareholder Approval" and the date of such Shareholder Approval, the "Shareholder Approval Date"). Additionally, the grant of incentive stock options is subject to Shareholder Approval. A total of 4,000,000 shares of common stock are reserved for awards under the 2019 Plan. The Plan provides an opportunity for any employee, officer, director or consultant of the Company, subject to the terms of the 2019 Plan (including as discussed above and any limitations provided by federal or state securities laws, to receive (i) incentive stock options (to eligible employees only); (ii) nonqualified stock options; (iii) restricted stock; (iv) stock awards; (v) shares in performance of services; or (vi) any combination of the foregoing. Incentive stock options granted under the 2019 Plan are intended to qualify as "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). Nonqualified (non-statutory stock options) granted under the 2019 Plan are not intended to qualify as incentive stock options under the Code.

**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;
- risks associated with our outstanding preferred stock, including redemption obligations in connection therewith, restrictive covenants and our ability to redeem such securities when required pursuant to the terms of such securities and applicable law;
- 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;
- 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;
- the lack of capital available on acceptable terms to finance our continued growth; and
- other risk factors included under " Risk Factors" in our latest Annual Report on Form 10-K and set forth below under " Risk Factors".

You should read the matters described in, and incorporated by reference 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, 2018, filed with the Securities and Exchange Commission on March 6, 2019 (the "Annual Report").

Certain capitalized terms used below and otherwise defined below, have the meanings given to such terms in the footnotes to our unaudited 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;
- "Securities Act" refers to the Securities Act of 1933, as amended; and
- "VRM LA" means Vertex Recovery Management LA, LLC, the Company's indirect wholly-owned subsidiary.

**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 (reports, proxy and information statements, and other information) 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. 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.

**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 September 30, 2019, we aggregated approximately 92 million gallons of used motor oil and other petroleum by-product feedstocks and managed the re-refining of approximately 74.8 million gallons of used motor oil with our proprietary vacuum gas oil ("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 Thermal Chemical Extraction Process ("TCEP") (which is currently not in operation) and we also utilize third-party processing facilities. Subsequent to the filing of this Report, we plan to recommence the use of our TCEP at our Baytown, Texas facility as we seek to capitalize on improved demand for lower sulfur marine fuels. Our TCEP technology will convert feedstock into a low sulfur marine fuel that can be sold into the new 0.5% low sulfur marine fuel specification mandated under International Maritime Organization (IMO) rules which go into effect on January 1, 2020.

We also acquired our Marrero, Louisiana facility, which facility re-refines used motor oil and also produces VGO and the Myrtle Grove re-refining complex in Belle Chasse, Louisiana (which is now owned by a special purpose entity which we own an approximate 85% interest of) in May 2014.

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 metals which includes transportation and marine salvage services throughout the Gulf Coast.

***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 41 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 29 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 previously used our proprietary TCEP technology to re-refine used oil into marine fuel cutterstock and a higher-value feedstock for further processing; provided that due to the current depressed value of oil, since the third quarter of fiscal 2015, we have been utilizing TCEP to pre-treat our used motor oil feedstock prior to shipping to our facility in Marrero, Louisiana; but have not operated our TCEP for the purpose of producing finished cutterstock. Subsequent to the filing of this Report, we plan to recommence the use of our TCEP at our Baytown, Texas facility as we seek to capitalize on improved demand for lower sulfur marine fuels. Our TCEP technology will convert feedstock into a low sulfur marine fuel that can be sold into the new 0.5% low sulfur marine fuel specification mandated under International Maritime Organization (IMO) rules which go into effect on January 1, 2020. In addition, at our Marrero, Louisiana 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 Company's Recovery Segment includes a generator solutions company for the proper recovery and management of hydrocarbon streams, the sales and marketing of Group III base oils and other petroleum-based products, together with the recovery and processing of metals.

***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. Subsequent to the filing of this Report, we plan to recommence the use of our TCEP at our Baytown, Texas facility as we seek to capitalize on improved demand for lower sulfur marine fuels. Our TCEP technology will convert feedstock into a low sulfur marine fuel that can be sold into the new 0.5% low sulfur marine fuel specification mandated under International Maritime Organization (IMO) rules which go into effect on January 1, 2020.

As of the date of this Report, we have no plans to construct additional TCEP facilities.

**Products and Services**

We generate substantially all of our revenue from the sale of six 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*

Gasoline blendstock includes 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 and base oils is refined from crude oil.

*Scrap Metal(s)*

Consists of recoverable ferrous and non-ferrous recyclable metals from manufacturing and consumption. Scrap metal can be recovered from pipes, barges, boats, building supplies, surplus equipment, tanks, and other items consisting of metal composition. These materials are segregated, processed, cut-up and sent back to a steel mill for re-purposing.

**RESULTS OF OPERATIONS**

Description of Material Financial Line Items:

*Revenues*

We generate revenues from three existing operating divisions as follows:

BLACK OIL - Revenues from 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. 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. 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, 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 is 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 Vertex Holdings, L.P. (formerly Vertex Energy, L.P.), a Texas limited partnership ("Holdings"), Omega Refining, LLC's ("Omega Refining") and Warren Ohio Holdings Co., LLC, f/k/a Heartland Group Holdings, LLC ("Heartland"), Acadiana, Nickco, Ygriega, and SES acquisitions, described in greater detail in the Annual Report.

**Recent Events**

*Myrtle Grove Share Purchase and Subscription Agreement*

On July 26, 2019 (the "Closing Date"), Vertex Refining Myrtle Grove LLC, a Delaware limited liability company, which entity was formed as a special purpose vehicle in connection with the transactions, described in greater detail below ("MG SPV"), Vertex Operating, Tensile-Myrtle Grove Acquisition Corporation ("Tensile-MG"), an affiliate of Tensile Capital Partners Master Fund LP, an investment fund based in San Francisco, California (" Tensile"), and solely for the purposes of the MG Guaranty (defined below), the Company, entered into and closed the transactions contemplated by a Share Purchase and Subscription Agreement (the "MG Share Purchase").

Prior to entering into the MG Share Purchase, Vertex Operating's wholly-owned subsidiary, Vertex Refining LA, LLC, (" Vertex LA"), transferred all of the operating assets owned by it and related to the planned development of the MG Refinery (as defined below), which the parties agreed had a fair market value of $22,666,667, to MG SPV in consideration for 21,667 Class A Units and 1,000 Class B Units of MG SPV, which units were distributed to Vertex Operating. At the closing of the MG Share Purchase (on the Closing Date), Vertex Operating sold 1,000 of the Class B Units to Tensile-MG in consideration of the payment to it of $1 million by Tensile-MG, and Tensile-MG purchased an additional 3,000 Class B Units directly from MG SPV for $3 million (less Tensile's fees and expenses incurred in connection with the transaction, not to exceed $850,000).

As a result of the transaction, Tensile, through Tensile-MG, acquired an approximate 15.58% ownership interest in MG SPV, which in turn now owns the Company's Belle Chasse, Louisiana, re-refining complex (the "MG Refinery").

We were required to use all proceeds we received from the sale of the Class B Units to pay down an equal amount of indebtedness then owing under our senior credit agreement, which amount we have paid to date.

*MG SPV Limited Liability Company Agreement*

As discussed above, after the consummation of the transactions set forth in the MG Share Purchase, MG SPV is owned 84.42% by Vertex Operating and 15.58% by Tensile-MG. The Class B Units held by Tensile-MG are convertible into Class A Units at the option of Tensile-MG, as provided in the Limited Liability Company Agreement of MG SPV dated July 25, 2019 (the "MG Company Agreement"), based on a conversion price (initially one-for-one) which may be reduced from time to time if new Units of MG SPV are issued, and automatically convert into Series A Units upon certain events described in the MG Company Agreement.

Additionally, the Class B Unit holders may force MG SPV to redeem the outstanding Class B Units at any time on or after the earlier of (a) the fifth anniversary of the Closing Date and (ii) the occurrence of a Triggering Event (defined below)(an "MG Redemption"). The cash purchase price for such redeemed Class B Units is the greater of (y) the fair market value of such units (without discount for illiquidity, minority status or otherwise) as determined by a qualified third party agreed to in writing by a majority of the holders seeking an MG Redemption and Vertex Operating (provided that Vertex Operating still owns Class A Units on such date) and (z) the original per-unit price for such Class B Units plus fifty percent (50%) of the aggregate capital invested by the Class B Unit holders through such MG Redemption date. "Triggering Events" mean (a) any dissolution, winding up or liquidation of the Company, Vertex Operating or any significant subsidiary of Vertex Operating, (b) any sale, lease, license or disposition of any material assets of the Company, Vertex Operating or any significant subsidiary of Vertex Operating, (c) any transaction or series of related transactions (whether by merger, exchange, contribution, recapitalization, consolidation, reorganization, combination or otherwise) involving the Company, Vertex Operating or any significant subsidiary of Vertex Operating, the result of which is that the holders of the voting securities of the relevant entity as of the Closing Date are no longer the beneficial owners, in the aggregate, after giving effect to such transaction or series of transactions, directly or indirectly, of more than fifty percent (50%) of the voting power of the outstanding voting securities of the entity, subject to certain other requirements set forth in the MG Company Agreement, (d) the failure to consummate the Heartland Closing (defined below) by June 30, 2020 (a "Failure to Close"), (e) the failure of Vertex Operating to operate MG SPV in good faith with appropriate resources, or (f) the material failure of the Company and its affiliates to comply with the terms of the contribution agreement, whereby the Company contributed assets and operations to MG SPV.

On or after the third anniversary of the Closing Date, the Company or any of its subsidiaries, may elect to purchase all of the outstanding units of MG SPV held by Tensile-MG (or any assignee of Tensile-MG) as discussed in the MG Company Agreement.

*Right of First Offer Letter Agreement*

On the Closing Date, Tensile-MG, Vertex Operating and the Company entered into a right of first offer letter agreement (the " ROFO Agreement"), whereby we agreed that if we, at any time, propose to issue, sell, transfer, assign, pledge, encumber or otherwise directly or indirectly dispose of any equity or debt securities of (x) MG SPV and/or (y) Cedar Marine Terminals, L.P., or any other entity formed or designated to operate the Cedar Marine Terminal in Baytown, Texas, we would provide Tensile-MG written notice of such, and Tensile-MG would have thirty days to purchase the amount of securities offered on terms at least as favorable as those in the original proposal. The rights under the ROFO Agreement continue to apply until such time, if ever, as Tensile-MG has acquired $50 million of securities pursuant to the terms thereof.

*Subscription Agreement; Common Stock Purchase Warrant and Registration Rights and Lock-Up Agreement*

On the Closing Date, and as a required term of the closing of the MG Share Purchase, Tensile entered into a Subscription Agreement dated July 25, 2019, in favor of the Company (the "Subscription Agreement"), pursuant to which, on the Closing Date, it subscribed to purchase (a) 1,500,000 shares of our common stock (the "Tensile Shares"), and (b) warrants to purchase 1,500,000 shares of our common stock with an exercise price of $2.25 per share and a term of ten years, which were documented by a Common Stock Purchase Warrant (the "Warrants" and the shares of common stock issuable upon exercise thereof, the "Warrant Shares") in consideration for $2.22 million or $1.48 per share and warrant.

*Letter Agreement and Heartland Option*

On the Closing Date, Tensile-Heartland Acquisition Corporation ("Tensile-Heartland"), an affiliate of Tensile, Vertex Operating and the Company entered into a letter agreement, whereby the Company and Vertex Operating provided Tensile an option (the "Heartland Option"), exercisable at any time prior to June 30, 2020, to the extent certain pilot studies to be conducted by MG SPV meet the standards of Tensile-Heartland, in its sole discretion, or the outcome of such studies are waived by Tensile-Heartland, to execute and close (within 30 days from such date of exercise by Tensile-Heartland) the transactions contemplated by a Share Purchase and Subscription Agreement between the parties and HPRM LLC, which are described below (the "Heartland Closing").

In the event the option provided for in the Heartland Option is exercised by Tensile-Heartland, of which there can be no assurance, the parties will enter into and complete the transactions contemplated by the following:

*Heartland Share Purchase and Subscription Agreement*

Upon exercise of the Heartland Option, the parties will enter into a Share Purchase and Subscription Agreement (the " Heartland Share Purchase") by and among HPRM LLC, a Delaware limited liability company, which entity was formed as a special purpose vehicle ("Heartland SPV"), Vertex Operating, Tensile-Heartland, and solely for the purposes of a guaranty, the Company.

Prior to entering into the Heartland Share Purchase, the Company will transfer 100% of the ownership of Vertex Refining OH, LLC, its indirect wholly-owned subsidiary ("Vertex OH") to Heartland SPV in consideration for 13,500 Class A Units, 13,500 Class A-1 Preferred Units and 11,300 Class B Units of Heartland SPV and immediately thereafter contribute 248 Class B Units to the Company's wholly-owned subsidiary, Vertex Splitter, Inc., a Delaware corporation ("Vertex Splitter"), as a contribution to capital.

Vertex OH owns the Company's Columbus, Ohio, Heartland facility, which produces a base oil product that is sold to lubricant packagers and distributors.

Pursuant to the Heartland Share Purchase, Vertex Operating will sell Tensile-Heartland the 13,500 Class A Units and 13,500 Class A-1 Preferred Units of Heartland SPV in consideration for $13.5 million (less the amount of the indebtedness of Heartland SPV that exceeds $5 million at the time of closing). The Heartland Share Purchase also includes a true-up, based on an agreed calculation of how much the actual value of Heartland SPV exceeds, or is less than, $24.8 million, pursuant to which the number of Class B Units in Heartland SPV held by Vertex Operating will be adjusted up or down. Also, at the closing of the Heartland Share Purchase, Tensile-Heartland will purchase 7,500 Class A Units and 7,500 Class A-1 Units in consideration for $7.5 million (less the expenses of Tensile-Heartland in connection with the transaction) directly from Heartland SPV.

Assuming the Heartland Closing occurs, the $7.5 million purchase amount and future free cash flows from the operation of Heartland SPV are planned to be available for investments at the Heartland facility to increase self-collections, maximize the throughput of the refinery, enhance the quality of the output and complete other projects.

The Heartland Share Purchase also provides that at the Heartland Closing, the Company will purchase or cause one of its affiliates to purchase 1,000 newly issued Class A Units from MG SPV at a cost of $1,000 per unit ($1 million in aggregate) and that Tensile-Heartland has the option, at its election, any time after the Heartland Closing, subject to the terms of the Heartland Share

Purchase, to purchase up to an additional 7,000 Class A-2 Preferred Units at a cost of $1,000 per Class A-2 Preferred Unit from Heartland SPV.

**RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2019 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2018**

Set forth below are our results of operations for the three months ended September 30, 2019 as compared to the same period in 2018.

| | Three Months Ended September 30, | | $ Change - Favorable (Unfavorable) | % Change - Favorable (Unfavorable) |
|---|---|---|---|---|
| | 2019 | 2018 | | |
| Revenues | $ 37,799,259 | $ 50,632,948 | $ (12,833,689) | (25)% |
| Cost of revenues (exclusive of depreciation and amortization shown separately below) | 32,372,316 | 42,593,367 | 10,221,051 | 24 % |
| Gross profit | 5,426,943 | 8,039,581 | (2,612,638) | (32)% |
| | | | | |
| Selling, general and administrative expenses | 6,153,184 | 5,658,659 | (494,525) | (9)% |
| Depreciation and amortization | 1,815,582 | 1,806,839 | (8,743) | — % |
| Total operating expenses | 7,968,766 | 7,465,498 | (503,268) | (7)% |
| | | | | |
| Income (loss) from operations | (2,541,823) | 574,083 | (3,115,906) | (543)% |
| | | | | |
| Other income (expense): | | | | |
| Interest income | 918,153 | — | 918,153 | 100 % |
| Gain (loss) on change in value of derivative liability | 1,290,792 | (2,169,133) | 3,459,925 | 160 % |
| Interest expense | (826,005) | (798,800) | (27,205) | (3)% |
| Total other income (expense) | 1,382,940 | (2,967,933) | 4,350,873 | 147 % |
| | | | | |
| Loss before income tax | (1,158,883) | (2,393,850) | 1,234,967 | 52 % |
| | | | | |
| Income tax benefit (expense) | — | — | — | — % |
| | | | | |
| Net loss | (1,158,883) | (2,393,850) | 1,234,967 | 52 % |
| Net loss attributable to non-controlling interest and redeemable non-controlling interest | (67,102) | (105,970) | 38,868 | 37 % |
| Net loss attributable to Vertex Energy, Inc. | $ (1,091,781) | $ (2,287,880) | $ 1,196,099 | 52 % |

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 decreased by 25% for the three months ended September 30, 2019 , compared to the same period in 2018, due primarily to lower commodity prices and decreased volumes at our refineries, specifically our Marrero facility during the three months ended September 30, 2019 , compared to the same period in 2018. Total volume decreased 1% during the three months ended September 30, 2019 compared to the same period in 2018. Volumes were impacted as a result of weather delays at our Marrero facility during our turnaround during the quarter. Gross profit decreased by 32% for the three months ended September 30, 2019 compared to the three months ended September 30, 2018. This decrease was a result of revenue decline, due to finished product prices, decreases in volumes at our Marrero facility, lower production and increased operating costs at our refineries and our metals facilities.

Additionally, our per barrel margin decreased 32% for the three months ended September 30, 2019, relative to the three months ended September 30, 2018. This decrease was a result of the decline in our product spreads related to decreases in finished product prices, as well as increased operating costs at our refineries as well as our Gulf Coast operations, related to our metals business, during the three months ended September 30, 2019 , compared to the same period during 2018. The 24% decrease in cost of revenues for the three months ended September 30, 2019 , compared to the three months ended September 30, 2018, is mainly a result of the lower production volumes at our Marrero facility during the period, as well as certain overhead operating expenses during the period.

Each of our segments' income (loss) from operations during the three months ended September 30, 2019 and 2018 was as follows:

| | Three Months Ended September 30, | | $ Change - Favorable (Unfavorable) | % Change - Favorable (Unfavorable) |
|---|---|---|---|---|
| **Black Oil Segment** | 2019 | 2018 | | |
| Total revenue | $ 32,330,531 | $ 40,400,064 | $ (8,069,533) | (20)% |
| Total cost of revenue (exclusive of depreciation and amortization shown separately below) | 27,663,983 | 32,550,126 | 4,886,143 | 15 % |
| Gross profit | 4,666,548 | 7,849,938 | (3,183,390) | (41)% |
| Selling general and administrative expense | 5,040,772 | 4,732,453 | (308,319) | (7)% |
| Depreciation and amortization | 1,408,625 | 1,348,046 | (60,579) | (4)% |
| Income (loss) from operations | $ (1,782,849) | $ 1,769,439 | $ (3,552,288) | (201)% |
| | | | | |
| **Refining and Marketing Segment** | | | | |
| Total revenue | $ 3,076,454 | $ 7,313,630 | $ (4,237,176) | (58)% |
| Total cost of revenue (exclusive of depreciation and amortization shown separately below) | 2,511,314 | 7,044,218 | 4,532,904 | 64 % |
| Gross profit | 565,140 | 269,412 | 295,728 | 110 % |
| Selling general and administrative expense | 494,781 | 431,969 | (62,812) | (15)% |
| Depreciation and amortization | 248,056 | 255,925 | 7,869 | 3 % |
| Loss from operations | $ (177,697) | $ (418,482) | $ 240,785 | 58 % |
| | | | | |
| **Recovery Segment** | | | | |
| Total revenue | $ 2,392,274 | $ 2,919,254 | $ (526,980) | (18)% |
| Total cost of revenue (exclusive of depreciation and amortization shown separately below) | 2,197,019 | 2,999,023 | 802,004 | 27 % |
| Gross profit (loss) | 195,255 | (79,769) | 275,024 | 345 % |
| Selling general and administrative expense | 617,631 | 494,237 | (123,394) | (25)% |
| Depreciation and amortization | 158,901 | 202,868 | 43,967 | 22 % |
| Loss from operations | $ (581,277) | $ (776,874) | $ 195,597 | 25 % |

Our Black Oil division's volume decreased approximately 5% during the three months ended September 30, 2019 compared to the same period in 2018. This decrease was due to extended downtime we experienced at our Marrero facility during our turn around which was impacted by weather delays including those caused by Hurricane Barry, which severely disrupted planned maintenance at the Marrero, Louisiana refinery during July 2019. High winds and flooding resulting from the hurricane extended the planned maintenance at the Marrero facility by 8 days, to 21 days, resulting in higher turnaround costs and lower than anticipated production levels at the refinery during the quarter. Volumes collected through our H&H Oil, L.P. ("H&H Oil")(based in Houston, Austin and Corpus Christi, Texas) and Heartland (based in Ohio and West Virginia) collection facilities increased 25% during the three months ended September 30, 2019 compared to the same period in 2018. 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 decreased 1% for the three months ended September 30, 2019 versus the same period in 2018.

Overall, commodity prices were down for the three months ended September 30, 2019 , compared to the same period in 2018. For example, the average posting (U.S. Gulfcoast Residual Fuel No. 6 3%) for the three months ended September 30, 2019 decreased $14.23 per barrel from a three month average of $65.79 for the three months ended September 30, 2018 to $51.56 per barrel for the three months ended September 30, 2019 . The average posting (U.S. Gulfcoast Unleaded 87 Waterborne) for the three months ended September 30, 2019 decreased $13.24 per barrel from a three month average of $86.21 for the three months ended September 30, 2018 to $72.97 per barrel for the three months ended September 30, 2019.

Overall volume for the Refining and Marketing division decreased 51% during the three months ended September 30, 2019 as compared to the same period in 2018. This is a result of a focus on the production of higher quality finished products, which in turn has decreased the amount of volume being produced. Our fuel oil cutter volumes decreased 78% for the three months ended September 30, 2019 , compared to the same period in 2018. Our pygas volumes decreased 21% for the three months ended September 30, 2019 as compared to the same period in 2018. Our gasoline blendstock volumes decreased 100% for the three months ended September 30, 2019 as compared to the same period in 2018, due to the fact that we are no longer processing gasoline blendstocks in this division as the processing margins were no longer economically feasible. The lower margins were a result of decreases in available feedstock volumes. We have also had to assess the volume of fuel oil cutterstocks that we manage due to enhanced quality of products being demanded in the marketplace.

Our Recovery division includes the business operations of Vertex Recovery Management. Revenues for this division decreased 18% as a result of a decrease in steel volumes and commodity prices, during the three months ended September 30, 2019, compared to the same period in 2018. Volumes of petroleum products acquired in our Recovery business were up 28% during the three months ended September 30, 2019, compared to the same period during 2018, we continue to focus on volume growth in this division. This division 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.

We had selling, general, and administrative expenses of $ 6,153,184 for the three months ended September 30, 2019 , compared to $5,658,659 of selling, general, and administrative expenses for the prior year's period, an increase of $494,525 from the prior period, mainly due to the additional selling, general and administrative expenses incurred during the period as a result of increased personnel costs, legal expense, and insurance expense related to the expansion of trucking operations and facilities through organic growth, as well as increased accounting, legal and consulting expenses related to our Tensile transaction.

We had loss from operations of $ 2,541,823 for the three months ended September 30, 2019 , compared to income from operations of $ 574,083 for the three months ended September 30, 2018, a decrease of $ 3,115,906 or 543% from the prior year's three-month period. The decrease was due to a decrease in revenues resulting from a decrease in production at our Marrero facility as noted previously and increased operating costs at our refineries and metals operations, along with the increased selling, general and administrative expenses discussed above.

We had interest expense of $ 826,005 for the three months ended September 30, 2019 , compared to interest expense of $ 798,800 for the three months ended September 30, 2018, an increase in interest expense of $ 27,205 or 3% from the prior period, due to a higher interest rate on the term debt outstanding during the three months ended September 30, 2019.

We had a $ 1,290,792 gain on change in value of derivative liability for the three months ended September 30, 2019 , in connection with 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 consolidated 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 $ 2,169,133 in the prior year's period. This change was mainly due to fluctuation in the market price of our common stock. This resulted in a significant non-cash benefit for the period.

We had a net loss of $1,158,883 for the three months ended September 30, 2019 , compared to net loss of $2,393,850 for the three months ended September 30, 2018, a decrease in net loss of $1,234,967 or 52% from the prior period, which was a result of the factors described above. The majority of our net loss for the three months ended September 30, 2019 , was attributable to the decline in market conditions around our metals business, a reduction in volumes at our Marrero facility and commodity price reductions, along with increased operational costs.

During the three months ended September 30, 2019 and 2018, the processing costs for our Refining and Marketing division located at KMTEX were $434,046 and $631,261, respectively.

**RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2018**

Set forth below are our results of operations for the nine months ended September 30, 2019 as compared to the same period in 2018.

| | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 | $ Change - Favorable (Unfavorable) | % Change - Favorable (Unfavorable) |
|---|---|---|---|---|
| Revenues | $ 120,777,263 | $ 138,918,913 | $ (18,141,650) | (13)% |
| Cost of Revenues (exclusive of depreciation shown separately below) | 103,732,086 | 114,434,776 | 10,702,690 | 9 % |
| Gross Profit | 17,045,177 | 24,484,137 | (7,438,960) | (30)% |
| Selling, general and administrative expenses | 17,529,784 | 16,668,692 | (861,092) | (5)% |
| Depreciation and amortization | 5,333,485 | 5,234,014 | (99,471) | (2)% |
| Income (loss) from operations | (5,818,092) | 2,581,431 | (8,399,523) | (325)% |
| Interest Income | 920,071 | 659 | 919,412 | 139,516 % |
| Gain (loss) on sale of assets | 31,443 | 51,523 | (20,080) | (39)% |
| Gain (loss) on change in value of derivative liability | 331,715 | (2,124,971) | 2,456,686 | 116 % |
| Interest expense | (2,322,780) | (2,448,771) | 125,991 | 5 % |
| Total other income (expense) | (1,039,551) | (4,521,560) | 3,482,009 | 77 % |
| Loss before income taxes | (6,857,643) | (1,940,129) | (4,917,514) | (253)% |
| Income tax (expense) benefit | — | — | — | — % |
| Net loss | (6,857,643) | (1,940,129) | (4,917,514) | (253)% |
| Net loss attributable to non-controlling interest and redeemable non-controlling interest | (374,862) | 76,305 | (451,167) | (591)% |
| Net loss attributable to Vertex Energy, Inc. | $ (6,482,781) | $ (2,016,434) | $ (4,466,347) | (221)% |

Each of our segments' gross profit (loss) during the nine months ended September 30, 2019 and 2018 was as follows:

| Black Oil Segment | Nine Months Ended September 30, 2019 | 2018 | $ Change - Favorable (Unfavorable) | % Change - Favorable (Unfavorable) |
|---|---|---|---|---|
| Total revenue | $ 103,053,529 | $ 111,106,441 | $ (8,052,912) | (7)% |
| Total cost of revenue (exclusive of depreciation and amortization shown separately below) | 88,374,446 | 89,244,032 | 869,586 | 1 % |
| Gross profit | 14,679,083 | 21,862,409 | (7,183,326) | (33)% |
| Selling, general and administrative expense | 14,500,306 | 13,909,868 | (590,438) | (4)% |
| Depreciation and amortization | 4,127,979 | 3,972,922 | (155,057) | (4)% |
| Income (loss) from operations | $ (3,949,202) | $ 3,979,619 | $ (7,928,821) | (199)% |
| **Refining Segment** | | | | |
| Total revenue | $ 9,212,477 | $ 17,381,741 | $ (8,169,264) | (47)% |
| Total cost of revenue (exclusive of depreciation and amortization shown separately below) | 7,767,882 | 16,318,259 | 8,550,377 | 52 % |
| Gross profit | 1,444,595 | 1,063,482 | 381,113 | 36 % |
| Selling, general and administrative expense | 1,424,572 | 1,416,927 | (7,645) | (1)% |
| Depreciation and amortization | 733,142 | 766,077 | 32,935 | 4 % |
| Loss from operations | $ (713,119) | $ (1,119,522) | $ 406,403 | 36 % |
| **Recovery Segment** | | | | |
| Total revenue | $ 8,511,257 | $ 10,430,731 | $ (1,919,474) | (18)% |
| Total cost of revenue (exclusive of depreciation and amortization shown separately below) | 7,589,758 | 8,872,485 | 1,282,727 | 14 % |
| Gross profit | 921,499 | 1,558,246 | (636,747) | (41)% |
| Selling, general and administrative expense | 1,604,906 | 1,341,897 | (263,009) | (20)% |
| Depreciation and amortization | 472,364 | 495,015 | 22,651 | 5 % |
| Loss from operations | $ (1,155,771) | $ (278,666) | $ (877,105) | (315)% |

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 decreased by 13% for the nine months ended September 30, 2019 compared to the same period in 2018, due primarily to lower commodity prices and decreased volumes at our refineries, specifically our Marrero facility, due to weather delay, as discussed above, during the nine months ended September 30, 2019, compared to the prior year's period. Total volume was materially unchanged during the nine months ended September 30, 2019, compared to the same period in 2018. Gross profit decreased by 30% for the nine months ended September 30, 2019, compared to the nine months ended September 30, 2018. This decrease was the result of our overall revenue decline due to decreases in finished product prices, and a decrease in volumes at our Refining & Marketing division, as well as our Marrero facility and metals facilities.

Additionally, our per barrel margin decreased 34% for the nine months ended September 30, 2019, relative to the nine months ended September 30, 2018, due to increases in our feedstock pricing along with decreases in commodity prices for the finished products we sell during the nine months ended September 30, 2019, compared to the same period during 2018. The 9% decrease in cost of revenues for the nine months ended September 30, 2019, compared to the nine months ended September 30, 2018, is mainly a result of the decrease in commodity prices and lower volumes at our refining facilities during the period.

Our Black Oil division's volume increased approximately 93% during the nine months ended September 30, 2019, compared to the same period in 2018. This increase was due to some trading opportunities earlier in the year that allowed us to sell additional volumes. Volumes collected through our H&H Oil and Heartland collection facilities increased 21% during the nine months ended

September 30, 2019, compared to the same period in 2018. 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 was unchanged for the nine months ended September 30, 2019 , versus the same period in 2018. This is an important metric for us as it illustrates our reach into the market.

In addition, commodity prices decreased approximately 8% for the nine months ended September 30, 2019 , compared to the same period in 2018. For example, the average posting (U.S. Gulfcoast No. 2 Waterbone) for the nine months ended September 30, 2019 , decreased $6.07 per barrel from a nine month average of $82.79 for the nine months ended September 30, 2018, to $76.72 per barrel for the nine months ended September 30, 2019 .

Overall volume for the Refining and Marketing division decreased 37% during the nine months ended September 30, 2019 , as compared to the same period in 2018. Our fuel oil cutter volumes decreased 66% for the nine months ended September 30, 2019 , compared to the same period in 2018. Our pygas volumes decreased 8% for the nine months ended September 30, 2019 , as compared to the same period in 2018. This division experienced a decrease in production of 88% for its gasoline blendstock for the nine months ended September 30, 2019 , compared to the same period in 2018, due to the fact that we are no longer processing gasoline blendstocks in this division as the processing margins were no longer economically feasible. The lower margins were a result of decreases in available feedstock volumes. We have also had to assess the volume of fuel oil cutterstocks that we manage due to enhanced quality of products being demanded in the marketplace.

Our Recovery division includes the business operations of Vertex Recovery Management. Revenues for this division decreased 18% as a result of lower volumes compared to the same period in 2018. Volumes of petroleum products acquired in our Recovery business were up 8% during the nine months ended September 30, 2019, compared to the same period during 2018. This division 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.

The following table sets forth the high and low spot prices during the nine months ended September 30, 2019 , for our key benchmarks.

**2019**

| Benchmark | High | Date | Low | Date |
|---|---|---|---|---|
| U.S. Gulfcoast No. 2 Waterborne (dollars per gallon) | $ 2.01 | September 16 | $ 1.53 | January 2 |
| U.S. Gulfcoast Unleaded 87 Waterborne (dollars per gallon) | $ 2.08 | April 10 | $ 1.31 | January 2 |
| U.S. Gulfcoast Residual Fuel No. 6 3% (dollars per barrel) | $ 68.54 | April 25 | $ 41.19 | August 14 |
| NYMEX Crude oil (dollars per barrel) | $ 66.30 | April 23 | $ 46.54 | January 2 |
| *Reported in Platt's US Marketscan (Gulf Coast)* | | | | |

The following table sets forth the high and low spot prices during the nine months ended September 30, 2018 , for our key benchmarks.

**2018**

| Benchmark | High | Date | Low | Date |
|---|---|---|---|---|
| U.S. Gulfcoast No. 2 Waterborne (dollars per gallon) | $ 2.27 | September 28 | $ 1.64 | February 12 |
| U.S. Gulfcoast Unleaded 87 Waterborne (dollars per gallon) | $ 2.15 | September 28 | $ 1.71 | February 12 |
| U.S. Gulfcoast Residual Fuel No. 6 3% (dollars per barrel) | $ 70.59 | September 28 | $ 51.30 | February 9 |
| NYMEX Crude oil (dollars per barrel) | $ 74.11 | July 10 | $ 59.19 | February 13 |
| *Reported in Platt's US Marketscan (Gulf Coast)* | | | | |

We saw on average very little change during the first nine months of 2019, in each of the benchmark commodities we track compared to the same period in 2018.

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 have 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. Additionally, if we are forced to pay more for feedstock, our cash flows will be negatively impacted and our margins will decrease.

We had selling, general, and administrative expenses of $ 17,529,784 for the nine months ended September 30, 2019, compared to $16,668,692 of selling, general, and administrative expenses for the prior year's period, an increase of $861,092 or 5%. This increase is primarily due to the additional selling, general and administrative expenses incurred during the period as a result of increased personnel costs, legal expenses, and insurance expenses related to expansion of trucks and facilities through organic growth, as well as increased accounting, legal and consulting expenses related to our Tensile transaction.

We had loss from operations of $ 5,818,092 for the nine months ended September 30, 2019, compared to income from operations of $2,581,431 for the nine months ended September 30, 2018, a decrease of $8,399,523 or 325% from the prior year's nine-month period. The decrease was mainly due to a decrease in overall gross profit for the nine months ended September 30, 2019.

We had interest expense of $2,322,780 for the nine months ended September 30, 2019, compared to interest expense of $2,448,771 for the nine months ended September 30, 2018, a decrease in interest expense of $ 125,991 or 5%, due to a lower amount of term debt outstanding during the nine months ended September 30, 2019.

We had a gain on the sale of assets of $ 31,443 for the nine months ended September 30, 2019, compared to a gain on the sale of assets of $ 51,523 for the nine months ended September 30, 2018. The sale of fixed assets during the nine months ended September 30, 2018 was mainly related to the sale of certain assets related to E-Source Holdings, LLC ("E-Source"), our wholly-owned subsidiary.

We had a $331,715 gain on change in value of derivative liability for the nine months ended September 30, 2019, in connection with 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 consolidated 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 $ 2,124,971 in the prior year's period. This change was mainly due to a fluctuation in the market price of our common stock.

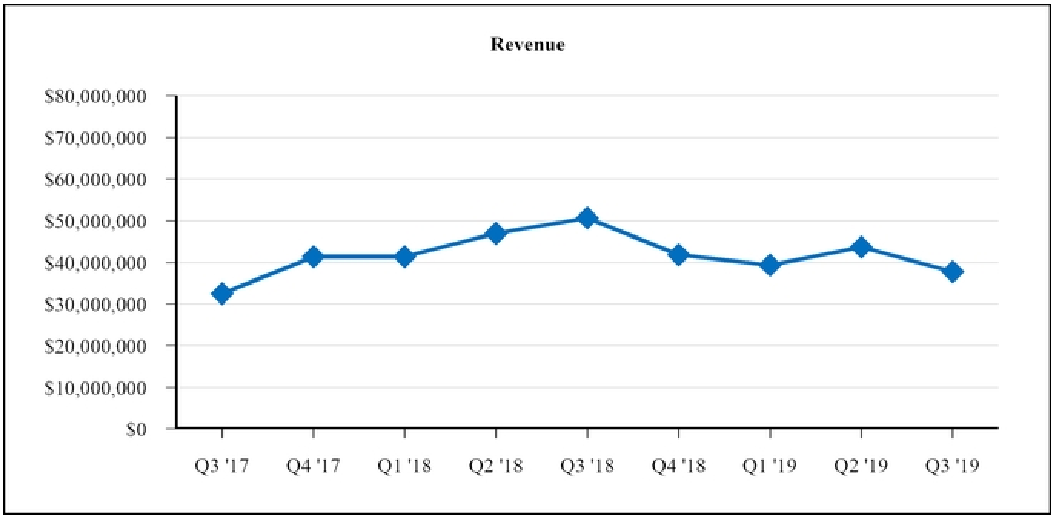
We had a net loss of $ 6,857,643 for the nine months ended September 30, 2019, compared to a net loss of $ 1,940,129 for the nine months ended September 30, 2018, an increase in net loss of $ 4,917,514 or 253% from the prior period for the reasons described above. The majority of our net loss for the nine months ended September 30, 2019, was attributable to the decline in market and commodity prices.

During the nine months ended September 30, 2019 and 2018, the processing costs for our Refining and Marketing division located at KMTEX were $1,419,225 and $1,573,152, respectively.

Set forth below, we have disclosed a quarter-by-quarter summary of our statements of operations for the third, second and first quarters of 2019, fiscal year 2018 and the fourth and third quarters of 2017.

| | Fiscal 2019 | | | Fiscal 2018 | | | | Fiscal 2017 | |
|---|---|---|---|---|---|---|---|---|---|
| | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Third Quarter |
| Revenues | $ 37,799,259 | $ 43,657,292 | $ 39,320,712 | $ 41,801,748 | $ 50,632,948 | $ 46,917,770 | $ 41,368,195 | $ 41,345,248 | $ 32,470,451 |
| Cost of Revenues (exclusive of depreciation and amortization shown separately below) | 32,372,316 | 36,515,421 | 34,844,349 | 36,879,263 | 42,593,367 | 36,796,258 | 35,045,151 | 33,362,445 | 28,696,461 |
| Gross Profit | 5,426,943 | 7,141,871 | 4,476,363 | 4,922,485 | 8,039,581 | 10,121,512 | 6,323,044 | 7,982,803 | 3,773,990 |
| Selling, general and administrative expenses | 6,153,184 | 6,028,859 | 5,347,741 | 5,258,572 | 5,658,659 | 5,364,591 | 5,645,442 | 5,405,047 | 5,690,761 |
| Depreciation and amortization | 1,815,582 | 1,780,890 | 1,737,013 | 1,756,996 | 1,806,839 | 1,733,076 | 1,694,099 | 1,700,413 | 1,697,821 |
| Total operating expenses | 7,968,766 | 7,809,749 | 7,084,754 | 7,015,568 | 7,465,498 | 7,097,667 | 7,339,541 | 7,105,460 | 7,388,582 |
| Income (loss) from operations | (2,541,823) | (667,878) | (2,608,391) | (2,093,083) | 574,083 | 3,023,845 | (1,016,497) | 877,343 | (3,614,592) |
| Other income (expense): | | | | | | | | | |
| Interest income | 918,153 | 1,918 | — | — | — | 659 | — | — | 1,519 |
| Gain (loss) on change in value of warrant derivative liability | 1,290,792 | 746,017 | (1,705,094) | 2,888,687 | (2,169,133) | 475,913 | (431,751) | (556,318) | 1,371,461 |
| Gain (loss) on sale of assets | — | 29,150 | 2,293 | (5,970) | — | 8,843 | 42,680 | 14,251 | 25,693 |
| Interest expense | (826,005) | (738,972) | (757,803) | (833,084) | (798,800) | (847,456) | (802,515) | (794,668) | (733,459) |
| Total other income (expense) | 1,382,940 | 38,113 | (2,460,604) | 2,049,633 | (2,967,933) | (362,041) | (1,191,586) | (1,336,735) | 665,214 |
| Income (loss) before income taxes | (1,158,883) | (629,765) | (5,068,995) | (43,450) | (2,393,850) | 2,661,804 | (2,208,083) | (459,392) | (2,949,378) |
| Income tax benefit (expense) | — | — | — | — | — | — | — | 274,423 | — |
| Net income (loss) | **(1,158,883)** | **(629,765)** | **(5,068,995)** | **(43,450)** | **(2,393,850)** | **2,661,804** | **(2,208,083)** | **(184,969)** | **(2,949,378)** |
| Net income (loss) attributable to non-controlling interest and redeemable non-controlling interest | (67,102) | (202,329) | (105,431) | 157,883 | (105,970) | 131,736 | 50,539 | 200,418 | 34,554 |
| Net income (loss) | $ (1,091,781) | $ (427,436) | $ (4,963,564) | $ (201,333) | $ (2,287,880) | $ 2,530,068 | $ (2,258,622) | $ (385,387) | $ (2,983,932) |

The graph below charts our total quarterly revenue over time from September 30, 2017 to September 30, 2019:




In the table below, we have disclosed a quarter-by-quarter summary of our gross profit by segment for the second and first quarters of 2019, fiscal year 2018 and the fourth, third and second quarters of 2017.

| GROSS PROFIT BY SEGMENT BY QUARTER | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fiscal 2019 | | | Fiscal 2018 | | | | Fiscal 2017 | |
| | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Third Quarter |
| **Black Oil** | | | | | | | | | |
| Revenues | $ 32,330,530 | $ 37,907,811 | $ 32,815,187 | $ 32,730,540 | $ 40,400,064 | $ 38,469,131 | $ 32,237,246 | $ 30,441,750 | $ 25,358,317 |
| Cost of revenues | 27,663,982 | 31,368,939 | 29,341,525 | 27,280,433 | 32,550,126 | 29,723,927 | 26,969,978 | 24,323,240 | 22,016,825 |
| Gross profit | $ 4,666,548 | $ 6,538,872 | $ 3,473,662 | $ 5,450,107 | $ 7,849,938 | $ 8,745,204 | $ 5,267,268 | $ 6,118,510 | $ 3,341,492 |
| **Refining & Marketing** | | | | | | | | | |
| Revenues | $ 3,076,454 | $ 3,277,402 | $ 2,858,621 | $ 5,553,741 | $ 7,313,630 | $ 4,392,870 | $ 5,675,241 | $ 4,660,406 | $ 4,856,520 |
| Cost of revenues | 2,511,314 | 2,705,031 | 2,551,537 | 5,972,018 | 7,044,218 | 4,034,509 | 5,239,532 | 4,222,872 | 4,850,354 |
| Gross profit (loss) | $ 565,140 | $ 572,371 | $ 307,084 | $ (418,277) | $ 269,412 | $ 358,361 | $ 435,709 | $ 437,534 | $ 6,166 |
| **Recovery** | | | | | | | | | |
| Revenues | $ 2,392,274 | $ 2,472,079 | $ 3,646,904 | $ 3,517,467 | $ 2,919,254 | $ 4,055,769 | $ 3,455,708 | $ 6,243,092 | $ 2,255,614 |
| Cost of revenues | 2,197,019 | 2,441,451 | 2,951,287 | 3,626,812 | 2,999,023 | 3,037,821 | 2,835,641 | 4,816,333 | 1,829,282 |
| Gross profit (loss) | $ 195,255 | $ 30,628 | $ 695,617 | $ (109,345) | $ (79,769) | $ 1,017,948 | $ 620,067 | $ 1,426,759 | $ 426,332 |

**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 $120,740,141 as of September 30, 2019, compared to $84,160,408 at December 31, 2018. The increase was mainly due to the implementation of the new lease accounting requirements during the nine months ended September 30, 2019, which mandated the recognition of operating lease right of use assets totaling an aggregate of $36,242,861. The recognition of these right of use assets on the balance sheet existed in prior periods as well, but were not, due to the then accounting requirements, treated as assets on our balance sheet. Without taking into account the operating lease right to use assets, our total assets would have been $84,497,280 at September 30, 2019.

We had total current liabilities of $ 26,351,851 as of September 30, 2019, compared to $16,995,611 at December 31, 2018. We had total liabilities of $71,063,113 as of September 30, 2019, compared to total liabilities of $33,171,401 as of December 31, 2018. The increase in current liabilities and total liabilities was mainly in connection with the implementation of the new lease accounting requirements, which created a new line item on the balance sheet, operating lease liability, which totaled $36,242,861 as of September 30, 2019.

We had a working capital deficit of $ 923,120 as of September 30, 2019, compared to working capital of $6,547,301 as of December 31, 2018. The decline in working capital from December 31, 2018 to September 30, 2019 is mainly due to the current portion of the operating lease liability in connection with the implementation of the new lease accounting requirements.

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.

The Company financed insurance premiums through various financial institutions bearing interest rates from 4.00% to 4.90%. All of such premium finance agreements have maturities of less than one year and have a balance of $2,085,927 at September 30, 2019.

The Company's outstanding debt facilities as of September 30, 2019 and December 31, 2018 are summarized as follows:

| Creditor | Loan Type | Origination Date | Maturity Date | Loan Amount | Balance on September 30, 2019 | Balance on December 31, 2018 |
|---|---|---|---|---|---|---|
| Encina Business Credit, LLC | Term Loan | February 1, 2017 | February 1, 2021 | $ 20,000,000 | $ 13,558,000 | $ 15,350,000 |
| Encina Business Credit SPV, LLC | Revolving Note | February 1, 2017 | February 1, 2021 | $ 10,000,000 | 5,387,639 | 3,844,636 |
| Wells Fargo Equipment Lease-Ohio | Finance Lease | April-May, 2019 | April-May, 2024 | $ 621,000 | 579,062 | — |
| Tetra Capital Lease | Finance Lease | May, 2018 | May, 2022 | $ 419,690 | 286,011 | 349,822 |
| Well Fargo Equipment Lease-VRM LA | Finance Lease | March, 2018 | March, 2021 | $ 30,408 | 14,898 | 22,390 |
| Various institutions | Insurance premiums financed | Various | < 1 year | $ 2,902,428 | 2,085,927 | 999,152 |
| Total | | | | | **21,911,537** | **20,566,000** |
| Deferred finance costs, net | | | | | (191,303) | (621,733) |
| Total, net of deferred finance costs | | | | | **$ 21,720,234** | **$ 19,944,267** |

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 | $ 900,000 | $ 12,658,000 | $ — | $ — | $ — | $ — |
| Encina Business Credit SPV, LLC | 5,387,639 | — | — | — | — | — |
| Well Fargo Equipment Lease- Ohio | 113,383 | 122,357 | 125,642 | 132,259 | 85,421 | — |
| Tetra Capital Lease | 90,249 | 96,530 | 99,232 | — | — | — |
| Well Fargo Equipment Lease- VRM LA | 10,413 | 4,485 | — | — | — | — |
| Various institutions | 2,085,927 | — | — | — | — | — |
| Totals | 8,587,611 | 12,881,372 | 224,874 | 132,259 | 85,421 | — |
| Deferred finance costs, net | (191,303) | — | — | — | — | — |
| Totals, net of deferred finance costs | $ 8,396,308 | $ 12,881,372 | $ 224,874 | $ 132,259 | $ 85,421 | $ — |

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

Our outstanding EBC Credit Agreement and the Revolving Credit Agreement are described in greater detail under " Part I" - "Item 1. Financial Statements" - "Note 6. Line of Credit and Long-Term Debt" - "Credit and Guaranty Agreement and Revolving Credit Facility with Encina Business Credit, LLC " and "Credit Agreement Amendments".

The principal balances of the EBC Credit Agreement and the Revolving Credit Agreement as of September 30, 2019 are $13,558,000 and $5,387,639, respectively.

***Subscription Agreement and Warrants***

On July 26, 2019, we sold (a) 1,500,000 shares of our common stock, and (b) warrants to purchase 1,500,000 shares of our common stock with an exercise price of $2.25 per share and a term of ten years in consideration for $2.22 million or $1.48 per share and warrant.

*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 process costs and would depend on the location and site specifics of the facility.

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.

We will also need additional capital in the future to redeem our Series B Preferred Stock and Series B1 Preferred Stock, provided that the required redemption date of such preferred stock (June 24, 2020), is automatically extended in the event we are prohibited from redeeming such preferred stock on such redemption date due to the terms of our credit facilities (which currently prohibit such redemption) or applicable law.

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 nine months ended September 30, 2019 compared to the nine months ended September 30, 2018:**

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2019 | 2018 |
| Beginning cash, cash equivalents and restricted cash | $ 2,849,831 | $ 1,105,787 |
| Net cash provided by (used in): | | |
| Operating activities | (3,058,106) | 409,486 |
| Investing activities | (3,200,700) | (2,076,882) |
| Financing activities | 5,812,788 | 2,401,954 |
| Net increase (decrease) in cash, cash equivalents and restricted cash | (446,018) | 734,558 |
| Ending cash, cash equivalents and restricted cash | $ 2,403,813 | $ 1,840,345 |

Net cash used in operating activities was $ 3,058,106 for the nine months ended September 30, 2019, as compared to net cash provided by operating activities of $409,486 during the corresponding period in 2018. Our primary sources of liquidity are cash flows from our operations and the availability to borrow funds under our credit and loan facilities. The primary reason for the decrease in cash provided by operating activities for the nine month period ended September 30, 2019, compared to the same period in 2018, was the decline in market and commodity prices.

Investing activities used cash of $3,200,700 for the nine months ended September 30, 2019, as compared to having used $2,076,882 of cash during the corresponding period in 2018, due mainly to the purchase of fixed assets.

Financing activities provided cash of $5,812,788 for the nine months ended September 30, 2019, as compared to providing cash of $2,401,954 during the corresponding period in 2018. Financing activities for the nine months ended September 30, 2019 were comprised of note proceeds of approximately $2.8 million and contributions from the Tensile transaction of $5.4 million, offset by approximately $3.5 million used to pay down our long-term debt, and $1.5 million of proceeds from our line of credit. Financing activities for the nine months ended September 30, 2018 were comprised of note proceeds of approximately $4.0 million, offset by approximately $3.0 million used to pay down our long-term debt, and $1.4 million of payments on our line of credit.

**Critical Accounting Policies and Use of Estimates**

Our financial statements are prepared in accordance with U.S. 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 “Part I” - “Item 1. Financial Statements” - “Note 1. Basis of Presentation and Nature of Operations” to the financial statements included herein).

*Revenue Recognition*

We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. Revenue is recognized when our performance obligations under the terms of a contract with our customers are satisfied. Recognition occurs when the Company transfers control by completing the specified services at the point in time the customer benefits from the services performed or once our products are delivered. Revenue is measured as the amount of consideration we expect to receive in exchange for completing our performance obligations. Sales tax and other taxes we collect with revenue-producing activities are excluded from revenue. In the case of contracts with multiple performance obligations, the Company allocates the transaction price to each performance obligation based on the relative stand-alone selling prices of the various goods and/or services encompassed by the contract. We do not have any material significant payment terms, as payment is generally due within 30 days after the performance obligation has been satisfactorily completed. The Company has elected the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that we otherwise would have recognized is one year or less. In applying the guidance in Topic 606, there were no judgments or estimates made that the Company deems significant.

The nature of the Company's contracts give rise to certain types of variable consideration. The Company estimates the amount of variable consideration to include in the estimated transaction price based on historical experience, anticipated performance and its best judgment at the time and to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved.

From time to time, our fuel oil customers in our black oil segment may request that we store product which they purchase from us in our facilities. We recognize revenues for these “bill and hold” sales once the following criteria have been met: (1) there is a substantive reason for the arrangement, (2) the product is segregated and identified as the customer's asset, (3) the product is ready for delivery to the customer, and (4) we cannot use the product or direct it to another customer.

*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. 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.

Our Level 2 liabilities include our marked to market changes in the estimated value of our open derivative contracts held at the balance sheet date.

Our Level 3 liabilities include our marked to market changes in the estimated value of our derivative warrants issued in connection with our Series B Preferred Stock and Series B1 Preferred Stock.

The Company estimates the fair values of the crude oil swaps and collars based on published forward commodity price curves for the underlying commodity as of the date of the estimate for which published forward pricing is readily available. The determination of the fair values above incorporates various factors including the impact of the Company's non-performance risk and the credit standing of the counterparty involved in the Company's derivative contracts. In addition, the Company routinely monitors the creditworthiness of its counterparty.

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.

*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 September 30, 2019.

*Derivative transactions*

All derivative instruments are recorded on the accompanying balance sheets at fair value. These derivative transactions are not designated as cash flow hedges under FASB ASC 815, Derivatives and Hedges. Accordingly, these derivative contracts are marked-to-market and any changes in the estimated value of derivative contracts held at the balance sheet date are recognized in the accompanying statements of operations as net gain or loss on derivative contracts. The derivative assets or liabilities are classified as either current or noncurrent assets or liabilities based on their anticipated settlement date. The Company nets derivative assets and liabilities for counterparties where it has a legal right of offset.

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 in 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, risk-free interest rate and volatility assumptions to dynamically adjust the payoff of the warrants in the presence of the dilution effect.

*Leases*

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (ASU 2016-02), *Leases (Topic 842)*. ASU 2016-02 requires companies to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. We adopted ASU No. 2016-02, *Leases (Topic 842)* effective January 1, 2019 and will not recast comparative periods in transition to the new standard. In addition, we elected certain practical expedients which permit us to not reassess whether existing contracts are or contain leases, to not reassess the lease classification of any existing leases, to not reassess initial direct costs for any existing leases, and to not separate lease and nonlease components for all classes of underlying assets. We also made an accounting policy election to keep leases with an initial term of 12 months or less off of the balance sheet for all classes of underlying assets. Adoption of the new standard resulted in an increase in the Company's assets and liabilities of approximately $37.8 million. The ASU did not have an impact on our consolidated results of operations or cash flows. Additional information and disclosures required by this new standard are contained in "Part I" - "Item 1. Financial Statements" - "Note 13. Leases".

*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.

*Redeemable Noncontrolling Interest*

As more fully described in " Note 14. Myrtle Grove Share Purchase and Subscription Agreement ", the Company is party to a put/call option agreement with the holder of MG SPV's non-controlling interest. The put option permits the MG SPV's non-controlling interest holder, at any time on or after the earlier of (a) the fifth anniversary of the Closing Date and (ii) the occurrence of certain triggering events (a "MG Redemption") to require MG SPV to redeem the non-controlling interest from the holder of such interest. Per the agreement, the cash purchase price for such redeemed Class B Units is the greater of (y) the fair market value of such units (without discount for illiquidity, minority status or otherwise) as determined by a qualified third party agreed to in writing by a majority of the holders seeking an MG Redemption and Vertex Operating (provided that Vertex Operating still owns Class A Units on such date) and (z) the original per-unit price for such Class B Units plus fifty percent (50%) of the aggregate capital invested by the Class B Unit holders through such MG Redemption date. The agreement also permits the Company to acquire the non-controlling interest from the holder thereof upon certain events. Applicable accounting guidance requires an equity instrument that is redeemable for cash or other assets to be classified outside of permanent equity if it is redeemable (a) at a fixed or determinable price on a fixed or determinable date, (b) at the option of the holder, or (c) upon the occurrence of an event that is not solely within the control of the issuer. Based on this guidance, the Company has classified the MG SPV non-controlling interest between the liabilities and equity sections of the accompanying September 30, 2019 and December 31, 2018 consolidated balance sheets. If an equity instrument subject to the guidance is currently redeemable, the instrument is adjusted to its maximum redemption amount at the balance sheet date. If the equity instrument subject to the guidance is not currently redeemable but it is probable that the equity instrument will become redeemable (for example, when the redemption depends solely on the passage of time), the guidance permits either of the following measurement methods: (a) accrete changes in the redemption value over the period from the date of issuance (or from the date that it becomes probable that the instrument will become redeemable, if later) to the earliest redemption date of the instrument using an appropriate methodology, or (b) recognize changes in the redemption value immediately as they occur and adjust the carrying amount of the instrument to equal the redemption value at the end of each reporting period. The amount presented in temporary equity should be no less than the initial amount reported in temporary equity for the instrument. Because the MG SPV equity instrument will become redeemable solely based on the passage of time, the Company determined that it is probable that the MG SPV equity instrument will become redeemable. Company has elected to apply the second of the two measurement options described above. An adjustment to the carrying amount of a non-controlling interest from the application of the above guidance does not impact net income in the consolidated financial statements. Rather, such adjustments are treated as equity transactions.

**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 September 30, 2019, the Company had approximately $5.4 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 (2.10% at September 30, 2019) 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 SEC 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 September 30, 2019, 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, 2018 (as described in greater detail in our annual report on Form 10-K for the year ended December 31, 2018), 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.

Remediation Efforts to Address Material Weakness

We believe the remedial measures described in Part II, “Item 9A, Controls and Procedures” in our Annual Report on Form 10-K for the year ended December 31, 2018, and others that may be implemented, will remediate this material weakness. However, this material weakness will not be considered formally remediated until controls have operated effectively for a sufficient period of time and management has concluded, through testing, that the controls are operating effectively. We expect this to occur by the end of fiscal 2019.

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.

Such current litigation or other legal proceedings are described in, and incorporated by reference in, this " Item 1. Legal Proceedings" of this Form 10-Q from, "Part I" - "Item 1. Financial Statements" in the Notes to Consolidated Financial Statements in "Note 3. Concentrations, Significant Customers, Commitments and Contingencies", under the heading "Litigation". The Company believes that the resolution of currently pending matters will not individually or in the aggregate have a material adverse effect on our financial condition or results of operations. However, assessment of the current litigation or other legal claims could change in light of the discovery of facts not presently known to the Company or by judges, juries or other finders of fact, which are not in accord with management's evaluation of the possible liability or outcome of such litigation or claims.

Additionally, the outcome of litigation is inherently uncertain. If one or more legal matters were resolved against the Company in a reporting period for amounts in excess of management's expectations, the Company's financial condition and operating results for that reporting period could be materially adversely affected.

**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, 2018, filed with the Commission on March 6, 2019 (the "Form 10-K"), under the heading "Risk Factors", except as set forth below, and investors should review the risks provided in the Form 10-K and below, 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, 2018, under "Risk Factors", and below, 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.

The risk factor entitled "*We will need to raise additional capital to meet the requirements of the terms and conditions of our Credit Agreements and the required redemption provisions of our Series B and B1 Preferred Stock and to fund future acquisitions and our ability to obtain the necessary funding is uncertain.*" from the Form 10-K is replaced and superseded by the following:

***We will need to raise additional capital to meet the requirements of the terms and conditions of our Credit Agreements and to fund future acquisitions and our ability to obtain the necessary funding is uncertain.***

We will need to raise additional funding or refinance our existing debt to meet the requirements of the terms and conditions of our Credit Agreements, which amounts totaling approximately $19 million as of September 30, 2019, come due on February 1, 2021. We may also need to raise additional funds in the future to fund acquisitions. If we raise additional funds in the future, by issuing equity securities, dilution to existing stockholders will result, and such securities may have rights, preferences and privileges senior to those of our common stock and preferred stock. If funding is insufficient at any time in the future and we are unable to generate sufficient revenue from new business arrangements, to repay our outstanding debts, complete planned acquisitions or operations, our results of operations and the value of our securities could be adversely affected. Future funding may not be available on favorable terms, if at all.

The risk factor entitled "*We have substantial indebtedness which could adversely affect our financial flexibility and our competitive position. Our debt agreements have previously been declared in default, and our future failure to comply with financial covenants in our debt agreements could result in such debt agreements again being declared in default.*", from the Form 10-K is replaced and superseded by the following:

***We have substantial indebtedness which could adversely affect our financial flexibility and our competitive position. Our debt agreements have previously been declared in default, and our future failure to comply with financial covenants in our debt agreements could result in such debt agreements again being declared in default.***

We have a significant amount of outstanding indebtedness. As of September 30, 2019, we owed approximately $10.0 million in accounts payable and accrued expenses. As of September 30, 2019, we owed $19 million under the Credit Agreements, and further have outstanding Series B Preferred Stock and Series B1 Preferred Stock (which currently, as of the date of this filing, has a liquidation and redemption value of $28.4 million).

Our substantial indebtedness could have important consequences and significant effects on our business. For example, it could:

- increase our vulnerability to adverse changes in general economic, industry and competitive conditions;
- require us to dedicate a substantial portion of our cash flow from operations to make payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- restrict us from taking advantage of business opportunities;
- make it more difficult to satisfy our financial obligations;
- place us at a competitive disadvantage compared to our competitors that have less debt obligations; and
- limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions, debt service requirements, execution of our business strategy or other general corporate purposes on satisfactory terms or at all.

We may need to raise additional funding in the future to repay or refinance the Credit Agreements and our accounts payable, and as such may need to seek additional debt or equity financing. Such additional financing may not be available on favorable terms, if at all. If debt financing is available and obtained, our interest expense may increase and we may be subject to the risk of default, depending on the terms of such financing. If equity financing is available and obtained it may result in our shareholders experiencing significant dilution. If such financing is unavailable, we may be forced to curtail our operations, which may cause the value of our securities to decline in value and/or become worthless. Furthermore, the fact that our prior credit agreements have previously been declared in default may negatively affect the perception of the Company and our ability to pay our debts as they become due in the future and could result in the price of our securities declining in value or being valued at lower levels than companies with similar histories of defaults.

The risk factor entitled "*The issuance and sale of common stock upon conversion of the Series B Preferred Stock and Series B1 Preferred Stock may depress the market price of our common stock; and the redemption of the Series B Preferred Stock and Series B1 Preferred Stock, if not converted into common stock prior to the required redemption date, will require significant additional funds.*", from the Form 10-K is replaced and superseded by the following:

***The issuance and sale of common stock upon conversion of the Series B Preferred Stock and Series B1 Preferred Stock may depress the market price of our common stock.***

If conversions of the Series B Preferred Stock and Series B1 Preferred Stock and sales of such converted shares take place, the price of our common stock may decline. In addition, the common stock issuable upon conversion of the Series B Preferred Stock and Series B1 Preferred Stock may represent overhang that may also adversely affect the market price of our common stock. Overhang occurs when there is a greater supply of a company's stock in the market than there is demand for that stock. When this happens the price of the Company's stock will decrease, and any additional shares which shareholders attempt to sell in the market will only further decrease the share price. If the share volume of our common stock cannot absorb converted shares sold by the Series B Preferred Stock and Series B1 Preferred Stock holders, then the value of our common stock will likely decrease.

**The following are new risk factors which supplement the risk factors included in the Form 10-K:**

***Our Series B and B1 Preferred Stock Is Required to Be Redeemed on June 24, 2020, Subject to the Terms of the Certificate of Designations of Such Preferred Stock and Applicable Law and the Dividend Rate of such Preferred Stock Increases to 10% Per Annum in the Event the Company Is Unable to Complete Such Redemptions.***

We are required to redeem any non-converted shares of (a) Series B Preferred Stock, which remain outstanding on June 24, 2020, at the rate of $3.10 per share (or $11.9 million in aggregate as of the date of this filing); and (b) Series B1 Preferred Stock, which remain outstanding on June 24, 2020, at the rate of $1.56 per share (or $16.5 million in aggregate as of the date of this filing), subject to the terms of the certificate of designations of such Series B and B1 Preferred Stock and applicable law. The certificate of designations of the Series B and B1 Preferred Stock provide that the mandatory redemption date of the Series B and B1 Preferred Stock is automatically extended in the event that the terms of the Company's senior credit facility (i.e., the Credit Agreements), prohibit the redemption of such Series B and B1 Preferred Stock and because the Credit Agreements prohibit such redemption, the Company anticipates the redemption date of the Series B and B1 Preferred Stock being extended past June 24, 2020, until such date, if ever, as the Company's senior credit facilities no longer prohibit such redemptions. Effective on June 24, 2020, in the event the Series B and B1 Preferred Stock is not redeemed by the Company due to the provisions of the Company's senior credit facilities, the dividend rate of such preferred stock increases to 10% per annum. Notwithstanding the dividend rate increase, because the interest is payable in-kind (or in registered shares of common stock, if allowed under the applicable certificate of designation of the preferred stock, at the option of the Company), the increase in dividend rate following the redemption date may cause significant additional shares of Series B and B1 Preferred Stock and/or common stock to be due to the holders of such Series B and B1 Preferred Stock and may cause significant dilution to existing shareholders.

Notwithstanding the above, pursuant to the Nevada Revised Statutes, no redemption of the Series B or B1 Preferred Stock is allowed unless such redemption would not result in the Company (i) having less (a) assets than its (b) total liabilities plus the liquidation rights of any preferred stock or other preferred right holders and/or (ii) being unable to pay its debts as they become due after such redemption. Furthermore, the Series B and B1 Preferred Stock designations currently only provide for an 'all or nothing' type redemption, and as such, regardless of the compliance of the redemptions of the Series B and B1 Preferred Stock with the terms of the Company's senior credit agreements, the Company anticipates being legally unable to redeem the Series B and B1 Preferred Stock due to the requirements of Nevada law and the 'all or nothing' requirement of such preferred stock.

Due to the above, the holders of the Series B and B1 Preferred Stock may be forced to hold such Series B and B1 Preferred Stock indefinitely and the Company may never be in a position to contractually or legally redeem the Series B and B1 Preferred Stock. The only rights of the holders of the Series B and B1 Preferred Stock in the event the Company is unable to redeem such preferred stock due to the reasons above would be to continue to hold such preferred stock (with dividends accruing at 10% per annum), sell such preferred stock in private transactions, or convert such preferred stock into common stock pursuant to the terms thereof.

Finally, notwithstanding the prohibitions on redemptions described above, the Company does not currently have the funds required to redeem such Series B and B1 Preferred Stock (i.e., an aggregate of $28.4 million), and does not anticipate having such funds in the near term, if at all. Consequently, the Company does not anticipate redeeming the Series B and B1 Preferred Stock on June 24, 2020.

***Our consolidated financial statements, including our liabilities and statements of operations are subject to quarterly changes in our derivative accounting of our outstanding Series B and B1 Preferred Stock and warrants.***

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 is re-measured at each reporting period with changes in fair value recorded in 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. As a result, our consolidated financial statements and results of operations may fluctuate quarterly, based on factors, such as the trading value of our common stock and certain assumptions, which are outside of our control. Consequently, our liabilities and consolidated statements of operations may vary quarterly, based on factors other than the Company's revenues and expenses. The liabilities and accounting line items associated with our derivative securities on our balance sheet and statement of operations are non-cash items, and the inclusion of such items in our financial statements may materially affect the outcome of our quarterly and annual results, even though such items are non-cash and do not affect the cash we have available for operations. Investors should take such derivative accounting matters and other non-cash items into account when comparing our quarter-to-quarter and year-to-year operating results and financial statements.

***We have identified material weaknesses in our disclosure controls and procedures and internal control over financial reporting. If not remediated, our failure to establish and maintain effective disclosure controls and procedures and internal control over financial reporting could result in material misstatements in our financial statements and a failure to meet our reporting and financial obligations, each of which could have a material adverse effect on our financial condition and the trading price of our common stock.***

Maintaining effective internal control over financial reporting and effective disclosure controls and procedures are necessary for us to produce reliable financial statements. As reported above, as of September 30, 2019, our CEO and CFO have determined that our disclosure controls and procedures were not effective, and such disclosure controls and procedures have not been deemed effective since approximately September 30, 2018. Separately, management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018 and determined that such internal control over financial reporting was not effective as a result of such assessment.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Maintaining effective disclosure controls and procedures and effective internal control over financial reporting are necessary for us to produce reliable financial statements and the Company is committed to remediating its material weaknesses in such controls as promptly as possible. However, there can be no assurance as to when these material weaknesses will be remediated or that additional material weaknesses will not arise in the future. Any failure to remediate the material weaknesses, or the development of new material weaknesses in our internal control over financial reporting, could result in material misstatements in our financial statements and cause us to fail to meet our reporting and financial obligations, which in turn could have a material adverse effect on our financial condition and the trading price of our common stock, and/or result in litigation against us or our management. In addition, even if we are successful in strengthening our controls and procedures, those controls and procedures may not be adequate to prevent or identify irregularities or facilitate the fair presentation of our financial statements or our periodic reports filed with the SEC.

***Tensile-Heartland has discretion as to whether or not to move forward with the Heartland Closing.***

Tensile-Heartland may decide to move forward with the Heartland Share Purchase and related transactions at any time prior to June 30, 2020, in its sole discretion (the "Heartland Option"). We have no control over whether Tensile-Heartland exercises such Heartland Option. In the event Heartland-Tensile does not exercise the Heartland Option, we will not realize any of the benefits from the Heartland Share Purchase and related transactions.

***Failure to complete the Heartland Closing could negatively impact our stock price, future business and financial results.***

If the Heartland Closing is not completed, our ongoing business may be adversely affected and we would be subject to a number of risks, including the following:

- we will not realize the benefits expected from the Heartland Closing, including a potentially enhanced competitive and financial position, expansion of assets and operations and therefore opportunities, and will instead be subject to all the risks we currently face as an independent company;
- we may experience negative reactions from the financial markets and our partners and employees; and
- matters relating to the Heartland Closing (including negotiation of definitive documents and integration planning) may require substantial commitments of time and resources by our management, which would otherwise have been devoted to other opportunities that may have been beneficial to us as an independent company.

***Failure to affect the Heartland Closing could negatively impact the Company.***

In the event the Heartland Option is not exercised and/or the Heartland Closing does not occur, our business may be adversely impacted by our failure to pursue other beneficial opportunities, due to the focus of management on the Heartland transaction, and the market price of our common stock might decline to the extent that the current market price reflects a market assumption that the Heartland Closing will be completed. If the Heartland Closing is terminated and our board of directors seeks another transaction or business combination, our stockholders cannot be certain that we will be able to find a party willing to offer equivalent or more attractive consideration than the consideration provided for by the Heartland Closing.

***We will be subject to business uncertainties and restrictions while the Heartland Option is pending.***

Until such time as Tensile-Heartland exercises, or terminates, the Heartland Option, we will be unable to enter into or affect any transactions regarding the Company's Columbus, Ohio, Heartland facility, which produces a base oil product that is sold to lubricant packagers and distributors, which is subject to the Heartland Option. Uncertainty about the effect of the Heartland Closing on employees and partners may have an adverse effect on us. These uncertainties may impair our ability to attract, retain and motivate key personnel until the Heartland Closing is completed or the Heartland Option is terminated, and could cause partners and others that deal with us to seek to change existing business relationships, cease doing business with us or cause potential new partners to delay doing business with us until the Heartland Closing has been successfully completed or the Heartland Option is terminated. Retention of certain employees may be challenging during the pendency of the Heartland Option, as certain employees may experience uncertainty about their future roles or compensation structure. If key employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with the business, our business following the Heartland Closing could be negatively impacted.

***If the benefits of the Heartland Closing do not meet the expectations of the marketplace, or financial or industry analysts, the market price of our common stock may decline.***

Even if the Heartland Closing occurs, the market price of our common stock may decline, if we are not otherwise able to achieve the perceived benefits of the Heartland Closing as rapidly as, or to the extent, anticipated by the marketplace, or financial or industry analysts. Accordingly, investors may experience a loss as a result of a decreasing stock price and we may not be able to raise future capital, if necessary, in the equity markets.

***The Lock-Up Agreement with Tensile includes termination rights.***

We and Tensile entered into a Registration Rights and Lock-Up Agreement, pursuant to which we agreed to use commercially reasonable efforts to register the Tensile Shares and Warrant Shares prior to the end of the Initial Lock-Up and Tensile agreed to not sell any of the Tensile Shares or Warrant Shares for a period of one year following the Closing Date and to sell no more than 300,000 of such Tensile Shares and Warrant Shares in any 90 day period during the four years thereafter, each, subject to certain exemptions set forth therein. The Initial Lock-Up, but not the Volume Limitation, terminates if (i) the Heartland Closing does not occur by June 30, 2020 and/or (ii) if our common stock is not traded on Nasdaq or a similar market for a period of more than five consecutive trading days. Upon any termination of the lock-up pursuant to the preceding sentence, in the event Tensile holds any Tensile Shares, Warrant Shares or any Warrants, we are required to disclose publicly all material nonpublic information disclosed to Tensile prior to the date of such termination. The sale by Heartland of common stock into the marketplace, in the event of the termination of the terms of the Lock-Up Agreement may result in a decrease in the then trading values of our common stock. Furthermore, the required disclosure of material nonpublic information, if required by the terms of the Lock-Up Agreement, could have a material adverse effect on our ability to compete in our industry, require the disclosure of proprietary and other information, and/or may cause the value of our common stock to decline in value.

***The MG Company Agreement includes redemption rights.***

The MG SPV Class B Unit holders may force MG SPV to redeem the outstanding Class B Units at any time on or after the earlier of (a) the fifth anniversary of the Closing Date and (ii) the occurrence of an applicable triggering event. The cash purchase price for such redeemed Class B Units is the greater of (y) the fair market value of such units (without discount for illiquidity, minority status or otherwise) as determined by a qualified third party and (z) the original per-unit price for such Class B Units plus fifty percent (50%) of the aggregate capital invested by the Class B Unit holders through such redemption date. MG SPV may not have sufficient funds to redeem such Class B Units on such required redemption date and/or the Company may be forced to advance funds to MG SPV to allow it to complete such redemption, if such redemption is triggered.

***We use derivative commodity instruments to attempt to hedge against fluctuating prices.***

The Company utilizes derivative instruments to manage its exposure to fluctuations in the underlying commodity prices of its inventory. The Company's management sets and implements hedging policies, including volumes, types of instruments and counterparties, to support oil prices at targeted levels and manage its exposure to fluctuating prices. The Company’s derivative instruments consist of swap and futures arrangements for oil. In a commodity swap agreement, if the agreed-upon published third-party index price (“index price”) is lower than the swap fixed price, the Company receives the difference between the index price and the swap fixed price. If the index price is higher than the swap fixed price, the Company pays the difference. For futures arrangements, the Company receives the difference, positive or negative, between an agreed-upon strike price and the market price. Our results of operations may be negatively affected by our derivative instruments.

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

There have been no sales of unregistered securities during the quarter ended September 30, 2019 and from the period from October 1, 2019 to the filing date of this report, which have not previously been disclosed in a Current Report on Form 8-K, except as set forth below:

For the period from July 1, 2019 to September 30, 2019, a total of approximately $175,305 of dividends accrued on our outstanding Series B Preferred Stock and for the period from July 1, 2019 to September 30, 2019, a total of approximately $243,777 of dividends accrued on our outstanding Series B1 Preferred Stock. We chose to pay such dividends in-kind by way of the issuance of 56,550 restricted shares of Series B Preferred Stock pro rata to each of the then holders of our Series B Preferred Stock in October 2019 and the issuance of 156,276 restricted shares of Series B1 Preferred Stock pro rata to each of the then holders of our Series B1 Preferred Stock in October 2019. The maximum number of shares of common stock issuable upon conversion of the 56,550 shares of Series B Preferred Stock issued in lieu of September 30, 2019 dividends, if converted in full, would total 56,550 shares of common stock and the maximum number of shares of common stock issuable upon conversion of the 156,276 shares of Series B1 Preferred Stock issued in lieu of September 30, 2019 dividends, if converted in full, would total 156,276 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. 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.

As a result of the issuances described above, there are 419,859 outstanding shares of Series A Convertible Preferred Stock issued and outstanding as of the date of this Report, and the maximum number of shares of common stock which may be issued, if such shares were converted in full, totals 419,859 shares of common stock; 3,826,055 outstanding shares of Series B Convertible Preferred Stock issued and outstanding as of the date of this Report, and the maximum number of shares of common stock which may be issued, if such shares were converted in full, totals 3,826,055 shares of common stock; and 10,574,242 outstanding shares of Series B1 Convertible Preferred Stock issued and outstanding as of the date of this Report, and the maximum number of shares of common stock which may be issued, if such shares were converted in full, totals 10,574,242 shares of common stock.

On October 9, 2019, the Board of Directors granted one employee options to purchase an aggregate of 75,000 shares of common stock at an exercise price of $1.13 per share with a 5 year term (subject to continued employment), vesting at the rate of 1/4th of such options per year on the first 4 anniversaries of the grant, under our 2013 Stock Incentive Plan, as amended, in consideration for services rendered and to be rendered to the Company.

On October 29, 2019, the Board of Directors granted the same employee options to purchase an aggregate of 125,000 shares of common stock at an exercise price of $1.00 per share with a 5 year term (subject to continued employment), vesting at the rate of 1/4th of such options per year on the first 4 anniversaries of the grant, under our 2019 Equity Incentive Plan, in consideration for services rendered and to be rendered to the Company.

To the extent such grants constituted 'offers' and 'sales' of securities, if at all, 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 recipient 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. 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.

EXHIBIT INDEX

| | | | Incorporated by Reference | | | |
|---|---|---|---|---|---|---|
| Exhibit Number | Description of Exhibit | Filed or Furnished Herewith | Form | Exhibit | Filing Date/Period End Date | File No. |
| 2.1+ | Share Purchase and Subscription Agreement by and among Vertex Refining Myrtle Grove LLC, Tensile-Myrtle Grove Acquisition Corporation, Vertex Energy Operating LLC, and solely for the purposes of Section 9.1, Vertex Energy, Inc., dated July 25, 2019 | | 8-K | 2.1 | 7/31/2019 | 001-11476 |
| 2.2+ | Form of Share Purchase and Subscription Agreement by and among HPRM LLC, Vertex Energy Operating LLC, Tensile-Heartland Acquisition Corporation, and solely for the purposes of Section 9.1, Vertex Energy, Inc. | | 8-K | 2.2 | 7/31/2019 | 001-11476 |
| 3.1 | Amended and Restated Bylaws | | 8-K | 3.1 | 4/29/2019 | 001-11476 |
| 10.1% | Limited Liability Company Agreement of Vertex Refining Myrtle Grove LLC dated July 25, 2019 | | 8-K | 10.1 | 7/31/2019 | 001-11476 |
| 10.2 | Right of First Offer Letter Agreement dated July 25, 2019, by and between Tensile-Myrtle Grove Acquisition Corporation, Vertex Energy Operating LLC and Vertex Energy, Inc. | | 8-K | 10.2 | 7/31/2019 | 001-11476 |
| 10.3% | Subscription Agreement dated July 25, 2019, by Tensile Partners Master Fund LP in favor of Vertex Energy, Inc. | | 8-K | 10.3 | 7/31/2019 | 001-11476 |
| 10.4 | Common Stock Purchase Warrant initially held by Tensile Partners Master Fund LP to purchase up to 1,500,000 shares of common stock, dated July 25, 2019 | | 8-K | 10.4 | 7/31/2019 | 001-11476 |
| 10.5 | Registration Rights and Lock-Up Agreement dated July 25, 2019, by and between Vertex Energy, Inc. and Tensile Partners Master Fund LP | | 8-K | 10.5 | 7/31/2019 | 001-11476 |
| 10.6#% | Letter Agreement Regarding Option to Close Heartland Transaction dated July 25, 2019, by and between Tensile-Heartland Acquisition Corporation, Vertex Energy Operating LLC and Vertex Energy, Inc. | | 8-K | 10.6 | 7/31/2019 | 001-11476 |
| 10.7 | Form of Limited Liability Company Agreement of HPRM LLC | | 8-K | 10.7 | 7/31/2019 | 001-11476 |
| 10.8% | Third Amendment to Credit Agreement dated December 15, 2017, by and among Vertex Energy, Inc., Vertex Energy Operating, LLC, Encina Business Credit, LLC as Agent and the Lenders party thereto, dated July 25, 2019 | | 8-K | 10.8 | 7/31/2019 | 001-11476 |
| 10.9% | Third Amendment to ABL Credit Agreement dated December 15, 2017, by and among Vertex Energy, Inc., Vertex Energy Operating, LLC, Encina Business Credit, LLC as Agent and the Lenders party thereto, dated July 25, 2019 | | 8-K | 10.9 | 7/31/2019 | 001-11476 |
| 10.10 | Vertex Energy, Inc. 2019 Equity Incentive Plan | | 8-K | 10.1 | 10/29/2019 | 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 schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the Securities and Exchange Commission upon request; provided, however that Vertex Energy, Inc. may request confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, for any schedule or exhibit so furnished.

# Certain confidential portions of this Exhibit were omitted by means of marking such portions with brackets ("[****]") because the identified confidential portions (i) are not material and (ii) would be competitively harmful if publicly disclosed.

% Certain schedules, annexes and similar attachments have been omitted pursuant to Item 601(a)(5) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the Securities and Exchange Commission upon request; provided, however that Vertex Energy, Inc. may request confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, for any schedule or exhibit so furnished.

**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: November 7, 2019

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

Date: November 7, 2019

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

**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: November 7, 2019

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: November 7, 2019

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 September 30, 2019, 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: November 7, 2019

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 September 30, 2019, 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: November 7, 2019

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