BLUE DOLPHIN ENERGY CO
Form 10-K
April 02, 2018

BLUE DOLPHIN ENERGY COMPANY FORM 10-K 12/31/17
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
–
FORM 10-K
(Mark One)
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017
or

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

For the transition period from to

Commission File No. 0-15905

BLUE DOLPHIN ENERGY COMPANY
(Exact name of registrant as specified in its charter)

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

713-568-4725
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

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

Common Stock, par value $0.01 per share
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
		Emerging growth company

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

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

The aggregate market value of shares of common stock held by non-affiliates of the registrant was $3,800,118 based on the number of shares of common stock held by non-affiliates and the last reported sale price of the registrant's common stock on June 30, 2017.

Number of shares of common stock, par value $0.01 per share, outstanding at April 2, 2018: 10,925,513

1

BLUE DOLPHIN ENERGY COMPANY   FORM 10-K 12/31/17

INTRODUCTION

This Annual Report for the fiscal year ended December 31, 2017 (this “Annual Report”) is a document that U.S. public companies file with the Securities and Exchange Commission (“SEC”) every year. Part I of the Annual Report provides a general overview of our business, including relevant risk factors. Part II of the Annual Report contains financial information and management’s discussion and analysis of our financial condition and results of operations. We hope investors will find it useful to have all this information in a single document.

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

In this Annual Report, and from time to time throughout the year, we share our expectations for our future performance. These forward-looking statements include statements about our business plans; our expected financial performance, including the anticipated effect of strategic actions; previously reported material weakness in our internal control over financial reporting; economic, political and market conditions; and other factors that could affect our future results of operations or financial condition, including, without limitation, statements under the sections entitled “Part I, Item 1. Business,” “Part I, Item 1A. Risk Factors,” “Part I, Item 3. Legal Proceedings,” and “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations”. Any statements we make that are not matters of current reportage or historical fact should be considered forward-looking. Such statements often include words such as “believe,” “expect,” “anticipate,” “intend,” “plan,” “estimate,” “will,” and similar expressions. By their these types of statements are uncertain and are not guarantees of our future performance. Our forward-looking statements represent our estimates and expectations at the time of disclosure. However, circumstances change constantly, often unpredictably, and investors should not place undue reliance on these statements. Many events beyond our control will determine whether our expectations will be realized. We disclaim any current intention or obligation to revise or update any forward-looking statements, or the factors that may affect their realization, whether considering new information, future events or otherwise, and investors should not rely on us to do so. In accordance with the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, “Part I, Item 1A. Risk Factors” in this Annual Report explains some of the important factors that may cause actual results to be materially different from those that we anticipate.

Remainder of Page Intentionally Left Blank

2

GLOSSARY OF SELECTED ENERGY AND FINANCIAL TERMS

Below are abbreviations and definitions of certain commonly used oil and gas industry terms, as well as key financial performance measures used by management, that are used in this Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (this "Annual Report").

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

Energy Terms

Atmospheric gas oil ("AGO"). The heaviest product boiled by a crude oil distillation unit operating at atmospheric pressure. This fraction ordinarily sells as distillate fuel oil, either in pure form or blended with cracked stocks. Blended AGO usually serves as the premium quality component used to lift lesser streams to the standards of saleable furnace oil or diesel engine fuel. Certain ethylene plants, called heavy oil crackers, can take AGO as feedstock.

Barrel ("bbl"). One stock tank bbl, or 42 U.S. gallons of liquid volume, used about oil or other liquid hydrocarbons.

Blending. The physical mixture of several different liquid hydrocarbons to produce a finished product with certain desired characteristics. Products can be blended in-line through a manifold system, or batch blended in tanks and vessels. In-line blending of gasoline, distillates, jet fuel and kerosene is accomplished by injecting proportionate amounts of each component into the main stream where turbulence promotes thorough mixing. Additives, including octane enhancers, metal deactivators, anti-oxidants, anti-knock agents, gum and rust inhibitors, and detergents, are added during and/or after blending to result in specifically desired properties not inherent in hydrocarbons.

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

Complexity. A numerical score that denotes, for a given refinery, the extent, capability, and capital intensity of the refining processes downstream of the crude oil distillation unit. The higher a refinery's complexity, the greater the refinery's capital investment and number of operating units used to separate feedstock into fractions, improve their quality, and increase the production of higher-valued products. Refinery complexities range from the relatively simple crude oil distillation unit ("topping unit"), which has a complexity of 1.0, to the more complex deep conversion ("coking") refineries, which have a complexity of 12.0.

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

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

Depropanizer unit. A distillation column that is used to isolate propane from a mixture containing butane and other heavy components.
Distillates. The result of crude distillation and therefore any refined oil product. Distillate is more commonly used as an abbreviated form of middle distillate. There are mainly four (4) types of distillates: (i) very light oils or light distillates (such as naphtha), (ii) light oils or middle distillates (such as our jet fuel), (iii) medium oils, and (iv) heavy oils (such as our low-sulfur diesel and heavy oil-based mud blendstock (“HOBM”), reduced crude, and AGO).

Distillation. The first step in the refining process whereby crude oil and condensate is heated at atmospheric pressure in the base of a distillation tower. As the temperature increases, the various compounds vaporize in succession at their various boiling points and then rise to prescribed levels within the tower per their densities, from lightest to heaviest. They then condense in distillation trays and are drawn off individually for further refining. Distillation is also used at other points in the refining process to remove impurities. Lighter products produced in this process can be further refined in a catalytic cracking unit or reforming unit. Heavier products, which cannot be vaporized and separated in this process, can be further distilled in a vacuum distillation unit or coker.

Distillation tower. A tall column-like vessel in which crude oil and condensate is heated and its vaporized components distilled by means of distillation trays.

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

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

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

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

Kerosene. A middle distillate fraction of crude oil that is produced at higher temperatures than naphtha and lower temperatures than gas oil.

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

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

MMcf. One million cubic feet; a measurement of gas volume only.

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

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

Product Slate. Represents type and quality of products produced.

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

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

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

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

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

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

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

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

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

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

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

Financial and Performance Measures

Arbitration award and associated fees. Damages and GEL's attorneys' fees and related expenses awarded to GEL Tex Marketing, LLC in arbitration proceedings.

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

Cost of Refined Products Sold. Primarily includes purchased crude oil and condensate costs, as well as transportation, freight and storage costs.

Depletion, Depreciation and Amortization. Represents property and equipment, as well as intangible assets that are depreciated or amortized based on the straight-line method over the estimated useful life of the related asset.

Downtime. Scheduled and/or unscheduled periods in which the Nixon Facility is not operating. Downtime may occur for a variety of reasons, including bad weather, power failures, preventive maintenance, equipment inspection, equipment repair due to mechanical failure, voluntary regulatory compliance measures, cessation or suspension by regulatory authorities, and inventory management.

Easement, Interest and Other Income. Reflects land easement fees received from FLNG Land II, Inc., a Delaware corporation ("FLNG"), pursuant to a Master Easement Agreement; fees recognized monthly as earned and recorded as land easement revenue within other income.

EBITDA. Reflects earnings before: (i) interest income (expense), (ii) income taxes, and (iii) depreciation and amortization.

- Refinery Operations EBITDA. Reflects EBITDA for our refinery operations business segment.

- Total EBITDA. Reflects EBITDA for our refinery operations business segment, as well as corporate and other.

General and Administrative Expenses. Primarily include corporate costs, such as accounting and legal fees, office lease expenses, and administrative expenses.

Gross Profit. Calculated as total revenue less cost of refined products sold, reflected as a dollar ($) amount.

Gross Margin. Calculated as total revenue less cost of refined products sold, reflected as a percentage (%).

Gross Margin per Bbl. Calculated as gross profit divided by the volume, in bbls, of refined petroleum products sold during the period.

Income Tax Expense. Includes federal and state taxes, as well as deferred taxes, arising from temporary differences between income for financial reporting and income tax purposes.

JMA Profit Share. Represents the GEL Profit Share plus the Performance Fee for the period under the Joint Marketing Agreement; an indirect operating expense. If Gross Profits were positive, then the JMA Profit Share reflected an expense. If Gross Profits were negative, then the JMA Profit Share reflected a credit.

Net Income (Loss). Represents total revenue from operations less total cost of operations, total other expense, and income tax expense.

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

Other Income (Expense). Reflects working capital loan interest, guaranty fees earned by Jonathan Carroll, expensed interest related to long-term debt, and non-recurring income items.

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

Refinery Operating Expenses. Direct operating expenses of the Nixon Facility, including direct costs of labor, maintenance materials and services, chemicals and catalysts and utilities. Includes fees paid to: (i) LEH to manage and operate the Nixon Facility pursuant to the Amended and Restated Operating Agreement and (ii) Ingleside Crude, LLC to lease petroleum storage tanks to meet periodic, additional storage needs under the Amended and Restated Tank Lease Agreement.

Revenue from Operations. Primarily consists of refined petroleum product sales, but also includes tank rental revenue. Excise and other taxes that are collected from customers and remitted to governmental authorities are not included in revenue. Other operations revenue relates to fees received from pipeline transportation services, which ceased in 2016.

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

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

Remainder of Page Intentionally Left Blank

5

BLUE DOLPHIN ENERGY COMPANY FORM 10-K 12/31/17

TABLE OF CONTENTS

PART I

ITEM 1.
BUSINESS

Company Overview

Blue Dolphin, a Delaware corporation formed in 1986, is an independent refiner and marketer of petroleum products. We also conduct petroleum storage and terminaling operations under third-party lease agreements. Our primary operating asset is a 15,000-bpd crude oil and condensate processing facility in Nixon, Texas (the "Nixon Facility"). Blue Dolphin maintains a website at http://www.blue-dolphin-energy.com. Information on or accessible through Blue Dolphin's website is not incorporated by reference in or otherwise made a part of this Annual Report.

Structure and Management

Corporate Structure

Blue Dolphin operates a single business segment – Refinery Operations. Refinery operations are conducted at the Nixon Facility through the following subsidiaries:

Lazarus Energy, LLC, a Delaware limited liability company ("LE").

Lazarus Refining & Marketing, LLC, a Delaware limited liability company ("LRM").

Blue Dolphin owns pipeline assets and has leasehold interests in oil and gas wells. These assets, which are not operational, are included in Corporate and Other. Corporate and Other includes the following subsidiaries:

Blue Dolphin Pipe Line Company, a Delaware corporation ("BDPL").

Blue Dolphin Petroleum Company, a Delaware corporation ("BDPC").

Blue Dolphin Services Co., a Texas corporation ("BDSC").

See "Part I, Item 2. Properties" for additional information regarding our operating subsidiaries, facilities, and assets.

Management

Blue Dolphin is controlled by Lazarus Energy Holdings, LLC ("LEH"). LEH operates and manages all Blue Dolphin properties pursuant to an Amended and Restated Operating Agreement (the "Amended and Restated Operating Agreement"). Jonathan Carroll is Chairman of the Board of Directors (the "Board"), Chief Executive Officer, and President of Blue Dolphin, as well as a majority owner of LEH. Together LEH and Jonathan Carroll own 80.2% of our common stock, par value $0.01 per share (the "Common Stock). (See "Part II, Item 8. Financial Statements and Supplementary Data – Note (8) Related Party Transactions, Note (10) Long-Term Debt, Net and Note (19)

Commitments and Contingencies – Financing Agreements” for additional disclosures related to LEH, the Amended and Restated Operating Agreement, and Jonathan Carroll.)

Going Concern

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

Final GEL Arbitration Award – As previously disclosed, LE was involved in arbitration proceedings (the "GEL Arbitration") with GEL Tex Marketing, LLC ("GEL"), an affiliate of Genesis Energy, LP ("Genesis"), related to a contractual dispute involving a Crude Oil Supply and Throughput Services Agreement (the "Crude Supply Agreement") and a Joint Marketing Agreement (the "Joint Marketing Agreement"), each between LE and GEL and dated August 12, 2011. On August 11, 2017, the arbitrator delivered its final award in the GEL Arbitration (the "Final Arbitration Award"). The Final Arbitration Award denied all LE's claims against GEL and granted substantially all the relief requested by GEL in its counterclaims. Among other matters, the Final Arbitration Award awarded damages and GEL's attorneys' fees and related expenses to GEL in the aggregate amount of approximately $31.3 million.

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

The GEL Letter Agreement has been amended to extend the Continuance Period through April 30, 2018. The GEL Letter Agreement, as amended to date, prohibits Blue Dolphin and its affiliates from making any pre-payments on indebtedness, other than in the ordinary course of business as described in the GEL Letter Agreement, and from making any payments to Jonathan Carroll under the Amended and Restated Guaranty Fee Agreements between November 1, 2017 and the end of the Continuance Period. (Jonathan Carroll has received no cash payments since August 2016 and no common stock payments since May 2017 under the Amended and Restated Guaranty Fee Agreements.) If the parties are unable to reach an acceptable settlement with Genesis and GEL, and GEL seeks to confirm and enforce the Final Arbitration Award against LE, our business, financial condition, and results of operations will be materially affected, and LE would likely be required to seek protection under bankruptcy laws.

Veritex Secured Loan Agreement Event of Default – Veritex Community Bank ("Veritex"), as successor in interest to Sovereign Bank by merger, delivered to obligors notices of default under secured loan agreements with Veritex, stating that the Final Arbitration Award constitutes an event of default under the secured loan agreements. The occurrence of an event of default permits Veritex to declare the amounts owed under these loan agreements immediately due and payable, exercise its rights with respect to collateral securing obligors' obligations under these loan agreements, and/or exercise any other rights and remedies available. Veritex informed obligors that it is not currently exercising its rights and remedies under the secured loan agreements considering the ongoing settlement discussions with GEL and the continuance of the hearing on confirmation of the Final Arbitration Award and to allow Veritex to evaluate any proposed settlement agreement related to the Final Arbitration Award, which would require Veritex's approval. However, Veritex expressly reserved all its rights, privileges and remedies related to events of default under the secured loan agreements and informed obligors that it would consider a final confirmation of the Final Arbitration Award to be a material event of default under the loan agreements. Any exercise by Veritex of its rights and remedies under the secured loan agreements would have a material adverse effect on our business, financial condition, and results of operations and would likely require us to seek protection under bankruptcy laws. The debt associated with loans under secured loan agreements was classified within the current portion of long-term debt on our consolidated balance sheet at December 31, 2017 due to existing events of default related to the Final Arbitration Award as well as the uncertainty of LE and LRM's ability to meet financial covenants in the secured loan agreements in the future.

We are currently evaluating the effects of the Final Arbitration Award on our business, financial condition, and results of operations. In addition to the matters described above, the Final Arbitration Award could materially and adversely affect our ability to procure adequate amounts of crude oil and condensate or our relationships with our customers. The contract-related dispute has negatively affected our customer relationships, prevented us from taking advantage of business opportunities, disrupted refinery operations, diverted management's focus away from running the business, and impacted our ability to obtain financing.

We can provide no assurance as to whether negotiations with GEL will result in a settlement, the potential terms of any such settlement, or whether Veritex would approve any such settlement. If LE is unable to reach an acceptable settlement with GEL or Veritex does not approve any such settlement and GEL seeks to confirm and enforce the Final Arbitration Award, our business, financial condition, and results of operations will be materially adversely affected and LE would likely be required to seek protection under bankruptcy laws.

Operating Risks

Successful execution of our business plan depends on several key factors, including reaching an acceptable settlement with GEL, having adequate crude oil and condensate supplies, , maintaining the safe and reliable operation of the Nixon Facility, improving margins on refined petroleum products, and meeting contractual obligations. (See “Business Strategies” within this Part I, Item 1. Business for information related to our business plan.) For the year ended December 31, 2017, execution of our business plan was negatively impacted by several factors, including:

Net Losses – For the year ended December 31, 2017, we reported a net loss of $22,328,390, or a loss of $2.09 per share, compared to a net loss of $15,767,448, or a loss of $1.51 per share, for the year ended December 31, 2016. The $0.58 per share increase in net loss between the periods was the result of the Final Arbitration Award, which was partially offset by improved margins for refined petroleum products and increased sales volume. The amount expensed in the period related to the Final Arbitration Award was $24,338,628, which represented $2.28 per share. Excluding the Final Arbitration Award, we would have reported net income of $0.19 per share.

Working Capital Deficits – We had a working capital deficit of $69,512,829 at December 31, 2017 compared to a working capital deficit of $37,812,263 at December 31, 2016. Excluding long-term debt, we had a working capital deficit of $29,968,427 at December 31, 2017, compared to working capital of $5,599,927 at December 31, 2016. The significant increase in working capital deficit between the periods primarily related to the Final Arbitration Award and a decrease in cash and cash equivalents.

Crude Supply Issues – We currently have in place a month-to-month evergreen crude supply contract with a major integrated oil and gas company. This supplier currently provides us with adequate amounts of crude oil and condensate, and we expect the supplier to continue to do so for the foreseeable future. However, our ability to purchase adequate amounts of crude oil and condensate is dependent on our liquidity and access to capital, which have been adversely affected by the contract-related dispute with GEL and other factors, as noted above. The Final Arbitration Award could have a material adverse effect on our ability to procure adequate amounts of crude oil and condensate from our current supplier or otherwise.

Financial Covenant Defaults – In addition to existing events of default related to the Final Arbitration Award, at December 31, 2017, LE and LRM were in violation of certain financial covenants in secured loan agreements with Veritex. Covenant defaults under the secured loan agreements would permit Veritex to declare the amounts owed under these loan agreements immediately due and payable, exercise its rights with respect to collateral securing obligors’ obligations under these loan agreements, and/or exercise any other rights and remedies available. The debt associated with these loans was classified within the current portion of long-term debt on our consolidated balance sheet at December 31, 2017 due to existing events of default related to the Final Arbitration Award as well as the uncertainty of LE and LRM’s ability to meet the financial covenants in the future. There can be no assurance that Veritex will provide a waiver of events of default related to the Final Arbitration Award, consent to any proposed settlement with GEL or provide future waivers of any financial covenant defaults, which may have an adverse impact on our financial position and results of operations.

During the year ended December 31, 2017, we continued aggressive actions to improve operations and liquidity. We began selling certain of our refined petroleum products immediately following production, which minimizes inventory, improves cash flow, and reduces commodity risk/exposure. We completed construction on several new petroleum storage tanks at the Nixon Facility. Increased petroleum storage capacity: (i) assists with de-bottlenecking the facility, (ii) supports increased refinery throughput up to approximately 30,000 bpd, and (iii) provides an opportunity to generate additional tank rental revenue by leasing to third-parties. We also reduced our working capital requirements in a rising cost environment by decreasing costs, reducing inventory levels, improving our sales cycle, and requiring pre-payments from certain customers. Management believes that it is taking the appropriate steps to improve operations at the Nixon Facility and our overall financial stability. However, there can be no assurance that our business plan will be successful, LEH and its affiliates will continue to fund our working capital needs, or that we will be able to obtain additional financing on commercially reasonable terms or at all. Among other factors, the Final Arbitration Award could prevent us from successfully executing our business plan.

For additional disclosures related to the contract-related dispute with GEL, the Final Arbitration Award, the GEL Letter Agreement (as amended), defaults under secured loan agreements, and risk factors that could materially affect our future business, financial condition and results of operations, refer to the following sections in this Annual Report:

Part I, Item 1A. Risk Factors

Part I, Item 3. Legal Proceedings

Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations:

- GEL Contract-Related Dispute and Final Arbitration Award

- Results of Operations

- Liquidity and Capital Resources

Part II, Item 8. Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements:

- Note (8) Related Party Transactions

- Note (10) Long-Term Debt, Net

- Note (19) Commitments and Contingencies – Legal Matters

-

Note (20) Subsequent Events

Refining Industry Overview

Crude oil refining is the process of separating the hydrocarbons present in crude oil into usable or refined petroleum products such as naphtha, diesel, jet fuel and other products. Crude oil refining is primarily a margin-based business where both crude oil and refined petroleum products are commodities with prices that can fluctuate independently for short periods due to supply, demand, transportation and other factors. To increase profitability, or improve margins, it is important for a crude oil refinery to maximize the yields of higher value petroleum products and to minimize the costs of feedstocks and operating expenses. There are also several operational efficiencies that can be deployed to improve margins. These include selecting the appropriate crude oil or condensate to fulfill anticipated product demand, increasing the amount and value of refined petroleum products processed from the crude oil or condensate, reducing downtime for maintenance, repair and investment, developing valuable by-products or production inputs out of materials that are typically discarded, and adjusting utilization rates.

A refinery's product slate depends on the refinery's configuration and the type of crude oil and/or condensate being refined, and can be adjusted based on market demand. Although an increase or decrease in the price for crude oil generally results in a similar increase or decrease in prices for refined petroleum products, typically there is a time lag between the comparable increase or decrease in prices for refined petroleum products. The effect of changes in crude oil prices on a refinery’s results of operations depends, in part, on how quickly and how fully refined petroleum products prices adjust to reflect these changes.

Refinery Operations

Nixon Facility

The Nixon Facility is comprised of assets owned by LE and LRM. LE owns the land, crude oil distillation unit, certain refined petroleum product storage tanks and related piping, and loading and unloading facilities and utilities. LRM owns the naphtha stabilizer and depropanizer units, as well as certain petroleum product storage tanks and related piping. Together, LE and LRM own more than 1,000,000 bbls of crude oil, condensate, and refined petroleum product storage capacity at the Nixon Facility. Since 2015, the Nixon Facility has been undergoing a capital improvement expansion project to construct over 800,000 bbls of petroleum storage tankage. Increased petroleum storage capacity: (i) assists with de-bottlenecking the facility, (ii) supports increased refinery throughput up to approximately 30,000 bpd, and (iii) provides an opportunity to generate additional tank rental revenue by leasing to third-parties. The Nixon Facility is pledged as collateral under certain of our long-term debt as discussed in “Part II, Item 8. Financial Statements and Supplementary Data – Note (10) Long-Term Debt, Net”.

A regional electric cooperative supplies electrical power to the Nixon Facility. Fuel gas that is produced at the Nixon Facility is primarily used as fuel within the refinery. In addition, small amounts of propane are occasionally acquired for use in starting-up the Nixon Facility.

Nixon Facility Process Summary

The Nixon Facility is considered a “topping unit” because it is primarily comprised of a crude oil distillation unit, the first stage of the crude oil refining process. The Nixon Facility’s current level of complexity allows crude oil and condensate to be refined into finished and intermediate petroleum products. The below diagram represents a high-level overview of the current crude oil and condensate refining process at the Nixon Facility.

Example represents a simplified plant configuration. The specific configuration will vary based on various market and operational factors.

Turnaround and Refinery Reliability

We are committed to the safe and efficient operation of the Nixon Facility. Turnarounds are used to repair, restore, refurbish or replace refinery equipment such as vessels, tanks, reactors, piping, rotating equipment, instrumentation, electrical equipment, heat exchangers and fired heaters. Typically, a refinery undergoes a major facility turnaround every three to five years. Since the Nixon Facility is still in the recommissioning phase, one or more of the units may require additional unscheduled downtime for unanticipated maintenance or repairs that are more frequent than our scheduled turnarounds.

Crude Oil and Condensate Supply

Operation of the Nixon Facility depends on our ability to purchase adequate amounts of crude oil and condensate on favorable terms. We currently have in place a month-to-month evergreen crude supply contract with a major integrated oil and gas company. This supplier currently provides us with adequate amounts of crude oil and condensate, and we expect the supplier to continue to do so for the foreseeable future. However, our ability to purchase crude oil and condensate is dependent on our liquidity and access to capital, which have been adversely affected by net losses, working capital deficits, the contract-related dispute with GEL, and financial covenant defaults in secured loan agreements.

Management believes that it is taking the appropriate steps to improve operations at the Nixon Facility and our overall financial stability. If our business plan is unsuccessful, it could affect our ability to acquire adequate supplies of crude oil and condensate under the existing contract or otherwise. Among other factors, the Final Arbitration Award could prevent us from successfully executing our business plan and could have a material adverse effect on our ability to procure adequate amounts of crude oil and condensate from our current supplier or otherwise. Further, because our existing crude supply contract is a month-to-month arrangement, there can be no assurance that crude oil and condensate supplies will continue to be available under this contract in the future.

Products and Markets

Products

The Nixon Facility's product slate can be moderately adjusted based on market demand. We currently produce a single finished product – jet fuel. We produce several intermediate products, including naphtha, HOBM, and AGO.

Markets

The Nixon Facility is in the Gulf Coast region of the U.S., which is represented by the Energy Information Administration as Petroleum Administration for Defense District 3 ("PADD 3"). Our products are primarily sold in the U.S. within PADD 3. However, with the opening of the Mexican refined products market to private companies, we occasionally sell refined products to customers that export to Mexico. LEH, which is HUBZone certified, purchases our jet fuel and resells the jet fuel to a government agency. Our intermediate products are primarily sold in nearby markets to wholesalers and refiners as a feedstock for further blending and processing. (See "Part I, Item 1. Business – Management" and "Part II, Item 8. Financial Statements and Supplementary Data – Note (8) Related Party Transactions, Note (10) Long-Term Debt, Net, and Note (19) Commitments and Contingencies – Financing Agreements" for additional disclosures related to LEH.)

Customers

Customers for our refined petroleum products include distributors, wholesalers and refineries primarily in the lower portion of the Texas Triangle (the Houston - San Antonio - Dallas/Fort Worth area). We have bulk term contracts, including month-to-month, six months, and up to one-year terms, in place with most of our customers. Certain of our contracts require us to sell fixed quantities and/or minimum quantities of finished and intermediate petroleum products and many of these arrangements are subject to periodic renegotiation, which could result in higher or lower relative prices for our refined petroleum products. See “Part II, Item 8. Financial Statements and Supplementary Data – Note (14) Concentration of Risk” of this Annual Report for disclosures related to significant customers.

Competition

Many of our competitors are substantially larger than us and are engaged on a national or international basis in many segments of the petroleum products business, including exploration and production, refining, transportation and marketing. These competitors may have greater flexibility in responding to or absorbing market changes occurring in one or more of these business segments. We compete primarily based on cost. Due to the low complexity of our simple “topping unit” refinery, we can be relatively nimble in adjusting our refined petroleum products slate because of changing commodity prices, market demand, and refinery operating costs.

Business Strategy

Our overall business strategy is to improve operations, increase refinery throughput, improve refining margins, and continue the safe and reliable operation of the Nixon Facility. Successful execution of our business strategy depends on several key factors, including reaching an acceptable settlement with GEL, having adequate crude oil and condensate supplies and continuing to meet contractual obligations.

Nixon Facility Capital and Efficiency Improvements

In 2015, LE and LRM secured $35.0 million in the aggregate in 19-year financing to expand the Nixon Facility. Since 2015, the Nixon Facility has been undergoing a capital improvement expansion project to construct over 800,000 bbls of petroleum storage tankage. At December 31, 2017, the refinery had more than 1,000,000 bbls of crude oil, condensate, and refined petroleum product storage capacity in 27 tanks. Overall improvements at the Nixon Facility will position us for long-term growth by: (i) having crude and product storage to support refinery throughput and future expansion of up to 30,000 bpd; (ii) increasing the processing capacity and complexity of the Nixon Facility for expanded refined product opportunities; and (iii) generating additional revenue from leasing product and crude storage to third parties. Capital expenditures at the Nixon Facility are being funded primarily through borrowings under credit bank facilities that were secured in 2015.

See “Part II, Item 8. Financial Statements and Supplementary Data – Note (10) Long-Term Debt, Net” for additional disclosures related to borrowings for capital spending.

Improved Financial Stability

As noted elsewhere in this Annual Report, we began selling certain of our refined petroleum products immediately following production, which minimizes inventory, improves cash flow, and reduces commodity risk/exposure. We also reduced our working capital requirements in a rising cost environment by decreasing costs, reducing inventory levels, improving our sales cycle, and receiving pre-payments from certain customers. Management believes that these efforts, combined with favorable margins, will improve operations and liquidity. (See “Part I, Item 1. Business – Going Concern” for certain factors that raise substantial doubt about our ability to continue as a going concern.)

Pipeline Transportation

Our pipeline transportation operations involve the gathering and transportation of oil and natural gas for producers/shippers operating offshore near our pipelines, as well as leasehold interests in oil and natural gas properties, in the Gulf of Mexico. We derived no revenue from our Pipeline Transportation operations for the year ended December 31, 2017. Our pipeline transportation operations represented less than 1% of total revenue for the year ended December 31, 2016.

We fully impaired our pipeline assets at December 31, 2016. All pipeline transportation services to third-parties have ceased, existing third-party wells along our pipeline corridor are being permanently abandoned, and no new third-party wells are being drilled near our pipelines. However, management believes our pipeline assets have future value based on large-scale, third-party production facility expansion projects near the pipelines. Our oil and gas properties had no production during the years ended December 31, 2017 and 2016. All leases associated with our oil and gas properties have expired, and our oil and gas properties were fully impaired in 2011.

Acquisition, Disposition and Restructuring Activities

We regularly engage in discussions with third-parties regarding the possible purchase of assets and operations that are strategic and complementary to our existing operations. However, we do not anticipate any material acquisition activity in the foreseeable future.

In 2013, the Board established a Master Limited Partnership ("MLP") Conversion Special Committee to oversee a potential conversion of Blue Dolphin from a Delaware "C" corporation to a Delaware MLP. Due to a shift in market conditions over the past three years, the MLP Conversion Special Committee was dissolved in March 2018.

Insurance and Risk Management

Our operations are subject to significant hazards and risks inherent in crude oil and condensate refining operations, as well as in the transportation and storage of crude oil and condensate and finished and intermediate petroleum products. We have property damage and business interruption coverage at the Nixon Facility. Business interruption coverage is for 24 months from the date of the loss, subject to a deductible with a 45-day waiting period. Our property damage insurance has deductibles ranging from $5,000 to $500,000. In addition, we have a full suite of insurance policies covering workers' compensation, general liability, directors' and officers' liability, environmental liability, and other business risks. These are supported by safety and other risk management programs. See also, "Part I, Item 1A. Risk Factors – Risks Related to Our Business" in this Annual Report.

Governmental Regulation

Our operations and properties are subject to extensive and complex federal, state, and local environmental, health, and safety statutes, regulations, and ordinances. These rules govern, among other things, the generation, storage, handling, use and transportation of petroleum, solid wastes, hazardous wastes, and hazardous substances; the emission and discharge of materials into the environment and environmental protection; waste management; characteristics and composition of diesel and other fuels; and the monitoring, reporting and control of greenhouse gas emissions. These laws impose costly obligations on our operations, including requiring the acquisition of permits and authorizations to conduct regulated activities, restricting the way regulated activities are conducted, limiting the quantities and types of materials that may be released into the environment, and requiring the monitoring of releases of materials into the environment.

Failure to comply with environmental, health or safety laws and our existing permits or other authorizations issued under such laws could result in fines, civil or criminal penalties or other sanctions, injunctive relief compelling the installation of additional controls, a revocation of our permits, and/or the shutdown of our facilities.

We cannot predict the extent to which additional environmental, health, and safety laws will be enacted in the future, or how existing or future laws will be interpreted with respect to our operations. Many environmental, health, and safety laws and regulations are becoming increasingly stringent. The cost of compliance with and governmental enforcement of environmental, health, and safety laws may increase in the future. We may be required to make significant capital expenditures or incur increased operating costs to achieve or sustain compliance with applicable environmental, health, and safety laws. This Governmental Regulation section should be read in conjunction with "Part I, Item 1A. Risk Factors" of this Annual Report, which discusses our expectations regarding future events based on currently available information.

Air Emissions

Toxic Air Pollutants. The federal Clean Air Act (the “CAA”) is a comprehensive law that regulates toxic air pollutants from stationary and mobile sources. Among other things, the law authorizes the Environmental Protection Agency (the “EPA”) to establish National Ambient Air Quality Standards to protect public health and public welfare and to regulate emissions of hazardous air pollutants. The CAA, as well as corresponding state laws and regulations regarding emissions of pollutants into the air, affect our crude oil and condensate processing operations and impact certain emissions sources located offshore. Under the CAA, facilities that emit volatile organic compounds (“VOCs”) or nitrogen oxides face increasingly stringent regulations.

Refineries, which are major stationary sources of hazardous air pollutants, have historically been high-visibility targets for enforcement by the EPA under the CAA. Petroleum refineries are subject to the EPA's National Standards for Hazardous Air Pollutants. These standards require petroleum refineries to meet emission standards reflecting the application of the maximum achievable control technology. The affected sources at petroleum refineries are defined to include all process vents, storage vessels, marine tank vessel loading operations, gasoline rack operations, equipment leaks, and wastewater treatment systems located at the refinery. To meet emission standards, we are required to obtain permits, as well as test, monitor, report, and implement control requirements.

Under the EPA's Mobile Source Air Toxics regulations most refineries are required to produce transportation fuels for highway use at or below 15 ppm sulfur for "on-road" and "off-road" diesel and 30 ppm sulfur for gasoline. The Nixon Facility does not produce gasoline, and the facility ceased production of nonroad, locomotive, and marine, a transportation-related diesel fuel product in 2014 – when the new regulations took effect. Since 2014, the Nixon Facility has produced HOBM, a non-transportation lubricant blend product. "Topping units," like the Nixon Facility, typically lack a desulfurization process unit to lower sulfur content levels within the range required by the EPA's sulfur control standards, and integration of such a desulfurization unit generally requires additional permitting and significant capital upgrades. We can produce and sell diesel with sulfur content levels above the EPA's sulfur control standards: (i) in the U.S. as a feedstock to other refineries and blenders and (ii) to other countries as a finished petroleum product.

The EPA issued three (3) final rules to cut emissions of methane from the oil and gas industry. These final rules curb emissions of methane, VOC's, and air toxics from new, reconstructed and modified oil and gas sources, while providing greater certainty about CAA permitting requirements for the industry. The EPA also issued an Information Collection Request ("ICR") to operators in the oil and natural gas industry to obtain extensive information for developing regulations to reduce methane emissions from existing oil and gas sources. In March 2017, the EPA withdrew the ICR request, effectively immediately. As a result, responses to the ICR were no longer required.

Greenhouse Gas Emissions. Emission of Greenhouse Gases ("GHGs") is regulated by the EPA under the CAA. By allowing the regulation of GHGs under the CAA, the EPA's findings also indirectly impacted many other carbon-intensive industries, which would potentially become subject to federal New Source Review Prevention of Significant Deterioration and Title V permitting requirements under the CAA (the "CAA Permitting Requirements").

The EPA established GHG emissions thresholds to define when permits under the CAA Permitting Requirements are required for new and existing industrial facilities (the "Tailoring Rule"). Emissions from small farms, restaurants, and all but the very largest commercial facilities are not covered by the Tailoring Rule. The Tailoring Rule established a schedule that: (i) initially focused on the largest stationary sources with the most CAA permitting experience, (ii) then expanded to cover the largest stationary sources of GHG that may not have been previously covered by the CAA for other pollutants, and (iii) finally described the EPA's plan for any additional steps in this process. Without this tailoring rule, the lower emissions thresholds would have taken effect automatically for GHGs in 2011, leading to dramatic increases in the number of required permits. The EPA implemented the Tailoring Rule in phases.

In 2016, the EPA updated New Source Performance Standards by setting emission limits for methane, covering additional sources, such as hydraulically fractured oil wells, and requiring owners/operators to find and repair leaks. The EPA also updated the Source Determination rules to clarify when multiple pieces of equipment and activities must be deemed a single source when determining whether major source permitting programs apply.

Although we are not currently subject to reporting requirements under GHG-related regulations, the future adoption of any regulations that require reporting of GHGs or otherwise limit emissions of GHGs from the Nixon Facility could require us to incur significant costs and expenses or changes in operations, which could adversely affect our operations and financial condition.

Renewable Fuels

Pursuant to the Energy Policy Act of 2005 and the Energy Independence and Security Act of 2007, the EPA issued Renewable Fuels Standards ("RFS") that require the blending of biofuels into transportation fuel. Since the compliance mechanism for RFS - Renewable Identification Numbers – would have created a burden on the Nixon Facility related to its nonroad, locomotive, and marine production through 2014, LE applied for an extension of the temporary exemption afforded small refineries through December 31, 2010 under the CAA Section 211(o)(9)(B). The EPA granted the Nixon Facility a small refinery exemption from RFS requirements for 2013 and 2014. In 2014, the Nixon Facility began producing HOBM, a non-transportation lubricant blend product that does not fall under RFS.

Hazardous Waste

The Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") imposes strict, joint and several liability on responsible parties with uncontrolled or abandoned hazardous waste sites, as well as accidents, spills, and other emergency releases of pollutants and contaminants into the environment. The law authorizes two kinds of response actions: (i) short-term removals, where actions may be taken to address releases or threatened releases requiring prompt response, and (ii) long-term remedial response actions, that permanently and significantly reduce the dangers associated with releases or threats of releases of hazardous substances that are serious, but not immediately life threatening. As of the filing of this Annual Report, neither we nor any of our predecessors have been designated as a potentially responsible party under CERCLA or a similar state statute.

The Resource Conservation and Recovery Act ("RCRA") and comparable state and local laws impose requirements related to the handling, storage, treatment and disposal of solid and hazardous wastes. Our refining operations generate petroleum product wastes, solid wastes, and ordinary industrial wastes, such as from paint and solvents, that are regulated under RCRA and state law. Certain wastes generated by the Nixon Facility are currently exempt from regulation as hazardous wastes, but are subject to non-hazardous waste regulations. In the future, these wastes could be designated as hazardous wastes under RCRA or other applicable statutes and therefore may become subject to more rigorous and costly requirements.

The Nixon Facility has been used for refining activities for many years. Although prior owners and operators may have used operating and waste disposal practices that were standard in the industry at the time, petroleum hydrocarbons and various wastes may have been released on or under the Nixon Facility site. A 2008 third-party environmental study determined that petroleum hydrocarbon and VOC concentrations were below Tier 1 protective concentration levels ("PCLs"). However, RCRA-8 metals were found to be above Tier 1 PCLs. An additional third-party study determined that metal concentrations from the soil would not leach beyond groundwater concentrations exceeding their respective PCLs. As a result, groundwater resources were not threatened, and no further reporting was required.

Water Discharges

Stormwater from the Nixon Facility is tested and discharged pursuant to applicable stormwater permits. Process wastewater from the Nixon Facility is tested and discharged to a nearby municipal treatment facility pursuant to applicable process wastewater permits. Wastewater from our offshore facilities, including our oil and natural gas pipelines and anchor platform, are tested and discharged pursuant to applicable produced water permits.

Spill Prevention and Control

The Clean Water Act (the "CWA") and analogous state laws impose restrictions and stringent controls on the discharge of pollutants, including oil, into federal and state waters. These laws affect our crude oil and condensate processing operations and petroleum storage and terminaling operations, as well as our pipeline, facilities, and exploration and production assets. The CWA prohibits the discharge of pollutants into U.S. waters except as authorized by the terms of a permit issued by the EPA or a state agency with delegated authority. Spill prevention, control, and countermeasure requirements mandate the use of structures, such as berms and other secondary containment, to prevent hydrocarbons or other pollutants from reaching a jurisdictional body of water in the event of a spill or leak. Federal and state regulatory agencies can impose administrative, civil, and criminal penalties for non-compliance with discharge permits or other requirements of the CWA or analogous state laws and regulations.

The EPA covers inland oil spills. In 2015, the EPA published a final rule expanding the definition of “Waters of the United States” under the CWA. Waters that are specifically excluded from the EPA’s jurisdiction include, among others, depressions incidental to mining or construction that may become filled with water, puddles, groundwater, and stormwater control features constructed to convey, treat, or store stormwater on dry land. See “Offshore Safety and Environmental Oversight” within this governmental regulation section for information on oil spills that occur in coastal waters.

Offshore Safety and Environmental Oversight

In addition to the CAA, our pipeline, exploration and production assets are also subject to the requirements of the Outer Continental Shelf Lands Act (the "OCSLA"). The OCSLA is administered by the Bureau of Ocean Energy Management (the "BOEM") and the Bureau of Safety and Environmental Enforcement (the "BSEE") and the Office of Natural Resources Revenue. The BSEE has partnered with the U.S. Coast Guard for oil spill response. The BOEM and the BSEE have been more aggressive in proposing and implementing several reforms to offshore oil and gas regulations.

Spill Liability. The Oil Pollution Act of 1990 (the "OPA") and the CWA, combined with the OCSLA, impose liability on owners or operators of vessels and facilities that discharge oil into the navigable waters of the U.S., adjoining shorelines, waters of the contiguous zone, or when the discharge may affect natural resources of the U.S. With limited exceptions, responsible parties are liable for all removal costs and damages arising from oil spills. Damages may include: injury or economic losses resulting from destruction of real or personal property, damages or loss of use of natural resources used for subsistence, lost tax revenue, royalties, rents, or net profit shares suffered by federal, state, or local governments due to injury to real or personal property, lost profits or impaired earning power because of injury to real or personal property or natural resources, and the net costs of providing increased or additional public services during or after removal activities.

The BOEM has increased the offshore limit of liability for damages under the OPA from $75 million to $133.65 million, plus all clean-up costs, to reflect the significant increase in the Consumer Price Index. The onshore facilities limit of liability for damages under the OPA is $350 million plus all clean-up costs. A party cannot take advantage of the liability limits if the spill is caused by gross negligence or willful misconduct or resulted from a violation of federal safety, construction or operating regulations. If a party fails to report a spill or cooperate in the clean-up, liability limits do not apply. The OPA requires responsible parties to provide proof of financial responsibility for potential spills. The amount required for certain types of offshore facilities located seaward of the seaward boundary of a state, including properties used for oil transportation, is $35 million. BDPL currently maintains the statutory $35 million coverage.

Spill Response. Pursuant to the OPA, the National Oil and Hazardous Substances Pollution Contingency Plan, more commonly called the National Contingency Plan, provides a blueprint for responding to both oil spills and hazardous substance releases. The National Contingency Plan requires, among other things, that responsible parties have an oil spill response plan in place. We have an oil spill response plan in place.

Decommissioning Requirements. To cover the various obligations of lessees and rights-of-way holders operating in federal waters of the Gulf of Mexico, the BOEM generally requires that lessees and rights-of-way holders demonstrate financial strength and reliability per regulations or post bonds or other acceptable assurances that such obligations will be satisfied, unless the BOEM exempts the lessee or rights-of-way holder from such financial assurance requirements. Such obligations include the cost of plugging and abandoning wells and decommissioning and removing platforms and pipelines at the end of production or service activities. Once plugging and abandonment work has been completed, the collateral backing the financial assurance is released by the BOEM.

Under a newer financial assurance program model, the BOEM no longer: (i) grants waivers from additional security obligations and (ii) considers the combined strength and reliability of co-lessees when determining a lessee's additional security requirements. Also, provided guidance and clarification regarding submission of certified decommissioning cost expenditure summaries following permanent plugging of any well, removal of any platform or other facility, and clearance of any site.

The BOEM requested that BDPL provide additional supplemental bonds or acceptable financial assurance of approximately $4.6 million related to five (5) existing pipeline rights-of-way. At December 31, 2017 and 2016, BDPL maintained approximately $0.9 million in credit and cash-backed pipeline rights-of-way bonds issued to the BOEM. Of the five (5) existing pipeline rights-of-ways related to BOEM's request, the pipeline associated with one (1) right-of-way was decommissioned in 1997. The BSEE approved BDPL permit requests to decommission in place the pipelines for three (3) of these rights-of-way. As a result, management is seeking a reduction in the amount of BOEM's request for additional financial assurance. There can be no assurance that the BOEM will accept a reduced amount of supplemental financial assurance or not require additional supplemental pipeline bonds related to our existing pipeline rights-of-way. If BDPL is required by the BOEM to provide significant additional supplemental bonds or acceptable financial assurance, we may experience a significant and material adverse effect on our operations, liquidity, and financial condition.

Offshore Safety. Under the Workplace Safety Rule, BSEE requires operators to employ a comprehensive safety and environmental management system ("SEMS"). SEMS and a subsequent revision to SEMS ("SEMS II") reduce human and organizational errors as root causes of work-related accidents and offshore spills, develop protocols as to who at the facility has the ultimate operational safety and decision-making authority, and establish procedures to provide all personnel with "stop work" authority. SEMS II must be periodically audited by an independent third-party auditor approved by the BSEE. BDPL has a SEMS II plan in place.

Health, Safety and Maintenance

We are subject to several federal and state laws and regulations related to the health and safety of workers pursuant to the Occupational Safety and Health Act of 1970. These laws and regulations are administered by the Occupational Safety and Health Administration (the "OSHA") and, in states not participating in OSHA-approved state safety plans, comparable state regulatory bodies.

Our refinery operations are also subject to OSHA process safety management regulations and the National Emphasis Program for Petroleum Refineries (the "RNEP"). RNEP requires refineries to be inspected for compliance with process safety management regulations. Inspections may last from two to six months, including one to three months onsite. Inspectors primarily focus on process safety management implementation and recordkeeping. The Nixon Facility was inspected by OSHA in 2013 and again in June 2016. Following the 2013 inspection, LE was assessed a civil penalty of $38,500. Following the 2016 inspection, LE was assessed a civil penalty of $6,006. Citations issued by OSHA primarily related to failure to comply with documentation and notice posting requirements.

We operate a comprehensive safety, health and security program, with participation by personnel at all levels of the organization. Despite our efforts to achieve excellence in our safety and health performance, there can be no assurances that there will not be accidents resulting in injuries or even fatalities. We routinely monitor our programs and consider improvements in our management systems.

Intellectual Property

We rely on intellectual property laws to protect our brand, as well as those of our subsidiaries. "Blue Dolphin Energy Company" is a registered trademark in the U.S. in name and logo form. "Petroport, Inc." is a registered trademark in the U.S. in name form. In addition, "www.blue-dolphin-energy.com" is a registered domain name.

Personnel

We rely on the services of LEH pursuant to the Amended and Restated Operating Agreement to manage our property and the property of our subsidiaries, including the Nixon Facility, in the ordinary course of business. LEH provides us with the following personnel services under the Amended and Restated Operating Agreement:

Personnel serving in the capacities of corporate executive officers, including Chief Executive Officer and Chief Financial Officer, as well as general manager, operations, maintenance, environmental, and health and safety personnel; and

Personnel providing administrative and professional services, including accounting, human resources, insurance, and regulatory compliance.

All personnel work for and are paid by LEH. Blue Dolphin is billed by LEH at cost plus a 5% markup. See “Part II, Item 8. Financial Statements and Supplementary Data - Note (8), Related Party Transactions” of this Annual Report for additional disclosures related to LEH.

Available Information

We are subject to the informational requirements of the Exchange Act. We file financial and other information with the SEC as required, including but not limited to, proxy statements on Schedule 14A, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549, on official business days during the hours of 10:00 a.m. to 3:00 p.m. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet website at http:///www.sec.gov that contains reports, proxy information and information statements, and other information regarding issuers, including us, that file electronically with the SEC.

We also make our SEC filings available through our website (http://www.blue-dolphin-energy.com) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

ITEM 1A. RISK FACTORS

An investment in our Common Stock involves risks. In addition to the other information in this Annual Report and our other filings with the SEC, you should carefully consider the following risk factors in evaluating us and our business. The risks described below are not the only risks we face. Additional risks and uncertainties not specified herein, not currently known to us, or currently deemed to be immaterial may also materially adversely affect our business, financial condition, operating results and/or cash flows.

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

Risks Related to Our Business and Industry

The adverse outcome in the arbitration of the contract-related dispute with GEL had a material adverse effect on our business, financial condition, and results of operations and could materially adversely affect the value of an investment in our common stock.

As previously disclosed, LE was involved in the GEL Arbitration with GEL, an affiliate of Genesis, related to a contractual dispute involving the Crude Supply Agreement and the Joint Marketing Agreement. On August 11, 2017, the arbitrator delivered the Final Arbitration Award. The Final Arbitration Award denied all LE's claims against GEL and granted substantially all the relief requested by GEL in its counterclaims. Among other matters, the Final Arbitration Award awarded damages and GEL's attorneys' fees and related expenses to GEL in the aggregate amount of approximately $31.3 million.

As previously disclosed, a hearing on confirmation of the Final Arbitration Award was scheduled to occur on September 18, 2017 in state district court in Harris County, Texas. Prior to the scheduled hearing, LE and GEL jointly notified the court that the hearing would be continued for the Continuance Period to facilitate settlement discussions between the parties. On September 26, 2017, LE and Blue Dolphin, together with LEH and Jonathan Carroll, entered into the GEL Letter Agreement, effective September 18, 2017, confirming the parties' agreement to the continuation of the confirmation hearing during the Continuance Period, subject to the terms of the GEL Letter Agreement.

The GEL Letter Agreement has been amended to extend the Continuance Period through April 30, 2018. The GEL Letter Agreement, as amended to date, prohibits Blue Dolphin and its affiliates from making any pre-payments on indebtedness, other than in the ordinary course of business as described in the GEL Letter Agreement, and from making any payments to Jonathan Carroll under the Amended and Restated Guaranty Fee Agreements between November 1, 2017 and the end of the Continuance Period. (Jonathan Carroll has received no cash payments since August 2016 and no common stock payments since May 2017 under the Amended and Restated Guaranty Fee Agreements.) If the parties are unable to reach an acceptable settlement with Genesis and GEL, and GEL seeks to confirm and enforce the Final Arbitration Award, our business, financial condition, and results of operations will be materially affected, and LE would likely be required to seek protection under bankruptcy laws.

Veritex notified obligors that the Final Arbitration Award constitutes an event of default under secured loan agreements with Veritex. The occurrence of events of default under the secured loan agreements permits Veritex to declare the amounts owed under these loan agreements immediately due and payable, exercise its rights with respect to collateral securing our obligations under these loan agreements, and/or exercise any other rights and remedies available. Veritex informed obligors that it is not currently exercising its rights, privileges and remedies under the secured loan agreements considering the ongoing settlement discussions with GEL and the continuance of the hearing on confirmation of the Final Arbitration Award and to allow Veritex to evaluate any proposed settlement agreement related to the Final Arbitration Award, which would require Veritex's approval. However, Veritex expressly reserved all its rights, privileges and remedies related to events of default under the secured loan agreements and informed obligors that it would consider a final confirmation of the Final Arbitration Award to be a material event of default under the loan agreements.

We can provide no assurance as to whether negotiations with GEL will result in a settlement, as to potential terms of any such settlement, whether Veritex would approve of any such settlement, or whether Veritex will exercise its rights and remedies under secured loan agreements. If: (i) we are unable to reach an acceptable settlement with GEL or Veritex does not approve any such settlement, (ii) GEL seeks to confirm and enforce the Final Arbitration Award, or (iii) Veritex exercises its rights and remedies under the secured loan agreements, our business, financial condition, and results of operations will be materially adversely affected, and LE would likely be required to seek protection under bankruptcy laws. In addition, our ability to procure adequate amounts of crude oil and condensate and our relationships with our customers could materially and adversely be affected, and the trading prices of our common stock and the value of an investment in our common stock could significantly decrease, which could lead to holders of our common stock losing their investment in our common stock in its entirety.

For additional information regarding the Final Arbitration Award, the GEL Letter Agreement (as amended), and their potential effects on our business, financial condition, and results of operations, see "Part I, Item 3. Legal Proceedings," Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," and the notes to our consolidated financial statements in "Part II, Item 8. Financial Statements and Supplementary Data."

We may not have sufficient liquidity to sustain operations because of net losses, working capital deficits, and other factors, including the Final Arbitration Award, crude supply issues, and financial covenant defaults in secured loan agreements.

For the year ended December 31, 2017, we reported a net loss of $22,328,390, or a loss of $2.09 per share, compared to a net loss of $15,767,448, or a loss of $1.51 per share, for the year ended December 31, 2016. The $0.58 per share increase in net loss between the periods was the result of the Final Arbitration Award, which was partially offset by improved margins for refined petroleum products and increased sales volume. The amount expensed in the period related to the Final Arbitration Award was $24,338,628, which represented $2.28 per share. Excluding the Final Arbitration Award, we would have reported net income of $0.19 per share.

We had a working capital deficit of $69,512,829 at December 31, 2017 compared to a working capital deficit of $37,812,263 at December 31, 2016. Excluding long-term debt, we had a working capital deficit of $29,968,427 at December 31, 2017, compared to working capital of $5,599,927 at December 31, 2016. The significant increase in working capital deficit between the periods primarily related to the Final Arbitration Award and a decrease in cash and cash equivalents.

We had cash and cash equivalents and restricted cash (current portion) of $495,296 and $48,980, respectively, at December 31, 2017. Comparatively, we had cash and cash equivalents and restricted cash (current portion) of $1,152,628 and $3,347,835, respectively, at December 31, 2016.

The Final Arbitration Award awarded damages and GEL's attorneys' fees and related expenses to GEL in the aggregate amount of approximately $31.3 million. We can provide no assurance as to whether negotiations with GEL will result in a settlement, as to potential terms of any such settlement, whether Veritex would approve of any such settlement, or whether Veritex will exercise its rights and remedies under secured loan agreements. If: (i) we are unable to reach an acceptable settlement with GEL or Veritex does not approve any such settlement, (ii) GEL seeks to confirm and enforce the Final Arbitration Award, or (iii) Veritex exercises its rights and remedies under the secured loan agreements, our business, financial condition, and results of operations will be materially adversely affected, and LE would likely be required to seek protection under bankruptcy laws.

Following the cessation of crude supplies under the Crude Supply Agreement with GEL, we put in place a month-to-month evergreen crude supply contract with a major integrated oil and gas company. This supplier currently provides us with adequate amounts of crude oil and condensate and having crude supply continuity has boosted our customers' confidence in our performance ability and enabled us to slowly rebuild counter-party relationships. However, we are currently evaluating the effects of the Final Arbitration Award on our business, financial condition, and results of operations. In addition to the matters described above, the Final Arbitration Award could materially and adversely affect our ability to procure adequate amounts of crude oil and condensate and our relationships with our customers.

As described elsewhere in this Annual Report, Veritex notified obligors that the Final Arbitration Award constitutes an event of default under secured loan agreements with Veritex. (Within this "Item 1A. Risk Factors" section, see also "Risks Related to Our Business and Industry" for a discussion of risks related to our financial covenant defaults with Veritex.)

Currently, we rely on revenue from operations, LEH and its affiliates (including Jonathan Carroll), and borrowings under bank facilities to meet our liquidity needs. During the year ended December 31, 2017, we continued aggressive actions to improve operations and liquidity. We began selling certain of our refined petroleum products immediately following production, which minimizes inventory, improves cash flow, and reduces commodity risk/exposure. We completed construction on several new petroleum storage tanks at the Nixon Facility. Increased petroleum storage capacity: (i) assists with de-bottlenecking the facility, (ii) supports increased refinery throughput up to approximately 30,000 bpd, and (iii) provides an opportunity to generate additional tank rental revenue by leasing to third-parties. We also reduced our working capital requirements in a rising cost environment by decreasing costs, reducing inventory levels, improving our sales cycle, and requiring pre-payments from certain customers. Management believes that it is taking the appropriate steps to improve operations at the Nixon Facility and our overall financial stability. However, there can be no assurance that our business plan will be successful, LEH and its affiliates will continue to fund our working capital needs, or that we will be able to obtain additional financing on commercially reasonable terms or at all. Among other factors, the Final Arbitration Award could prevent us from successfully executing our business plan.

Our short-term working capital needs are primarily related to acquisition of crude oil and condensate to operate the Nixon Facility, repayment of debt obligations, and capital expenditures for maintenance, upgrades, and refurbishment of equipment at the Nixon Facility. Our long-term working capital needs are primarily related to repayment of long-term debt obligations. In addition, we continue to utilize capital to reduce operational, safety and environmental risks. We may incur substantial compliance costs relating to any new environmental, health and safety regulations. Our liquidity will affect our ability to satisfy any of these needs.

The dangers inherent in oil and gas operations could expose us to potentially significant losses, costs or liabilities and reduce our liquidity.

Oil and gas operations are inherently subject to significant hazards and risks. These hazards and risks include, but are not limited to, fires, explosions, ruptures, blowouts, spills, third-party interference and equipment failure, any of which could result in interruption or termination of operations, pollution, personal injury and death, or damage to our assets and the property of others. These risks could harm our reputation and business, result in claims against us, and have a material adverse effect on our results of operations and financial condition.

The geographic concentration of our assets creates a significant exposure to the risks of the regional economy and other regional adverse conditions.

Our primary operating asset, the Nixon Facility, is in Nixon, Texas in the Eagle Ford Shale and we market our refined petroleum products in a single, relatively limited geographic area. In addition, our onshore facilities assets are in Freeport, Texas, and all our pipelines, offshore facilities and oil and gas properties are located within the Gulf of Mexico. As a result, our operations are more susceptible to regional economic conditions than our more geographically diversified competitors. Any changes in market conditions, unforeseen circumstances, or other events affecting the area in which our assets are located could have a material adverse effect on our business, financial condition, and results of operations. These factors include, among other things, changes in the economy, weather conditions, demographics, and population.

Competition from companies having greater financial and other resources could materially and adversely affect our business and results of operations.

The refining industry is highly competitive. Our refining operations compete with domestic refiners and marketers in PADD 3 (Gulf Coast), domestic refiners in other PADD regions, and foreign refiners that import products into the U.S. Certain of our competitors have larger, more complex refineries and may be able to realize higher margins per barrel of product produced. Several of our principal competitors are integrated national or international oil companies that are larger and have substantially greater resources than we do and have access to proprietary sources of controlled crude oil production. Unlike these competitors, we obtain all our feedstocks from a single supplier. Because of their integrated operations and larger capitalization, larger, more complex refineries may be more flexible in responding to volatile industry or market conditions, such as crude oil and other feedstocks supply shortages or commodity price fluctuations. If we are unable to compete effectively, we may lose existing customers or fail to acquire new customers.

Environmental laws and regulations could require us to make substantial capital expenditures to remain in compliance or to remediate current or future contamination that could give rise to material liabilities.

Our operations are subject to a variety of federal, state and local environmental laws and regulations relating to the protection of the environment, including those governing the emission or discharge of pollutants into the environment, product specifications and the generation, treatment, storage, transportation, disposal and remediation of solid and hazardous wastes. Violations of these laws and regulations or permit conditions can result in substantial penalties, injunctive orders compelling installation of additional controls, civil and criminal sanctions, permit revocations and/or facility shutdowns.

In addition, new environmental laws and regulations, new interpretations of existing laws and regulations, increased governmental enforcement of laws and regulations, or other developments could require us to make additional unforeseen expenditures. Many of these laws and regulations are becoming increasingly stringent, and the cost of compliance with these requirements can be expected to increase over time. The requirements to be met, as well as the technology and length of time available to meet those requirements, continue to develop and change. Expenditures or costs for environmental compliance could have a material adverse effect on our results of operations, financial condition, and profitability.

The Nixon Facility operates under several federal and state permits, licenses, and approvals with terms and conditions that contain a significant number of prescriptive limits and performance standards. These permits, licenses, approvals, limits, and standards require a significant amount of monitoring, record keeping and reporting to demonstrate compliance with the underlying permit, license, approval, limit or standard. Non-compliance or incomplete documentation of our compliance status may result in the imposition of fines, penalties and injunctive relief. Additionally, there may be times when we are unable to meet the standards and terms and conditions of our permits, licenses and approvals due to operational upsets or malfunctions, which may lead to the imposition of fines and penalties or operating restrictions that may have a material adverse effect on our ability to operate our facilities, and accordingly our financial performance.

We are subject to strict laws and regulations regarding personnel and process safety, and failure to comply with these laws and regulations could have a material adverse effect on our results of operations, financial condition and profitability.

We are subject to the requirements of OSHA and comparable state statutes that regulate the protection of the health and safety of workers, and the proper design, operation and maintenance of our equipment. In addition, OSHA and certain environmental regulations require that we maintain information about hazardous materials used or produced in our operations and that we provide this information to personnel and state and local governmental authorities. Failure to comply with these requirements, including general industry standards, record keeping requirements and monitoring and control of occupational exposure to regulated substances, may result in significant fines or compliance costs, which could have a material adverse effect on our results of operations, financial condition and cash flows.

Our insurance policies may be inadequate or expensive.

Our insurance coverage does not cover all potential losses, costs or liabilities. We could suffer losses for uninsurable or uninsured risks or in amounts more than our existing insurance coverage. Our ability to obtain and maintain adequate insurance may be affected by conditions in the insurance market over which we have no control. In addition, if we experience insurable events, we may experience an increase in annual premiums, a limit on coverage, or loss of coverage. Inadequate insurance or loss of coverage could have a material adverse effect on our business, financial condition, and results of operations.

LEH holds a significant interest in us, and our related party transactions with LEH and its affiliates may cause conflicts of interest that may adversely affect us.

Jonathan Carroll, our Chief Executive Officer, President, Assistant Treasurer and Secretary, is also a majority owner of LEH. Together LEH and Jonathan Carroll own 80.2% of our Common Stock, and, pursuant to the Amended and Restated Operating Agreement, manages and operates all Blue Dolphin properties. LEH and Jonathan Carroll have significant influence over matters such as the election of the Board, control over our business, policies and affairs and other matters submitted to our stockholders. LEH and Jonathan Carroll are entitled to vote the Common Stock owned by LEH in accordance with its interests, which may be contrary to the interests of other stockholders. LEH has interests that may differ from the interests of other stockholders and, as a result, there is a risk that important business decisions will not be made in the best interest of some of our stockholders.

LEH and its affiliates are not limited in their ability to compete with us and are not obligated to offer us business opportunities. We believe that the transactions and agreements that we have entered with LEH and its affiliates are on terms that are at least as favorable as could reasonably have been obtained at such time from third-parties. However, these relationships could create, or appear to create, potential conflicts of interest when our Board is faced with decisions that could have different implications for us and LEH or its affiliates. The appearance of conflicts, even if such conflicts do not materialize, might adversely affect the public's perception of us, as well as our relationship with other companies and our ability to enter new relationships in the future, which may have a material adverse effect on our ability to do business.

Defaults under our secured loan agreements could have a material adverse effect on our business, financial condition, and results of operations and materially adversely affect the value of an investment in our common stock.

As described elsewhere in this Annual Report, Veritex notified obligors that the Final Arbitration Award constitutes an event of default under secured loan agreements with Veritex. In addition to existing events of default related to the Final Arbitration Award, at December 31, 2017, LE and LRM were in violation of the debt service coverage ratio, the current ratio, and debt to net worth ratio financial covenants related to the secured loan agreements. LE also failed to replenish a payment reserve account as required. The occurrence of events of default under the secured loan agreements permits Veritex to declare the amounts owed under the secured loan agreements immediately due and payable, exercise its rights with respect to collateral securing obligors' obligations under the loan agreements, and/or exercise any other rights and remedies available. Veritex informed obligors that it is not currently exercising its rights, privileges and remedies under the secured loan agreements considering the ongoing settlement discussions with GEL and the continuance of the hearing on confirmation of the Final Arbitration Award and to allow Veritex to evaluate any proposed settlement agreement related to the Final Arbitration Award, which would require Veritex's approval. However, Veritex expressly reserved all its rights, privileges and remedies related to events of default under the secured loan agreements and informed obligors that it would consider a final confirmation of the Final Arbitration Award to be a material event of default under the loan agreements. Any exercise by Veritex of its rights and remedies under the secured loan agreements would have a material adverse effect on our business, financial condition, and results of operations and would likely require us to seek protection under bankruptcy laws.

There can be no assurance that: (i) our assets or cash flow would be sufficient to fully repay borrowings under outstanding long-term debt, either upon maturity or if accelerated, (ii) LE and LRM would be able to refinance or restructure the payments on the long-term debt, and/or (iii) Veritex will provide future waivers. Defaults under secured loan agreements and any exercise by Veritex of its rights and remedies related to such defaults may have a material adverse effect on the trading prices of our common stock and on the value of an investment in our common stock, and holders of our common stock could lose their investment in our common stock in its entirety, particularly if LE is required to seek bankruptcy protection because of the exercise by Veritex of such rights and remedies.

For additional information regarding defaults under our secured loan agreements and their potential effects on our business, financial condition, and results of operations, see “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Part II and the notes to our financial statements in “Part II, Item 8. Financial Statements and Supplementary Data.”

Our ability to use net operating loss (“NOL”) carryforwards to offset future taxable income for U.S. federal income tax purposes is subject to limitation.

Under Section 382 of the Internal Revenue Code of 1986, as amended (“IRC Section 382”), a corporation that undergoes an “ownership change” is subject to limitations on its ability to utilize its pre-change NOL carryforwards to offset future taxable income. Within the meaning of IRC Section 382, an “ownership change” occurs when the aggregate stock ownership of certain stockholders (generally 5% shareholders, applying certain look-through rules) increases by more than 50 percentage points over such stockholders' lowest percentage ownership during the testing period (generally three years).

Blue Dolphin experienced ownership changes in 2005 because of a series of private placements, and in 2012 because of a reverse acquisition. The 2012 ownership change limits our ability to utilize NOLs following the 2005 ownership change that were not previously subject to limitation. Limitations imposed on our ability to use NOLs to offset future taxable income could cause U.S. federal income taxes to be paid earlier than otherwise would be paid if such limitations were not in effect, and could cause such NOLs to expire unused, in each case reducing or eliminating the benefit of such NOLs. Similar rules and limitations may apply for state income tax purposes. NOLs generated after the 2012 ownership change are not subject to limitation.

At December 31, 2017 and 2016, management determined that cumulative losses incurred over the prior three-year period provided significant objective evidence that limited the ability to consider other subjective evidence, such as projections for future growth. Based on this evaluation, we recorded a full valuation allowance against the deferred tax assets as of December 31, 2017 and 2016.

Terrorist attacks, cyber-attacks, threats of war, or actual war may negatively affect our operations, financial condition, results of operations, and cash flows.

Energy-related assets in the U.S. may be at a greater risk for future terrorist attacks than other potential targets. A direct attack on our assets or assets used by us could have a material adverse effect on our operations, financial condition, results of operations, and cash flows. In addition, any terrorist attack in the U.S. could have an adverse impact on energy prices, including prices for crude oil and refined petroleum products, and refining margins. Disruption or significant increases in energy prices could result in government-imposed price controls. While we currently maintain some insurance that provides coverage against terrorist attacks, such insurance has become increasingly expensive and difficult to obtain. As a result, insurance providers may not continue to offer this coverage to us on terms that we consider affordable, or at all.

Our operations are dependent on our technology infrastructure, which includes a data network, telecommunications system, internet access, and various computer hardware equipment and software applications. Our technology infrastructure is subject to damage or interruption from several potential sources, including natural disasters, software viruses or other malware, power failures, cyber-attacks, and/or other events. To the extent that our technology infrastructure is under our control, we have implemented measures such as virus protection software and emergency recovery processes to address identified risks. However, there can be no assurance that a security breach or cyber-attack will not compromise confidential, business critical information, cause a disruption in our operations, or harm our reputation, any of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Risks Related to Our Refining Operations

Management has determined that there is, and the report of our independent registered public accounting firm expresses, substantial doubt about our ability to continue as a going concern.

Our auditors, UHY LLP, have indicated in their report on our financial statements for the year ended December 31, 2017, that conditions exist that raise substantial doubt about our ability to continue as a going concern due to the Final Arbitration Award, defaults in secured loan agreements, recurring losses from operations, and the substantial decline in working capital. A "going concern" opinion could impair our ability to finance our operations through the sale of equity, incurring debt, or other financing alternatives. Our ability to continue as a going concern will depend upon reaching a settlement agreement with GEL related to the Final Arbitration Award, sustained positive operating margins, and financing at commercially reasonable terms for working capital to operate the Nixon Facility, purchase crude oil and condensate, and fund capital expenditures. If we are unable to achieve these goals, our business would be jeopardized, and we may not be able to continue.

Refining margins are volatile, and a reduction in refining margins will adversely affect the amount of cash we will have available for working capital.

Historically, refining margins have been volatile, and they are likely to continue to be volatile in the future. Our financial results are primarily affected by the relationship, or margin, between our refined petroleum product sales prices and our crude oil and condensate costs. Our crude oil and condensate acquisition costs and the prices at which we can ultimately sell our refined petroleum products depend upon numerous factors beyond our control. The prices at which we sell refined petroleum products are strongly influenced by the commodity price of crude oil. If crude oil prices increase, our "refinery operations" business segment margins will fall unless we can pass along these price increases to our wholesale customers. Increases in the selling prices for refined petroleum products typically trail the rising cost of crude oil and may be difficult to implement when crude oil costs increase dramatically over a short period.

The price volatility of crude oil, other feedstocks, refined petroleum products, and fuel and utility services may have a material adverse effect on our earnings, cash flows and liquidity.

Our refining earnings, cash flows and liquidity from operations depend primarily on the margin above operating expenses (including the cost of refinery feedstocks, such as crude oil and condensate that are processed and blended into refined petroleum products) at which we can sell refined petroleum products. Crude oil refining is primarily a margin-based business. To improve margins, it is important for a crude oil refinery to maximize the yields of high value finished petroleum produces and to minimize the costs of feedstocks and operating expenses. When the margin between refined petroleum product prices and crude oil and other feedstock costs decreases, our margins are negatively affected. Crude oil refining margins have historically been volatile, and are likely to continue to be volatile, because of a variety of factors, including fluctuations in the prices of crude oil, other feedstocks, refined petroleum products, and fuel and utility services. Although an increase or decrease in the price for crude oil generally results in a similar increase or decrease in prices for refined petroleum products, typically there is a time lag between the comparable increase or decrease in prices for refined petroleum products. The effect of changes in crude oil and condensate prices on our refining margins therefore depends, in part, on how quickly and how fully refined petroleum product prices adjust to reflect these changes.

Prices of crude oil, other feedstocks and refined petroleum products depend on numerous factors beyond our control, including the supply of and demand for crude oil, other feedstocks, and refined petroleum products. Such supply and demand are affected by, among other things:

changes in foreign, domestic, and local economic conditions;

foreign and domestic demand for fuel products;

worldwide political conditions, particularly in significant oil producing regions;

foreign and domestic production levels of crude oil, other feedstocks, and refined petroleum products and the volume of crude oil, feedstocks, and refined petroleum products imported into the U.S.;

25

availability of and access to transportation infrastructure;

capacity utilization rates of refineries in the U.S.;

Organization of Petroleum Exporting Countries' influence on oil prices;

development and marketing of alternative and competing fuels;

commodities speculation;

natural disasters (such as hurricanes and tornadoes), accidents, interruptions in transportation, inclement weather or other events that can cause unscheduled shutdowns or otherwise adversely affect our refineries;

federal and state governmental regulations and taxes; and

local factors, including market conditions, weather conditions and the level of operations of other refineries and pipelines in our markets.

Our future success depends on our ability to acquire sufficient levels of crude oil on favorable terms to operate the Nixon Facility.

Operation of the Nixon Facility depends on our ability to purchase adequate crude supplies on favorable terms. Following the cessation of crude supplies under the Crude Supply Agreement with GEL, we put in place a month-to-month evergreen crude supply contract with a major integrated oil and gas company. This supplier currently provides us with adequate amounts of crude oil and condensate and having crude supply continuity has boosted our customers' confidence in our performance ability and enabled us to slowly rebuild counter-party relationships. However, we are currently evaluating the effects of the Final Arbitration Award on our business, financial condition, and results of operations. In addition to the matters described above, the Final Arbitration Award could materially and adversely affect our ability to procure adequate amounts of crude oil and condensate and our relationships with our customers.

We are pursuing alternative sources to finance crude oil and condensate acquisition costs, including commodity sale and repurchase programs, inventory financing, debt financing, equity financing, or other means. We may not be successful in consummating suitable financing transactions in the time required or at all, securing financing on terms favorable to us, or obtaining crude oil and condensate at the levels needed to earn a profit and/or safely operate the Nixon Facility, any of which could adversely affect our business, results of operations and financial condition.

Downtime at the Nixon Facility could result in lost margin opportunity, increased maintenance expense, increased inventory, and a reduction in cash available for payment of our obligations.

The safe and reliable operation of the Nixon Facility is key to our financial performance and results of operations, and we are particularly vulnerable to disruptions in our operations because all our refining operations are conducted at a single facility. Although operating at anticipated levels, the Nixon Facility is still in a recommissioning phase and may require unscheduled downtime for unanticipated reasons, including maintenance and repairs, voluntary regulatory compliance measures, or cessation or suspension by regulatory authorities. Occasionally, the Nixon Facility experiences a temporary shutdown due to power outages because of high winds and thunderstorms. In the case of such a shutdown, the refinery must initiate a standard start-up process, and such process can last several days although we are typically able to resume normal operations the next day. Any scheduled or unscheduled downtime may result in lost margin opportunity, increased maintenance expense and a build-up of refined petroleum products inventory, which could reduce our ability to meet our payment obligations.

For the year ended December 31, 2017, the Nixon Facility operated for a total of 348 days, reflecting 17 days of refinery downtime. For the year ended December 31, 2016, the Nixon Facility operated for a total of 291 days, reflecting 75 days of refinery downtime. The significant amount of refinery downtime during 2016 was primarily the result of significant under-delivery of crude oil and condensate by GEL, which resulted in 59 of the 75 days of refinery downtime. (See “Part I, Item 3. Legal Proceedings” and “Part II, Item 8. Financial Statements and Supplementary Data – Note (19) Commitments and Contingencies – Legal Matters” for disclosures related to the GEL contract-related dispute and Final Arbitration Award.)

We may have capital needs for which our internally generated cash flows and other sources of liquidity may not be adequate. Further, LEH and its affiliates (including Jonathan Carroll) may, but are not required to, fund our working capital requirements in the event our internally generated cash flows and other sources of liquidity are inadequate.

If we are unable to generate sufficient cash flows or otherwise secure sufficient liquidity to support our short-term and long-term capital requirements, we may not be able to meet our payment obligations or pursue our business strategies, any of which could have a material adverse effect on our results of operations or liquidity. Currently, we rely on revenue from operations, including sales of refined petroleum products and rental of petroleum storage tanks, LEH and its affiliates (including Jonathan Carroll), and borrowings under bank facilities to meet our liquidity needs. At December 31, 2017 and 2016, accounts payable, related party was $974,400 and $369,600, respectively.

In the event our working capital requirements are inadequate, or we are otherwise unable to secure sufficient liquidity to support our short term and/or long-term capital requirements, we may not be able to meet our payment obligations, comply with certain deadlines related to environmental regulations and standards, or pursue our business strategies, any of which may have a material adverse effect on our results of operations or liquidity. Our short-term working capital needs are primarily related to acquisition of crude oil and condensate to operate the Nixon Facility, repayment of debt obligations, and capital expenditures for maintenance, upgrades, and refurbishment of equipment at the Nixon Facility. Our long-term working capital needs are primarily related to repayment of long-term debt obligations. Our liquidity will affect our ability to satisfy all these needs.

Our business may suffer if any of the executive officers or other key personnel discontinue employment with us. Furthermore, a shortage of skilled labor or disruptions in our labor force may make it difficult for us to maintain productivity.

Our future success depends on the services of the executive officers and other key personnel and on our continuing ability to recruit, train and retain highly qualified personnel in all areas of our operations. Furthermore, our operations require skilled and experienced personnel with proficiency in multiple tasks. Competition for skilled personnel with industry-specific experience is intense, and the loss of these executives or personnel could harm our business. If any of these executives or other key personnel resign or become unable to continue in their present roles and are not adequately replaced, our business could be materially adversely affected.

Loss of market share by a key customer or consolidation among our customer base that could harm our operating results.

For the year ended December 31, 2017, we had 3 customers that accounted for approximately 70% of our refined petroleum product sales. LEH was 1 of these 3 significant customers and accounted for approximately 33% of our refined petroleum product sales. At December 31, 2017, these 3 customers represented approximately $1.3 million in accounts receivable. LEH represented approximately $0.7 million in accounts receivable. LEH, which is HUBZone certified, purchases our jet fuel and resells the jet fuel to a government agency. (See “Part I, Item 1. Business – Management” and “Part II, Item 8. Financial Statements and Supplementary Data – Note (8) Related Party Transactions, Note (10) Long-Term Debt, Net, and Note (19) Commitments and Contingencies – Financing Agreements” for additional disclosures related to LEH.)

For the year ended December 31, 2016, we had 4 customers that accounted for approximately 67% of our refined petroleum product sales. LEH was one of these 4 significant customers and accounted for approximately 27% of our refined petroleum product sales. At December 31, 2016, these 4 customers represented approximately $1.6 million in accounts receivable. LEH represented approximately $1.6 million in accounts receivable.

Our customers have a variety of suppliers to choose from and therefore can make substantial demands on us, including demands on product pricing and on contractual terms, which often results in the allocation of risk to us as the supplier. Our ability to maintain strong relationships with our principal customers is essential to our future performance. Our operating results could be harmed if a key customer is lost, reduces their order quantity, requires us to reduce our prices, is acquired by a competitor, or suffers financial hardship.

Additionally, our profitability could be adversely affected if there is consolidation among our customer base and our customers command increased leverage in negotiating prices and other terms of sale. We could decide not to sell our refined petroleum products to a certain customer if, because of increased leverage, the customer pressures us to reduce our pricing such that our gross profits are diminished, which could result in a decrease in our revenue. Consolidation may also lead to reduced demand for our products, replacement of our products by the combined entity with those of our competitors, and cancellations of orders, each of which could harm our operating results.

The sale of refined petroleum products to the wholesale market is our primary business, and if we fail to maintain and grow the market share of our refined petroleum products, our operating results could suffer.

Our success in the wholesale market depends in large part on our ability to maintain and grow our image and reputation as a reliable operator and to expand into and gain market acceptance of our refined petroleum products. Adverse perceptions of product quality, whether justified, or allegations of product quality issues, even if false or unfounded, could tarnish our reputation and cause our wholesale customers to choose refined petroleum products offered by our competitors.

We are dependent on third-parties for the transportation of crude oil and condensate into and refined petroleum products out of our Nixon Facility, and if these third-parties become unavailable to us, our ability to process crude oil and condensate and sell refined petroleum products to wholesale markets could be materially and adversely affected.

We rely on trucks for the receipt of crude oil and condensate into and the sale of refined petroleum products out of our Nixon Facility. Since we do not own or operate any of these trucks, their continuing operation is not within our control. If any of the third-party trucking companies that we use, or the trucking industry in general, become unavailable to transport crude oil, condensate, and/or our refined petroleum products because of acts of God, accidents, government regulation, terrorism or other events, our revenue and net income would be materially and adversely affected.

Our suppliers source a substantial amount, if not all, of our crude oil and condensate from the Eagle Ford Shale and may experience interruptions of supply from that region.

Our suppliers source a substantial amount, if not all, of our crude oil and condensate from the Eagle Ford Shale. Consequently, we may be disproportionately exposed to the impact of delays or interruptions of supply from that region caused by transportation capacity constraints, curtailment of production, unavailability of equipment, facilities, personnel or services, significant governmental regulation, natural disasters, adverse weather conditions, plant closures for scheduled maintenance or interruption of transportation of oil or natural gas produced from the wells in that area.

Our refining operations and customers are primarily located within the Eagle Ford Shale and changes in the supply/demand balance in this region could result in lower refining margins.

Our primary operating asset, the Nixon Facility, is in the Eagle Ford Shale and we market our refined petroleum products in a single, relatively limited geographic area. Therefore, we are more susceptible to regional economic conditions than our more geographically diversified competitors. Should the supply/demand balance shift in our region due to changes in the local economy, an increase in refining capacity or other reasons, resulting in supply in the PADD 3 (Gulf Coast) region to exceed demand, we would have to deliver refined petroleum products to customers outside of our current operating region and thus incur considerably higher transportation costs, resulting in lower refining margins.

Regulation of GHG emissions could increase our operational costs and reduce demand for our products.

Continued political focus on climate change, human activities contributing to the release of large amounts of carbon dioxide and other GHGs into the atmosphere, and potential mitigation through regulation could have a material impact on our operations and financial results. International agreements and federal, state and local regulatory measures to limit GHG emissions are currently in various stages of discussion and implementation. These and other GHG emissions-related laws, policies, and regulations may result in substantial capital, compliance, operating, and maintenance costs. The level of expenditure required to comply with these laws and regulations is uncertain and is expected to vary depending on the laws enacted in each jurisdiction, our activities in the particular jurisdiction, and market conditions. The effect of regulation on our financial performance will depend on many factors including, among others, the sectors covered, the GHG emissions reductions required by law, the extent to which we would be entitled to receive emission allowance allocations, our ability to acquire compliance related equipment, the price and availability of emission allowances and credits, and our ability to recover incurred regulatory compliance costs through the pricing of our products. Material price increases or incentives to conserve or use alternative energy sources could also reduce demand for products we currently sell and adversely affect our sales volumes, revenues and margins.

Risks Related to Our Pipelines and Oil and Gas Properties

Requests by the BOEM to increase bonds or other sureties to maintain compliance with the BOEM's regulations could significantly impact our liquidity and financial condition.

To cover the various obligations of lessees on the Outer Continental Shelf, such as the cost to plug and abandon wells and decommission and remove platforms and pipelines at the end of production, the BOEM generally requires that lessees demonstrate financial strength and reliability per regulations or post bonds or other acceptable assurances that such obligations will be satisfied.

The BOEM requested that BDPL provide additional supplemental bonds or acceptable financial assurance of approximately $4.6 million related to five (5) existing pipeline rights-of-way. At December 31, 2017 and 2016, BDPL maintained approximately $0.9 million in credit and cash-backed pipeline rights-of-way bonds issued to the BOEM. Of the five (5) existing pipeline rights-of-ways related to BOEM's request, the pipeline associated with one (1) right-of-way was decommissioned in 1997. The BSEE approved BDPL permit requests to decommission in place the pipelines for three (3) of these rights-of-way. As a result, management is seeking a reduction in the amount of BOEM's request for additional financial assurance. There can be no assurance that the BOEM will accept a reduced amount of supplemental financial assurance or not require additional supplemental pipeline bonds related to our existing pipeline rights-of-way. If BDPL is required by the BOEM to provide significant additional supplemental bonds or acceptable financial assurance, we may experience a significant and material adverse effect on our operations, liquidity, and financial condition.

More stringent requirements imposed by the BOEM and the BSEE related to the decommissioning, plugging, and abandonment of wells, platforms, and pipelines could materially increase our estimate of future AROs.

The BOEM has established a more stringent regimen for the timely decommissioning of what is known as "idle iron" – wells, platforms, and pipelines that are no longer producing or serving exploration or support functions related to an operator's lease. Any well that has not been used during the past five years for exploration or production on active leases and is no longer capable of producing in paying quantities must be permanently plugged or temporarily abandoned within three years. Plugging or abandonment of wells may be delayed by two years if all the well's hydrocarbon and sulfur zones are appropriately isolated. Similarly, platforms or other facilities which are no longer useful for operations must be removed within five years of the cessation of operations. The triggering of these plugging, abandonment, and removal activities under what may be viewed as an accelerated schedule in comparison to historical decommissioning efforts could cause an increase, perhaps materially, in our future plugging, abandonment, and removal costs, which may translate into a need to increase our estimate of future AROs.

Although management has used its best efforts to determine future AROs, assumptions and estimates can be influenced by many factors beyond management's control. Such factors include, but are not limited to, changes in regulatory requirements, changes in costs for abandonment related services and technologies, which could increase or decrease based on supply and demand, and/or extreme weather conditions, such as hurricanes, which may cause structural or other damage to pipeline and related assets and oil and gas properties. At December 31, 2017 and 2016, our estimated future asset retirement obligations were approximately $2.3 million. See "Part II, Item 8. Financial Statements and Supplementary Data – Note (11) Asset Retirement Obligations" of this Annual Report for additional information regarding asset retirement obligations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

BLUE DOLPHIN ENERGY COMPANY FORM 10-K 12/31/17

ITEM 2. PROPERTIES

LEH manages and operates all Blue dolphin properties pursuant to the Amended and Restated Operating Agreement. Management believes that our properties are generally adequate for our operations and are maintained in a good state of repair in the ordinary course of business. Following is a summary of our principal facilities and assets:

Property	Operating Subsidiary	Owned / Leased	Location
Refinery Operations			
Nixon Facility (56 acres)	LE, LRM	owned	Nixon, Texas
Corporate and Other			
Freeport Facility (162 acres)	BDPL	owned	Freeport, Texas
Pipelines and oil and gas working interests in wells	BDPL, BDPC	Owned and leasehold interests	Gulf of Mexico
Corporate headquarters	BDSC	leased	Houston, Texas

Nixon Facility. See “Part I, Item 1. Business – Company Overview and Refinery Operations” for a description of the Nixon Facility. The Nixon Facility is pledged as collateral under certain of our long-term debt as discussed in “Part II, Item 8. Financial Statements and Supplementary Data – Note (10) Long-Term Debt, Net”.

Freeport Facility. The Freeport Facility includes pipeline easements and rights-of-way, crude oil and natural gas separation and dehydration facilities, a vapor recovery unit and two onshore pipelines. The two onshore pipelines consist of approximately 4 miles of the 20-inch Blue Dolphin Pipeline and a 16-inch natural gas pipeline that connects the Freeport Facility to the Dow Chemical Plant Complex in Freeport, Texas. In February 2017, BDPL sold approximately 15 acres of property located in Brazoria County, Texas to FLIQ Common Facilities, LLC, an affiliate of FLNG.

Pipelines and Oil and Gas Assets. The following provides a summary of our pipeline and oil and gas assets, all of which are in the Gulf of Mexico:

Pipeline	Ownership	Miles	Natural Gas Capacity (MMcf/d)
Blue Dolphin Pipeline(1)	100%	38	180
GA 350 Pipeline(1)	100%	13	65
Omega Pipeline(2)	100%	18	110

(1)
Currently inactive.
(2)
Currently abandoned in place.

Blue Dolphin Pipeline – The Blue Dolphin Pipeline consists of 16-inch and 20-inch offshore pipeline segments, including a trunk line and lateral lines, that run from an offshore anchor platform in Galveston Area Block 288 to our Freeport Facility;

GA 350 Pipeline – The GA 350 Pipeline is an 8-inch offshore pipeline extending from Galveston Area Block 350 to a subsea interconnect and tie-in with a transmission pipeline in Galveston Area Block 391; and

Omega Pipeline – The Omega Pipeline is a 12-inch offshore pipeline that originates in the High Island Area, East Addition Block A-173 and extends to West Cameron Block 342, where it was previously connected to the High Island Offshore System.

Management performed periodic impairment testing of our pipeline and facilities assets in the fourth quarter of 2016. Upon completion of that testing, we recorded an impairment expense of $968,684 related to our pipeline assets at December 31, 2016. All pipeline transportation services to third-parties have ceased, existing third-party wells along our pipeline corridor have been permanently abandoned, and no new third-party wells are being drilled near our pipelines. However, management believes our pipeline assets have future value based on large-scale, third-party production facility expansion projects near the pipelines.

Oil and gas properties include a 2.5% working interest and a 2.008% net revenue interest in High Island Block 115, a 0.5% overriding royalty interest in Galveston Area Block 321, and a 2.88% working interest and 2.246% net revenue interest in High Island Block 37. Our oil and gas properties had no production during the years ended December 31, 2017 and 2016, and all leases associated with our oil and gas properties have expired. Accordingly, our oil and gas properties were fully impaired in 2011.

Corporate Headquarters. We lease 7,675 square feet of office space in Houston, Texas. Our office lease is discussed more fully in “Part II, Item 8. Financial Statements and Supplementary Data – Note (15) Leases” of this Annual Report.

ITEM 3. LEGAL PROCEEDINGS

GEL Contract-Related Dispute and Final Arbitration Award

As previously disclosed, LE was involved in the GEL Arbitration with GEL, an affiliate of Genesis, related to a contractual dispute involving the Crude Supply Agreement and the Joint Marketing Agreement, each between LE and GEL and dated August 12, 2011. On August 11, 2017, the arbitrator delivered the Final Arbitration Award. The Final Arbitration Award denied all LE’s claims against GEL and granted substantially all the relief requested by GEL in its counterclaims. Among other matters, the Final Arbitration Award awarded damages and GEL’s attorneys’ fees and related expenses to GEL in the aggregate amount of approximately $31.3 million.

As previously disclosed, a hearing on confirmation of the Final Arbitration Award was scheduled to occur on September 18, 2017 in state district court in Harris County, Texas. Prior to the scheduled hearing, LE and GEL jointly notified the court that the hearing would be continued for the Continuance Period to facilitate settlement discussions between the parties. On September 26, 2017, LE and Blue Dolphin, together with LEH and Jonathan Carroll, entered into the GEL Letter Agreement, confirming the parties’ agreement to the continuation of the confirmation hearing during the Continuance Period, subject to the terms of the GEL Letter Agreement.

The GEL Letter Agreement has been amended to extend the Continuance Period through April 30, 2018. The GEL Letter Agreement, as amended to date, prohibits Blue Dolphin and its affiliates from making any pre-payments on indebtedness, other than in the ordinary course of business as described in the GEL Letter Agreement, and from making any payments to Jonathan Carroll under the Amended and Restated Guaranty Fee Agreements between November 1, 2017 and the end of the Continuance Period. (Jonathan Carroll has received no cash payments since August 2016 and no common stock payments since May 2017 under the Amended and Restated Guaranty Fee Agreements.) If the parties are unable to reach an acceptable settlement with Genesis and GEL, and GEL seeks to confirm and enforce the Final Arbitration Award against LE, our business, financial condition, and results of operations will be materially affected, and LE would likely be required to seek protection under bankruptcy laws.

Other Legal Matters

From time to time we are involved in routine lawsuits, claims, and proceedings incidental to the conduct of our business, including mechanic’s liens and administrative proceedings. Management does not believe that such matters will have a material adverse effect on our financial position, earnings, or cash flows.

ITEM 4. MINE AND SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANTS COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our Common Stock currently trades on the OTCQX U.S. tier of the OTC Markets under the ticker symbol “BDCO." The following table sets forth, for the periods indicated, the high and low bid prices for our Common Stock as reported by the OTC Markets. The quotations reflect inter-dealer prices, without adjustment for retail mark-ups, markdowns or commissions and may not represent actual transactions.

Quarter Ended	High	Low
2017		
December 31	$0.90	$0.06
September 30	$1.77	$0.02
June 30	$2.75	$