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BLUE DOLPHIN ENERGY CO  
Form 10-Q  
November 12, 2004

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

FORM 10-QSB

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

For the quarterly period ended: SEPTEMBER 30, 2004

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  
(State or other jurisdiction of  
incorporation or organization)

73-1268729  
(I.R.S. Employer  
Identification No.)

801 TRAVIS, SUITE 2100, HOUSTON, TEXAS  
(Address of principal executive offices)

77002  
(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.)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

As of November 10, 2004, there were 6,813,689 shares of the registrants' common stock, par value \$.01 per share, outstanding.

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

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## PART I. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

The condensed consolidated financial statements of Blue Dolphin Energy Company and subsidiaries (referred to herein, with its predecessors and subsidiaries, as "Blue Dolphin", "we", "us" and "our") included herein have been prepared by us, 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. We follow 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. We believe 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.

Our accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-KSB/A-1 for the year ended December 31, 2003.

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#### BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

#### CONDENSED CONSOLIDATED BALANCE SHEET - UNAUDITED

SEPTEMBER 30, 2004

#### ASSETS

##### Current assets:

- Cash and cash equivalents
- Accounts receivable
- Related party receivable
- Deferred federal income tax
- Prepaid expenses and other assets

##### TOTAL CURRENT ASSETS

##### Property and Equipment at cost:

- Oil and Gas properties, including \$168,131
  - of unproved leasehold cost (full-cost method)
- Pipelines
- Onshore separation and handling facilities
- Land
- Other property and equipment

Less: Accumulated depletion, depreciation, amortization and impairment

Investment in New Avoca  
Other Assets

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TOTAL ASSETS

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

Accounts payable  
Notes payable  
Accrued expenses and other liabilities

TOTAL CURRENT LIABILITIES

Note payable  
Interest payable  
Asset retirement obligations

Common Stock, (\$.01 par value, 10,000,000 shares authorized, 6,813,689 shares issued and outstanding)  
Additional Paid-in Capital  
Accumulated Deficit

TOTAL LIABILITIES AND  
STOCKHOLDERS' EQUITY

See accompanying notes to the condensed consolidated financial statements.

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BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - UNAUDITED

	Three Months Ended September 30,	
	2004	2003
	-----	-----
Revenue from operations:		
Pipeline operations	\$ 187,911	\$ 212,911
Oil and gas sales	67,878	449,878
	-----	-----
	255,789	662,789
	-----	-----
Cost of operations:		
Pipeline operating expenses	207,965	296,965
Lease operating expenses	24,296	46,296
Depletion, depreciation and amortization	91,675	116,675
General and administrative	437,970	415,970
Accretion expense	26,881	17,881
	-----	-----

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	788,787	892
	-----	-----
LOSS FROM OPERATIONS	(532,998)	(230)
Other Income (expense):		
Interest and other expense	(90,545)	(11)
Interest and other income	108,878	225
Equity in loss of affiliate	(25,830)	
	-----	-----
LOSS BEFORE INCOME TAXES	(540,495)	(16)
Income taxes	--	
	-----	-----
Net loss	\$ (540,495)	\$ (16)
	=====	=====
Loss per common share		
- basic	\$ (0.08)	\$
	=====	=====
- diluted	\$ (0.08)	\$
	=====	=====
Weighted average number of common shares outstanding -basic	6,748,237	6,653
	=====	=====
Weighted average number of common shares outstanding - diluted	6,748,237	6,653
	=====	=====

See accompanying notes to the condensed consolidated financial statements.

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BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - UNAUDITED

	Nine Months Ended September 30,	
	2004	2003
	-----	-----
Revenue from operations:		
Pipeline operations	\$ 585,448	\$ 716
Oil and gas sales	349,048	1,268
Gain on sale of oil and gas property	25,809	
	-----	-----
	960,305	1,984
	-----	-----
Cost of operations:		
Pipeline operating expenses	856,497	763
Lease operating expenses	91,322	76
Depletion, depreciation and amortization	346,183	305
General and administrative	1,334,211	1,293
Accretion expense	73,523	58
	-----	-----

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	2,701,736	2,497
	-----	-----
LOSS FROM OPERATIONS	(1,741,431)	(512)
Other Income (expense):		
Interest and other expense	(316,207)	(54)
Interest and other income	248,331	665
Equity in loss of affiliate	(74,200)	
	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES	(1,883,507)	97
Income taxes	--	
	-----	-----
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	(1,883,507)	97
Cumulative effect of a change in accounting principle for asset retirement obligations	--	(40)
	-----	-----
Net income (loss)	\$ (1,883,507)	\$ 57
	=====	=====
Income (loss) per common share - basic		
Income (loss) before accounting change	\$ (0.28)	
	=====	=====
Cumulative effect of a change in accounting principle	\$ 0.00	\$ (
	=====	=====
Net income (loss)	\$ (0.28)	\$
	=====	=====
Income (loss) per common share - diluted		
Income (loss) before accounting change	\$ (0.28)	
	=====	=====
Cumulative effect of a change in accounting principle	\$ 0.00	\$ (
	=====	=====
Net income (loss)	\$ (0.28)	\$
	=====	=====
Weighted average number of common shares outstanding		
- basic	6,708,060	6,634
	=====	=====
- diluted	6,708,060	6,802
	=====	=====

See accompanying notes to the condensed consolidated financial statements

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	Nine Mo Ended Septe 2004
	-----
OPERATING ACTIVITIES	
Net income (loss)	\$ (1,883,507)
Adjustments to reconcile net income (loss) to net cash used in operating activities:	
Depletion, depreciation and amortization	346,183
Amortization of debt issue costs	53,543
Gain from change in estimate of abandonment costs	--
Gain on sale of oil and gas property	(25,809)
Change in accounting principle	--
Accretion of asset retirement obligations	73,523
Equity in loss of affiliate	74,200
Common stock issued for services	112,001
Compensation from issuance of warrants	76,768
Changes in operating assets and liabilities:	
Accounts receivable	164,429
Prepaid expenses and other assets	22,955
Abandonment costs incurred	--
Trade accounts payable and accrued expenses	(1,471,053)
	-----
NET CASH USED IN OPERATING ACTIVITIES	(2,456,767)
	-----
INVESTING ACTIVITIES	
Property, equipment and other assets	(2,197)
Exploration and development costs	(7,828)
Proceeds from sale of assets	34,183
Development costs - New Avoca	(69,167)
Other	--
	-----
NET CASH USED IN INVESTING ACTIVITIES	(45,009)
	-----
FINANCING ACTIVITIES	
Proceeds from Borrowings	750,000
Financing costs	(160,629)
Other	3,750
	-----
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	593,121
DECREASE IN CASH AND CASH EQUIVALENTS	(1,908,656)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,702,892
	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 794,236
	=====

See accompanying notes to the condensed consolidated financial statements

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UNAUDITED  
SEPTEMBER 30, 2004

## 1. LIQUIDITY

At September 30, 2004, we had a working capital deficit of approximately \$.2 million. During the past few months, we have taken the following actions to improve our liquidity and working capital position.

In August 2004, we were able to negotiate an extension of the payment terms of our indebtedness to Tetra Applied Technologies, Inc. associated with the Buccaneer Field abandonment/reefing in the amount of \$668,000 originally due in September and October 2004. Under the new terms we will pay the outstanding balance to Tetra in twelve monthly installments of \$55,667 beginning September 1, 2004, plus interest on the outstanding balance at the rate of 6% per annum.

In September 2004, we entered into a Note and Warrant Purchase Agreement (the "Purchase Agreement") with certain accredited investors and certain of our directors for the purchase and sale of promissory notes in an aggregate principal amount of \$750,000 (the "Promissory Notes") and 2,800,000 warrants (the "Warrants") to purchase shares of common stock at a purchase price of \$0.003 per warrant. The sale of the Promissory Notes and the first tranche of 1,250,000 Warrants (the "Initial Warrants") closed on September 8, 2004, and the closing of the sale of the second tranche of 1,550,000 Warrants (the "Additional Warrants") is subject to stockholder approval at our November 11, 2004 special stockholders' meeting. We received net proceeds of \$753,750 from the sale of the Promissory Notes and the Initial Warrants. The Promissory Notes mature on December 7, 2004, and accrue interest at a rate of 12.0% per annum, of which 4% is payable monthly and 8% is payable at maturity. The Promissory Notes are secured by a second lien on our Blue Dolphin Pipeline System. The maturity date of the Promissory Notes will be extended to September 8, 2005, if stockholders approve the issuance of the Additional Warrants. The Additional Warrants will also be issued at a price of \$0.003 per warrant. The Initial Warrants and the Additional Warrants are immediately exercisable and will expire five years after their date of issuance. Each Warrant is exercisable for one share of common stock at an exercise price of \$0.25 per share. The Warrants contain standard antidilution provisions, as well as provisions that will result in adjustments to the exercise price of the Warrants if we issue common stock at a price below \$0.25 per share, subject to certain exceptions.

In October 2004, we sold our 25% equity interest in New Avoca Gas Storage LLC. Pursuant to the terms of the Purchase and Sale Agreement, we received approximately \$.9 million for our interest in New Avoca, and may receive an additional payment of up to approximately \$.4 million, subject to the commencement of commercial operations at the New Avoca natural gas storage facility prior to October 29, 2011.

Even though we continue to incur losses from operations, we currently believe that we have sufficient resources in order to satisfy our working capital and capital expenditure requirements for the twelve months ending September 30, 2005.

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SEPTEMBER 30, 2004

## 2. RELATED PARTY TRANSACTIONS

We own 12.8% of the common stock of Drillmar, Inc. Our Chairman, Ivar Siem (along with certain of his affiliated entities), and one of our Directors, Harris A. Kaffie, are owners of 30.3% and 30.6%, respectively, of Drillmar's common stock. Messrs. Siem and Kaffie are both Directors, and Mr. Siem is Chairman and President of Drillmar.

In 2002, we recorded a full impairment of our investment in Drillmar of approximately \$340,000 and a full reserve for the accounts receivable amount owed to us from Drillmar of approximately \$200,000, due to Drillmar's working capital deficiency and delays in securing capital funding. During the nine months ended September 30, 2004, we collected \$120,000 from Drillmar and we expect to continue to receive \$15,000 per month until the accounts receivable is fully collected.

In January 2003, Drillmar stockholders approved a restructuring plan whereby Drillmar will issue up to \$3.0 million of convertible notes that are convertible into common stock representing over 99% of Drillmar's outstanding shares. As a result, our ownership in Drillmar can be reduced to less than 1%. However, in November 2003, we converted a contingent obligation due from Drillmar for providing office space, accounting and administrative services from May 2002 through January 2003 totaling \$162,000 (9 months at \$18,000 per month) into a convertible note, which if converted along with all of Drillmar's outstanding convertible notes, would represent 7.0% of Drillmar's common stock. Messrs. Siem, Kaffie and Trimble (one of our Directors) also hold Drillmar convertible notes, which if converted along with all of Drillmar's outstanding convertible notes, would represent 45.5%, 26.0% and 1.9%, respectively, of Drillmar's common stock.

We entered into a new agreement with Drillmar effective February 1, 2003, whereby we provide and charge for office space, which is currently approximately \$4,000 per month. We also provided professional, accounting and administrative services to Drillmar billed at hourly rates based on our cost. Since our implementation of staff reductions in mid 2004, no such services have been provided. The agreement can be terminated upon 30 days notice or by the mutual agreement of the parties.

Effective April 1, 2003, we entered into a sublease agreement expiring December 31, 2006 for certain of our office space with TexCal (GP) LLC, formerly Tri-Union Development Corporation. Our receipts from this sublease are approximately \$78,500 annually. Mr. Trimble is the President and Chief Executive Officer of TexCal.

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BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED - CONTINUED

SEPTEMBER 30, 2004

Pursuant to the Purchase Agreement consummated in September 2004, F. Gardner Parker and Laurence N. Benz were appointed to our Board of Directors. Messrs. Benz and Parker each purchased a Promissory Note in the aggregate principal



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amount of \$25,000 and Michael S. Chadwick purchased a Promissory Note in the aggregate principal amount of \$12,500. Messrs. Benz, Parker and Chadwick also purchased 41,667, 41,663 and 20,834 Initial Warrants, respectively, in September 2004, and subject to stockholder approval at the November 11, 2004 special stockholders meeting, will purchase 41,667, 341,665 and 20,834 Additional Warrants, respectively.

In addition to serving on our Board of Directors, Mr. Chadwick is also a Senior Vice President and Managing Director of Sanders Morris Harris, the investment banking subsidiary at Sanders Morris Harris Group ("SMH"). We paid SMH a \$25,000 fee in connection with the placement of the Promissory Notes and Warrants and agreed to retain SMH as our financial advisor to provide, among other services, a fairness opinion in connection with our next merger, acquisition or similar transaction. In September 2004, we also entered into a consulting agreement with Mr. Parker. Mr. Parker's consulting agreement with us has a term of up to eighteen months. Under the terms of the consulting agreement, we will pay him a monthly fee of \$2,000 and a bonus that will accrue at the rate of \$3,000 per month, payable upon consummation of a merger or acquisition.

Pursuant to the terms of the Purchase Agreement, we agreed to grant warrants to acquire 100,000 shares of Common Stock to each of Messrs. Benz, Chadwick and Parker, each of whom currently serves as a director. The warrants granted to Messrs. Benz, Chadwick and Parker will be immediately exercisable and will expire five years after their date of issuance. Each warrant is exercisable for one share of Common Stock at an exercise price of \$0.25 per share. These warrants contain standard antidilution provisions, as well as provisions that will result in adjustments to the exercise price of the warrants if we issue Common Stock at a price below \$0.25, subject to certain exceptions. The issuance of these warrants is subject to stockholder approval at our November 11, 2004 special stockholders meeting.

On September 8, 2004, we sold the common stock of our wholly owned subsidiary American Resources Offshore, Inc. ("ARO") to Ivar Siem on behalf of those stockholders who hold a number of shares of our common stock above a threshold to be determined by Mr. Siem, provided, however, that such threshold shall be set at a level, which will include a minimum of the 30 largest shareholders on a proportionate basis. ARO had no revenue and no assets, except for federal net operating loss carryforwards. The consideration paid to us consisted of \$1,000 cash, the assumption of the transaction costs, including incremental costs associated with the reporting and disclosure of this transaction incurred by us in our filings with the SEC and any other required filings or announcements, and the assumption of any and all liabilities of ARO.

### 3. CONTINGENCIES

We are involved in various claims and legal actions arising in the ordinary course of business. In our opinion, the ultimate disposition of these matters will not have a material effect on our financial position, results of operations or cash flows.

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### 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 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 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, we will recognize a gain or loss on settlement. Under the provisions of SFAS 19, asset retirement obligations were recognized using a cost-accumulation approach. Prior to the adoption of SFAS 143, we 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 value 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 our consolidated statement of operations upon adoption on January 1, 2003.

### 5. EARNINGS PER SHARE

We apply 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.

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BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED - CONTINUED

SEPTEMBER 30, 2004

Weighted-  
Average Number  
of Common Shares  
Outstanding

Pe

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	Net Income (Loss)	and Potential Dilutive Common Shares	Sha Amo
	-----	-----	-----
Nine Months ended September 30, 2004			
Basic and diluted loss per share	\$ (1,883,507)	6,708,060	\$
	=====	=====	=====
Nine Months ended September 30, 2003			
Basic earnings per share	\$ 57,320	6,634,346	\$
Effect of dilutive stock options		168,577	
	-----	-----	-----
Diluted earnings per share	\$ 57,320	6,802,923	\$
	=====	=====	=====
Quarter ended September 30, 2004			
Basic and diluted loss per share	\$ (540,495)	6,748,237	\$
	=====	=====	=====
Quarter ended September 30, 2003			
Basic and diluted loss per share	\$ (16,746)	6,653,660	\$
	=====	=====	=====

6. BUSINESS SEGMENT INFORMATION

Our 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 nine months and quarters ended September 30, 2004 and 2003, and at September 30, 2004 are as follows:

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BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
UNAUDITED - CONTINUED  
SEPTEMBER 30, 2004

	Revenues	Operating Income (Loss) (*)	Depletion, Depreciation and Amortization
	-----	-----	-----
Nine Months ended September 30, 2004:			
Oil and gas exploration and production	\$ 349,048	(184,419)	91,855
Pipeline operations	585,448	(1,143,779)	245,545
Other	25,809	(413,233)	8,783
	-----	-----	-----
Consolidated	960,305	(1,741,431)	346,183
	-----	-----	-----
Other loss, net		(142,076)	

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		-----	
	Loss before income taxes		(1,883,507)
Nine Months ended September 30, 2003:			
	Oil and gas exploration and production	\$ 1,268,733	563,244
	Pipeline operations	716,243	(675,770)
	Other	--	(400,131)
		-----	-----
	Consolidated	1,984,976	(512,657)
		-----	-----
	Other income, net		610,432
			-----
	Income before income taxes		97,775
Quarter ended September 30, 2004:			
	Oil and gas exploration and production	\$ 67,878	(63,249)
	Pipeline operations	187,911	(342,891)
	Other	--	(126,858)
		-----	-----
	Consolidated	255,789	(532,998)
		-----	-----
	Other income, net		(7,497)
			-----
	Loss before income taxes		(540,495)
Quarter ended September 30, 2003:			
	Oil and gas exploration and production	\$ 449,416	166,117
	Pipeline operations	212,644	(281,694)
	Other	--	(115,211)
		-----	-----
	Consolidated	662,060	(230,788)
		-----	-----
	Other income, net		214,042
			-----
	Loss before income taxes		(16,746)

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BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
UNAUDITED - CONTINUED  
SEPTEMBER 30, 2004

		September 30, 2004
		-----
Identifiable assets:		
	Oil and gas exploration and production	\$ 324,295
	Pipeline operations	5,438,955
	Other	1,843,804
		-----
	Consolidated	\$ 7,607,054
		=====

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(\*) Consolidated loss from operations includes \$430,259 and \$385,801 in unallocated general and administrative expenses, and unallocated depletion, depreciation and amortization of \$8,783 and \$14,330 for the nine months ended September 30, 2004 and 2003, respectively.

Consolidated income (loss) from operations includes \$124,124 and \$111,003 in unallocated general and administrative expenses, and unallocated depletion, depreciation and amortization of \$2,734 and \$4,208 for the quarters ended September 30, 2004 and 2003, respectively.

### 7. STOCK BASED COMPENSATION

We account for stock-based compensation granted under our 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 our net loss in the nine months and three months ended September 30, 2004 and 2003, as all options granted had exercise prices equal to the market value of the underlying Common Stock on the dates of grant. However, we did recognize compensation expense from the sale of our warrants in September 2004 as a result of the exercise price of the warrants being below the market value of the underlying common stock at the time of the sale. The following table illustrates the effect on net income (loss) and income (loss) per share if we 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:

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### BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED - CONTINUED SEPTEMBER 30, 2004

	Three months ended September 30,	
	2004	2003
	(in thousands, except p	
Net income (loss), as reported .....	\$ (540)	\$ (17)
Add: Total stock-based employee compensation expense included in reported net income, net of related tax effects .....	77	--
Deduct: Total stock-based employee compensation expense determined under fair value based method for awards, net of related tax effects ....	(99)	--
Pro forma net income (loss) .....	\$ (562)	\$ (17)

Net income (loss) per share:

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Basic - as reported	\$ (0.08)	\$ 0.00
	=====	=====
Basic - pro forma	\$ (0.08)	\$ 0.00
	=====	=====
Diluted - as reported	\$ (0.08)	\$ 0.00
	=====	=====
Diluted - pro forma	\$ (0.08)	\$ 0.00
	=====	=====

During the quarter ended September 30, 2004, 177,142 stock options were exercised, with the exercise prices ranging from \$.35 per share to \$.43 per share. At September 30, 2004 there were 369,942 stock options outstanding with exercise prices ranging from \$.35 per share to \$6.00 per share. Certain of the stock options exercised were done so by using the value of the shares of common stock exercised to pay for the option price. As a result, 23,454 shares of common stock exercised were exchanged to the Company for payment of the exercise price.

As of September 30, 2004, there were 1,250,000 warrants outstanding. The warrants are vested, are exercisable at \$.25 per warrant into one share of common stock, and have a five year term expiring on September 7, 2009. See note 1.

BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED - CONTINUED

SEPTEMBER 30, 2004

8. RECENT ACCOUNTING DEVELOPMENTS

In July 2003, an issue was brought before the FASB regarding whether or not contract-based oil and gas mineral rights held by lease or contract ("mineral rights") should be recorded or disclosed as intangible assets. The issue presents a view that these mineral rights are intangible assets as defined in SFAS No. 141, "Business Combinations," and, therefore, should be classified separately on the balance sheet as intangible assets. SFAS No. 141 and SFAS No. 142, "Goodwill and Other Intangible Assets," became effective for transactions subsequent to June 30, 2001, with the disclosure requirements of SFAS No. 142 required as of January 1, 2002. SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method and that intangible assets be disaggregated and reported separately from goodwill. SFAS No. 142 established new accounting guidelines for both finite lived intangible assets and indefinite lived intangible assets. Under the statements, intangible assets should be separately reported on the face of the balance sheet and accompanied by disclosure in the notes to financial statements. SFAS No. 142 does not apply to accounting utilized by the oil and gas industry as prescribed by SFAS No. 19, and is silent about whether or not its disclosure provisions apply to oil and gas companies.

In September 2004, the FASB posted FASB staff position ("FSP") SFAS 142-2, "Application of SFAS 142 to Oil and Gas Producing Entities." The FSP clarifies that the exception in paragraph 8(b) of SFAS No. 142, "Goodwill and Other

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Intangible Assets," includes the balance sheet classification and disclosures for drilling and mineral rights of oil and gas producing entities. Accordingly, the FASB staff believes that the scope exception extends to the disclosure provisions of SFAS No. 142 for drilling and mineral rights of oil and gas producing entities. SFAS 142-2 will be effective for the first reporting period after September 2, 2004. The FSP will have no impact on our financial position, results of operations or cash flows.

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### 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. We caution 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:

- availability and cost of capital;
- the level of utilization of our pipelines;
- the level of exploration activities around our pipelines;
- the risks associated with exploration;
- the level of production from oil and gas properties;
- 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;
- actions or inactions of third party operators for properties where we have an interest;
- regulatory developments; and
- 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 our Form 10-KSB/A-1 for the fiscal year ended December 31, 2003. Readers are cautioned not to place undue reliance on these

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forward-looking statements, which speak only as of the date hereof. We undertake no duty to update these forward-looking statements. Readers are urged to carefully review and consider the various disclosures made by us which attempt to advise interested parties of the additional factors which may affect our business, including the disclosures made under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report.

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### BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

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

##### EXECUTIVE SUMMARY

We are engaged in two lines of business; pipeline operations and oil and gas exploration and production. We are a holding company and conduct our operations through our subsidiaries, which provide pipeline transportation services to producer/shippers, and sell oil and gas from our producing properties. Our assets primarily are located offshore and onshore in the Texas Gulf coast area.

##### LIQUIDITY AND CAPITAL RESOURCES

Our financial condition has been significantly and negatively affected by the poor performance of our businesses and our significant indebtedness. For the year ended December 31, 2003, we generated \$1.4 million of revenue from the sales of oil and gas production from the High Island Block A-7 field, approximately 57% of our revenues for that period. Oil and gas production from the High Island Block A-7 field has declined significantly and for the nine months ended September 30, 2004, our revenues from the sales of oil and gas production decreased approximately 78.6% to \$0.3 million, which accounted for approximately 36% of our revenues for that period. As a result of the decline in production from this field we expect that a significant portion of our revenues in 2004 will continue to be derived from utilization of our pipeline systems. Production from the High Island Block A-7 field is expected to cease in early 2006. Presently, our pipeline systems are generating negative cash flow.

In order to attempt to address our capital needs, we (i) engaged Sanders Morris Harris Group, Inc. and American Capital Group, LLC as financial advisers to assist us in raising capital, (ii) implemented a cost savings plan to reduce our operating costs and overhead costs, (iii) restructured the terms of certain of our indebtedness, and (iv) sold certain non-core assets.

We implemented our cost savings in June and July of 2004, consisting primarily of personnel reductions. The annual cost savings associated with the cost reductions are expected to be approximately \$360,000.

In August 2004, we extended the remaining payments totaling \$668,000 due in September and October 2004 to our contractor Tetra Technologies Inc. ("Tetra") for the abandonment/reefing of the Bucaneer Field. Under the revised terms we will pay Tetra the outstanding balance in twelve monthly installments of \$55,667 beginning September 1, 2004, plus interest on the outstanding balance at the rate of six percent per annum. As of September 30, 2004, the remaining balance due to Tetra was approximately \$0.6 million.



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On September 8, 2004, we entered into the Purchase Agreement with certain accredited investors and certain of our directors for the purchase and sale of promissory notes in an aggregate principal amount of \$750,000 (the "Promissory Notes") and 2,800,000 warrants (the "Warrants") to purchase shares of common stock at a purchase price of \$0.003 per Warrant. The sale of the Promissory Notes and the first tranche of 1,250,000 Warrants (the "Initial Warrants") closed on September 8, 2004, and the closing of the sale of the second tranche of 1,550,000 Warrants (the "Additional Warrants") is subject to stockholder approval at our November 11, 2004 special stockholders meeting. We received proceeds of \$753,750 from the issuance of the promissory notes and the sale of the Initial Warrants, which will be used for general corporate purposes.

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### BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

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

The Promissory Notes mature on December 7, 2004, and accrue interest at a rate of 12.0% per annum, of which 4% is payable monthly and 8% is payable at maturity. The Promissory Notes are secured by a second lien on our Blue Dolphin Pipeline System. The maturity date of the Promissory Notes will be extended to September 8, 2005, if stockholders approve the issuance of the Additional Warrants. The Additional Warrants will also be sold at a price of \$0.003 per warrant. The Initial Warrants and the Additional Warrants are immediately exercisable and will expire five years after their date of issuance. Each Warrant is exercisable for one share of common stock at an exercise price of \$0.25 per share. The Warrants contain standard antidilution provisions, as well as provisions that will result in adjustments to the exercise price of the Warrants if we issue common stock at a price below \$0.25 per share, subject to certain exceptions.

In October 2004, we sold our 25% equity interest in New Avoca Gas Storage, LLC. Pursuant to the terms of the Purchase and Sale Agreement, we received approximately \$.9 million for our interest in New Avoca, and may receive an additional payment of up to approximately \$.4 million, subject to the commencement of commercial operations at the New Avoca natural gas storage facility prior to October 29, 2011. The proceeds from the sale of our interest in New Avoca will be used for general corporate purposes.

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### BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

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

The following table summarizes certain of our contractual obligations and other commercial commitments at September 30, 2004 (amounts in thousands):

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Contractual Obligations	Payments Due by Period			
	Total	1 year or less	1-3 years	3-5 years
Accounts Payable - Tetra	\$ 612	612	--	
Short-Term Debt	756	756		
Long-Term Debt	871	--	871	
Operating Leases, net of sublease	268	122	146	
<b>Total Contractual Obligations</b>	<b>\$ 2,507</b>	<b>1,490</b>	<b>1,017</b>	

Other Commercial Commitments	Amount of Commitment Expiration Per Period			
	Total	1 year or less	1-3 years	3-5 years
Abandonment - Costs	\$ 1,599	--	185	
<b>Total Commercial Obligations</b>	<b>\$ 1,599</b>	<b>--</b>	<b>185</b>	

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BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

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

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

	September 30, 2004		December 31, 2003	
	Amount	%	Amount	%
Working Capital	\$ --	--	\$ 680	9
Property and equipment, net	5,404	88	5,775	79
Other noncurrent assets	707	12	848	12
<b>Total</b>	<b>\$ 6,111</b>	<b>100</b>	<b>\$ 7,303</b>	<b>100</b>

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Working Capital Deficit	\$ 322	5	\$ --	--
Long-term Liabilities	2,479	41	2,302	32
Stockholders' equity	3,310	54	5,001	68
	-----	-----	-----	-----
Total	\$ 6,111	100	\$ 7,303	100
	=====	=====	=====	=====

The change in our financial position from December 31, 2003 to September 30, 2004, was primarily due to our net loss for the nine months ended September 30, 2004 of approximately \$1.9 million, and the issuance of approximately \$.75 million of promissory notes.

The net cash provided by or used in operating, investing and financing activities is summarized below:

	Nine Months Ended September 30, (amounts in thousands)	
	2004	2003
	-----	-----
Net cash provided by (used in):		
Operating activities	\$ (2,457)	\$ (1,105)
Investing activities	(45)	(217)
Financing activities	593	(19)
	-----	-----
Net decrease in cash	\$ (1,909)	\$ (1,341)
	=====	=====

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BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

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

The net cash used in operating activities during the nine months ended September 30, 2004, reflects the payment of Buccaneer Field abandonment costs and other payables, and the net loss from operations.

During 2002, we sold substantially all of our interests in our proved oil and gas properties. From October 2002 to late April 2003, we had no interest in any producing oil and gas properties. In late April 2003, we began to receive revenue from our 8.9% reversionary working interest in the High Island Area Block A-7 field, in the Gulf of Mexico. Oil and gas production from this field comes from one well that currently produces at a gross rate of approximately

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1.0 MMcf/day.

During 2004, we were in negotiations with a group of private investors to provide capital to us. In July 2004, the negotiations ended unsuccessfully. Legal and other fees incurred associated with the proposed transaction were approximately \$200,000.

During the nine months ended September 30, 2004, we incurred no capital expenditures for the development of our proved reserves. Projected capital expenditures totaling \$25,000 and \$185,000 are expected to be incurred in the years ending December 31, 2004 and 2006, respectively. Capital expenditures in 2004 represent workover costs, net to our interest, for the producing well in the High Island Block A-7 field and in 2006 represent the abandonment costs net to our interest of our High Island Area Block A-7 field. No capital expenditures are currently expected in 2005, 2007 and 2008.

We have significant available capacity in our Blue Dolphin Pipeline system. Natural gas throughput on our Blue Dolphin Pipeline system is currently 7 MMBtu per day, representing 4% of system capacity, however we are currently not aware of additional throughput volumes that could be connected to the system in the short term and existing throughput volumes are expected to decline. As a result of increased leasing and oil and gas prospect development activity around the Blue Dolphin Pipeline system and anticipated drilling activity, we expect that utilization of the Blue Dolphin Pipeline system will increase in 2005. Due to operating losses we incurred from operating the Blue Dolphin Pipeline system, we have exercised the economic hardship provision contained in most of our gas transportation contracts, whereby the rates charged by us can be renegotiated. Currently contracts representing approximately 40% of our gas transportation volumes have been renegotiated, with average rates increasing over 200%. The renegotiated transportation rates were effective October 1, 2004. Natural gas throughput on our GA 350 pipeline system increased to 32 MMBtu per day in the third quarter 2004 representing 49% of system capacity, as a result of a new well drilled by an existing shipper and recompletion of two wells by another existing shipper. Future utilization of our pipeline and related facilities will depend upon the success of drilling programs around our pipeline systems, and attraction and retention of producer/shippers to the systems.

We continue to explore the possibility of expanding our Freeport, Texas operations to include terminalling and shipment by barge of oil and condensate received by truck and/or pipeline (in addition to the Blue Dolphin pipeline). With excess capacity, including ample available acreage to handle liquids, we believe a liquids storage and transportation service can add to the base Blue Dolphin Pipeline production gathering business.

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### BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

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

In February 2002, we acquired an additional 1/3 interest in the Blue Dolphin Pipeline system and the inactive Omega Pipeline from MCNIC Pipeline and Processing Group, Inc. ("MCNIC"). Pursuant to the terms of the purchase and sales agreement, Blue Dolphin Pipe Line Company 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. As of September 30, 2004, no payments have been made on this promissory note and the amount owed MCNIC is \$750,000 plus accrued interest of approximately \$121,000.

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### RESULTS OF OPERATIONS

We reported a net loss for the nine months ended September 30, 2004 ("current period") of \$1,883,507 compared to net income of \$57,320 reported for the nine months ended September 30, 2003 ("previous period"). For the three months ended September 30, 2004 ("current quarter"), we reported a net loss of \$540,495, compared to a net loss of \$16,746 for the three months ended September 30, 2003 ("previous quarter").

Nine Months of 2004 compared to Nine Months of 2003

Revenue from pipeline operations. Revenues from pipeline operations decreased by \$130,795 or 18% in the current period to \$585,448. The decrease was due primarily to a decrease in transportation volumes on the Blue Dolphin Pipeline system of 34%, resulting in a decrease in revenues of approximately \$202,000, offset in part by a 42% increase in revenues, of approximately \$68,000, from the GA 350 Pipeline.

Revenue from oil and gas sales. Revenues from oil and gas sales decreased by \$919,685 in the current period from those of the previous period primarily due to a significant production decline in the High Island Block A-7 field, which provided revenues from oil and gas sales of approximately \$285,000 in the current period compared to approximately \$1,269,000 in the previous period. Current period oil and gas sales include approximately \$64,000 from our interest in the High Island Block 34 field, which interest was received in late 2003.

Gain on sale of oil and gas property. Gain on sale of oil and gas property represents the gain of \$25,809 recognized from the sale of our interest in the High Island Block 34 field in June 2004.

Pipeline operating expenses. Pipeline operating expenses in the current period increased by \$92,656 from \$763,841 in the previous period due to higher repairs and maintenance costs of approximately \$173,000, and legal costs of approximately \$21,000, offset in part by cost reductions that were implemented during 2003 that resulted in lower operating costs of approximately \$100,000. The legal costs are associated with an action filed against us, the outcome of which we do not believe will have a material impact. However, if this litigation continues for a prolonged period of time, we would incur significant legal expenses, which could have a material adverse effect on our financial condition.

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### BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

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

General and administrative. General and administrative expenses increased by \$40,960 from \$1,293,251 in the previous period. The increase was due to non-cash compensation expense recorded in the current period of \$150,000, offset primarily by lower personnel and other costs as a result of our cost reduction plans implemented in 2003 and mid 2004.

Interest and other expense. Interest and other expense increased \$261,566 in the current period. Other expense in the current period includes

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legal and other fees associated with a proposed financing transaction that was subsequently terminated of approximately \$200,000 and the amortization of costs associated with the Purchase Agreement of approximated \$54,000.

Interest and other income. Interest and other income decreased \$416,742 in the current period. Other income in the current period includes the collection of accounts receivable that were previously written off of \$120,000, and consulting services provided by us, associated with the evaluation of oil and gas properties, of approximately \$110,000. Other income in the previous period includes an approximately \$489,000 gain resulting from a reduction in our provision for the Buccaneer Field abandonment costs, and fees generated for consulting services we provided, associated with the evaluation of oil and gas properties, of approximately \$104,000.

Equity in loss of affiliate. In the current period we recorded a loss from our equity interest in New Avoca of \$74,200.

Cumulative effect of a change in accounting principal. In the previous period, as a result of our adoption of SFAS No. 143, we recorded a cumulative effect adjustment at January 1, 2003 of a change in accounting principle for asset retirement obligations of \$40,455 (see note 4 to the Condensed Consolidated Financial Statements).

Third Quarter of 2004 compared to Third Quarter of 2003

Revenue from pipeline operations. Current quarter revenues from pipeline operations decreased by \$24,733 or 12% from the previous quarter to \$187,911 due to a 35% decrease in throughput on the Blue Dolphin Pipeline System in the current quarter, partially offset by a 47% increase in throughput on the GA 350 System.

Revenue from oil and gas sales. Current quarter revenues from oil and gas sales decreased by \$381,538 due to significant production declines in the High Island Block A-7 field, which provided revenues from oil and gas sales of approximately \$68,000 in the current quarter compared to approximately \$450,000 in the previous quarter.

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### BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

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

Pipeline operating expenses. Pipeline operating expenses in the current quarter decreased by \$88,057 from \$296,022 in the previous quarter due primarily to lower insurance costs of approximately \$35,000 and legal costs of approximately \$33,000.

General and administrative. General and administrative expenses increased by \$22,042 in the current quarter due to non-cash compensation expense recorded in the current quarter of \$76,000, offset primarily by lower personnel and other costs as a result of our cost reduction plan implemented in mid 2004.

Interest and other income. Interest and other income decreased \$116,507 in the current quarter. Other income in the current quarter includes

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the collection of accounts receivable that were previously written off of \$45,000, and consulting services of \$60,000. Other income in the previous quarter includes an approximately \$210,000 gain resulting from a reduction in our provision for the Buccaneer Field abandonment costs.

Equity in loss of affiliate. In the current quarter, we recorded a loss from our equity interest in New Avoca of \$25,830.

### RECENT ACCOUNTING DEVELOPMENTS

See Note 8 in Item 1.

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## BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

### ITEM 3. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13(a) - 14(c) and 15(d) - 14(c) under the Securities Exchange Act of 1934, as amended). Based upon the evaluation, the Chief Executive Officer and Principal Accounting Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, are recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. There were no significant changes in our 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.

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## BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

### PART II. OTHER INFORMATION

#### ITEM 6. EXHIBITS

- A) Exhibits
- 3.1 (1) Certificate of Incorporation of the Company.
- 3.2 (2) Certificate of Correction to the Certificate of Incorporation of the Company dated June 30, 1987.
- 3.3 (2) Certificate of Amendment to the Certificate of Incorporation of the Company dated June 30, 1987.
- 3.4 (2) Certificate of Amendment to the Certificate of Incorporation of the Company dated December 11, 1989.
- 3.5 (2) Certificate of Amendment to the Certificate of

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Incorporation dated December 14, 1989.

- 3.7 (3) Certificate of Amendment to the Certificate of Incorporation dated December 8, 1997.
- 3.8 (4) Amended and Restated Bylaws of the Company.
- 4.2 (5) Form of Promissory Note issued pursuant to the Note and Warrant Purchase Agreement dated September 8, 2004.
- 4.3 (5) Form of Warrant issued pursuant to the Note and Warrant Purchase Agreement dated September 8, 2004.
- 31.1 Ivar Siem Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 G. Brian Lloyd Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Ivar Siem Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 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.
- (1) Incorporated herein by reference to Exhibits filed in connection with Registration Statement on Form S-4 of ZIM Energy Corp. filed under the Securities Act of 1933 (Commission File No. 33-5559).
- (2) Incorporated herein by reference to Exhibits filed in connection with Form 10-K of Blue Dolphin Energy Company for the year ended December 31, 1989 under the Securities and Exchange Act of 1934, dated March 30, 1990 (Commission File No. 000-15905).

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BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES

### PART II. OTHER INFORMATION

- (3) Incorporated herein by reference to Exhibits filed in connection with the definitive Information Statement on Schedule 14C of Blue Dolphin Energy Company under the Securities and Exchange Act of 1934, dated November 18, 1997 (Commission File No. 000-15905).
- (4) Incorporated herein by reference to Exhibits filed in connection with Form 10-QSB of Blue Dolphin Energy Company under the Securities and Exchange Act of 1934, dated August 23, 2004 (Commission File No. 000-15905).



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- (5) Incorporated herein by reference to Exhibits filed in connection with the current report on Form 8-K of Blue Dolphin Energy Company, dated September 14, 2004 (Commission File No. 000-15905).

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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: November 10, 2004

/s/ Ivar Siem

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Ivar Siem  
Chairman and Chief Executive Officer

/s/ G. Brian Lloyd

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

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- A) Exhibits
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