

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Vertex Energy Inc.

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

FORM 10-Q

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

For the fiscal quarter ended March 31, 2021

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

*(State or other jurisdiction of
incorporation or organization)*

94-3439569

(I.R.S. Employer Identification No.)

1331 Gemini Street, Suite 250 77058

Houston, Texas

(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 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 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
Non-accelerated filer

Accelerated filer
Smaller reporting company
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

State the number of shares of the issuer's common stock outstanding, as of the latest practicable date: 51,742,499 shares of common stock are issued and outstanding as of May 12, 2021.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q (this "Report") contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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; and Bunker One (USA) Inc;
 - 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, including IMO 2020;
 - 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;
- decreases in global demand for, and the price of, oil, due to COVID-19, and/or state, federal and foreign responses thereto;
- our ability to acquire sufficient amounts of used oil feedstock through our collection routes, to produce finished products, and in the absence of such internally collected feedstocks, our ability to acquire third-party feedstocks on commercially reasonable terms;

- risks associated with COVID-19, the global efforts to stop the spread of COVID-19, potential downturns in the U.S. and global economies due to COVID-19 and the efforts to stop the spread of the virus, and COVID-19 in general;

- repayment of and covenants in our debt facilities;

- the lack of capital available on acceptable terms to finance our continued growth; and
- other risk factors included under "[Risk Factors](#)" in 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.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2021	December 31, 2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 12,426,704	\$ 10,895,044
Restricted cash	100,125	100,125
Accounts receivable, net	12,995,738	11,138,933
Inventory	6,979,844	4,439,839
Derivative commodity asset	342,031	—
Prepaid expenses and other current assets	2,559,313	3,211,448
Total current assets	<u>35,403,755</u>	<u>29,785,389</u>
Noncurrent assets		
Fixed assets, at cost	76,793,532	75,777,552
Less accumulated depreciation	(30,578,049)	(29,337,036)
Fixed assets, net	<u>46,215,483</u>	<u>46,440,516</u>
Finance lease right-of-use assets	1,432,728	1,536,711
Operating lease right-of use assets	33,057,790	33,315,876
Intangible assets, net	8,914,572	9,397,441
Other assets	1,622,225	1,624,025
TOTAL ASSETS	<u>\$ 126,646,553</u>	<u>\$ 122,099,958</u>

	March 31, 2021	December 31, 2020
LIABILITIES, TEMPORARY EQUITY, AND EQUITY		
Current liabilities		
Accounts payable	\$ 10,318,483	\$ 10,484,911
Accrued expenses	1,862,430	2,053,106
Dividends payable	372,169	606,550
Finance lease liability-current	503,534	496,231
Operating lease liability-current	5,519,665	5,614,785
Current portion of long-term debt, net of unamortized finance costs	8,883,009	4,367,169
Revolving note	—	133,446
Derivative commodity liability	—	94,214
Total current liabilities	<u>27,459,290</u>	<u>23,850,412</u>
Long-term liabilities		
Long-term debt, net of unamortized finance costs	2,429,075	7,981,496
Finance lease liability-long-term	816,257	945,612
Operating lease liability-long-term	27,538,125	27,701,091
Derivative warrant liability	1,004,680	330,412
Total liabilities	<u>59,247,427</u>	<u>60,809,023</u>
COMMITMENTS AND CONTINGENCIES (Note 3)	—	—
TEMPORARY EQUITY		
Series B Convertible Preferred Stock, \$0.001 par value per share; 10,000,000 shares designated, 2,035,666 and 4,102,690 shares issued and outstanding at March 31, 2021 and December 31, 2020, respectively with a liquidation preference of \$6,310,565 and \$12,718,339 at March 31, 2021 and December 31, 2020, respectively.	6,310,565	12,718,339
Series B1 Convertible Preferred Stock, \$0.001 par value per share; 17,000,000 shares designated, 5,497,450 and 7,399,649 shares issued and outstanding at March 31, 2021 and December 31, 2020, respectively with a liquidation preference of \$8,576,022 and \$11,543,452 at March 31, 2021 and December 31, 2020, respectively.	8,292,470	11,036,173
Redeemable non-controlling interest	33,527,825	31,611,674
Total temporary equity	<u>48,130,860</u>	<u>55,366,186</u>
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 shares issued and outstanding at March 31, 2021 and December 31, 2020, with a liquidation preference of \$625,590 at March 31, 2021 and December 31, 2020.	420	420
Series C Convertible Preferred Stock, \$0.001 par value; 44,000 shares designated, no shares issued or outstanding.	—	—
Common stock, \$0.001 par value per share; 750,000,000 shares authorized; 51,742,499 and 45,554,841 shares issued and outstanding at March 31, 2021 and December 31, 2020, respectively.	51,742	45,555
Additional paid-in capital	106,823,405	94,569,674
Accumulated deficit	(89,373,746)	(90,008,778)
Total Vertex Energy, Inc. stockholders' equity	<u>17,501,821</u>	<u>4,606,871</u>
Non-controlling interest	1,766,445	1,317,878
Total equity	<u>19,268,266</u>	<u>5,924,749</u>
TOTAL LIABILITIES, TEMPORARY EQUITY, AND EQUITY	<u>\$ 126,646,553</u>	<u>\$ 122,099,958</u>

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended March 31,	
	2021	2020
Revenues	\$ 58,083,993	\$ 36,203,429
Cost of revenues (exclusive of depreciation and amortization shown separately below)	43,346,274	26,836,854
Depreciation and amortization attributable to costs of revenues	<u>1,347,820</u>	<u>1,178,594</u>
Gross profit	13,389,899	8,187,981
Operating expenses:		
Selling, general and administrative expenses	7,926,580	6,700,518
Depreciation and amortization attributable to operating expenses	<u>482,869</u>	<u>455,953</u>
Total operating expenses	<u>8,409,449</u>	<u>7,156,471</u>
Income from operations	<u>4,980,450</u>	<u>1,031,510</u>
Other income (expense):		
Other income	—	80
Gain on sale of assets	1,424	—
Gain (loss) on change in value of derivative warrant liability	(1,780,203)	1,698,747
Interest expense	<u>(236,333)</u>	<u>(340,086)</u>
Total other income (expense)	<u>(2,015,112)</u>	<u>1,358,741</u>
Income before income tax	<u>2,965,338</u>	<u>2,390,251</u>
Income tax benefit (expense)	—	—
Net income	2,965,338	2,390,251
Net income (loss) attributable to non-controlling interest and redeemable non-controlling interest	<u>1,990,969</u>	<u>(398,609)</u>
Net income attributable to Vertex Energy, Inc.	<u>974,369</u>	<u>2,788,860</u>
Accretion of redeemable noncontrolling interest to redemption value	(373,748)	(10,966,349)
Accretion of discount on Series B and B1 Preferred Stock	(223,727)	(932,003)
Dividends on Series B and B1 Preferred Stock	258,138	(344,499)
Net income (loss) available to common shareholders	<u>\$ 635,032</u>	<u>\$ (9,453,991)</u>
Income (loss) per common share		
Basic	<u>\$ 0.01</u>	<u>\$ (0.21)</u>
Diluted	<u>\$ 0.01</u>	<u>\$ (0.21)</u>
Shares used in computing earnings per share		
Basic	<u>47,709,450</u>	<u>45,372,358</u>
Diluted	<u>49,006,195</u>	<u>45,372,358</u>

See accompanying notes to the consolidated financial statements.

VERTEX ENERGY, INC.
CONSOLIDATED STATEMENTS OF EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020
(UNAUDITED)

Three Months Ended March 31, 2021

	Common Stock		Series A Preferred		Series C Preferred		Additional Paid-In Capital	Retained Earnings	Non-controlling Interest	Total Equity
	Shares	\$0.001 Par	Shares	\$0.001 Par	Shares	\$0.001 Par				
Balance on January 1, 2021	45,554,841	\$ 45,555	419,859	\$ 420	—	\$ —	\$ 94,569,674	\$(90,008,778)	\$ 1,317,878	\$ 5,924,749
Exercise of options	22,992	23	—	—	—	—	(23)	—	—	—
Exercise of B1 warrants	1,079,753	1,080	—	—	—	—	2,756,877	—	—	2,757,957
Exchanges of Series B Preferred stock to common	2,359,494	2,359	—	—	—	—	4,114,570	630,321	—	4,747,250
Share based compensation expense	—	—	—	—	—	—	150,514	—	—	150,514
Conversion of Series B Preferred stock to common	638,224	638	—	—	—	—	1,977,856	—	—	1,978,494
Conversion of Series B1 Preferred stock to common	2,087,195	2,087	—	—	—	—	3,253,937	—	—	3,256,024
Dividends on Series B and B1	—	—	—	—	—	—	—	(372,183)	—	(372,183)
Accretion of discount on Series B and B1	—	—	—	—	—	—	—	(223,727)	—	(223,727)
Accretion of redeemable non-controlling interest to redemption value	—	—	—	—	—	—	—	(373,748)	—	(373,748)
Net income	—	—	—	—	—	—	—	974,369	1,990,969	2,965,338
Less: amount attributable to redeemable non-controlling interest	—	—	—	—	—	—	—	—	(1,542,402)	(1,542,402)
Balance on March 31, 2021	<u>51,742,499</u>	<u>\$ 51,742</u>	<u>419,859</u>	<u>\$ 420</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 106,823,405</u>	<u>\$(89,373,746)</u>	<u>\$ 1,766,445</u>	<u>\$ 19,268,266</u>

Three Months Ended March 31, 2020

	Common Stock		Series A Preferred		Series C Preferred		Additional Paid-In Capital	Retained Earnings	Non-controlling Interest	Total Equity
	Shares	\$0.001 Par	Shares	\$0.001 Par	Shares	\$0.001 Par				
Balance on January 1, 2020	43,395,563	\$ 43,396	419,859	\$ 420	—	\$ —	\$ 81,527,351	\$ (59,246,514)	\$ 777,373	\$ 23,102,026
Purchase of shares of consolidated subsidiary	—	—	—	—	—	—	(71,171)	—	—	(71,171)
Share based compensation expense	—	—	—	—	—	—	163,269	—	—	163,269
Adjustment of carrying amount of non-controlling interest	—	—	—	—	—	—	9,091,068	—	—	9,091,068
Conversion of Series B1 Preferred stock to common	2,159,278	2,159	—	—	—	—	3,366,315	—	—	3,368,474
Dividends on Series B and B1	—	—	—	—	—	—	—	(344,499)	—	(344,499)
Accretion of discount on Series B and B1	—	—	—	—	—	—	—	(932,003)	—	(932,003)
Accretion of redeemable non-controlling interest to redemption value	—	—	—	—	—	—	—	(10,966,349)	—	(10,966,349)
Net income (loss)	—	—	—	—	—	—	—	2,788,860	(398,609)	2,390,251
Less: amount attributable to redeemable non-controlling interest	—	—	—	—	—	—	—	—	517,877	517,877
Balance on March 31, 2020	<u>45,554,841</u>	<u>\$ 45,555</u>	<u>419,859</u>	<u>\$ 420</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 94,076,832</u>	<u>\$ (68,700,505)</u>	<u>\$ 896,641</u>	<u>\$ 26,318,943</u>

See accompanying notes to the consolidated financial statements.

VERTEX ENERGY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2021 AND 2020 (UNAUDITED)

	Three Months Ended	
	March 31, 2021	March 31, 2020
Cash flows from operating activities		
Net income	\$ 2,965,338	\$ 2,390,251
Adjustments to reconcile net income to cash provided by operating activities		
Stock based compensation expense	150,514	163,269
Depreciation and amortization	1,830,689	1,634,547
Loss (gain) on sale of assets	(1,424)	—
Bad debt and reduction in allowance for bad debt	16,715	23,925
(Decrease) increase in fair value of derivative warrant liability	1,780,203	(1,698,747)
(Gain) loss on commodity derivative contracts	721,531	(4,427,782)
Net cash settlements on commodity derivatives	(1,306,344)	4,507,370
Amortization of debt discount and deferred costs	—	47,826
Changes in operating assets and liabilities, net of effect of acquisition		
Accounts receivable	(1,873,520)	2,260,654
Inventory	(2,540,005)	2,112,459
Prepaid expenses	800,702	1,061,222
Accounts payable	(166,427)	(1,603,145)
Accrued expenses	(190,676)	(3,269,590)
Other assets	1,800	(87,251)
Net cash provided by operating activities	<u>2,189,096</u>	<u>3,115,008</u>
Cash flows from investing activities		
Internally developed software	—	(49,229)
Purchase of fixed assets	(1,018,979)	(442,180)
Proceeds from sale of fixed assets	1,600	—
Net cash used in investing activities	<u>(1,017,379)</u>	<u>(491,409)</u>
Cash flows from financing activities		
Payments on finance leases	(122,052)	(53,119)
Proceeds from exercise of stock warrants	1,652,022	—
Contributions received from redeemable noncontrolling interest	—	21,000,000
Line of credit (payments) proceeds, net	(133,446)	(3,276,230)
Payments on note payable	(1,036,581)	(8,098,879)
Net cash provided by financing activities	<u>359,943</u>	<u>9,571,772</u>
Net change in cash, cash equivalents and restricted cash	1,531,660	12,195,371
Cash, cash equivalents, and restricted cash at beginning of the period	10,995,169	4,199,825
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 12,526,829</u>	<u>\$ 16,395,196</u>

SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 236,677	\$ 352,806
Cash paid for taxes	\$ —	\$ —
NON-CASH INVESTING AND FINANCING TRANSACTIONS		
Exchanges of Series B Preferred Stock into common stock	\$ 4,397,236	\$ —
Conversion of Series B Preferred Stock into common stock	\$ 1,978,494	\$ —
Conversion of Series B1 Preferred Stock into common stock	\$ 3,256,024	\$ 3,368,474
Accretion of discount on Series B and B1 Preferred Stock	\$ 223,727	\$ 932,003
Dividends-in-kind accrued on Series B and B1 Preferred Stock	\$ (258,138)	\$ 344,499
Initial adjustment of carrying amount redeemable noncontrolling interests	\$ —	\$ 9,091,068
Accretion of redeemable noncontrolling interest to redemption value	\$ 373,748	\$ 10,966,349

See accompanying notes to the consolidated financial statements.

VERTEX ENERGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2021
(UNAUDITED)

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, 2020, contained in the Company's annual report, as filed with the SEC on Form 10-K on March 9, 2021 (the "Form 10-K"). The December 31, 2020 balance sheet was derived from the audited financial statements of our 2020 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 2020 as reported in Form 10-K have been omitted.

Novel Coronavirus (COVID-19)

In December 2019, a novel strain of coronavirus, which causes the infectious disease known as COVID-19, was reported in Wuhan, China. The World Health Organization declared COVID-19 a "Public Health Emergency of International Concern" on January 30, 2020 and a global pandemic on March 11, 2020. In March and April, many U.S. states and local jurisdictions began issuing 'stay-at-home' orders, which continue in various forms as of the date of this report. Notwithstanding such 'stay-at-home' orders, to date, our operations have for the most part been deemed an essential business under applicable governmental orders based on the critical nature of the products we offer.

We sell products and services primarily in the U.S. domestic oil and gas commodity markets. Throughout the first quarter of 2020, the industry experienced multiple factors which lowered both the demand for, and prices of, oil and gas. First, the COVID-19 pandemic lowered global demand for hydrocarbons, as social distancing and travel restrictions were implemented across the world. Second, the lifting of Organization of the Petroleum Exporting Countries (OPEC)+ supply curtailments, and the associated increase in production of oil, drove the global supply of hydrocarbons higher through the first quarter of 2020. As a result of both dynamics, prices for hydrocarbons declined 67% from peak prices within the first quarter of 2020. While global gross domestic product (GDP) growth was impacted by COVID-19 during 2020 and into the first quarter of 2021, we expect GDP to continue to be impacted globally for at least the early part of 2021, as a result of the COVID-19 pandemic. As a result, we expect oil and gas related markets will continue to experience significant volatility in 2021. Our goal through this downturn has been to remain disciplined in allocating capital and to focus on liquidity and cash preservation. We are taking the necessary actions to right-size the business for expected activity levels.

As a result of the impact of the COVID-19 outbreak, some of our feedstock suppliers have permanently or temporarily closed their businesses, limited our access to their businesses, and/or have experienced a decreased demand for services. As a result of the above, and due to 'stay-at-home' and other social distancing orders, as well as the decline in U.S. travel caused by COVID-19, we have seen a significant decline in the volume of feedstocks (specifically used oil) that we have been able to collect, and therefore process through our facilities. A prolonged economic slowdown, period of social quarantine (imposed by the government or otherwise), or a prolonged period of decreased travel due to COVID-19 or the responses thereto, will likely continue to have a material negative adverse impact on our ability to produce products, and consequently our revenues and results of operations.

The full extent of the impact of COVID-19 on our business and operations currently cannot be estimated and will depend on a number of factors including the scope and duration of the global pandemic, the efficacy of, ability to manufacture a sufficient amount of, and the willingness of the general public to obtain, vaccines.

Currently we believe that we have sufficient cash on hand and will generate sufficient cash through operations to support our operations for the foreseeable future; however, we will continue to evaluate our business operations based on new information as it becomes available and will make changes that we consider necessary in light of any new developments regarding the pandemic.

The pandemic is developing rapidly and the full extent to which COVID-19 will ultimately impact us depends on future developments, including the duration and spread of the virus, as well as potential seasonality of new outbreaks, including, but not limited to the recent increase in infection rates, which may lead to further or extended stay-at-home and similar orders in the markets in which we operate, and the recent global roll out of vaccines, which may help slow the spread of the virus.

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.

	March 31, 2021 unaudited	March 31, 2020
Cash and cash equivalents	\$ 12,426,704	\$ 16,295,062
Restricted cash	100,125	100,134
Cash and cash equivalents and restricted cash as shown in the consolidated statements of cash flows	<u>\$ 12,526,829</u>	<u>\$ 16,395,196</u>

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 net realizable value. Cost is determined using the first-in, first-out ("FIFO") method. The Company reviews its inventory commodities for impairment 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 ("FASB") Accounting Standards Codification ("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 during the three months ended March 31, 2021.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and reported amounts of revenue and expenses. Actual results could differ from these estimates. Any effects on the business, financial position or results of operations from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known.

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.

Redeemable Noncontrolling Interests

As more fully described in "[Note 14. Share Purchase and Subscription Agreements](#)", the Company is party to put/call option agreements with the holder of MG SPV's and Heartland SPV's non-controlling interests. The put options permit MG SPV's and Heartland SPV's non-controlling interest holders, at any time on or after the earlier of (a) the fifth anniversary of the applicable closing date of such issuances and (ii) the occurrence of certain triggering events (an "MG Redemption" and "Heartland

Redemption", as applicable) to require MG SPV and Heartland SPV to redeem the non-controlling interest from the holder of such interest. Per the agreements, the cash purchase price for such redeemed Class B Units (MG SPV) and Class A Units (Heartland SPV) 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 SPV Redemption and Heartland SPV Redemption and Vertex Operating, LLC, our wholly-owned subsidiary ("Vertex Operating") (provided that Vertex Operating still owns Class A Units (as to MG SPV) or Class B Units (as to Heartland SPV) on such date, as applicable) and (z) the original per-unit price for such Class B Units/Class A Units plus any unpaid Class A/Class B preference. The preference is defined as the greater of (A) the aggregate unpaid "Class B/Class A Yield" (equal to an annual return of 22.5% per annum) and (B) an amount equal to fifty percent (50%) of the aggregate capital invested by the Class B/Class A Unit holders. The agreements also permit the Company to acquire the non-controlling interest from the holders 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 and Heartland SPV non-controlling interests between the liabilities and equity sections of the accompanying March 31, 2021 and December 31, 2020 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 and Heartland SPV equity instruments will become redeemable solely based on the passage of time, the Company determined that it is probable that the MG SPV and Heartland SPV equity instruments will become redeemable. The 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 or loss in the consolidated financial statements. Rather, such adjustments are treated as equity transactions.

Variable Interest Entities

The Company accounts for the investments it makes in certain legal entities in which equity investors do not have (1) sufficient equity at risk for the legal entity to finance its activities without additional subordinated financial support, (2) as a group (the holders of the equity investment at risk), either the power, through voting or similar rights, to direct the activities of the legal entity that most significantly impacts the entity's economic performance, or (3) the obligation to absorb the expected losses of the legal entity or the right to receive expected residual returns of the legal entity. These certain legal entities are referred to as "variable interest entities" or "VIEs."

The Company consolidates the results of any such entity in which it determines that it has a controlling financial interest. The Company has a "controlling financial interest" in such an entity if the Company has both the power to direct the activities that most significantly affect the VIE's economic performance and the obligation to absorb the losses of, or right to receive benefits from, the VIE that could be potentially significant to the VIE. On a quarterly basis, the Company reassesses whether it has a controlling financial interest in any investments it has in these certain legal entities.

NOTE 3. CONCENTRATIONS, SIGNIFICANT CUSTOMERS, COMMITMENTS AND CONTINGENCIES

At March 31, 2021 and 2020 and for each of the three months then ended, the Company's revenues and receivables were comprised of the following customer concentrations:

	Three Months Ended March 31, 2021		Three Months Ended March 31, 2020	
	% of Revenues	% of Receivables	% of Revenues	% of Receivables
Customer 1	27%	15%	47%	23%
Customer 2	7%	17%	10%	18%
Customer 3	1%	4%	4%	11%
Customer 4	10%	7%	—%	—%

For each of the three months ended March 31, 2021 and 2020, the Company's segment revenues were comprised of the following customer concentrations:

	% of Revenue by Segment			% Revenue by Segment		
	Three Months Ended March 31, 2021			Three Months Ended March 31, 2020		
	Black Oil	Refining	Recovery	Black Oil	Refining	Recovery
Customer 1	48%	—%	—%	58%	—%	—%
Customer 2	13%	—%	—%	13%	—%	—%
Customer 3	—%	—%	9%	—%	—%	37%
Customer 4	—%	30%	—%	—%	—%	—%

The Company had one and no vendors that represented 10% of total purchases or payables for the three months ended March 31, 2021 and 2020, respectively.

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 other 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.

On November 17, 2020, Vertex filed a lawsuit against Penthol LLC ("Penthol") in the District Court for the 61st Judicial District, Harris County, Texas (Cause No. 2020-65269), for breach of contract and simultaneously sought a Temporary Injunction enjoining Penthol from, among other things, circumventing Vertex in violation of the terms of that certain June 5, 2016 Sales Representative and Marketing Agreement entered into between Vertex Operating and Penthol (the "Penthol Agreement"). On February 8, 2021, Penthol filed a complaint against Vertex Operating with the Federal District Court for the Southern District of Texas Houston division; Civil Action No. 4:21-CV-416 (the "Complaint"). Because the issues raised in the Complaint largely mirror those in the then pending state court action in the District Court of Harris County Texas, 61st Judicial District Court, the state court action was removed to federal court and combined with the pending federal court action. Penthol's Complaint seeks damages from Vertex Operating for alleged violations of the Sherman Act, breach of contract, business disparagement, and misappropriation of trade secrets under the Defend Trade Secrets Act and Texas Uniform Trade Secrets Act. Penthol is seeking a declaration that the Penthol Agreement is invalid, unenforceable and was terminated on January 27, 2021, or that Penthol's actions are excused due to Vertex's breach of such agreement; that Vertex has materially breached the agreement; an injunction that prohibits enforcement of the agreement, Vertex from using Penthol's trade secrets, and requires Vertex to return any of Penthol's trade secrets; awards of actual, treble, consequential and exemplary damages, attorneys' fees and costs of court; and other relief to which it may be entitled. Vertex contends the claims made by Penthol are completely without merit, and that the termination of the Penthol Agreement was wrongful and resulted in damages to Vertex that it will seek to recover. Further, Vertex contends that the termination of the Penthol Agreement by Penthol constitutes a breach by Penthol under the express terms of the Penthol Agreement, and that Vertex remains entitled to payment of the amounts due Vertex under the Penthol Agreement for unpaid commissions and unpaid performance incentives. On March 2,

2021, Vertex filed a Motion to Dismiss Penthol's lawsuit with the court. Vertex plans to seek the recovery of its legal fees and costs incurred in enforcing its rights under the terms of the Penthol Agreement. Vertex disputes Penthol's allegations of wrongdoing and intends to vigorously defend itself in this matter.

We cannot predict the impact (if any) that any of the matters described above may have on our business, results of operations, financial position, or cash flows. Because of the inherent uncertainties of such matters, including the early stage and lack of specific damage claims in the Penthol matter, we cannot estimate the range of possible losses from them (except as otherwise indicated).

Related Parties

From time to time, the Company consults with a related party law firm. During the three months ended March 31, 2021 and 2020, we paid \$33,228 and \$24,689, respectively, to such law firm for services rendered.

NOTE 4. REVENUES

Disaggregation of Revenue

The following tables present our revenues disaggregated by geographical market and revenue source:

	Three Months Ended March 31, 2021			
	Black Oil	Refining & Marketing	Recovery	Total
Primary Geographical Markets				
Northern United States	\$ 10,864,410	\$ —	\$ —	\$ 10,864,410
Southern United States	21,293,838	19,273,952	6,651,793	47,219,583
	<u>\$ 32,158,248</u>	<u>\$ 19,273,952</u>	<u>\$ 6,651,793</u>	<u>\$ 58,083,993</u>
Sources of Revenue				
Base oil	\$ 9,113,893	\$ —	\$ 295,315	\$ 9,409,208
Pygas	—	2,972,431	—	2,972,431
Industrial fuel	—	311,693	—	311,693
Distillates	—	15,989,828	—	15,989,828
Oil collection services	1,561,927	—	76,431	1,638,358
Metals	—	—	6,280,047	6,280,047
Other re-refinery products	1,468,229	—	—	1,468,229
VGO/Marine fuel sales	20,014,199	—	—	20,014,199
Total revenues	<u>\$ 32,158,248</u>	<u>\$ 19,273,952</u>	<u>\$ 6,651,793</u>	<u>\$ 58,083,993</u>

Three Months Ended March 31, 2020				
	Black Oil	Refining & Marketing	Recovery	Total
Primary Geographical Markets				
Northern United States	\$ 9,488,331	\$ —	\$ —	\$ 9,488,331
Southern United States	20,043,039	2,510,593	4,161,466	26,715,098
	\$ 29,531,370	\$ 2,510,593	\$ 4,161,466	\$ 36,203,429
Sources of Revenue				
Base oil	\$ 7,362,727	\$ —	\$ 802,899	\$ 8,165,626
Pygas	—	2,457,841	—	2,457,841
Industrial fuel	1,157,136	52,752	—	1,209,888
Oil collection services	1,198,828	—	—	1,198,828
Metals	—	—	3,358,567	3,358,567
Other re-refinery products	2,656,704	—	—	2,656,704
VGO/Marine fuel sales	17,155,975	—	—	17,155,975
Total revenues	\$ 29,531,370	\$ 2,510,593	\$ 4,161,466	\$ 36,203,429

NOTE 5. ACCOUNTS RECEIVABLE

Accounts receivable, net, consists of the following at March 31, 2021 and December 31, 2020:

	March 31, 2021 Unaudited	December 31, 2020
Accounts receivable trade	\$ 13,593,869	\$ 11,751,679
Allowance for doubtful accounts	(598,131)	(612,746)
Accounts receivable trade, net	\$ 12,995,738	\$ 11,138,933

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.

NOTE 6. LINE OF CREDIT AND LONG-TERM DEBT

On April 24, 2020, (a) Encina Business Credit, LLC (“EBC”) and the lenders under our Revolving Credit Agreement with EBC (the “EBC Lenders”), and Vertex Operating, entered into a Fourth Amendment and Limited Waiver to Credit Agreement, effective on April 24, 2020, pursuant to which the EBC Lenders agreed to amend the EBC Credit Agreement; and (b) the EBC Lenders and Vertex Operating entered into a Fourth Amendment and Limited Waiver to ABL Credit Agreement, effective on April 24, 2020, 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, 2021 to February 1, 2022.

On August 7, 2020, the Company and Vertex Operating entered into a Fifth Amendment to Credit Agreement with EBC (the “Fifth Amendment”), which amended the EBC Credit Agreement to provide the Company up to a \$2 million term loan to be used for capital expenditures (the “CapEx Loan”), which amounts may be requested from time to time by the Company, provided that not more than four advances of such amount may be requested, with each advance being not less than \$500,000 (in multiples of \$100,000). The amendment also provided that any prepayments of the EBC Credit Agreement would first be applied to the term loan and then to the CapEx Loan. The CapEx Loan bears interest at the rate of LIBOR (1.15% at March 31, 2021) plus 7%, or to the extent that LIBOR is not available, the highest of the prime rate and the Federal Funds Rate plus 0.50%, in each case, plus 6%. We are required to repay the CapEx Loan in monthly installments of 1/48th of the amount borrowed, each month that the CapEx Loan is outstanding, with a final balloon payment due at maturity. The obligation of EBC to fund the CapEx Loan is subject to customary conditions and requirements set forth in the Fifth Amendment, including the requirement that the Company has maintained daily availability under the ABL Credit Agreement greater than \$1 million for the last thirty days, and that such availability would remain over \$1 million, on a pro forma basis with such new loan. We are

also required to provide the agent for the EBC Credit Agreement, a first priority security interest in the rolling stock collection assets or other assets acquired with the CapEx Loan.

On November 27, 2020, the Company, Vertex Operating, the Agent and the EBC Lenders, entered into a Fifth Amendment and Limited Waiver to Credit Agreement (the "Amendment and Waiver"), pursuant to which the Lenders agreed to amend the Revolving Credit Agreement, to (1) provide for the Lender's waiver of an event of default which occurred under the Revolving Credit Agreement, relating solely to the Company exceeding the \$3 million capital expenditure limitation for 2020 set forth in the Revolving Credit Agreement; (2) amend the capital expenditure limit set forth in the Revolving Credit Agreement to \$4 million for 2020 (compared to \$3 million previously) and \$3 million thereafter; and (3) amended the minimum required availability under the Revolving Credit Agreement to be \$1 million prior to December 31, 2020 (which amount was previously \$2 million) and \$2 million thereafter. Notwithstanding the technical default under the Revolving Credit Agreement discussed above, the Lenders did not take any action to accelerate amounts due under the Revolving Credit Agreement, such amounts due thereunder were not automatically accelerated in connection with the default, and as discussed above, such technical default was waived by the Lenders according to the Amendment and Waiver.

As of the date of this filing, the Company is in the process of extending the maturity date of the Encina debt to February 1, 2023. The Company presented the Encina debt in the current portion of long-term debt balance on the consolidated balance sheet at March 31, 2021.

Loan Agreements

On May 4, 2020, the Company applied for a loan from Texas Citizens Bank in the principal amount of \$4.22 million, pursuant to the Paycheck Protection Program (the "PPP") under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which was enacted on March 27, 2020. On May 5, 2020, the Company received the loan funds. The Note is unsecured, matures on April 28, 2022, and bears interest at a rate of 1.00% per annum, payable monthly commencing in February 2021, following an initial deferral period as specified under the PPP. Under the terms of the PPP, the entire amount may be forgiven to the extent loan proceeds are used for qualifying expenses. As of the date of this report, the Company believes it has used the PPP funds for qualifying expenses and has applied for forgiveness.

On May 27, 2020, the Company entered into a loan contract security agreement with John Deere to finance \$152,643 to purchase equipment. The Note matures on June 27, 2024, and bears interest at a rate of 2.45% per annum, payable monthly commencing on June 27, 2020. The payment of the note is secured by the equipment purchased.

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 \$473,417 at March 31, 2021 and \$1,183,543 at December 31, 2020.

Finance Leases

On April 2, 2020, the Company obtained one finance lease with payments of \$9,322 per month for three years and on July 28, 2020, the Company entered into another finance lease with payments of \$3,545 per month for three years. The amount of the finance lease obligation has been reduced to \$350,086 at March 31, 2021.

On May 22, 2020, the Company entered into one finance lease. Payments are \$15,078 per month for three years and the amount of the finance lease obligation has been reduced to \$414,632 at March 31, 2021.

The Company's outstanding debt facilities as of March 31, 2021 and December 31, 2020 are summarized as follows:

Creditor	Loan Type	Origination Date	Maturity Date	Loan Amount	Balance on March 31, 2021	Balance on December 31, 2020
Encina Business Credit, LLC	Term Loan	February 1, 2017	February 1, 2022	\$ 20,000,000	\$ 5,208,000	\$ 5,433,000
Encina Business Credit SPV, LLC	Revolving Note	February 1, 2017	February 1, 2022	\$ 10,000,000	—	133,446
Encina Business Credit, LLC	Capex Loan	August 7, 2020	February 1, 2022	\$ 2,000,000	1,286,603	1,378,819
Wells Fargo Equipment Lease-Ohio	Finance Lease	April-May, 2019	April-May, 2024	\$ 621,000	406,765	436,411
AVT Equipment Lease-Ohio	Finance Lease	April 2, 2020	April 2, 2023	\$ 466,030	350,086	380,829
AVT Equipment Lease-HH	Finance Lease	May 22, 2020	May 22, 2023	\$ 551,609	414,632	450,564
John Deere Note	Note	May 27, 2020	June 24, 2024	\$ 152,643	122,063	131,303
Tetra Capital Lease	Finance Lease	May, 2018	May, 2022	\$ 419,690	148,309	172,235
Well Fargo Equipment Lease-VRM LA	Finance Lease	March, 2018	March, 2021	\$ 30,408	—	1,804
Texas Citizens Bank	PPP Loan	May 5, 2020	April 28, 2022	\$ 4,222,000	4,222,000	4,222,000
Various institutions	Insurance premiums financed	Various	< 1 year	\$ 2,902,428	473,417	1,183,543
Total					\$ 12,631,875	\$ 13,923,954

Future contractual maturities of notes payable as of March 31, 2021 are summarized as follows:

Creditor	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Encina Business Credit, LLC	\$ 5,208,000	\$ —	\$ —	\$ —	\$ —	\$ —
Encina Business Credit, LLC	1,286,603	—	—	—	—	—
John Deere Note	37,528	38,459	39,413	6,663	—	—
Well Fargo Equipment Lease- Ohio	122,458	128,908	135,698	19,701	—	—
AVT Equipment Lease-Ohio	129,676	141,111	79,299	—	—	—
AVT Equipment Lease-HH	151,568	164,934	98,130	—	—	—
Tetra Capital Lease	99,832	48,477	—	—	—	—
Texas Citizens Bank	1,877,461	2,344,539	—	—	—	—
Various institutions	473,417	—	—	—	—	—
Totals	\$ 9,386,543	\$ 2,866,428	\$ 352,540	\$ 26,364	\$ —	\$ —

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 March 31, 2021 and 2020 excludes: 1) options to purchase 4,065,059 and 4,418,250 shares, respectively, of common stock, 2) warrants to purchase 1,983,510 and 8,633,193 shares, respectively, of common stock, 3) Series B Preferred Stock which is convertible into 2,035,666 and 3,883,449 shares, respectively, of common stock, 4) Series B1 Preferred Stock which is convertible into 5,497,450 and 7,004,236 shares, respectively, of common stock, and 5) Series A Preferred Stock which is convertible into 419,859 shares of common stock as of March 31, 2021 and 2020.

The following is a reconciliation of the numerator and denominator for basic and diluted earnings per share for the three months ended March 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Basic loss per Share		
Numerator:		
Net income (loss) available to common shareholders	\$ 635,032	\$ (9,453,991)
Denominator:		
Weighted-average common shares outstanding	47,709,450	45,372,358
Basic loss per share	\$ 0.01	\$ (0.21)
Diluted Earnings per Share		
Numerator:		
Net income (loss) available to common shareholders	\$ 635,032	\$ (9,453,991)
Denominator:		
Weighted-average shares outstanding	47,709,450	45,372,358
Effect of dilutive securities		
Stock options and warrants	876,886	—
Preferred stock	419,859	—
Diluted weighted-average shares outstanding	49,006,195	45,372,358
Diluted loss per share	\$ 0.01	\$ (0.21)

NOTE 8. COMMON STOCK

The total number of authorized shares of the Company's common stock is 750,000,000 shares, \$0.001 par value per share. As of March 31, 2021, there were 51,742,499 common shares issued and outstanding.

During the three months ended March 31, 2021, the Company issued 6,164,666 shares of common stock in connection with the conversions and exercises of Series B and B1 Convertible Preferred Stock and warrants into common stock of the Company, pursuant to the terms of such securities. In addition, the Company issued 22,992 shares of common stock in connection with the exercise of options.

During the three months ended March 31, 2020, the Company issued 2,159,278 shares of common stock in connection with the conversion of Series B1 Convertible Preferred Stock into common stock of the Company, pursuant to the terms of such securities.

Series B Exchange Agreements

On February 23, 2021, the Company entered into a Series B Preferred Stock Exchange Agreement with Pennington Capital LLC, the holder of shares of Series B Preferred Stock, pursuant to which the holder exchanged 822,824 shares of the Series B Preferred Stock of the Company which it held, which had an aggregate liquidation preference of \$2,550,754 (\$3.10 per share), for 1,261,246 shares of the Company's common stock (based on an exchange ratio equal to approximately the five-day volume-weighted average price per share of the Company's common stock on the date the Exchange Agreement was entered into). The Series B Preferred Stock shares were subsequently returned to the Company and cancelled in consideration for the issuance of the 1,261,246 shares of common stock. The Exchange Agreement included customary representations and warranties of the parties. This could result in gain or loss recognition due to more shares being issued than were provided in the original agreement.

On March 2, 2021, the Company entered into a Series B Preferred Stock Exchange Agreement with Carrhae & Co FBO Wasatch Micro Cap Value Fund, the holder of shares of Series B Preferred Stock, pursuant to which the holder exchanged 708,547 shares of the Series B Preferred Stock of the Company which it held, which had an aggregate liquidation preference of \$2,196,496 (\$3.10 per share), for 1,098,248 shares of the Company's common stock (based on an exchange ratio equal to \$2.00 per share of common stock). The Series B Preferred Stock are in the process of being returned to the Company and cancelled in consideration for the issuance of the 1,098,248 shares of common stock (which have not been issued to date). The Exchange Agreement included customary representations and warranties of the parties. This could result in gain or loss recognition due to more shares being issued than were provided in the original agreement.

As described in ASC 260-10-S99-2, when preferred stock is redeemed, the difference between fair value of the consideration transferred to the holders of the preferred stock and (2) the carrying amount of the preferred stock in the registrant's balance sheet (net of issuance costs) should be subtracted from (or added to) net income to arrive at income available to common shareholders in the calculation of earnings per share. As a result, the Company recorded a credit to retained earnings with a corresponding debit to APIC of \$630,321 and added to net income to arrive to net income available to common shareholders.

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 March 31, 2021 and December 31, 2020, there were 419,859 shares of Series A Preferred Stock issued and outstanding. As of March 31, 2021 and December 31, 2020, there were 2,035,666 and 4,102,690 shares of Series B Preferred Stock issued and outstanding, respectively. As of March 31, 2021 and December 31, 2020, there were 5,497,450 and 7,399,649 shares of Series B1 Preferred Stock issued and outstanding, respectively.

Series B Preferred Stock and Temporary Equity

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 three months ended March 31, 2021 and 2020:

	2021	2020
Balance at beginning of period	\$ 12,718,339	\$ 11,006,406
Less: conversions of shares to common	(1,978,494)	—
Less: exchanges of shares to common	(4,747,250)	—
Plus: discount accretion	—	413,889
Plus: dividends in kind	317,970	177,921
Balance at end of period	<u>\$ 6,310,565</u>	<u>\$ 11,598,216</u>

At March 31, 2021 and December 31, 2020, a total of \$157,778 and \$317,970 of dividends were accrued on our outstanding Series B Preferred Stock, respectively. During the three months ended March 31, 2021 and 2020, we paid dividends in-kind in additional shares of Series B Preferred Stock of \$317,970 and \$177,921, respectively. Because such preferred stock was not redeemed on June 24, 2020, the preferred stock accrues a 10% per annum dividend (payable in-kind at the option of the Company), until such preferred stock is redeemed or converted into common stock.

Series B1 Preferred Stock and Temporary Equity

The following table represents the activity related to the Series B1 Preferred Stock, classified as Temporary Equity on the accompanying unaudited consolidated balance sheet, for the three months ended March 31, 2021 and 2020:

	2021	2020
Balance at beginning of period	\$ 11,036,173	\$ 12,743,047
Less: conversions of shares to common	(3,256,024)	(3,368,474)
Plus: discount accretion	223,727	518,114
Plus: dividends in kind	288,594	211,269
Balance at end of period	<u>\$ 8,292,470</u>	<u>\$ 10,103,956</u>

The Series B1 Warrants were revalued at March 31, 2021 and December 31, 2020 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 \$1,004,680 and \$330,412, respectively. The Dynamic Black Scholes Merton inputs used were: expected dividend rate of 0%, expected volatility of 66%-114%, risk free interest rate of 0.06% and expected term of 0.75 years. The Series B Warrants expired pursuant to their terms on December 24, 2020.

As of March 31, 2021 and December 31, 2020, respectively, a total of \$214,405 and \$288,594 of dividends were accrued on our outstanding Series B1 Preferred Stock. During the three months ended March 31, 2021 and 2020, we paid dividends in-kind in additional shares of Series B1 Preferred Stock of \$288,594 and \$211,269, respectively. Because such preferred stock was not redeemed on June 24, 2020, the preferred stock accrues a 10% per annum dividend (payable in-kind at the option of the Company), until such preferred stock is redeemed or converted into common stock.

The following is an analysis of changes in the derivative liability for the three months ended March 31:

Level Three Roll-Forward

	2021	2020
Balance at beginning of period	\$ 330,412	\$ 1,969,216
Value of warrants exercised	(1,105,935)	—
Change in valuation of warrants	1,780,203	(1,698,747)
Balance at end of period	<u>\$ 1,004,680</u>	<u>\$ 270,469</u>

NOTE 10. SEGMENT REPORTING

The Company's reportable segments include the (1) Black Oil, (2) Refining and Marketing, and (3) Recovery segments.

(1) The Black Oil segment consists primary of the sale of (a) petroleum products which include base oil and industrial fuels—which consist of used motor oils, cutterstock and fuel oil generated by our facilities; (b) oil collection services—which consist of used oil sales, burner fuel sales, antifreeze sales and service charges; (c) the sale of other re-refinery products including asphalt, condensate, recovered products, and used motor oil; (d) transportation revenues; and (e) the sale of VGO (vacuum gas oil)/marine fuel.

(2) The Refining and Marketing segment consists primarily of the sale of pygas; industrial fuels, which are produced at a third-party facility; and distillates.

(3) The Recovery segment consists primarily of revenues generated from the sale of ferrous and non-ferrous recyclable Metal(s) products that are recovered from manufacturing and consumption. It also includes revenues generated from trading/marketing of Group III Base Oils.

We also disaggregate our revenue by product category for each of our segments, as we believe such disaggregation helps depict how our revenue and cash flows are affected by economic factors.

Segment information for the three months ended March 31, 2021 and 2020 is as follows:

THREE MONTHS ENDED MARCH 31, 2021

	Black Oil	Refining & Marketing	Recovery	Total
Revenues:				
Base oil	\$ 9,113,893	\$ —	\$ 295,315	\$ 9,409,208
Pygas	—	2,972,431	—	2,972,431
Industrial fuel	—	311,693	—	311,693
Distillates ⁽¹⁾	—	15,989,828	—	15,989,828
Oil collection services	1,561,927	—	76,431	1,638,358
Metals ⁽²⁾	—	—	6,280,047	6,280,047
Other re-refinery products ⁽³⁾	1,468,229	—	—	1,468,229
VGO/Marine fuel sales	20,014,199	—	—	20,014,199
Total revenues	<u>32,158,248</u>	<u>19,273,952</u>	<u>6,651,793</u>	<u>58,083,993</u>
Cost of revenues (exclusive of depreciation and amortization shown separately below)	19,836,446	18,150,770	5,359,058	43,346,274
Depreciation and amortization attributable to costs of revenues	1,074,260	125,634	147,926	1,347,820
Gross profit	<u>11,247,542</u>	<u>997,548</u>	<u>1,144,809</u>	<u>13,389,899</u>
Selling, general and administrative expenses	6,421,696	759,410	745,474	7,926,580
Depreciation and amortization attributable to operating expenses	353,948	108,471	20,450	482,869
Income from operations	<u>\$ 4,471,898</u>	<u>\$ 129,667</u>	<u>\$ 378,885</u>	<u>\$ 4,980,450</u>

THREE MONTHS ENDED MARCH 31, 2020

	Black Oil	Refining & Marketing	Recovery	Total
Revenues:				
Base oil	\$ 7,362,727	\$ —	\$ 802,899	\$ 8,165,626
Pygas	—	2,457,841	—	2,457,841
Industrial fuel	1,157,136	52,752	—	1,209,888
Distillates ⁽¹⁾	—	—	—	—
Oil collection services	1,198,828	—	—	1,198,828
Metals ⁽²⁾	—	—	3,358,567	3,358,567
Other re-refinery products ⁽³⁾	2,656,704	—	—	2,656,704
VGO/Marine fuel sales	17,155,975	—	—	17,155,975
Total revenues	29,531,370	2,510,593	4,161,466	36,203,429
Cost of revenues (exclusive of depreciation and amortization shown separately below)	20,066,240	2,596,052	4,174,562	26,836,854
Depreciation and amortization attributable to costs of revenues	936,895	105,768	135,931	1,178,594
Gross profit (loss)	8,528,235	(191,227)	(149,027)	8,187,981
Selling, general and administrative expenses	5,411,222	592,389	696,907	6,700,518
Depreciation and amortization attributable to operating expenses	335,105	100,398	20,450	455,953
Income (loss) from operations	\$ 2,781,908	\$ (884,014)	\$ (866,384)	\$ 1,031,510

⁽¹⁾ Distillates are finished fuel products such as gasoline and diesel fuels.

⁽²⁾ 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.

⁽³⁾ Other re-refinery products include the sales of asphalt, condensate, recovered products, and other petroleum products.

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 income at March 31, 2021 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 \$49.1 million as of March 31, 2021 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 pre-tax income of approximately \$3.0 million from January 1, 2021 through March 31, 2021.

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 March 31, 2021 and December 31, 2020, 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 March 31, 2021				
Contract Type	Contract Period	Weighted Average Strike Price (Barrels)	Remaining Volume (Barrels)	Fair Value
Futures	Mar. 2021- Jun. 2021	\$ 74.39	75,000	\$ 342,031

As of December 31, 2020				
Contract Type	Contract Period	Weighted Average Strike Price (Barrels)	Remaining Volume (Barrels)	Fair Value
Futures	Dec. 2020-Mar. 2021	\$ 62.33	55,000	\$ (94,214)

The carrying values of the Company's derivatives positions and their locations on the consolidated balance sheets as of March 31, 2021 and December 31, 2020 are presented in the table below.

Balance Sheet Classification	Contract Type	2021	2020
	Crude oil futures	\$ 342,031	\$ (94,214)
Derivative commodity asset (liability)		\$ 342,031	\$ (94,214)

For the three months ended March 31, 2021 and 2020, we recognized a \$721,531 loss and a \$4,427,782 gain, respectively, on commodity derivative contracts on the consolidated statements of operations as part of our cost of revenues.

NOTE 13. LEASES

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 expenses for the three months ended March 31, 2021 and 2020 were \$103,983 and \$53,121, respectively, and are included in depreciation and amortization on the unaudited consolidated statements of operations. The associated interest expense for the three months ended March 31, 2021 and 2020 were \$26,623 and \$10,919, respectively, and are included in interest expense on the unaudited consolidated statements of operations. 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 months ended March 31, 2021 and 2020. Total operating lease costs for the three months ended March 31, 2021 and 2020 were \$1.5 million and \$1.5 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, including some small leases with initial terms less than twelve months was \$0.3 million during the three months ended March 31, 2021 and 2020, and is included in operating cash flows. Cash paid for amounts included in finance lease was \$122,052 and \$53,119 during the three months ended March 31, 2021 and 2020, respectively, and is included in financing cash flows.

Maturities of our lease liabilities for all operating leases are as follows as of March 31, 2021:

	March 31, 2021				
	Facilities	Equipment	Plant	Railcar	Total
Year 1	\$ 690,975	\$ 145,827	\$ 4,060,417	\$ 622,446	\$ 5,519,665
Year 2	510,446	2,280	4,060,417	243,300	4,816,443
Year 3	325,383	—	4,060,417	70,500	4,456,300
Year 4	319,200	—	4,060,417	—	4,379,617
Year 5	316,000	—	4,060,417	—	4,376,417
Thereafter	2,025,000	—	28,449,386	—	30,474,386
Total lease payments	\$ 4,187,004	\$ 148,107	\$ 48,751,471	\$ 936,246	\$ 54,022,828
Less: interest	(1,449,593)	(4,391)	(19,476,415)	(34,639)	(20,965,038)
Present value of lease liabilities	\$ 2,737,411	\$ 143,716	\$ 29,275,056	\$ 901,607	\$ 33,057,790

The weighted average remaining lease terms and discount rates for all of our operating leases were as follows as of March 31, 2021:

	March 31, 2021
Remaining lease term and discount rate:	
Weighted average remaining lease terms (years)	
Lease facilities	5.68
Lease equipment	0.92
Lease plant	12.01
Lease railcar	1.10
Weighted average discount rate	
Lease facilities	9.17 %
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 March 31, 2021 and 2020.

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. 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-of-use asset and lease obligation at January 1, 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. SHARE PURCHASE AND SUBSCRIPTION AGREEMENTS

Myrtle Grove Share Purchase and Subscription Agreement

Amounts received by MG SPV from its direct sale of Class B Units to 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") may only be used for additional investments in the Company's former Belle Chasse, Louisiana, re-refining complex (the "MG Refinery") or for day to day operations at the MG refinery. At March 31, 2021, \$0.6 million reported as cash and cash equivalents on the balance sheet is restricted to MG Refinery investments or operating expenses.

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 July 26, 2019 (the "MG 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 any unpaid Class B preference. The preference is defined as the greater of (A) the aggregate unpaid "Class B Yield" (equal to an annual return of 22.5% per annum) and (B) an amount equal to fifty percent (50%) of the aggregate capital invested by the Class B Unit holders. The Company did not pay the preferential yield during the three months ended March 31, 2021. "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"), provided that such Heartland Closing was consummated by June 30, 2020, (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. No triggering events occurred during the three months ended March 31, 2021.

Myrtle Grove Redeemable Noncontrolling Interest

As a result of the Share Purchase and Subscription Agreement (the "MG Share Purchase"), 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 associated with MG SPV at the balance sheet date. First, the Company applied the measurement guidance in ASC 810-10 by attributing a portion of the subsidiary's net loss of \$65,901 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 \$373,749 increased the carrying amount of redeemable noncontrolling interests to the redemption value as of

March 31, 2021 of \$5,780,689. 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 relating to MG SPV as of March 31, 2021 and 2020.

	March 31, 2021	March 31, 2020
Beginning balance	\$ 5,472,841	\$ 4,396,894
Net loss attributable to redeemable non-controlling interest	(65,901)	(31,092)
Change in ownership	—	71,171
Accretion of non-controlling interest to redemption value	373,749	207,246
Ending balance	<u>\$ 5,780,689</u>	<u>\$ 4,644,219</u>

Heartland Share Purchase and Subscription Agreement

On January 17, 2020 (the “Heartland Closing Date”), Vertex Operating, Tensile-Heartland Acquisition Corporation (“Tensile-Heartland”), an affiliate of Tensile, and solely for the purposes of the Heartland Guaranty (defined below), the Company, and HPRM 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 (“Heartland SPV”), entered into a Share Purchase and Subscription Agreement (the “Heartland Share Purchase”).

Prior to entering into the Heartland Share Purchase, the Company transferred 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 contributed 248 Class B Units to the Company’s wholly-owned subsidiary, Vertex Splitter Corporation, a Delaware corporation (“Vertex Splitter”), as a contribution to capital.

Vertex OH owned 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 sold 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. Also, on the Heartland Closing Date, Tensile-Heartland purchased 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.

The approximate \$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.

Concurrently with the closing of the transactions described above, and pursuant to the terms of the Heartland Share Purchase, the Company, through Vertex Operating, purchased 1,000 newly issued Class A Units from MG SPV at a cost of \$1,000 per unit (\$1 million in aggregate). As a result of this transaction, MG SPV is owned 85.00% by Vertex Operating and 15.00% by Tensile-MG.

The Heartland Share Purchase provides Tensile-Heartland an option, exercisable at its election, at any time, 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.

The Heartland SPV is currently owned 35% by Vertex Operating and 65% by Tensile-Heartland. Heartland SPV is managed by a five-member Board of Managers, of which three members are appointed by Tensile-Heartland and two are appointed by the Company. The Class A Units held by Tensile-Heartland are convertible into Class B Units as provided in the Limited Liability Company Agreement of Heartland SPV (the “Heartland Company Agreement”), based on a conversion price (initially one-for-one) which may be reduced from time to time if new Units of Heartland SPV are issued and will automatically convert into Series B Units upon certain events described in the Heartland Company Agreement.

The Class A-1 and A-2 Preferred Units ("Class A Preferred Units"), which are 100% owned by Tensile-Heartland, accrue a 22.5% per annum preferred return subject to terms of the Heartland Company Agreement (the "Class A Yield").

Additionally, the Class A Unit holders (common and preferred) may force Heartland SPV to redeem the outstanding Class A Units at any time on or after the earlier of (a) the fifth anniversary of the Heartland Closing Date and (ii) the occurrence of a Heartland Triggering Event (defined below) (a "Heartland Redemption"). The cash purchase price for such redeemed Class A Unit will be 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 Heartland Redemption and Vertex Operating (provided that Vertex Operating still owns Class B Units on such date) and (z) the original per-unit price for such Class A Units plus any unpaid Class A preference. The Class A preference is defined as the greater of (A) the aggregate unpaid Class A yield and (B) an amount equal to fifty percent (50%) of the aggregate capital invested by the Class A Unit holders through such Heartland Redemption date. "Heartland Triggering Events" include (a) any termination of an Administrative Services Agreement entered into with Tensile, pursuant to its terms and/or any material breach by us of the environmental remediation and indemnity agreement entered into with Tensile, (b) any dissolution, winding up or liquidation of the Company, Vertex Operating or any significant subsidiary of Vertex Operating, (c) any sale, lease, license or disposition of any material assets of the Company, Vertex Operating or any significant subsidiary of Vertex Operating, or (d) 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 Heartland 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 Heartland Company Agreement.

In the event that Heartland SPV fails to redeem such Class A Units within 180 days after a redemption is triggered, the Class A Yield is increased to 25% until such time as such redemption is completed (with such increase being effective back to the original date of a notice of redemption). In addition, in such event, the Class A Unit holders may cause Heartland SPV to initiate a process intended to result in a sale of Heartland SPV.

Distributions of available cash of Heartland SPV pursuant to the Heartland Company Agreement (including pursuant to liquidations of Heartland SPV), subject to certain exceptions set forth therein, are to be made (a) first, to the holders of the Class A Preferred Units, in an amount equal to the Class A preference; (b) second, the Class A Preferred Unit holders, together as a separate and distinct class, are entitled to receive an amount equal to the aggregate Heartland Invested Capital; (c) third, the Class B Unitholders (other than Class B Unitholders which received Class B Units upon conversion of Class A Preferred Units), together as a separate and distinct class, are entitled to receive all or a portion of any distribution equal to the sum of all distributions made under sections (a) and (b) above; and (d) fourth, to the holders of Units who are eligible to receive such distributions in proportion to the number of Units held by such holders.

Heartland Variable interest entity

The Company has assessed the Heartland SPV under the variable interest guidance in ASC 810. The Company determined that the Class A Units are not at risk due to a 22.5% preferred return and a redemption provision that, if elected, would require Heartland SPV to repurchase the Class A Units at their original cost plus the preferred return. The Company further determined that as a minority shareholder, holding only 35% of the voting rights, the Company does not have the ability to direct the activities of Heartland SPV that most significantly impact the entity's performance. Based on this assessment, the Company concluded that Heartland SPV is a variable interest entity.

In assessing if the Company is the primary beneficiary of Heartland SPV, the Company determined that certain provisions of the Heartland Company Agreement prohibiting the transfer of its Class B Units result in the Class A Unit holders being related parties under the de facto agents criteria in ASC 810. The Company and the Class A Unit holders, as a group, have the power to direct the significant activities of Heartland SPV and the obligations to absorb the losses and the right to receive the benefits that could potentially be significant to Heartland SPV. The Company concluded that substantially all of the activities of Heartland SPV are conducted on its behalf, and not on behalf of the Class A Unit holders, the decision maker, thus the Company is the primary beneficiary and required to consolidate Heartland SPV in accordance with ASC 810.

The Company's consolidated financial statements include the assets, liabilities and results of operations of Heartland SPV for which the Company is the primary beneficiary. The other equity holders' interests are reflected in net loss attributable to noncontrolling interests and redeemable noncontrolling interest in the consolidated statements of income and noncontrolling interests in the consolidated balance sheets.

The following table summarizes the carrying amounts of Heartland SPV's assets and liabilities included in the Company's consolidated balance sheets at March 31, 2021 and 2020:

	March 31, 2021	March 31, 2020
Cash and cash equivalents	\$ 9,638,301	\$ 7,748,360
Accounts receivable, net	4,782,206	3,699,655
Inventory	740,156	727,684
Prepaid expense and other current assets	500,722	243,581
Total current assets	15,661,385	12,419,280
Fixed assets, net	6,607,607	5,983,134
Finance lease right-of-use assets	956,035	777,091
Operating lease right-of-use assets	306,876	505,020
Intangible assets, net	1,001,896	1,252,807
Other assets	106,643	120,504
Total assets	\$ 24,640,442	\$ 21,057,836
Accounts payable	\$ 1,858,512	\$ 1,822,171
Accrued expenses	353,574	491,505
Finance lease liability-current	351,966	209,368
Operating lease liability-current	259,925	300,937
Total current liabilities	2,823,977	2,823,981
Finance lease liability-long term	553,193	555,375
Operating lease liability-long term	46,951	204,083
Total liabilities	\$ 3,424,121	\$ 3,583,439

The assets of Heartland SPV may only be used to settle the obligations of Heartland SPV, and may not be used for other consolidated entities. The liabilities of Heartland SPV are non-recourse to the general credit of the Company's other consolidated entities.

Heartland Redeemable Noncontrolling Interest

As a result of the Heartland Share Purchase (as defined and discussed above), Tensile, through Tensile-Heartland, acquired an approximate 65.00% ownership interest in Heartland SPV, 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 \$9,091,068 between the fair value of the consideration received of \$21,000,000 and the carrying amount of the noncontrolling interest determined in accordance with ASC 810-10 of \$11,908,932, 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 associated with Heartland SPV at the balance sheet date. First, the Company applied the measurement guidance in ASC 810-10 by attributing a portion of the subsidiary's net income of \$1,608,303 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. At March 31, 2021, the cumulative amount resulting from the application of the measurement guidance in ASC 810-10 exceeded the redemption value of \$27,609,142. The

carrying amount of redeemable noncontrolling interests to the redemption value as of March 31, 2021 of \$27,747,136. 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 relating to Heartland SPV as of March 31, 2021 and 2020.

	March 31, 2021	March 31, 2020
Beginning balance	\$ 26,138,833	\$ —
Initial adjustment of carrying amount of non-controlling interest	—	11,908,932
Net income (loss) attributable to redeemable non-controlling interest	1,608,303	(486,785)
Accretion of non-controlling interest to redemption value	—	10,759,103
Ending balance	<u>\$ 27,747,136</u>	<u>\$ 22,181,250</u>

The amount of accretion of redeemable noncontrolling interest to redemption value of \$373,748 is presented as an adjustment to net income attributable to Vertex Energy, Inc., to arrive at net income available to common shareholders on the consolidated statements of operations which represent the MG SPV and Heartland SPV accretion of redeemable noncontrolling interest to redemption value combined for the three months ended March 31, 2021.

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 March 31, 2021, in-kind by way of the issuance of 50,896 restricted shares of Series B Preferred Stock pro rata to each of the then holders of our Series B Preferred Stock in April 2021 and the issuance of 137,439 restricted shares of Series B1 Preferred Stock pro rata to each of the then holders of our Series B1 Preferred Stock in April 2021. If converted in full, the 50,896 shares of Series B Preferred Stock would convert into 50,896 shares of common stock and the 137,439 shares of Series B1 Preferred Stock would convert into 137,439 shares of common stock.

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

Introduction

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, 2020, filed with the Securities and Exchange Commission on March 9, 2021 (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.

Our fiscal year ends on December 31st. Interim results are presented on a quarterly basis for the quarters ended March 31, June 30, and September 30th, the first quarter, second quarter and third quarter, respectively, with the quarter ending December 31st being referenced herein as our fourth quarter. Fiscal 2020 means the year ended December 31, 2020, whereas fiscal 2019 means the year ended December 31, 2019.

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:

"[Base Oil](#)" means the lubrication grade oils initially produced from refining crude oil (mineral base oil) or through chemical synthesis (synthetic base oil). In general, only 1% to 2% of a barrel of crude oil is suitable for refining into base oil. The majority of the barrel is used to produce gasoline and other hydrocarbons;

"[Cutterstock](#)" means fuel oil used as a blending agent added to other fuels. For example, to lower viscosity;

"[Crack](#)" means breaking apart crude oil into its component products, including gases like propane, heating fuel, gasoline, light distillates like jet fuel, intermediate distillates like diesel fuel and heavy distillates like grease;

"[Exchange Act](#)" refers to the Securities Exchange Act of 1934, as amended;

"[Feedstock](#)" means a product or a combination of products derived from crude oil and destined for further processing in the refining or re-refining industries. It is transformed into one or more components and/or finished products;

"[Gasoline Blendstock](#)" means 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 (an organic compound with properties similar to a butane);

"[Hydrotreating](#)" means the process of reacting oil fractions with hydrogen in the presence of a catalyst to produce high-value clean products;

"[IMO 2020](#)" effective January 1, 2020, the International Maritime Organization (IMO) mandated a maximum sulphur content of 0.5% in marine fuels globally;

"[MDO](#)" means marine diesel oil, which is a type of fuel oil and is a blend of gasoil and heavy fuel oil, with less gasoil than intermediate fuel oil used in the maritime field;

"Naphthas" means any of various volatile, highly flammable liquid hydrocarbon mixtures used chiefly as solvents and diluents and as raw materials for conversion to gasoline;

"Pygas" means pyrolysis gasoline, an aromatics-rich gasoline stream produced in sizeable quantities by an ethylene plant. These plants are designed to crack a number of feedstocks, including ethane, propane, naphtha, and gasoil. Pygas can serve as a high-octane blendstock for motor gasoline or as a feedstock for an aromatics extraction unit;

"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

"VGO" refers to Vacuum Gas Oil (also known as cat feed) - a feedstock for a fluid catalytic cracker typically found in a crude oil refinery and used to make gasoline No. 2 oil and other byproducts.

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.

Novel Coronavirus (COVID-19)

In December 2019, a novel strain of coronavirus, which causes the infectious disease known as COVID-19, was reported in Wuhan, China. The World Health Organization declared COVID-19 a "Public Health Emergency of International Concern" on January 30, 2020 and a global pandemic on March 11, 2020. In March and April, many U.S. states and local jurisdictions began issuing 'stay-at-home' orders, which continue in various forms as of the date of this report. Notwithstanding such 'stay-at-home' orders, to date, our operations have for the most part been deemed an essential business under applicable governmental orders based on the critical nature of the products we offer.

We sell products and services primarily in the U.S. domestic oil and gas commodity markets. Throughout the first quarter of 2020, the industry experienced multiple factors which lowered both the demand for, and prices of, oil and gas. First, the COVID-19 pandemic lowered global demand for hydrocarbons, as social distancing and travel restrictions were implemented across the world. Second, the lifting of Organization of the Petroleum Exporting Countries (OPEC)+ supply curtailments, and the associated increase in production of oil, drove the global supply of hydrocarbons higher through the first quarter of 2020. As a result of both dynamics, prices for hydrocarbons declined 67% from peak prices within the quarter. In addition, while global gross domestic product (GDP) growth was impacted by COVID-19 during 2020 and the first quarter of 2021, we expect GDP to continue to be impacted globally for at least the early part of 2021, as a result of the COVID-19 pandemic. As a result, we expect oil and gas related markets will continue to experience significant volatility in 2021. Our goal through this downturn has been to remain disciplined in allocating capital and to focus on liquidity and cash preservation. We are taking the necessary actions to right-size the business for expected activity levels.

As a result of the impact of the COVID-19 outbreak, some of our feedstock suppliers have permanently or temporarily closed their businesses, limited our access to their businesses, or have experienced a decreased demand for services. As a result of the above, and due to 'stay-at-home' and other social distancing orders, as well as the decline in U.S. travel caused by COVID-19, we have seen a significant decline in the volume of feedstocks (specifically used oil) that we have been able to collect, and therefore process through our facilities. A prolonged economic slowdown, period of social quarantine (imposed by the government or otherwise), or a continued period of decreased travel due to COVID-19 or the responses thereto, will likely have a material negative adverse impact on our ability to produce products, and consequently our revenues and results of operations.

The full extent of the impact of COVID-19 on our business and operations currently cannot be estimated and will depend on a number of factors including the scope and duration of the global pandemic, the efficacy of, ability to manufacture a sufficient amount of, and the willingness of the general public to obtain, vaccines.

Currently we believe that we have sufficient cash on hand and will generate sufficient cash through operations to support our operations for the foreseeable future; however, we will continue to evaluate our business operations based on new information as it becomes available and will make changes that we consider necessary in light of any new developments regarding the pandemic.

The pandemic is developing rapidly and the full extent to which COVID-19 will ultimately impact us depends on future developments, including the duration and spread of the virus, as well as the impact of vaccines and virus mutations and the potential seasonality of new outbreaks.

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 segments:

- (1) Black Oil,
- (2) Refining and Marketing, and
- (3) Recovery.

We currently provide our services in 15 states, primarily in the Gulf Coast, Midwest and Mid-Atlantic regions of the United States. For the rolling twelve-month period ending March 31, 2021, we aggregated approximately 65.1 million gallons of used motor oil and other petroleum by-product feedstocks and managed the re-refining of approximately 74.0 million gallons of used motor oil with our proprietary vacuum gas oil ("VGO") and Base Oil processes.

Our Black Oil segment 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") and we also utilize third-party processing facilities. TCEP's original purpose was to re-fine used oil into marine cutterstock; however, between the third quarter of 2015 and the third quarter of 2019, and since the first quarter of 2020, the original purpose of TCEP has not been economically viable and we have instead been using TCEP to re-fine used oil into marine cutterstock; prior to shipping to our facility in Marrero, Louisiana.

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 segment 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 segment 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 Segment

Our Black Oil segment 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 30 transportation trucks and more than 80 aboveground storage tanks with over 8.6 million gallons of storage capacity. These assets are used by both the Black Oil segment and the Refining and Marketing segment. 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. Also, as discussed above under "Description of Business Activities", from time to time, when market conditions warrant (i.e., when oil prices are sufficiently high), we have used our proprietary TCEP technology to re-refine used oil into marine fuel cutterstock, provided that we are currently using such technology solely to pre-treat our used motor oil feedstock prior to shipping to our facility in Marrero, Louisiana. 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 Segment

Our Refining and Marketing segment 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 segment. 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. In addition, we are distributing refined motor fuels such as gasoline, blended gasoline products and diesel used as engine fuels, to third party customers who typically resell these products to retailers and end consumers.

Recovery Segment

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. Our TCEP technology converts 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 went into effect on January 1, 2020. As described above, due to the decline in oil prices and challenges in obtaining feedstock in the early part of 2020, we have been using TCEP for the purposes of pre-treating our used motor oil feedstock prior to shipping to our facility in Marrero, Louisiana since the first quarter of 2020. We have no current plans to construct any other TCEP facilities at this time.

Products and Services

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

Base Oil

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

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.

Industrial Fuel

Industrial fuel is a distillate fuel oil which is typically a blend of lower quality fuel oils. It can include diesel fuels and fuel oils such as No. 1, No. 2 and No. 4 diesel fuels that are historically used for space heating and power generation. Industrial fuel is typically a fuel with low viscosity, as well as low sulfur, ash, and heavy metal content, making it an ideal blending agent.

Distillates

Distillates are finished fuel products such as gasoline and diesel fuels.

Oil Collection Services

Oil collection services include the collection, handling, treatment and sales of used motor oil and products which include used motor oil (such as oil filters) which are collected from our customers.

Metals

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.

Other re-refinery products

Other re-refinery products include the sales of asphalt, condensate, recovered products, and other petroleum products.

VGO/Marine fuel sales

VGO/Marine fuel sales relate to the sale of low sulfur fuel meeting the criteria for IMO 2020 compliant marine fuels.

The way that the product categories above fit into our three operating segments (1) Black Oil; (2) Refining and Marketing; and (3) Recovery, are indicated below:

	Black Oil⁽¹⁾	Refining and Marketing⁽²⁾	Recovery⁽³⁾
Base oil	X		X
Pygas		X	
Industrial fuel	X	X	
Distillates		X	
Oil collection services	X		
Metals			X
Other re-refinery products	X		X
VGO/Marine fuel sales	X		

(1) As discussed in greater detail above under “Black Oil Segment”, the Black Oil segment consists primary of the sale of (a) petroleum products which include base oil and industrial fuels—which consist of used motor oils, cutterstock and fuel oil generated by our facilities; (b) oil collection services—which consist of used oil sales, burner fuel sales, antifreeze sales and service charges; (c) the sale of other re-refinery products including asphalt, condensate, recovered products, and used motor oil; (d) transportation revenues; and (e) the sale of VGO (vacuum gas oil)/marine fuel.

(2) As discussed in greater detail above under “Refining and Marketing Segment”, the Refining and Marketing segment consists primarily of the sale of pygas; industrial fuels, which are produced at a third-party facility (KMTEX); and distillates.

(3) As discussed in greater detail above under “Recovery Segment”, the Recovery segment consists primarily of revenues generated from the sale of ferrous and non-ferrous recyclable Metal(s) products that are recovered from manufacturing and consumption. It also includes revenues generated from trading/marketing of Group III Base Oils.

RESULTS OF OPERATIONS

Description of Material Financial Line Items:

Revenues

We generate revenues from three existing operating segments as follows:

BLACK OIL - Revenues from our Black Oil segment 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 segment generates revenues relating to the sales of finished products. The Refining and Marketing segment 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 segment 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 segment 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 segment 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 segment 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 our Vertex Holdings, L.P. (formerly Vertex Energy, L.P.), a Texas limited partnership (“Holdings”), Omega Refining, LLC (“Omega Refining”), Warren Ohio Holdings Co., LLC, f/k/a Heartland Group Holdings, LLC (“Heartland”), Acadiana Recovery, LLC, Nickco Recycling, Inc., Ygriega Environmental Services, LLC, Specialty Environmental Services and Crystal Energy, LLC acquisitions, described in greater detail in our 2020 Annual Report on Form 10-K for the year ended December 31, 2020.

Depreciation and amortization expense attributable to cost of revenues reflects the depreciation and amortization of the fixed assets at our refineries along with rolling stock at our collection branches.

Depreciation and amortization expense attributable to operating expenses reflects depreciation and amortization related to our corporate and administrative offices along with internet technology (IT) related items and intangibles.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2021 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2020

Set forth below are our results of operations for the three months ended March 31, 2021 as compared to the same period in 2020.

	Three Months Ended March		\$ Change - Favorable (Unfavorable)	% Change - Favorable (Unfavorable)
	2021	2020		
Revenues	\$ 58,083,993	\$ 36,203,429	\$ 21,880,564	60 %
Cost of revenues (exclusive of depreciation and amortization shown separately below)	43,346,274	26,836,854	(16,509,420)	(62) %
Depreciation and amortization attributable to costs of revenues	1,347,820	1,178,594	(169,226)	(14) %
Gross profit*	<u>13,389,899</u>	<u>8,187,981</u>	<u>5,201,918</u>	<u>64 %</u>
Operating expenses:				
Selling, general and administrative expenses	7,926,580	6,700,518	(1,226,062)	(18) %
Depreciation and amortization attributable to operating expenses	482,869	455,953	(26,916)	(6) %
Total operating expenses	<u>8,409,449</u>	<u>7,156,471</u>	<u>(1,252,978)</u>	<u>(18) %</u>
Income from operations	4,980,450	1,031,510	3,948,940	383 %
Other income (expense):				
Other income	—	80	(80)	(100) %
Gain (loss) on asset sales	1,424	—	1,424	100 %
Gain (loss) on change in value of derivative liability	(1,780,203)	1,698,747	(3,478,950)	(205) %
Interest expense	(236,333)	(340,086)	103,753	31 %
Total other income (expense)	<u>(2,015,112)</u>	<u>1,358,741</u>	<u>(3,373,853)</u>	<u>(248) %</u>
Income before income tax	2,965,338	2,390,251	575,087	24 %
Income tax benefit (expense)	—	—	—	— %
Net income	2,965,338	2,390,251	575,087	24 %
Net income (loss) attributable to non-controlling interest and redeemable non-controlling interest	1,990,969	(398,609)	2,389,578	599 %
Net income attributable to Vertex Energy, Inc.	<u>\$ 974,369</u>	<u>\$ 2,788,860</u>	<u>\$ (1,814,491)</u>	<u>(65) %</u>

* The Company changed its presentation of gross profit, beginning in its Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, to include depreciation and amortization of our refineries. This change in presentation had no effect on the previously reported results of operations. The disclosures above have been retroactively adjusted from the prior presentations to include depreciation and amortization of our refineries.

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 (i.e., feedstock acquisition costs). 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. Additionally, we use hedging instruments to manage our exposure to underlying commodity prices. During the three months ended March 31, 2021, we had a loss of \$720,000 in our hedging instruments as compared to a gain of \$4.4 million for the three months ended March 31, 2020. We recognize our hedging activities from commodity derivatives in our cost of goods sold. During the three months ended March 31, 2021, compared to the same period in 2020, we saw a 20% decrease in the discount we were paying for feedstock into our refineries. In addition, we saw a 9% decrease in operating costs (inclusive of depreciation and amortization) on a per barrel basis for the first quarter of 2021 as compared to the same period in 2020.

Total revenues increased by 60% for the three months ended March 31, 2021, compared to the same period in 2020, due primarily to higher commodity prices (commodity prices reached were near historic lows at the end of the quarter ended March 31,

2020, as a result of the COVID-19 pandemic) and increased volumes at our refineries; including \$16 million of revenue generated from our wholesale distribution of gasoline, blended gasoline, and diesel for use as engine fuel to operate automobiles, trucks, locomotives, and construction equipment, which operations were acquired in June 2020, in connection with our acquisition of Crystal Energy, LLC ("Crystal"), for the three months ended March 31, 2021, compared to the same period in 2020. Total volume increased 18% during the three months ended March 31, 2021 compared to the same period in 2020. Volumes were impacted as a result of feedstock availability specifically used motor oil, in the overall marketplace. This volume impact was largely due to lingering impacts of the shelter in place orders in the locations in which we collect used motor oil and other products as a result of the COVID-19 pandemic, which directly impacted the generation of used oil and petroleum products.

During the three months ended March 31, 2021, total cost of revenues (exclusive of depreciation and amortization) was \$43,346,274 compared to \$26,836,854 for the three months ended March 31, 2020, an increase of \$16,509,420 or 62% from the prior period. The main reason for the increase was the result of the increase in commodity prices, which impacted our feedstock pricing and the additional cost of sales related to our Crystal operations. Our cost of revenues are a function of the ultimate price we are required to pay to acquire feedstocks, how efficient we are in acquiring such feedstocks (which relates to everything from how efficient our collection trucks are in their collection routes to how efficiently we operate our facilities), and the cost of turn-arounds and other maintenance at our facilities.

We had selling, general and administrative expenses of \$7,926,580 for the three months ended March 31, 2021, compared to \$6,700,518 from the prior year's period, an increase of \$1,226,062 or 18% from the prior year's period. 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 our expansion of trucks and facilities through acquisitions and organic growth.

For the three months ended March 31, 2021, total depreciation and amortization expense attributable to cost of revenues was \$1,347,820, compared to \$1,178,594 for the three months ended March 31, 2020, an increase of \$169,226 mainly due to additional investments in rolling stock and facility assets during the fourth quarter of 2020, which increased depreciation and amortization in the first quarter of 2021.

We had gross profit as a percentage of revenue of 23.1% for the three months ended March 31, 2021, compared to gross profit as a percentage of revenues of 22.6% for the three months ended March 31, 2020. The main reason for the improvement was the slight increase in volumes at our refineries, along with increases in commodity prices during the period.

Additionally, our per barrel margin increased 38% for the three months ended March 31, 2021, relative to the three months ended March 31, 2020. Our per barrel margin is calculated by dividing the total volume of product sold (in bbls) by total gross profit for the applicable period (\$13,389,899 for the 2021 period versus \$8,187,981 for the 2020 period). This increase was a result of the improvements in our product spreads related to increases in feedstock product prices and decreases in operating costs at our refining facilities, during the three months ended March 31, 2021, compared to the same period during 2020.

Overall, commodity prices were up for the three months ended March 31, 2021, compared to the same period in 2020. For example, the average posting (U.S. Gulfcoast Residual Fuel No. 6 3%) for the three months ended March 31, 2021, increased \$14.91 per barrel from a three-month average of \$37.64 for the three months ended March 31, 2020 to \$52.55 per barrel for the three months ended March 31, 2021. The average posting (U.S. Gulfcoast Unleaded 87 Waterborne) for the three months ended March 31, 2021 increased \$6.39 per barrel from a three-month average of \$59.61 for the three months ended March 31, 2020 to \$66.00 per barrel for the three months ended March 31, 2021.

We had income from operations of \$4,980,450 for the three months ended March 31, 2021, compared to income from operations of \$1,031,510 for the three months ended March 31, 2020, an increase of \$3,948,940 or 383% from the prior year's three-month period. The increase in income from operations was mostly due to the improvements seen in commodity prices and overall margin improvement in our finished products along with overall reductions in operating expenses at our facilities along with increases in charges throughout our collection operations. As market conditions change, the charges for our oil collection services will fluctuate.

We had interest expense of \$236,333 for the three months ended March 31, 2021, compared to interest expense of \$340,086 for the three months ended March 31, 2020, a decrease in interest expense of \$103,753 or 31% from the prior period, due to having a lower balance owed under our line of credit and term loan along with a lower interest rate on the term debt outstanding during the three months ended March 31, 2021, compared to the prior year's period. The Company received a total of \$21.0 million from the June 2019 and January 2020, Tensile transactions, described in greater detail above under ["Part I" - "Item 1. Financial Statements" - "Note 14. Share Purchase and Subscription Agreements"](#), of which approximately \$9.0 million was used to pay down our debt obligations.

We had a \$1,780,203 loss on change in value of derivative liability for the three months ended March 31, 2021, in connection with certain warrants granted in 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 gain on change in the value of our derivative liability of \$1,698,747 in the prior year's period (which also included warrants granted in June 2015, which had expired as of December 31, 2020). This change was mainly due to the fluctuation in the market price of our common stock, warrant exercises, and non-cash accounting adjustments in connection therewith. This resulted in a significant change in non-cash expense for the period, compared to the prior year's period.

We had a gain on asset sales of \$1,424 for the three months ended March 31, 2021, in connection with sale of equipment compared to no gain or loss on asset sales in the prior year's period.

We had net income of \$2,965,338 for the three months ended March 31, 2021, compared to net income of \$2,390,251 for the three months ended March 31, 2020, an increase in net income of \$575,087 or 24% from the prior period. The main reason for the increase in net income for the three months ended March 31, 2021, compared to the three months ended March 31, 2020, was attributable to the increase in gross profit as discussed above, offset by the decrease in gain in derivative liability for the three months ended March 31, 2021 described above, which is a non-cash adjustment.

Each of our segments' income (loss) from operations during the three months ended March 31, 2021 and 2020 was as follows:

	Three Months Ended March 31,		\$ Change - Favorable (Unfavorable)	% Change - Favorable (Unfavorable)
	2021	2020		
Black Oil Segment				
Revenues	\$ 32,158,248	\$ 29,531,370	\$ 2,626,878	9 %
Cost of revenues (exclusive of depreciation and amortization shown separately below)	19,836,446	20,066,240	229,794	1 %
Depreciation and amortization attributable to costs of revenues	1,074,260	936,895	(137,365)	(15) %
Gross profit*	<u>11,247,542</u>	<u>8,528,235</u>	<u>2,719,307</u>	<u>32 %</u>
Selling general and administrative expense	6,421,696	5,411,222	(1,010,474)	(19) %
Depreciation and amortization attributable to operating expenses	353,948	335,105	(18,843)	(6) %
Income from operations	<u>\$ 4,471,898</u>	<u>\$ 2,781,908</u>	<u>\$ 1,689,990</u>	<u>61 %</u>
Refining and Marketing Segment				
Revenues	\$ 19,273,952	\$ 2,510,593	\$ 16,763,359	668 %
Cost of revenues (exclusive of depreciation and amortization shown separately below)	18,150,770	2,596,052	(15,554,718)	(599) %
Depreciation and amortization attributable to costs of revenues	125,634	105,768	(19,866)	(19) %
Gross profit*	<u>997,548</u>	<u>(191,227)</u>	<u>1,188,775</u>	<u>622 %</u>
Selling general and administrative expense	759,410	592,389	(167,021)	(28) %
Depreciation and amortization attributable to operating expenses	108,471	100,398	(8,073)	(8) %
Income (loss) from operations	<u>\$ 129,667</u>	<u>\$ (884,014)</u>	<u>\$ 1,013,681</u>	<u>115 %</u>
Recovery Segment				
Revenues	\$ 6,651,793	\$ 4,161,466	\$ 2,490,327	60 %
Cost of revenues (exclusive of depreciation and amortization shown separately below)	5,359,058	4,174,562	(1,184,496)	(28) %
Depreciation and amortization attributable to costs of revenues	147,926	135,931	(11,995)	(9) %
Gross profit*	<u>1,144,809</u>	<u>(149,027)</u>	<u>1,293,836</u>	<u>868 %</u>
Selling general and administrative expense	745,474	696,907	(48,567)	(7) %
Depreciation and amortization attributable to operating expenses	20,450	20,450	—	— %
Income (loss) from operations	<u>\$ 378,885</u>	<u>\$ (866,384)</u>	<u>\$ 1,245,269</u>	<u>144 %</u>

* The Company changed its presentation of gross profit, beginning in its Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, to include depreciation and amortization of our refineries. This change in presentation had no effect on the previously reported results of operations. The disclosures above have been retroactively adjusted from the prior presentations to include depreciation and amortization of our refineries.

Our Black Oil segment generated revenues of \$32,158,248 for the three months ended March 31, 2021, with cost of revenues (exclusive of depreciation and amortization) of \$19,836,446, and depreciation and amortization attributable to cost of revenues of \$1,074,260. During the three months ended March 31, 2020, these revenues were \$29,531,370 with cost of revenues (exclusive of depreciation and amortization) of \$20,066,240 and depreciation and amortization attributable to cost of revenues of \$936,895. Income from operations improved for the three months ended March 31, 2021, compared to 2020, as a result of improvements in commodity prices which resulted in improved margins as well as reductions in operating expenses through our various facilities as well as by diligent management of our street collections and pricing.

Our Black Oil segment's volume decreased approximately 7% during the three months ended March 31, 2021, compared to the same period in 2020. This decrease was largely due to continued impacts of the shelter in place orders in the locations in which we collect used motor oil as a result of the COVID-19 pandemic, which directly impacted the generation of used oil, which caused a reduction in volumes. The Heartland facility experienced lower demands for finished products during the three months ended March

31, 2021 compared to the same period in 2020. 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 17% during the three months ended March 31, 2021, compared to the same period in 2020. 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. We started to see improvements in our collection volumes at the end of the period.

During the three months ended March 31, 2021, our Refining and Marketing cost of revenues (exclusive of depreciation and amortization) were \$18,150,770, of which the processing costs for our Refining and Marketing business located at KMTEX were \$420,420, and depreciation and amortization attributable to cost of revenues was \$125,634. Revenues for the same period were \$19,273,952. During the three months ended March 31, 2020, our Refining and Marketing cost of revenues (exclusive of depreciation and amortization) were \$2,596,052, which included the processing costs at KMTEX of \$454,007, and depreciation and amortization attributable to cost of revenues was \$105,768. Revenues for the same period were \$2,510,593.

Our Refining segment includes the business operations of our Refining and Marketing operations, as well as our assets from Crystal in June 2020. With the acquisition of the Crystal assets, we now operate as a wholesale distributor of motor fuels which include gasoline, blended gasoline and diesel. Revenues in the Refining segment were up 668% during the three months ended March 31, 2021, as compared to the same period in 2020 mostly as a result of the added business line. Overall volume for the Refining and Marketing segment increased 267% during the three months ended March 31, 2021, as compared to the same period in 2020. 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. In addition, volumes were slightly impacted as a result of 'stay-at-home' orders during the period. Our pygas volumes increased 1% for the three months ended March 31, 2021, as compared to the same period in 2020. Our fuel oil cutter volumes decreased 19% for the three months ended March 31, 2021, as compared to the same period in 2020, due to lower volumes of feedstock available from third party facilities in the Gulf coast region as a result of weather delays. 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 segment generated revenues of \$6,651,793 for the three months ended March 31, 2021, with cost of revenues (exclusive of depreciation and amortization) of \$5,359,058, and depreciation and amortization attributable to cost of revenues of \$147,926. During the three months ended March 31, 2020, these revenues were \$4,161,466 with cost of revenues (exclusive of depreciation and amortization) of \$4,174,562, and depreciation and amortization attributable to cost of revenues of \$135,931. Income from operations increased for the three months ended March 31, 2021, compared to 2020, as a result of increased volumes attributable to our Recovery segment and margins related thereto, through our various facilities.

Our Recovery segment includes the business operations of Vertex Recovery Management as well as our Group III base oil business. Vertex previously acted as Penthol C.V. of the Netherlands aka Penthol LLC's (a Penthol subsidiary in the United States) (“Penthol's”) exclusive agent to provide marketing, sales, and logistical duties of Group III base oil from the United Arab Emirates to the United States from June 2016 to January 2021. Revenues for this segment increased 60% as a result of an increase in volumes during the three months ended March 31, 2021, compared to the same period in 2020. Volumes were up in our metals segment during the three months ended March 31, 2021, compared to the same period during 2020, due to certain one-time projects. This segment periodically participates in project work that is not ongoing thus we expect to see fluctuations in revenue and gross profit from this segment from period to period.

The Company purchases product/feedstock from third-party collectors as well as internally collected product using its fleet of trucks. Our long-term goal is to collect as much of our product/feedstock as possible as this helps to improve margins and ultimately net income of the Company. The more product/feedstock we can collect with our own fleet and displace third-party purchases improves the overall profitability of the Company through cost reductions, as our internally collected product/feedstock is generally cheaper than product/feedstock we have to purchase from third-parties. In general, the more product/feedstock we are required to acquire from third-parties, the lower our margins. While the breakdown between internally sourced and third-party sourced product/feedstock has no effect on revenue (which is a function of fluctuating product spreads), it does have an effect on cost of revenues, and therefore our profit before corporate selling, general and administrative expenses. Specifically, a higher number of third-party sourced product/feedstock generally results in increases to costs of revenues. Inventories are also affected to a limited extent by collection and production values - the more product we collect, the greater our inventories of product/feedstock, at least until such product/feedstock is processed into end-products. The inventory levels of our end-products are determined based on supply and demand, and how quickly such products can be transported, and not typically dependent on the amount of products/feedstock we source internally or externally.

The following table sets forth the high and low spot prices during the three months ended March 31, 2021, for our key benchmarks.

2021				
Benchmark	High	Date	Low	Date
U.S. Gulfcoast No. 2 Waterborne (dollars per gallon)	\$ 1.79	March 12	\$ 1.32	January 4
U.S. Gulfcoast Unleaded 87 Waterborne (dollars per gallon)	\$ 2.13	March 11	\$ 1.36	January 4
U.S. Gulfcoast Residual Fuel No. 6 3% (dollars per barrel)	\$ 59.54	March 5	\$ 45.08	January 4
NYMEX Crude oil (dollars per barrel)	\$ 66.09	March 5	\$ 47.62	January 4

Reported in Platt's US Marketscan (Gulf Coast)

The following table sets forth the high and low spot prices during the three months ended March 31, 2020, for our key benchmarks.

2020				
Benchmark	High	Date	Low	Date
U.S. Gulfcoast No. 2 Waterborne (dollars per gallon)	\$ 1.95	January 3	\$ 0.74	March 18
U.S. Gulfcoast Unleaded 87 Waterborne (dollars per gallon)	\$ 1.75	January 3	\$ 0.40	March 23
U.S. Gulfcoast Residual Fuel No. 6 3% (dollars per barrel)	\$ 47.34	January 29	\$ 15.64	March 31
NYMEX Crude oil (dollars per barrel)	\$ 63.27	January 6	\$ 20.09	March 30

Reported in Platt's US Marketscan (Gulf Coast)

We saw an increase in February and March of 2021, in each of the benchmark commodities we track compared to the same period in 2020. The increase in market prices was a result of the gradual opening up of states and marketplaces which were shut-down a year ago as a result of COVID-19, which led to worldwide shutdowns and halting of commercial and interpersonal activity, as governments around the world imposed regulations in response to efforts to control the spread of COVID-19, such as 'shelter-in-place' orders, quarantines, executive orders and similar restrictions. As a result, the global economy has been marked by significant slowdown and uncertainty, which has led to a precipitous decline in oil prices in response to demand concerns, further exacerbated by the price war among members of the Organization of Petroleum Exporting Countries ("OPEC") and other non-OPEC producer nations (collectively with OPEC members, "OPEC+") during the first quarter of 2020 and global storage considerations. Moving into the second, third and fourth quarters of 2021, we anticipate that our results of operations will continue to be significantly impacted by the price of, and demand for oil, COVID-19 and the global response thereto.

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.

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 \$126,646,553 as of March 31, 2021, compared to \$122,099,958 at December 31, 2020. The increase was mainly due to exercises of warrants that provided cash, along with increases in accounts receivable and inventory levels, during the three months ended March 31, 2021, compared to the prior year's period.

We had total current liabilities of \$27,459,290 as of March 31, 2021, compared to \$23,850,412 at December 31, 2020. We had total liabilities of \$59,247,427 as of March 31, 2021, compared to total liabilities of \$60,809,023 as of December 31, 2020. The decrease in current liabilities and total liabilities was mainly due to the decrease in outstanding debt during the three months ended March 31, 2021, compared to the prior year's period.

We had working capital of \$7,944,465 as of March 31, 2021, compared to working capital of \$5,934,977 as of December 31, 2020. The increase in working capital from December 31, 2020 to March 31, 2021 is mainly due to the generation of additional liquidity as a result of warrant exercises and the reduction in debt during the three months ended March 31, 2021 as described above.

Our future operating cash flows will vary based on a number of factors, many of which are beyond our control, including commodity prices, the cost of recovered oil, and the ability to turn our inventory. Other factors that have affected and are expected to continue to affect earnings and cash flow are transportation, processing, and storage costs. Over the long term, our operating cash flows will also be impacted by our ability to effectively manage our administrative and operating costs. Additionally, we may incur capital expenditures related to new TCEP facilities in the future (provided that none are currently planned).

Given the ongoing COVID-19 pandemic, challenging market conditions and recent market events resulting in industry-wide spending cuts, we continue to remain focused on maintaining a strong balance sheet and adequate liquidity. Over the near term, we plan to reduce, defer or cancel certain planned capital expenditures and reduce our overall cost structures commensurate with our expected level of activities. We believe that our cash on hand, internally generated cash flows and availability under the Revolving Credit Agreement will be sufficient to fund our operations and service our debt in the near term. A prolonged period of weak, or a significant decrease in, industry activity and overall markets, due to COVID-19 or otherwise, may make it difficult to comply with our covenants and the other restrictions in the agreements governing our debt. Current global and market conditions have increased the potential for that difficulty.

The Company's outstanding debt facilities as of March 31, 2021 and December 31, 2020 are summarized as follows:

Creditor	Loan Type	Origination Date	Maturity Date	Loan Amount	Balance on March 31, 2021	Balance on December 31, 2020
Encina Business Credit, LLC	Term Loan	February 1, 2017	February 1, 2022	\$ 20,000,000	\$ 5,208,000	\$ 5,433,000
Encina Business Credit SPV, LLC	Revolving Note	February 1, 2017	February 1, 2022	\$ 10,000,000	—	133,446
Encina Business Credit, LLC	Capex Loan	August 7, 2020	February 1, 2022	\$ 2,000,000	1,286,603	1,378,819
Wells Fargo Equipment Lease-Ohio	Finance Lease	April-May, 2019	April-May, 2024	\$ 621,000	406,765	436,411
AVT Equipment Lease-Ohio	Finance Lease	April 2, 2020	April 2, 2023	\$ 466,030	350,086	380,829
AVT Equipment Lease-HH	Finance Lease	May 22, 2020	May 22, 2023	\$ 551,609	414,632	450,564
John Deere Note	Note	May 27, 2020	June 24, 2024	\$ 152,643	122,063	131,303
Tetra Capital Lease	Finance Lease	May, 2018	May, 2022	\$ 419,690	148,309	172,235
Well Fargo Equipment Lease-VRM LA	Finance Lease	March, 2018	March, 2021	\$ 30,408	—	1,804
Texas Citizens Bank	PPP Loan	May 5, 2020	April 28, 2022	\$ 4,222,000	4,222,000	4,222,000
Various institutions	Insurance premiums financed	Various	< 1 year	\$ 2,902,428	473,417	1,183,543
Total					\$ 12,631,875	\$ 13,923,954

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	\$ 5,208,000	\$ —	\$ —	\$ —	\$ —	\$ —
Encina Business Credit, LLC	1,286,603	—	—	—	—	—
John Deere Note	37,528	38,459	39,413	6,663	—	—
Well Fargo Equipment Lease- Ohio	122,458	128,908	135,698	19,701	—	—
AVT Equipment Lease-Ohio	129,676	141,111	79,299	—	—	—
AVT Equipment Lease-HH	151,568	164,934	98,130	—	—	—
Tetra Capital Lease	99,832	48,477	—	—	—	—
Texas Citizens Bank	1,877,461	2,344,539	—	—	—	—
Various institutions	473,417	—	—	—	—	—
Totals	\$ 9,386,543	\$ 2,866,428	\$ 352,540	\$ 26,364	\$ —	\$ —

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, facilities, operations or assets and/or 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, which had a required redemption date of June 24, 2020, provided that, as discussed below under "[Risk Factors](#)" - "*We do not anticipate redeeming our Series B and B1 Preferred Stock in the near future.*", we are not contractually, or legally, able to redeem such stock and do not anticipate having sufficient cash on hand to complete such redemption in the near term. Because such preferred stock was not redeemed on June 24, 2020, the preferred stock accrues a 10% per annum dividend (payable in-kind at the option of the Company), until such preferred stock is redeemed or converted into common stock.

Consistent with our commitment to maximize value for all investors, we have previously launched an internal review of strategic alternatives for our business. These alternatives may include continuing as a public standalone organization, going private or selling certain assets to a strategic partner, subject to the review and approval of our Board of Directors. There is no formal timeline for this process, nor have we chosen any one specific alternative at this time. We will provide further updates on the matter at such time that our Board determines appropriate.

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

- (1) actual or anticipated variations in our results of operations;
- (2) the market for, and volatility in, the market for oil and gas;
- (3) our ability or inability to generate new revenues; and
- (4) the number of shares in our public float.

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

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

Cash flows for the three months ended March 31, 2021 compared to the three months ended March 31, 2020:

	Three Months Ended March 31,	
	2021	2020
Beginning cash, cash equivalents and restricted cash	\$ 10,995,169	\$ 4,199,825
Net cash provided by (used in):		
Operating activities	2,189,096	3,115,008
Investing activities	(1,017,379)	(491,409)
Financing activities	359,943	9,571,772
Net increase (decrease) in cash, cash equivalents and restricted cash	1,531,660	12,195,371
Ending cash, cash equivalents and restricted cash	\$ 12,526,829	\$ 16,395,196

Net cash provided by operating activities was \$2,189,096 for the three months ended March 31, 2021, as compared to net cash used in operating activities of \$3,115,008 during the corresponding period in 2020. 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 three month period ended March 31, 2021, compared to the same period in 2020, was the fluctuation in market and commodity prices during the three months ended March 31, 2021, an increase of \$1,873,520 in accounts receivable and \$2,540,005 in inventory, and \$1,306,344 of net cash settlements on commodity derivatives.

Investing activities used cash of \$1,017,379 for the three months ended March 31, 2021, as compared to having used \$491,409 of cash during the corresponding period in 2020, due mainly to the purchase of fixed assets.

Financing activities provided cash of \$359,943 for the three months ended March 31, 2021, as compared to providing cash of \$9,571,772 during the corresponding period in 2020. Financing activities for the three months ended March 31, 2021 were comprised of proceeds from the exercise of warrants of \$1,652,022, offset by approximately \$1.0 million used to pay down our long-term debt, and payments on our line of credit. Financing activities for the three months ended March 31, 2020 were comprised of contributions from the Tensile transactions of \$21.0 million, offset by approximately \$8.1 million used to pay down our long-term debt, and \$3.3 million of payments on our line of credit.

More information regarding our outstanding line of credits, promissory notes and long-term debt can be found under [“Note 6. Line of Credit and Long-Term Debt”](#) to the unaudited financial statements included herein.

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).

Impairment of long-lived assets

The Company evaluates the carrying value and recoverability of its long-lived assets when circumstances warrant such evaluation by applying the provisions of the FASB ASC regarding long-lived assets. It requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of the assets. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value. The Company determined that no long-lived asset impairment existed at March 31, 2021.

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 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. 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, in the event such redemptions are allowed pursuant to the Company's senior credit facilities and applicable law. 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. Share Purchase and Subscription Agreements](#)", the Company is party to put/call option agreements with the holder of MG SPV's and Heartland SPV's non-controlling interests. The put options permit MG SPV's and Heartland SPV's non-controlling interest holders, at any time on or after the earlier of (a) the fifth anniversary of the applicable closing date of such issuances and (ii) the occurrence of certain triggering events (an "MG Redemption" and "Heartland Redemption", as applicable) to require MG SPV and Heartland SPV to redeem the non-controlling interest from the holder of such interest. Per the agreements, the cash purchase price for such redeemed Class B Units (MG SPV) and Class A Units (Heartland SPV) 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 SPV Redemption and Heartland SPV Redemption and Vertex Operating (provided that Vertex Operating still owns Class A Units (as to MG SPV) or Class B Units (as to Heartland SPV) on such date, as applicable) and (z) the original per-unit price for such Class B Units/Class A Units plus any unpaid Class A/Class B preference. The preference is defined as the greater of (A) the aggregate unpaid "Class B/Class A Yield" (equal to an annual return of 22.5% per annum) and (B) an amount equal to fifty percent (50%) of the aggregate capital invested by the Class B/Class A Unit holders. The agreements also permit the Company to acquire the non-controlling interest from the holders 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 and Heartland SPV non-controlling interests between the liabilities and equity sections of the accompanying 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 and Heartland SPV equity instruments will become redeemable solely based on the passage of time, the Company determined that it is probable that the MG SPV and Heartland SPV equity instruments will become redeemable. The 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 or loss in the consolidated financial statements. Rather, such adjustments are treated as equity transactions.

Variable Interest Entities

The Company has investments in certain legal entities in which equity investors do not have (1) sufficient equity at risk for the legal entity to finance its activities without additional subordinated financial support, (2) as a group, (the holders of the equity investment at risk), do not have either the power, through voting or similar rights, to direct the activities of the legal entity that most significantly impact the entity's economic performance, or (3) the obligation to absorb the expected losses of the legal entity or the right to receive expected residual returns of the legal entity. These certain legal entities are referred to as "variable interest entities" or "VIEs."

The Company consolidates the results of any such entity in which it determines that it has a controlling financial interest. The Company has a "controlling financial interest" in such an entity if the Company has both the power to direct the activities that

most significantly affect the VIE's economic performance and the obligation to absorb the losses of, or right to receive benefits from, the VIE that could be potentially significant to the VIE. On a quarterly basis, the Company reassesses whether it has a controlling financial interest in any investments it has in these certain legal entities.

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.

Interest Rate Risk

At March 31, 2021, the Company had approximately \$6.5 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 (1.15% at March 31, 2021) plus 6.50% per year.

Commodity Price Risk

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)(principal executive officer) and Chief Financial Officer (CFO) (principal accounting/financial officer), as appropriate, to allow timely decisions regarding required disclosures.

Management, with the participation of our CEO and CFO, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. As of March 31, 2021, based on the evaluation of these disclosure controls and procedures, our CEO and CFO have concluded that our disclosure controls and procedures *were 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.

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. As a result of the COVID-19 pandemic, certain employees of the Company began working remotely in March 2020, and continued to work remotely through March 31, 2021, but these changes to the working environment did not have a material effect on the Company's internal control over financial reporting. We will continue to monitor the impact of COVID-19 on 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, 2020, filed with the Commission on March 9, 2021 (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 below and in the Form 10-K for the year ended December 31, 2020, under "Risk Factors", which risk factors from the Form 10-K are incorporated by reference in this Item 1A. Risk Factors, subject to updates to such risk factors as provided 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 "Epidemics, including the recent outbreak of the COVID-19 coronavirus, and other crises have, and will in the future, negatively impact our business and results of operations.", from the Form 10-K is replaced and superseded by the following:

Epidemics, including the recent outbreak of the COVID-19 coronavirus, and other crises have, and will in the future, negatively impact our business and results of operations.

Our revenues and cost of revenues are significantly impacted by fluctuations in commodity prices; decreases in commodity prices typically result in decreases in revenue and cost of revenues. Our revenue 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. Additionally, our sales volumes, and as a result, our results of operations and cash flows, significantly depend on the U.S. and to a lesser extent, worldwide demand for oil and used oil. As a result, pandemics, epidemics, and public health crises, which effect the U.S. and the world as a whole, and which result in travel disruptions, reductions in shipping and therefore declines in the need for oil and used oil, will harm our business and cause our operating results to suffer. Similarly, the recent economic slowdown and general market uncertainty caused by the COVID-19 coronavirus outbreak and the steps taken by local, state and federal governments to attempt to reduce the spread of, and effects of, such virus, have significantly reduced the demand for, and price of oil (which reached all-time lows during 2020), but has more recently partially recovered, and concurrent therewith, the slowdown in the U.S. economy caused by stay-at-home and similar orders, has reduced the amount of feedstock being produced and as a result, our ability to obtain feedstocks, and produce finished products, which has had a material adverse effect on our year-over-year results of operations.

A public health pandemic, including COVID-19, poses the risk that the Company or its affiliates, employees, suppliers, customers and others may be prevented from conducting business activities for an indefinite period of time, including as a result of shutdowns, travel restrictions and other actions that may be requested or mandated by governmental authorities. Such actions may prevent the Company from accessing or operating its facilities, delivering products or continuing to obtain feedstocks. While a substantial portion of the Company's businesses have been classified as an essential business in jurisdictions in which facility closures have been mandated, the Company can give no assurance that this will not change in the future or that the Company's businesses will be classified as essential in each of the jurisdictions in which it operates.

It is also possible that the current outbreak or continued spread of COVID-19 will cause a global recession.

A continued prolonged period of weak, or a significant decrease in, industry activity and overall markets, due to COVID-19 or otherwise, may make it difficult to comply with our covenants and the other restrictions in the agreements governing our debt. Current global and market conditions have increased the potential for that difficulty.

Additionally, certain of the Company's employees have been working from home, either to avoid the risk of catching the COVID-19 coronavirus, or due to stay-at-home orders issued by local governments where they live or work, and as a result, productivity may drop, which could impact revenues and profitability.

While the overall impact of the COVID-19 coronavirus on our results of operations at this point is uncertain, we anticipate that the factors discussed above and others, which have had a negative effect on our 2020 and 2021 first quarter operations, will continue to have a negative effect on our results of operations for the remainder of the 2021 year, depending on how long the global slowdown associated with the virus and its after-effects last. Any one or more of the events described above could cause the value of our securities to decline in value.

The risk factor entitled “We do not anticipate redeeming our Series B and B1 Preferred Stock in the near future”, from the Form 10-K is replaced and superseded by the following:

We do not anticipate redeeming our Series B and B1 Preferred Stock in the near future.

We were required to redeem any non-converted shares of (a) Series B Preferred Stock, which remained outstanding on June 24, 2020, at the rate of \$3.10 per share (or \$6.5 million in aggregate as of the date of this filing); and (b) Series B1 Preferred Stock, which remained outstanding on June 24, 2020, at the rate of \$1.56 per share (or \$8.8 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 redemption date of the Series B and B1 Preferred Stock has automatically been extended past June 24, 2020, until such date, if ever, as the Company’s senior credit facilities (and any facilities which replace or refinance the Credit Agreements) no longer prohibit such redemptions. Effective on June 24, 2020, the dividend rate of such Series B and B1 Preferred Stock increased 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 and the additional shares of Series B and B1 Preferred Stock and/or common stock due to the holders of such Series B and B1 Preferred Stock in connection therewith, 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 until such time as the Company has sufficient cash on hand to pay the entire liquidation preference of the Series B and B1 Preferred Stock (\$15.3 million) and has sufficient cash left over to pay its debts as they become due.

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 \$15.3 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 at any time in the foreseeable future.

The risk factor entitled “Our hedging activities may prevent us from benefiting fully from increases in oil prices and may expose us to other risks, including counterparty risk.”, from the Form 10-K is replaced and superseded by the following:

Our hedging activities may prevent us from benefiting fully from increases in oil prices and may expose us to other risks, including counterparty risk.

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.

To the extent that we continue to engage in hedging activities to protect ourselves against commodity price declines, we may be prevented from fully realizing the benefits of increases in oil prices above the prices established by our hedging contracts. In addition, our hedging activities may expose us to the risk of financial loss in certain circumstances, including instances in which the counterparties to our hedging contracts fail to perform under the contracts. Finally, we are subject to risks associated with the adoption of derivatives legislation and regulations related to derivative contracts which if adopted, could have an adverse impact on our ability to hedge risks associated with our business. If regulations adopted in the future require that we post margin for our hedging activities or require our counterparties to hold margin or maintain capital levels, the cost of which could be passed through to us, or impose other requirements that are more burdensome than current regulations, hedging transactions in the future would become more expensive than we experienced in the past. For the three months ended March 31, 2021 and 2020, we recognized a \$721,531 loss and a \$4,427,782 gain, respectively, on commodity derivative contracts on the consolidated statements of operations as part of our costs of revenues.

Item 2. Recent Sales of Unregistered Securities

There have been no sales of unregistered securities during the quarter ended March 31, 2021 and from the period from April 1, 2021 to the filing date of this report, which have not previously been disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, or a Current Report on Form 8-K, except as set forth below:

For the period from January 1, 2021 to March 31, 2021, a total of approximately \$157,778 of dividends accrued on our outstanding Series B Preferred Stock and for the period from January 1, 2021 to March 31, 2021, a total of approximately \$214,405 of dividends accrued on our outstanding Series B1 Preferred Stock. We chose to pay such dividends in-kind by way of the issuance of 50,896 restricted shares of Series B Preferred Stock pro rata to each of the then holders of our Series B Preferred Stock in April 2021 and the issuance of 137,439 restricted shares of Series B1 Preferred Stock pro rata to each of the then holders of our Series B1 Preferred Stock in April 2021. The maximum number of shares of common stock issuable upon conversion of the 50,896 shares of Series B Preferred Stock issued in lieu of March 31, 2021 dividends, if converted in full, would total 50,896 shares of common stock and the maximum number of shares of common stock issuable upon conversion of the 137,439 shares of Series B1 Preferred Stock issued in lieu of March 31, 2021 dividends, if converted in full, would total 137,439 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, and certain other transactions which occurred during the period as previously reported, 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; 2,086,562 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 2,086,562 shares of common stock; and 5,634,889 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 5,634,889 shares of common stock.

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.

Incorporated by Reference

Exhibit Number	Description of Exhibit	Filed or Furnished Herewith	Form	Exhibit	Filing Date/Period End Date	File No.
10.1	Form of 2019 Equity Incentive Plan Restricted Stock Grant		S-8	4.3	2/25/2021	333-253523
10.2	Form of 2020 Equity Incentive Plan Stock Option Agreement		S-8	4.5	2/25/2021	333-253523
10.3	Form of 2020 Equity Incentive Plan Restricted Stock Grant Agreement		S-8	4.6	2/25/2021	333-253523
10.4	Series B Preferred Stock Exchange Agreement dated February 23, 2021 by and between Vertex Energy, Inc. and Pennington Capital LLC		8-K	10.1	2/26/2021	001-11476
10.5	Series B Preferred Stock Exchange Agreement dated March 1, 2021 by and between Vertex Energy, Inc. and Carrhae & Co FBO Wasatch Micro Cap Value Fund		8-K	10.1	3/5/2021	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*	Inline XBRL Document Set for the condensed consolidated financial statements and accompanying notes in Part I, Item 1, "Financial Statements" of this Quarterly Report on Form 10-Q	X				
104*	Inline XBRL for the cover page of this Quarterly Report on Form 10-Q, included in the Exhibit 101 Inline XBRL Document Set	X				

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

VERTEX ENERGY, INC.

Date: May 12, 2021

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

Date: May 12, 2021

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

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EXHIBIT 31.1

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

I, Benjamin P. Cowart, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Vertex Energy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of a Quarterly Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2021

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

EXHIBIT 31.2

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

I, Chris Carlson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Vertex Energy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of a Quarterly Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2021

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

EXHIBIT 32.1

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

In connection with the Quarterly Report of Vertex Energy, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2021, as filed with the Securities and Exchange Commission (the "Report"), I, Benjamin P. Cowart, Principal Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: May 12, 2021

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

EXHIBIT 32.2

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

In connection with the Quarterly Report of Vertex Energy, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2021, as filed with the Securities and Exchange Commission (the "Report"), I, Chris Carlson, Principal Accounting Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: May 12, 2021

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