BLUE DOLPHIN ENERGY CO
Form 10QSB
May 15, 2003

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

FORM 10-QSB

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended: March 31, 2003

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ....to ....

Commission File Number: 0-15905

BLUE DOLPHIN ENERGY COMPANY
(Exact name of small business issuer as specified in its charter)

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

(713) 227-7660
(Issuer's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.

YES [ ] NO [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

6,635,150 shares of the registrants' common stock, par value $.01 per share, were outstanding at May 12, 2003.

Transitional Small Business Disclosure Format (Check one): Yes [ ] No [X]

March 31, 2003
BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The condensed consolidated financial statements of Blue Dolphin Energy Company and subsidiaries (the "Company" or "Blue Dolphin") included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and, in the opinion of management, reflect all adjustments necessary to present a fair statement of operations, financial position and cash flows. The Company follows the full-cost method of accounting for oil and gas properties, wherein costs incurred in the acquisition, exploration and development of oil and gas reserves are capitalized. The Company believes that the disclosures are adequate and the information presented is not misleading, although certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations.

The accompanying condensed consolidated financial statements of the Company should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2002.

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BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET - UNAUDITED

March 31, 2003

ASSETS

Current assets:	
Cash and cash equivalents	$ 4,182,202
Accounts receivable	509,914
Prepaid expenses and other assets	252,254
TOTAL CURRENT ASSETS	4,944,370
Property and Equipment at cost:	
Oil and Gas properties, including $107,571 of unproved leasehold cost (full-cost method)	21,920,318
Pipelines	4,717,697
Onshore separation and handling facilities	1,664,128
Land	860,275
Other property and equipment	278,402
	29,440,820
Less: Accumulated depletion, depreciation and amortization	23,428,772
	6,012,048
Deferred federal income tax	244,444
Investment in New Avoca	610,714
Other assets	15,415
TOTAL ASSETS	$ 11,826,991

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:	
Trade accounts payable	$ 396,839
Asset retirement obligations, current portion	2,475,528
Accrued expenses and other liabilities	85,702
TOTAL CURRENT LIABILITIES	2,958,069
Note payable	750,000
Asset retirement obligations, net of current portion	2,730,350
Common Stock, ($.01 par value, 10,000,000 shares authorized,	

6,635,150 shares issued and outstanding)	66,352
Additional Paid-in Capital	26,258,535
Accumulated Deficit	(20,936,315)
	5,388,572
TOTAL LIABILITES AND STOCKHOLDERS' EQUITY	$ 11,826,991

See accompanying notes to the condensed consolidated financial statements.

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - UNAUDITED

	Three Months Ended March 31, 2003	200
Revenue from operations:		
Pipeline operations	$ 246,668	$ 32
Oil and gas sales	74,306	57
	320,974	90
Cost of operations:		
Pipeline operating expenses	193,394	14
Lease operating expenses	12,060	21
Depletion, depreciation, amortization and abandonment	89,048	28
Impairment of assets	--	33
General and administrative	482,706	58
Accretion expense	21,729	
	798,937	1,57
LOSS FROM OPERATIONS	(477,963)	(66
Other income (expense):		
Interest and other expense	(12,692)	(1
Interest and other income	134,600	1
Bad debt expense	--	(19
LOSS BEFORE MINORITY INTEREST AND INCOME TAXES	(356,055)	(86

Minority interest	--	(5
Income taxes	--	
LOSS BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	(356,055)	(92
Cumulative effect of a change in accounting principle for asset retirement obligations	(40,455)	
Net loss	$ (396,510)	$ (92
Loss per common share before cumulative effect of a change in accounting principle - basic and diluted	$ (0.05)	$
Cumulative effect of a change in accounting principle - basic and diluted	$ (0.01)	$
Loss per common share - basic and diluted	$ (0.06)	$
Weighted average number of common shares outstanding - basic and diluted	6,611,982	6,21

See accompanying notes to the condensed consolidated financial statements.

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BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

	Three Mon Ended Marc 2003
OPERATING ACTIVITIES	
Net loss	$ (396,510)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depletion, depreciation, amortization, abandonment	89,048
Change in accounting principle	40,455
Accretion of asset retirement obligations	21,729
Minority interest	--
Impairment of assets	--
Bad debt expense	--
Common stock issued for services	19,722
Changes in operating assets and liabilities:	
Accounts receivable	5,378
Prepaid expenses and other assets	41,938
Abandonment costs incurred	(64,472)
Trade accounts payable and accrued expenses	50,044
NET CASH USED IN OPERATING ACTIVITIES	(192,668)
INVESTING ACTIVITIES	

Purchases of property and equipment	(5,721)
Exploration and development costs	--
Purchase of minority interest from subsidiary	--
Development costs - New Avoca	(25,085)
NET CASH USED IN INVESTING ACTIVITIES	(30,806)
FINANCING ACTIVITIES	--
DECREASE IN CASH AND CASH EQUIVALENTS	(223,474)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	4,405,676
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 4,182,202
NON CASH INVESTING AND FINANCING ACTIVITIES:	
Purchases of property and equipment financed with debt	$ --

See accompanying notes to the condensed consolidated financial statements

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BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED
MARCH 31, 2003

1. Liquidity

At March 31, 2003, the Company's working capital was approximately $2.0 million. During the third and fourth quarters of 2002, the Company received approximately $5.0 million from the sale of proved oil and gas properties from two separate transactions. As a result, the Company believes that it has sufficient cash to meet its working capital and capital expenditure requirements through March 2004. Historically, the Company has relied on the proceeds from the sale of assets and capital raised from the issuance of debt and equity securities to individual investors and related parties to sustain its operations.

2. Related Party Transactions

The Company currently owns a 12.8% common stock ownership interest in Drillmar, Inc. ("Drillmar"). Ivar Siem, Chairman of the Company, and Harris A. Kaffie and James M. Trimble, Directors of the Company, are owners of 30.3%, 30.6% and 6.6%, respectively, of Drillmar's common stock. Messrs. Siem and Kaffie are both Directors, and Mr. Siem is Chairman and President of Drillmar.

Effective April 1, 2003, the Company entered into a sublease agreement expiring December 31, 2006 for certain of its office space with Tri-Union Development Corporation. The Company's 2003 receipts from this sublease will be approximately $55,600, and thereafter will be approximately $78,500 annually. Mr. James M. Trimble, Director of the Company, is the Chairman and Chief Executive Officer of Tri-Union.

3. Contingencies

During the operations of removing the Buccaneer Field platform complexes in 2001, discussions were initiated with the Texas Parks and Wildlife Department ("TPW") in an effort to leave certain of the underwater portions of the platform complexes in place as artificial reefs. On January 3, 2003, the Company and TPW executed deeds of donation for both of the Company's platform complexes in the Buccaneer Field, whereby the Company will leave certain of the underwater portions of the platforms in place as artificial reefs and donate them to the TPW, along with cash of $390,000, of which $350,000 represents half of the site clearance work that will be eliminated (which the TPW required) and $40,000 represents the cost of buoys to mark the reef sites. The Company requested and has received an extension from the United States Minerals Management Service ("MMS") until August 31, 2003 to complete the abandonment/reefing operations. The work to complete the abandonment/reefing is expected to begin in late second quarter or early third quarter 2003. The Company believes that its provision for the Buccaneer Field abandonment costs of approximately $3.7 million at March 31, 2003 is adequate.

The Company is involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material effect on the Company's financial position, results of operations or cash flows.

4. Change in Accounting Principle

In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 143 ("SFAS 143"), "Accounting for Asset Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the asset.

SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. If the obligation is settled for other than the carrying amount of the liability, the Company will recognize a gain or loss on settlement.

SFAS 143 amended Statement of Financial Accounting Standards No. 19, Financial Accounting and Reporting by Oil and Gas Producing Companies ("SFAS 19") to require that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. Under the provisions of SFAS 143, asset retirement obligations are capitalized as part of the carrying value of the long-lived asset. Under the provisions of SFAS 19, asset retirement obligations were recognized using a cost-accumulation approach. Prior to the adoption of SFAS 143, the Company recorded asset retirement obligations through the unit-of-production method for oil and gas properties, and the straight line method for pipelines and related facilities.

The adoption of SFAS 143 resulted in a January 1, 2003 cumulative effect adjustment to record (i) a $1.0 million increase in the carrying values of pipelines, (ii) a $ .4 million decrease in accumulated depreciation, depletion, and amortization of property, plant and equipment, and (iii) a $1.4 million increase in non-current abandonment liabilities. The net impact of items (i) through (iii) was to record an expense of $40 thousand, net of tax, as a cumulative effect adjustment of a change in accounting principle in the Company's consolidated statement of operations upon adoption on January 1, 2003.

The following pro forma data summarizes the Company's net loss and net loss per share as if the Company had adopted the provisions of SFAS 143 on January 1, 2002, including an associated pro forma asset retirement obligation on that date of $1.0 million:

	Three months ended March 31, 2003	Three months ended March 31, 2002
	(in thousands, except per share amounts)	
Net loss, as reported	$ (397)	$ (923)
Pro forma adjustments to reflect retroactive adoption of SFAS 143	41	4
Pro forma net loss	$ (356)	$ (919)
Net loss per share:		
Basic - as reported	$ (.06)	$ (.15)
Basic - pro forma	$ (.05)	$ (.15)
Diluted - as reported	$ (.06)	$ (.15)
Diluted- pro forma	$ (.05)	$ (.15)

5. Asset Retirement Obligations

The Company has asset retirement obligations associated with its Buccaneer Field offshore platforms and the future abandonment of pipelines and related facilities. The following table summarizes the Company's asset retirement obligation transactions recorded in accordance with the provisions of SFAS 143 during the three months ended March 31, 2003 and in accordance with the provisions of SFAS 19 during the three months ended March 31, 2002.

	Three months ended March 31, 2003	Three months ended March 31, 2002
	(in thousands)	
Beginning asset retirement obligation	$ 3,800	$ 4,600
Cumulative effect adjustment	401	--
Liabilities incurred during period ..	1,047	--
Liabilities settled during period ...	(64)	--
Accretion expense	22	--
Ending asset retirement obligation ...	$ 5,206	$ 4,600

6. Earnings Per Share

The Company applies the provisions of Statement of Financial Accounting Standards No. 128 ("SFAS 128"), "Earnings per Share." SFAS 128 requires the presentation of basic earnings per share ("EPS") which excludes dilution and is computed by dividing net income (loss) available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. SFAS 128 requires dual presentation of basic EPS and diluted EPS on the face of the income statement and requires a reconciliation of the numerators and denominators of basic EPS and diluted EPS.

The employee stock options at March 31, 2003 and 2002, were not included in the computation of diluted earnings per share because the effect of their assumed exercise and conversion would have an antidilutive effect on the computation of diluted loss per share on the loss before the cumulative effect of a change in accounting principle.

7. Business Segment Information

The Company's income producing operations are conducted in two principal business segments: oil and gas exploration and production, and pipeline operations. There were no intersegment revenues during the periods presented. Information concerning these segments for the quarters ended March 31, 2003 and 2002, and at March 31, 2003 are as follows:

	Revenues (3)	Operating Income (Loss)(1)	Ab I

Quarter ended March 31, 2003:			
Oil and gas exploration and production	$	74,306	(12,864)
Pipeline operations		246,668	(301,772)
Other		--	(163,327)
Consolidated		320,974	(477,963)
Other income, net			121,908
Loss before minority interest and income taxes			(356,055)
Quarter ended March 31, 2002:			
Oil and gas exploration and production	$	578,269	(44,601)
Pipeline operations		329,297	34,408
Other		--	(658,770)
Consolidated		907,566	(668,963)
Other income, net			(198,702)
Loss before minority interest and income taxes			(867,665)

	March 31, 2003
Identifiable assets:	
Oil and gas exploration and production	$ 636,496
Pipeline operations	6,372,193
Other	4,818,302
Consolidated	$11,826,991

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BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED - Continued
MARCH 31, 2003

(1) Consolidated income (loss) from operations includes $158,256 and $313,431 in unallocated general and administrative expenses, and unallocated depletion, depreciation and amortization of $5,071 and $5,356 for the quarters ended March 31, 2003 and 2002, respectively.

(2) The Company recorded an impairment expense of $339,984 for the quarter ended March 31, 2002, of its investment in Drillmar.

8. Stock Based Compensation

The Company accounts for stock-based compensation granted under its long-term incentive plans using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Stock-based compensation expenses associated with option grants were not recognized in the net loss of the Company in the three months ended March 31, 2003 and 2002, as all options granted had exercise prices equal to the market value of the underlying common stock on the dates of grant.

The following table illustrates the effect on net loss and loss per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" to stock-based employee compensation:

	Three months ended March 31, 2003	Three months ended March 31, 2002
	(in thousands, except per share amounts)	
Net loss, as reported	$ (397)	$ (923)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	--	123
Pro forma net loss	$ (397)	$ (1,046)
Net loss per share:		
Basic - as reported	$ (.06)	$ (.15)
Basic - pro forma	$ (.06)	$ (.17)
Diluted - as reported	$ (.06)	$ (.15)
Diluted - pro forma	$ (.06)	$ (.17)

9. Recently Issued Accounting Pronouncements

In January 2003, the FASB issued FASB Interpretation No. (FIN) 46, Consolidation of Variable Interest Entities. This interpretation provides guidance on the identification of, and financial reporting for, variable interest entities. Variable interest entities are entities that lack the characteristics of a controlling financial interest or lack sufficient equity to finance its activities without additional subordinated financial support. FIN 46 requires a company to consolidate a variable interest entity if that company is obligated to absorb the majority of the entity's expected losses or entitled to receive the majority of the entity's residual returns, or both. FIN 46 also requires disclosures about variable interest entities that a company is not required to consolidate but in which it has a significant variable interest. FIN 46 is applicable immediately to variable interest entities created after January 31, 2003. For all variable interest entities created prior to February 1, 2003, FIN 46 is applicable to periods beginning after June 15, 2003. The Company is in the process of assessing the impact that FIN 46 will have on its consolidated financial statements.

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

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

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Forward Looking Statements. Certain of the statements included in this quarterly report on Form 10-QSB, including those regarding future financial performance or results or that are not historical facts, are "forward-looking" statements as that term is defined in Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. The words "expect", "plan", "believe", "anticipate", "project", "estimate", and similar expressions are intended to identify forward-looking statements. The Company cautions readers that any such statements are not guarantees of future performance or events and such statements involve risks and uncertainties that may cause actual results and outcomes to differ materially from those indicated in the forward-looking statements. Some of the important factors, risks and uncertainties that could cause actual results to vary from the forward-looking statements include:

- the risks associated with exploration;
- gas and oil price volatility;
- uncertainties in the estimation of proved reserves and in the projection of future rates of production and timing of development expenditures;
- the level of utilization of the Company's pipelines;
- availability and cost of capital;
- actions or inactions of third party operators for properties where the Company has an interest;
- regulatory developments; and

o general economic conditions.

Additional factors that could cause actual results to differ materially from those indicated in the forward-looking statements are discussed under the caption "Risk Factors" in the Company's Form 10-KSB for the fiscal year ended December 31, 2002. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof. The Company undertakes no duty to update these forward-looking statements. Readers are urged to carefully review and consider the various disclosures made by the Company which attempt to advise interested parties of the additional factors which may affect the Company's business, including the disclosures made under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report.

LIQUIDITY AND CAPITAL RESOURCES

The Company's future cash flows are subject to a number of variables, including receipt of revenues from leases in which the Company holds reversionary interests, utilization of its pipeline systems and commodity prices among others. The Company believes that it has sufficient liquidity at March 31, 2003 to meet its obligations and operating needs through the twelve month period ending March 31, 2004. However, there can be no assurance that operations and other capital resources will provide cash in sufficient amounts to maintain planned levels of expenditures. The net cash provided by or used in operating, investing and financing activities is summarized for the periods indicated below (amounts in thousands):

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

	Three Months Ended March 31,	
	2003	2002
Net cash used in:		
Operating activities	$ (192)	$ (303)
Investing activities	(31)	(695)
Financing activities	--	--
Net decrease in cash	$ (223)	$ (998)

During 2002, the Company sold substantially all of its interests in its oil and gas properties for approximately $5.0 million. The properties sold generated all of the Company's oil and gas sales revenues in 2002. As a result of the sale of the Company's proved oil and gas properties, the amount of future oil and gas sales revenues, lease operating expenses, depletion and capital expenditures associated with oil and gas production activities are expected to materially decrease and any subsequent changes will be dependent upon the success of the Company's exploratory properties, reversionary working interests and future acquisitions of oil and gas properties.

The Company owns an 8.9% reversionary working interest in High Island Area Block A-7, in the Gulf of Mexico, and will begin to receive revenues from its reversionary interest after "payout" occurs. Payout occurs after all of the other working interest owners have recovered their costs and expenses associated with developing the field from sales of gas and oil production from the field. Based on payout statements provided by the field operator, the Company believes that payout occurred at the end of April 2003, thus the Company expects to begin receiving oil and gas sales revenues and lease operating expense from this field in the quarter ending June 30, 2003.

Historically, the Company has relied on the proceeds from the sale of assets and capital raised from the issuance of debt and equity securities to individual investors and related parties to sustain its operations. At March 31, 2003, the Company's working capital was approximately $2.0 million. During the third and fourth quarters of 2002, the Company received approximately $5.0 million from the sale of substantially all of its proved oil and gas properties. In addition to using the sales proceeds to satisfy its working capital needs, the Company may also use the sales proceeds to finance future asset acquisitions, which may include other oil and gas properties. However, there can be no assurance that the Company will be able to acquire and develop additional economically recoverable oil and gas reserves.

The following table summarizes certain of the Company's contractual obligations and other commercial commitments at March 31, 2003 (amounts in thousands).

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

	Payments Due by Period				
Contractual Obligations	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
Long-Term Debt	$ 803	--	--	803	--
Operating Leases	458	136	237	85	
Abandonment - Costs	2,700	1,440	1,260	--	--
Total Contractual Obligations	$ 3,961	1,576	1,497	888	--

	Amount of Commitment Expiration Per Period				
Other Commercial Commitments	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
Abandonment - Costs	$ 2,506	1,036	--	--	1,470
Total Commercial Obligations	$ 2,506	1,036	--	--	1,470

The following table summarizes the Company's financial position for the periods indicated (amounts in thousands):

	March 31, 2003		December 31, 2002	
	Amount	%	Amount	%
Working Capital	$ 1,986	22	$ 2,243	29
Property and equipment, net	6,012	68	4,687	60
Other noncurrent assets	871	10	845	11
Total	$ 8,869	100	$ 7,775	100
Long-term Liabilities	$ 3,480	39	$ 2,010	26
Stockholders' equity	5,389	61	5,765	74
Total	$ 8,869	100	$ 7,775	100

The change in the Company's financial position from December 31, 2002 to March 31, 2003, was primarily due to the adoption of SFAS No. 143 (see Note 4. Change in Accounting Principle, in Part I, Item 1.)

In November 2000, the Company elected to abandon the Buccaneer Field due to adverse developments in the field. In August 2001, the Company reached an agreement with Tetra Applied Technologies, Inc. ("Tetra") to remove the Buccaneer Field platforms for a cost of approximately $2.6 million. Pursuant to the agreement, Tetra and the Company agreed to extended payment terms, whereby the Company will pay 20% upon completion of the reefing operations and 5% per month for twelve months, with the remaining balance due in the thirteenth month. To provide security for the extended payment terms, the Company provided Tetra with a first lien on the 50% interest it then owned in the Blue Dolphin Pipeline System. Operations to remove the platforms commenced in August 2001 and were suspended in December 2001, while the Company continued discussions with and was awaiting a decision from the Texas Parks and Wildlife Department ("TPW") to leave the underwater portion of the platforms in place as artificial reefs. Approval by the TPW was granted and Deeds of Donation executed by TPW and the Company in January 2003. While the scope of work with Tetra has changed, due to reefing rather than complete removal as originally contemplated, the contract price and payment terms remain unchanged. The Company requested and has received an extension from the Minerals Management Service until August 31, 2003 to complete operations needed to convert the platform complexes into artificial reefs. Tetra is expected to resume its operations during late second or early third quarter 2003. The Company is also obligated to pay $390,000 to TPW, of which $350,000 represents half of the site clearance work that will be eliminated (which the TPW required) and $40,000 represents the cost of buoys to mark the reef sites. The Company believes that its provision for the Buccaneer

Field abandonment costs, of approximately $3.7 million at March 31, 2003, is adequate.

In February 2002, the Company acquired an additional 1/3 interest in the Blue Dolphin Pipeline System and the inactive Omega Pipeline from MCNIC. Pursuant to the terms of the purchase and sales agreement, Blue Dolphin Pipeline issued MCNIC a $750,000 promissory note due December 31, 2006, with required monthly payments to be made out of 90% of the net revenues of the interest acquired. The note bears interest at the rate of 6% per annum and is secured by the interest acquired. Additionally, contingent payments of up to $750,000 will be made, if the promissory note is retired before its maturity date, payable annually after the promissory note is retired until December 31, 2006, out of 50% of the net revenues from the interest acquired. The maturity date, December 31, 2006, will be extended by one additional year, up to a maximum of two years, for years in which non-recurring, extraordinary expenditures, attributable to the interest acquired, exceeds $200,000, in the aggregate, during any year. As of March 31, 2003, the amount owed MCNIC is $750,000 plus accrued interest of approximately $53,000.

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

RESULTS OF OPERATIONS

The Company reported a net loss for the three months ended March 31, 2003, ("current period") of $396,510, compared to a net loss of $923,411 reported for the three months ended March 31, 2002 ("previous period").

Revenues:

Current period revenues from pipeline operations decreased by $82,629 or 25% from the previous period to $246,668. The decrease is primarily due to a 36% decrease in throughput on the Blue Dolphin Pipeline System in the current period, partially offset by a 205% increase in throughput on the GA 350 system.

Current period revenues from oil and gas sales decreased by $503,963, from those of the previous period to 74,306. The decrease was due to the sale of the Company's oil and gas properties in the second half of 2002. The properties sold represented all of the Company's previous period oil and gas sales. Current period oil and gas sales represent adjustments for periods prior to the sale of the oil and gas properties.

Costs and Expenses:

Current period pipeline operating expense increased by $48,678 or 34% from the previous period to $193,394. The increase was due to increased insurance costs of approximately $57,000 and legal costs of approximately $21,000, offset in part by lower repairs and maintenance and other expenses of approximately $29,000.

Current period lease operating expense decreased by $205,587 from the previous period to $12,060. The decrease was due to the sale of the Company's oil and gas properties in the second half of 2002. The properties sold represented all of the Company's previous period lease operating expenses. Current period lease operating expenses represent adjustments for periods prior to the sale of the oil and gas properties.

Current period depletion, depreciation and amortization decreased $200,519 from the previous period to $89,048. In the previous period the Company recorded depletion of approximately $230,000 associated with the oil and gas properties sold in the second half of 2002, offset in part by increased pipeline depreciation expense of approximately $30,000.

In the previous period, the Company elected to record a full impairment of its investment in Drillmar of $339,984 and a full reserve for the accounts receivable amount owed from Drillmar of $197,500 due to Drillmar's working capital deficiency and delays in securing capital funding.

General and administrative expenses for the current period decreased $101,909 from the previous period to $482,706. The decrease is primarily due to a reduction in personnel and related costs.

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

In the current period, the company recorded accretion expense of $21,729 as a result of its adoption of SFAS No. 143, which reflects the increase in future asset retirement obligations.

Interest and other income increased in the current period by $120,010 from the previous period. The increase is due to consulting services provided by the Company in the current period associated with the evaluation of oil and gas properties of approximately $72,000, and the refund of prepaid costs associated with the oil and gas properties sold effective October 2002 that were in excess of actual costs incurred.

The Company recorded a cumulative effect adjustment at January 1, 2003 of a change in accounting principle for asset retirement obligations of $40,455, as a result of the Company adopting SFAS No. 143 (see Note 4. Change of Accounting Principle in Part I, Item I).

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BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET PRICE

The Company is exposed to market risk, including adverse changes in commodity prices and interest rates as discussed below.

Commodity Price Risk- During the three months ended March 31, 2003, the Company did not sell any natural gas, crude oil, and natural gas liquids. Accordingly, during this period the Company did not have any exposure to fluctuations in commodity prices. However, the Company expects to receive production attributable to its interest in the High Island Area Block A-7 field, and it expects to sell natural gas and crude oil from its interest beginning in the second quarter 2003. Thus, the Company's financial results can be significantly affected if commodity prices fluctuate widely in response to changing market forces. The Company does not expect to use derivative products to manage commodity price risk.

Interest Rate Risk- The Company currently has no short-term or long-term debt with floating interest rates, and thus currently is not subject to risk of interest rate changes.

ITEM 4. DISCLOSURE CONTROLS AND PROCEDURES

Within the 90 days prior to the date of this Quarterly Report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Primary Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a - 14(c) and 15d - 14 (c) under the Securities Exchange Act of 1934). Based upon the evaluation, the Chief Executive Officer and Primary Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORT ON FORM 8-K

A) Exhibits

99.1 Michael J. Jacobson Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

99.2 G. Brian Lloyd Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

B) Reports on Form 8-K

On March 27, 2003, the Company filed a current report on Form 8-K dated March 25 2003, reporting a non-binding letter of intent to sell the assets of New Avoca Gas Storage, LLC to Gotham Energy Partners, LLC. The item in such current report was Item 5 (Other Events).

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BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

By: BLUE DOLPHIN ENERGY COMPANY

Date: May 14, 2003

/s/ Michael J. Jacobson

Michael J. Jacobson
President and Chief Executive Officer

/s/ G. Brian Lloyd

G. Brian Lloyd
Vice President, Treasurer
(Principal Accounting and Financial Officer)

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BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

CERTIFICATION BY MICHAEL J. JACOBSON PURSUANT TO SECURITIES EXCHANGE ACT RULE 13a-14

I, Michael J. Jacobson, certify that:

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

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

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

3. The Registrants other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:

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

b) evaluated the effectiveness of the Registrants disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrants other certifying officer and I have disclosed, based on our most recent evaluation, to the Registrants auditors and the audit committee of Registrants board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrants ability to record, process, summarize and report financial data and have identified for the Registrants auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrants internal controls; and

6. The Registrants other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weakness.

Date: May 14, 2003

/s/ Michael J. Jacobson

Michael J. Jacobson
President and Chief Executive Officer

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

CERTIFICATION BY G. BRIAN LLOYD PURSUANT TO SECURITIES EXCHANGE ACT RULE 13a-14

I, G. Brian Lloyd, certify that:

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

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

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

3. The Registrants other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:

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

b) evaluated the effectiveness of the Registrants disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrants other certifying officer and I have disclosed, based on our most recent evaluation, to the Registrants auditors and the audit committee of Registrants board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrants ability to record, process, summarize and report financial data and have identified for the Registrants auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrants internal controls; and

6. The Registrants other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weakness.

Date: May 14, 2003

/s/ G. Brian Lloyd

G. Brian Lloyd
Vice President, Treasurer
(Principal Accounting and Financial Officer)