BLUE DOLPHIN ENERGY CO
Form S-4
February 05, 2002

As filed with the Securities and Exchange Commission on February 5, 2002

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-4

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

BLUE DOLPHIN ENERGY COMPANY

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	1311
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Name)

801 Travis, Suite 2100
Houston, Texas 77002
(713) 227-7660
(Address, including zip code, and telephone number, including area code, or registrant's pr

---

G. Brian Lloyd
Vice President, Treasurer and Secretary
Blue Dolphin Energy Company
801 Travis, Suite 2100
Houston, Texas 77002
(713) 227-7660
(Address, including zip code, and telephone number, including area code of agent for service)

With Copies To:

Nick D. Nicholas
Porter & Hedges, L.L.P.
700 Louisiana, 35th Floor
Houston, Texas 77002
(713) 226-0600
Fax: (713) 226-0237

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As

soon as practicable after the registration statement becomes effective and the satisfaction or waiver of all other conditions to the merger, pursuant to the Amended and Restated Agreement and Plan of Merger, dated as of December 19, 2001, as amended, filed as exhibit 2.1 to this registration statement.

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If the Securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. [ ]

If this Form is filed to register additional Securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

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CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED (1)	PROPOSED MAXIMUM OFFERING PRICE PER UNIT	PRO AGGR
common stock, par value $.01 per share	100,903	Not Applicable	

(1) Represents the maximum number of additional shares of common stock of Blue Dolphin Energy Company ("Blue Dolphin") that may be issued in connection with the merger with American Resources Offshore, Inc. ("ARO") described herein at the exchange ratio of .0362 shares of the registrant's common stock for each share of ARO's common stock outstanding on January 23, 2002 (other than shares owned by registrant and its subsidiaries) and at an exchange ratio of .0301 shares of the registrant's common stock for each share of ARO's preferred stock outstanding on January 23, 2002 (other than shares owned by registrant and its subsidiary.

(2) In accordance with Rule 457(f)(1) and (2), the maximum offering price was calculated as the sum of: (a) the product of approximately 52,000,000 shares of ARO common stock to be cancelled in the merger multiplied by $.05, which is the average of the high and low prices reported for the ARO common stock on February 4, 2002 as reported on the OTC Bulletin Board, plus (b) $322,000, the book value at January 23, 2002 of ARO's preferred stock for which there are no reported bid and ask or sale prices.

(3) Pursuant to Rule 429, this registration statement contains a combined prospectus that relates to Blue Dolphin's Common Stock registered on Form S-4, file no. 333-75842, filed by Blue Dolphin on December 21, 2001 (the "Earlier Registration Statement"). Fees totaling $568.00 covering the previously registered securities were paid by Blue Dolphin upon filing the Earlier Registration Statement and, pursuant to Rule 457(p), will be used to offset the registration fees for this registration statement.

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THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

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PURSUANT TO RULE 429 UNDER THE SECURITIES ACT OF 1933, THE PROSPECTUS INCLUDED IN THIS REGISTRATION STATEMENT IS A COMBINED PROSPECTUS WHICH RELATES TO REGISTRATION STATEMENT NO. 333-75842, AS AMENDED, PREVIOUSLY FILED BY THE REGISTRANT ON FORM S-4. THIS REGISTRATION STATEMENT ALSO CONSTITUTES POST-EFFECTIVE AMENDMENT NO. 1 WITH RESPECT TO REGISTRATION STATEMENT NO. 333-75842, AS AMENDED, PURSUANT TO WHICH 326,000 SHARES OF COMMON STOCK WERE REGISTERED AND REMAIN TO BE ISSUED.

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THE INFORMATION IN THIS JOINT PROXY STATEMENT/PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS JOINT PROXY STATEMENT/PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

Subject to Completion February 5, 2002

AMERICAN RESOURCES OFFSHORE, INC.

To our Stockholders:

You are cordially invited to attend a special stockholders meeting of American Resources Offshore, Inc. ("ARO") to be held at 10:00 a.m., local time, on Tuesday, February 19, 2002, at ARO's corporate office, located at 801 Travis, Suite 2100, Houston, Texas 77002.

At the special stockholders meeting, you will be asked to consider and vote upon the approval and adoption of the Amended and Restated Agreement and Plan of Merger, dated December 19, 2001. If the merger agreement is approved and adopted:

- each issued and outstanding share of ARO common stock, other than those shares held by Blue Dolphin Energy Company ("Blue Dolphin"), ARO and any of their wholly-owned subsidiaries, will be canceled and converted into the right to receive either .0362 of a share of Blue Dolphin common stock or $.06 in cash, subject to proration as described below; and

- each issued and outstanding share of ARO preferred stock, other than those held by Blue Dolphin, ARO and any of their wholly-owned subsidiaries, will be canceled and converted into the right to receive .0301 of a share of Blue Dolphin common stock or $.07 in cash.

In connection with the merger, if you own ARO common stock, and elect to receive cash, you may not receive all of your payment in cash. The merger agreement provides that no more than 70% of the total merger consideration paid

to holders of common stock will be paid in cash. Therefore, your election to receive cash may be adjusted on a pro rata basis if more than 70% of the holders elect to receive cash.

The merger agreement is the result of negotiations between Blue Dolphin and a special committee formed by ARO's board of directors, consisting of directors who are not officers or directors of Blue Dolphin. After careful consideration, the Special Committee unanimously determined that the merger is fair to, and in the best interests of, ARO's public stockholders. THE FULL BOARD OF DIRECTORS ALSO UNANIMOUSLY DETERMINED THAT THE MERGER IS FAIR TO, AND IN THE BEST INTERESTS OF, ARO'S STOCKHOLDERS. THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE APPROVAL AND ADOPTION OF THE MERGER AGREEMENT AND THE MERGER.

Under the terms of the merger agreement, ARO can complete the merger only if holders of a majority of the combined voting power of ARO's common stock and preferred stock, voting together as a single class, vote to approve and adopt the merger agreement and the merger and if the holders of a majority of the outstanding shares of preferred stock, voting as a separate class, vote to approve and adopt the merger agreement and the merger. Blue Dolphin controls approximately 77% of the voting power of all outstanding shares of ARO common stock and 50.4% of the outstanding shares of ARO preferred stock and has indicated that it will vote its shares to approve the merger.

If the merger agreement is approved, ARO will become a wholly-owned subsidiary of Blue Dolphin. The accompanying joint proxy statement/prospectus explains the proposed merger and provides specific information concerning the special stockholders meeting. Please read the joint proxy statement/prospectus carefully.

Please carefully consider all of the information in this joint proxy statement/prospectus regarding ARO, Blue Dolphin and the merger, including in particular the discussion in the section entitled "Risk Factors" beginning on page 10. Whether or not you plan to attend the special stockholders meeting, we request that you complete, date, sign and return the enclosed proxy card promptly in the enclosed pre-addressed, postage-paid envelope.

Sincerely,

/s/ DOUGLAS L. HAWTHORNE

Douglas L. Hawthorne
Chairman of the Special Committee

Houston, Texas
January 25, 2002

THIS TRANSACTION HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE FAIRNESS OR MERITS OF SUCH TRANSACTION NOR UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

This joint proxy statement/prospectus is dated January 25, 2002 and is first being mailed to stockholders on or about January 25, 2002.

[AMERICAN RESOURCES OFFSHORE, INC. LETTERHEAD]

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON FEBRUARY 19, 2002

To our Stockholders:

Notice is hereby given that a special stockholders meeting of American Resources Offshore, Inc. will be held at 10:00 a.m., local time, on February 19, 2002, at ARO's corporate office, located at 801 Travis, Suite 2100, Houston, Texas 77002, for the following purposes:

1. To consider and vote upon a proposal to approve and adopt the Amended and Restated Agreement and Plan of Merger, dated as of December 19, 2001, among ARO, Blue Dolphin Energy Company and BDCO Merger Sub, Inc., a wholly-owned subsidiary of Blue Dolphin. Under the terms of the merger agreement:

   - each issued and outstanding share of ARO common stock, other than those shares held by Blue Dolphin, ARO and any of their wholly-owned subsidiaries or stockholders who perfect their statutory appraisal rights under Delaware law, will be canceled and converted into the right to receive either .0362 of a share of Blue Dolphin common stock or $.06 in cash, at the election of each stockholder, subject to proration as described in the merger agreement;

   - each issued and outstanding share of ARO preferred stock, other than those held by Blue Dolphin, ARO and any of their wholly-owned subsidiaries or stockholders who perfect their statutory appraisal rights under Delaware law, will be canceled and converted automatically into the right to receive either .0301 of a share of Blue Dolphin common stock or $.07 in cash, at the election of each stockholder; and

   - Blue Dolphin will acquire ARO through the merger of BDCO Merger Sub, Inc., a newly-formed Delaware corporation, into ARO.

2. To transact any other business that may properly come before the special meeting or any adjournment or postponement of the special meeting.

Only those persons who were holders of record of our common stock or preferred stock at the close of business on January 23, 2002 will be entitled to notice of, and to vote at, the special stockholders meeting and any adjournment(s) or postponement(s) of the special stockholders meeting. A list of these stockholders will be available for review at ARO's principal executive office during normal business hours for a period of ten days before the special stockholders meeting.

The merger is described in the accompanying joint proxy statement/prospectus, which you are urged to read carefully. In addition, you may obtain information about ARO from documents that ARO has filed with the Securities and Exchange Commission. A copy of the merger agreement is attached as Appendix A to the accompanying joint proxy statement/prospectus.

BY ORDER OF THE BOARD OF DIRECTORS,

/s/ JOHN P. ATWOOD

John P. Atwood
Secretary

Houston, Texas
January 25, 2002

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Appendix A Amended and Restated Agreement and Plan of Merger dated as of December 19, 2001, as amended, among American Resources Offshore, Inc., Blue Dolphin Energy Company and BDCO Merger Sub, Inc.

Appendix B Section 262 of the Delaware General Corporation Law

Appendix C Annual Report on Form 10-K of American Resources Offshore,

Inc. for the year ended December 31, 2000

Appendix D Quarterly Report on Form 10-Q of American Resources Offshore, Inc. for the quarter ended September 30, 2001

Appendix E Annual Report on Form 10-K of Blue Dolphin Energy Company for the year ended December 31, 2000

Appendix F Quarterly Report on Form 10-Q of Blue Dolphin Energy Company for the quarter ended September 30, 2001

QUESTIONS AND ANSWERS ABOUT THE MERGER

The following are some questions that you, as a stockholder of ARO, may have and answers to those questions. These answers may not address all questions that may be important to you as a stockholder of ARO. We urge you to read carefully the remainder of this joint proxy statement/ prospectus because additional important information is contained in the remainder of this joint proxy statement/prospectus and the appendices to this joint proxy statement/prospectus.

Q: WHAT AM I BEING ASKED TO VOTE UPON?

A: You are being asked to approve and adopt a merger agreement that provides for Blue Dolphin to acquire all of the outstanding shares of preferred stock and common stock of ARO in exchange for either shares of Blue Dolphin common stock or cash. The acquisition will be effected by the merger of a wholly-owned subsidiary of Blue Dolphin into ARO with ARO being the surviving corporation. If the merger agreement is approved and adopted, and the merger is completed, ARO will no longer be a publicly-held corporation and you will no longer own ARO common or preferred stock.

Q: HOW MUCH OF ARO DOES BLUE DOLPHIN CURRENTLY OWN?

A: Blue Dolphin beneficially owns approximately 77% of ARO's outstanding common stock and approximately 50.4% of ARO's outstanding preferred stock.

Q: WHY IS THE MERGER BEING PROPOSED?

A: The purpose of ARO for engaging in the transactions contemplated by the merger agreement was to become part of a larger, more diverse, operating entity and thereby potentially realize improved operating and financial results and a stronger competitive position. In deciding to undertake the merger, ARO considered the following factors, among others:

- the greater liquidity of the Blue Dolphin common stock relative to ARO's capital stock;
- uncertainty regarding ARO's future growth prospects;

- ARO's outstanding litigation with H&N Gas;
- recent public capital market trends affecting small companies; and,
- the costs of, and the burdens on management associated with, being a public company.

Q: WHAT WILL I RECEIVE IN THE MERGER?

A: Unless you seek appraisal rights, you will be entitled to elect to receive either $.06 in cash or .0362 of a share of Blue Dolphin common stock in exchange for each share of ARO common stock you own at the time of the merger and either $.07 in cash or .0301 of a share of Blue Dolphin common stock in exchange for each share of ARO preferred stock that you own at the time of the merger.

Q: HOW DO I ELECT THE FORM OF PAYMENT I PREFER?

A: If your shares are registered in your name, you will receive an election form, which you should read carefully. You must return your completed and signed election form, as described in the instructions contained in the election form, to elect the form of payment that you prefer. IF THE EXCHANGE AGENT DOES NOT RECEIVE YOUR ELECTION FORM BY 5:00 P.M., CENTRAL STANDARD TIME, ON FEBRUARY 18, 2002, WHICH IS THE BUSINESS DAY IMMEDIATELY PRECEDING THE SPECIAL MEETING, YOU WILL BE DEEMED TO HAVE ELECTED TO RECEIVE BLUE DOLPHIN COMMON STOCK IN EXCHANGE FOR YOUR ARO COMMON STOCK AND/OR PREFERRED STOCK.

Q: WILL I RECEIVE THE FORM OF CONSIDERATION THAT I CHOOSE?

A: Not necessarily. The merger agreement provides that no more than 70% of the consideration paid to holders of ARO common stock will be in cash. Therefore, if you are a holder of common stock your election to receive cash may be adjusted on a pro rata basis if more than 70% of the holders of ARO common stock elect to receive cash.

Q: WHAT DOES THE BOARD OF DIRECTORS RECOMMEND?

A: The Special Committee, consisting solely of directors of ARO who are not officers or employees of ARO or Blue Dolphin, and the Board of Directors, upon recommendation from the Special Committee, have unanimously determined that the merger is fair to, and in the best interests of, ARO's public stockholders. The Board of Directors unanimously recommends that you vote FOR the approval and adoption of the merger agreement and the merger.

Q: WHAT HAPPENS IF THE SPECIAL COMMITTEE OR THE BOARD OF DIRECTORS RECEIVES A BETTER OFFER FOR ARO?

A: The Special Committee and ARO's board of directors may withdraw, modify or refrain from making its recommendation to the stockholders if failure to do so would violate its fiduciary duties. Whether or not the receipt of a better offer would necessitate them to withdraw their recommendation would depend heavily on whether they thought Blue

Dolphin would vote in favor of such offer. While the withdrawal of the recommendation of the special committee and board of directors would cause ARO to not meet a condition to closing, Blue Dolphin may waive any of ARO's conditions to closing, other than stockholder approval.

Q: WHO CAN VOTE ON THE MERGER AGREEMENT?

A: Holders of ARO common stock and preferred stock at the close of business on January 23, 2002, the record date relating to the special stockholders meeting, may vote in person or by proxy on the merger agreement and the merger at the special stockholders meeting.

Q: WHAT VOTE IS REQUIRED TO APPROVE AND ADOPT THE MERGER AGREEMENT AND THE MERGER?

A: The merger agreement and the merger requires the approval of the affirmative vote of a majority of the combined voting power of ARO common stock and ARO preferred stock, voting together as a single class. The approval of the holders of a majority of the outstanding shares of the preferred stock, voting as a separate class, is also required. Blue Dolphin beneficially owns, and as of the record date owned, approximately 77% of the outstanding shares of ARO common stock. In addition, Blue Dolphin owns, and as of the record date owned, approximately 50.4% of the outstanding shares of ARO preferred stock. Blue Dolphin has agreed to vote its shares of ARO common stock and ARO preferred stock to approve and adopt the merger agreement and the merger.

Q: IS THE MERGER SUBJECT TO THE FULFILLMENT OF CERTAIN CONDITIONS?

A: Yes. Before completion of the merger, certain conditions must be satisfied, including the approval by ARO's stockholders as described in this joint proxy statement/prospectus. If these conditions are not satisfied or waived, the merger will not be completed even if the stockholders vote to approve and adopt the merger agreement.

Q: WHEN DO YOU EXPECT THE MERGER TO BE COMPLETED?

A: ARO is working toward completing the merger as quickly as possible. If the conditions to the merger are satisfied or waived, ARO hopes to complete the merger promptly following the special stockholders meeting.

Q: DO ARO'S OFFICERS AND DIRECTORS AND BLUE DOLPHIN HAVE INTERESTS IN THE MERGER THAT ARE DIFFERENT FROM, OR IN ADDITION TO, YOUR INTERESTS?

A: When you consider the ARO Board of Directors' recommendation with respect to the merger, you should be aware that members of ARO's management and the ARO Board of Directors have interests in the transaction that are or may be different from, or in addition to, your interests as an ARO stockholder. In particular, three of ARO's directors are also officers or

directors of Blue Dolphin and owe fiduciary duties to Blue Dolphin and its stockholders. In addition, each of them own Blue Dolphin stock.

The interests of Blue Dolphin are different from those of the public stockholders because Blue Dolphin will become the sole stockholder of ARO and hold 100% of the outstanding shares of ARO and therefore Blue Dolphin will be able to directly participate in ARO's future growth. The public stockholders will only be able to indirectly participate in ARO's future growth by electing to receive Blue Dolphin common stock.

Q: WHAT DO I NEED TO DO NOW?

A: After you have carefully reviewed this proxy statement, including the attachments, please complete the election form and mark your vote on your proxy card and sign and return the election form and proxy card in the enclosed return envelopes as soon as possible. This will ensure that your election will be recorded and your shares will be represented at the special stockholders meeting. If you sign and send in the proxy card and do not indicate how you want to vote, your proxy will be voted FOR the approval and adoption of the merger agreement and the merger.

Q: IF MY SHARES ARE HELD IN "STREET NAME" BY MY BROKER, WILL MY BROKER VOTE MY SHARES FOR ME?

A: Your broker will vote your shares only if you provide written instructions as to how to vote your shares. You should follow the directions provided by your broker regarding how to instruct your broker to vote your shares.

Q: WHAT RIGHTS DO I HAVE TO DISSENT FROM THE MERGER?

A: If you wish, you may dissent from the merger and seek an appraisal of the fair value of your shares, but only if you comply with all requirements of Delaware law summarized on Pages 30 through 32 and set forth in Appendix B of this proxy statement. Based on the determination of the Delaware Court of Chancery, the appraised fair value of your shares of ARO common stock or ARO preferred stock may be more than, less than or equal to the value of the merger consideration to be issued in the merger. The appraised fair value of your shares of ARO common stock or ARO preferred stock would be paid to you only if the merger is completed and an appraisal proceeding follows.

Q: CAN I CHANGE MY VOTE AFTER I HAVE MAILED MY SIGNED PROXY CARD?

A: Yes. You can change your vote at any time before the vote is taken at the special stockholders meeting. If you are the record holder of your shares, you can change your vote in one of the following three ways:

- You can send a written notice dated later than your proxy card stating that you would like to revoke your current proxy.
- You can complete and submit a new proxy card dated later than your original proxy card.
- You can attend the special stockholders meeting and vote in person.

If you choose either of the first two methods, you must submit your notice of revocation or your new proxy card to the Secretary of ARO at 801 Travis, Suite 2100, Houston, Texas 77002. ARO must receive the notice or new proxy card before the vote is taken at the special stockholders meeting.

Simply attending the special stockholders meeting and not voting,

however, will not revoke your proxy. If you hold your shares in "street name" and have instructed a broker to vote your shares, you must follow the directions received from your broker as to how to change your vote.

Q: SHOULD I SEND IN MY STOCK CERTIFICATES NOW?

A: No. If the merger is completed, ARO will promptly send you written instructions for sending in your stock certificates in exchange for the merger consideration to be issued in exchange for your shares.

Q. WHO CAN HELP ANSWER MY QUESTIONS?

A. If you have more questions about the merger you should contact:

Haavard Strommen
American Resources Offshore, Inc.
801 Travis, Suite 2100
Houston, Texas 77002
713-227-7660

SUMMARY

This summary highlights selected information contained elsewhere in this joint proxy statement/prospectus and may not contain all of the information that is important to you. You should carefully read this entire joint proxy statement/prospectus, including the attached appendices, and the other documents to which we refer you to in this joint proxy statement/prospectus. See "Where you can find more information" on Page 53.

PURPOSE OF THE SPECIAL MEETING (SEE PAGE 20)

At the special meeting, the stockholders of ARO will consider and vote on a proposal to adopt the merger agreement and the merger. The merger agreement provides that a wholly-owned subsidiary of Blue Dolphin would merge with and into ARO. ARO would be the surviving corporation in the merger and would then be a wholly-owned subsidiary of Blue Dolphin. Each outstanding share of common stock of ARO, other than shares held by ARO in treasury, shares held by Blue Dolphin and shares held by stockholders who perfect their statutory appraisal rights under Delaware law, would be converted automatically into the right to receive either .0362 shares of Blue Dolphin common stock or $.06 in cash, at the election of the holder, subject to a pro rata adjustment, and each outstanding share of preferred stock of ARO, other than shares held by ARO in treasury held, shares by Blue Dolphin and shares held by stockholders who perfect their statutory appraisal rights under Delaware law, would be converted automatically into the right to receive .0301 shares of Blue Dolphin common stock or $.07 in cash, at the election of the holder.

DATE, TIME AND PLACE OF THE SPECIAL MEETING (SEE PAGE 20)

The special meeting will be held on Tuesday, February 19 , 2002, at

10:00 a.m., local time, at ARO's corporate office, located at 801 Travis, Suite 2100, Houston, Texas 77002.

RECORD DATE AND QUORUM (SEE PAGE 20)

You can vote at the special meeting if you owned ARO common or preferred stock at the close of business on January 23, 2002, which is the record date for the special meeting. You are entitled to one vote for each share of ARO common stock and four votes for each share of ARO preferred stock held by you on the record date. At the close of business on the record date, there were 51,286,766 shares of ARO common stock outstanding and 39,682 shares of ARO preferred stock outstanding. Holders of a majority of the outstanding shares of ARO common stock and preferred stock entitled to vote at the special meeting must be present in person or represented by proxy to constitute a quorum for the transaction of business.

VOTE REQUIRED AND REVOCATION OF PROXIES (SEE PAGES 20 AND 21)

The merger agreement requires the approval by two separate votes of ARO's stockholders. First, the holders of a majority of the combined voting power of the outstanding shares of ARO common stock and preferred stock entitled to vote at the special meeting will be asked to approve and adopt the merger agreement. Second, the holders of a majority of the outstanding shares of ARO preferred stock, voting separately as a class, will be asked to approve and adopt the merger agreement.

Blue Dolphin, which owns approximately 77% of the outstanding ARO common stock and approximately 50.4% of the outstanding ARO preferred stock, owns enough shares of ARO preferred stock and common stock to approve the merger agreement without the vote of any other holders of ARO common stock or preferred stock. Blue Dolphin has indicated that it will vote its shares of ARO common stock and preferred stock in favor of the merger agreement.

The officers and directors of ARO beneficially own approximately 207,847 shares of ARO common stock and no shares of ARO preferred stock. No shares of capital stock of ARO are owned by any director or officer of Blue Dolphin.

You may revoke your proxy at any time before your shares are voted at the special meeting by sending a written notice to the secretary of ARO so that it is received prior to the special meeting, by executing and returning a later-dated proxy, or by voting in person at the special meeting.

If you send in your proxy card without instructions on how to vote, your shares will be voted "FOR" the adoption of the proposed merger agreement.

The board of directors of ARO does not expect any other matters to be voted on at the special meeting. If any other matters do properly come before the special meeting, the people named on the accompanying proxy card will vote the shares represented by all properly executed proxies in their discretion. However, shares represented by proxies that have been voted "AGAINST" adoption of the merger agreement will not be used to vote "FOR" adjournment of the special meeting to allow more time to solicit additional votes "FOR" adoption of the merger agreement.

ARO STOCKHOLDER ELECTIONS (SEE PAGE 34)

ARO stockholders will receive an election form with this joint proxy statement/prospectus. You should use this form to elect to receive cash, Blue Dolphin common stock or a combination of cash and Blue Dolphin common stock in exchange for your shares of ARO common and/or preferred stock. If you do not make an election, you will be deemed to have elected to receive Blue Dolphin common stock.

The merger agreement provides that holders of ARO common stock may not receive more than 70% of the aggregate merger consideration in cash and, as a result, at least 30% of the aggregate merger consideration paid to holders of ARO common stock will be Blue Dolphin common stock. The effect of the 70% limitation is that the cash portion of the merger consideration paid to holders of ARO common stock will be prorated if the aggregate number of shares of ARO common stock for which elections to receive cash are made exceeds 70% of the outstanding shares of ARO common stock. If such an adjustment is required, however, holders of ARO common stock will receive shares of Blue Dolphin common stock for any shares of ARO common stock for which they do not receive cash.

PARTIES OF THE MERGER (SEE PAGE 19)

Blue Dolphin Energy Company -- Blue Dolphin, is a holding company that conducts substantially all of its operations through its subsidiaries. Its business activities are conducted in two primary business segments:

- oil and gas exploration and production, and
- pipeline operations and activities, including developmental midstream projects.

American Resources Offshore, Inc. -- ARO is an independent oil and gas company engaged in the acquisition, exploration, development, and production of oil and gas properties in the Gulf Coast region offshore Louisiana and Texas.

BDCO Merger Sub, Inc.-- BDCO Merger Sub, Inc., a newly-formed Delaware corporation, was formed solely for purposes of completing the merger and is sometimes referred to as the merger subsidiary. It is a wholly-owned subsidiary of Blue Dolphin Exploration, a wholly-owned subsidiary of Blue Dolphin.

THE MERGER AGREEMENT (SEE PAGES 33 THROUGH 38)

The merger agreement, including the significant conditions to the closing of the merger, is described on pages 33 through 38 and is attached as Appendix A to this proxy statement. ARO encourages you to read carefully the entire merger agreement, as it is the legal document that governs the merger.

CONDITIONS TO THE MERGER (SEE PAGES 36 AND 37)

We will complete the merger only if a number of conditions are satisfied or waived, including, but not limited to, the following:

- the approval and adoption of the merger agreement and the merger by stockholders who hold a majority of the voting power of the ARO outstanding shares of common stock and preferred stock, voting together as a single class;
- the approval and adoption of the merger agreement and the merger by stockholders who hold a majority of ARO preferred stock, voting as a separate class;
- the consummation of the merger is not restrained, enjoined or

prohibited by any order, judgment or decree of a court of competent jurisdiction or any governmental entity, including any pending action seeking damages;

- no law or regulation is enacted or deemed applicable to the merger that prevents the consummation of the merger or impose material limitations on the ability of the surviving corporation to exercise full rights of ARO's assets or business;
- this registration statement shall have been declared effective by the Securities and Exchange Commission;
- no stop order suspending the effectiveness of this registration statement and no proceedings for that purpose shall have been initiated;
- all state securities laws or "Blue Sky" permits or approval shall have been received; and
- NASDAQ, or the securities exchange where the Blue Dolphin common stock is then listed, shall have authorized for listing the Blue Dolphin common stock to be issued in connection with the merger.

If these conditions are not satisfied or waived, the merger will not be completed even if the approval requirement is met.

TERMINATION OF THE MERGER AGREEMENT (SEE PAGE 38)

ARO and Blue Dolphin may agree to terminate the merger agreement at any time before the effective time of the merger. In addition, either party may terminate the merger agreement if, among other things:

- the stockholder approval condition, requiring that the merger agreement and the merger be approved and adopted by the affirmative vote of the holders of a majority of the combined voting power of the outstanding shares of ARO common stock and ARO preferred stock, voting together as a single class, and the affirmative vote of a majority of the outstanding shares of the preferred stock, voting as a separate class, is not met; or
- the effective time has not occurred on or before April 30, 2002

No termination fee is payable by any party in the event of a termination.

INTERESTS OF ARO DIRECTORS AND OFFICERS IN THE MERGER (SEE PAGE 28)

When considering the recommendation of ARO's Board of Directors with respect to the merger, you should be aware that some of ARO's directors and officers may have interests that are different from, or in addition to, your interests as a ARO stockholder. Three of ARO's directors are also officers or directors of Blue Dolphin and own Blue Dolphin stock.

TAX CONSEQUENCES (SEE PAGE 29)

The merger will generally be treated as a taxable exchange by the ARO stockholders of their shares of ARO common stock and preferred stock for the merger consideration. Each ARO stockholder will realize taxable gain, or loss, to the extent that the fair market value of the cash and/or Blue Dolphin common stock received by the ARO stockholder in the merger exceeds, or is less than, the stockholder's basis in the ARO common stock or preferred stock exchanged in the merger. You should consult your own tax advisor for a full understanding of the merger's tax consequences. Additionally, no gain or loss will generally be recognized by ARO or Blue Dolphin as a result of the merger.

ACCOUNTING TREATMENT (SEE PAGE 28)

The merger will be accounted for as the acquisition of a minority interest by Blue Dolphin, using the purchase method of accounting.

REGULATORY APPROVALS (SEE PAGE 29)

There are no federal or state regulatory approvals required that have not already been obtained in order for us to complete the merger, except for (1) the requirements of the Delaware General Corporation Law relating to stockholder approval and completion of the merger and (2) the requirements of the federal and state securities laws.

RESTRICTIONS ON SALES OF SHARES BY AFFILIATES OF BLUE DOLPHIN (SEE PAGE 29)

All shares of Blue Dolphin common stock you receive in the merger will be freely transferable unless you are considered an "affiliate" of Blue Dolphin under the Securities Act of 1933. Shares of Blue Dolphin common stock received by its affiliates in the merger may only be sold under a registration statement or exemption under the Securities Act.

APPRAISAL RIGHTS (SEE PAGES 30 THROUGH 32 AND APPENDIX B)

ARO is a Delaware corporation. Under the Delaware General Corporation Law, if you do not vote in favor of the merger and you follow all of the procedures for demanding appraisal rights described in Appendix B and summarized on Pages 30 through 32 and, you will be entitled to dissent and elect to have an appraisal of the "fair value" of your shares of common stock or preferred stock by the Delaware Court of Chancery. The value determined by the Delaware Court of Chancery may be more than, the same as or less than the per share payment (in cash or Blue Dolphin common stock) you would have received for each of your shares in the merger if you had not exercised your appraisal rights. Generally, to exercise appraisal rights, among other things:

- You must NOT vote in favor of the merger agreement and the merger; and

- You must make a written demand for appraisal in compliance with Delaware law BEFORE the vote on the merger agreement and the merger.

Merely voting against the merger agreement will not preserve your appraisal rights under Delaware law. Appendix B to this proxy statement contains

the Delaware statute relating to your appraisal rights. IF YOU WANT TO EXERCISE YOUR APPRAISAL RIGHTS, YOU ARE URGED TO READ AND FOLLOW CAREFULLY THE PROCEDURES ON PAGES 30 THROUGH 32 AND IN APPENDIX B. FAILURE TO FOLLOW ALL OF THE STEPS REQUIRED UNDER DELAWARE LAW WILL RESULT IN THE LOSS OF YOUR APPRAISAL RIGHTS.

FORWARD-LOOKING STATEMENTS IN THIS PROXY STATEMENT-PROSPECTUS (SEE PAGE 54)

This joint proxy statement/prospectus and the documents incorporated by reference into this joint proxy statement/prospectus contain forward-looking statements within the "safe harbor" provisions of the Sections 27A of the Securities Act and 21E of the Securities Exchange Act. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," and similar expressions identify forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements. In evaluating the merger, you should carefully consider the discussion of risks and uncertainties in the section entitled "Risk Factors" on pages 10 through 18.

COMPARISON OF RIGHTS OF HOLDERS OF ARO AND BLUE DOLPHIN CAPITAL STOCK (SEE PAGES 42 THROUGH 44)

There are differences between the rights you have as a holder of ARO common stock and preferred stock and the rights you will have as a holder of Blue Dolphin common stock. For a description of these differences, please read the section called "Comparison of Rights of Stockholders of ARO and Blue Dolphin."

COMPARATIVE PER SHARE MARKET PRICE DATA

The Blue Dolphin common stock is traded on the NASDAQ Small Cap Market under the symbol "BDCO." The ARO common stock is traded on the OTC Bulletin Board under the symbol "GASS.OB." The ARO preferred stock is not publicly traded.

The following table presents the closing prices per share of the ARO common stock and the closing prices per share of the Blue Dolphin common stock on the following dates:

- August 29, 2001, the last trading day before the public announcement that Blue Dolphin and ARO had entered into the merger agreement; and

- January 23, 2002, the last trading day before the date of this joint proxy statement/prospectus.

The chart also presents, in the line entitled "Equivalent Per Share Price," the price per share of ARO common stock you would have received if the exchange ratio had been set under the terms of the amended merger agreement on each of August 30, 2001, and January 23, 2002.

STOCK DATE	AUGUST 29, 2001

ARO	$ 0.09
Blue Dolphin	3.90
Equivalent Per Share Price	0.06

You should obtain current stock price quotations for the ARO common stock and the Blue Dolphin common stock.

The following table presents historical per share data for Blue Dolphin and ARO and pro forma per share data after giving effect to the proposed merger. The historical financial information is derived from the financial statements of Blue Dolphin and ARO, included in or incorporated by reference into this joint proxy statement/prospectus. The pro forma per share data is derived from the selected historical financial data and gives effect to the issuance of shares of Blue Dolphin common stock in the merger. The pro forma per share data has been calculated based on the historical financial data of Blue Dolphin adjusted for the acquisition of the minority interest related to ARO upon the issuance of Blue Dolphin common stock.

	NINE MONTHS ENDED SEPTEMBER 30, 2001 (UNAUDITED) (IN THOUSANDS	
PER SHARE DATA (HISTORICAL):	BLUE DOLPHIN	ARO
Book Value per Common Share	$ 1.25	$ 0
Book Value per Preferred Share	NA	$ 12
Cash Dividends Declared per Common Share(1)	$ 0.00	$ 0
Cash Dividends Declared per Preferred Share	NA	$ 0
Income (Loss) per Common Share from Continuing Operations:		
Basic	$ 0.01	$ 0
Diluted	$ 0.01	$ 0
PRO FORMA PER SHARE AMOUNTS(2):		
Book Value per Common Share	$ 1.27	
Income (Loss) per Common Share from Continuing Operations:		
Basic	$ 0.04	
Diluted	$ 0.04	

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(1) No cash dividends were paid by Blue Dolphin for any of the periods presented.

(2) Blue Dolphin owned approximately 77% of the outstanding shares of ARO common stock at September 30, 2001 and December 31, 2000. ARO was included as a majority owned subsidiary in the consolidated financial statements of Blue Dolphin for the periods presented. The pro forma calculations are preliminary and may not reflect future income (loss) or book value per share amounts following the acquisition of ARO's minority interest. The pro forma computation assumes consideration issued consists solely of Blue Dolphin common stock.

RISK FACTORS

If you hold your shares of ARO common stock or preferred stock until the merger and elect to receive Blue Dolphin common stock, you will be investing in Blue Dolphin. The following important factors, among others, in some cases have affected, and in the future could affect, Blue Dolphin's actual results and could cause its actual results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, Blue Dolphin. In addition to the other information contained in or incorporated by reference into this joint proxy statement/prospectus, you should carefully consider the following risk factors in deciding whether to vote for the merger and/or to elect to receive Blue Dolphin common stock.

RISKS RELATING TO THE MERGER

We may not achieve the expected benefits of the mergers.

The merger is intended to achieve certain specific benefits. The likelihood of achieving those benefits represents the subjective judgment of ARO's and Blue Dolphin's managements and boards of directors. Some of those benefits may not be achieved or, if achieved, may not be achieved in the time frame in which they are expected. Whether Blue Dolphin will actually realize these anticipated benefits depends on future events and circumstances beyond the control of Blue Dolphin.

It is possible that Blue Dolphin will not realize some or all of the benefits of the merger that formed the basis for the recommendations of ARO's board of directors that you approve the merger agreement.

The value of the Blue Dolphin common stock to be received in the merger will fluctuate.

The merger agreement does not contain any provisions for adjustment of the exchange ratios and does not provide any right of termination by either party if there are fluctuations in the market price of either ARO or Blue Dolphin stock before the completion of the merger. Because no adjustment will be made to the exchange ratio, ARO stockholders that elect to receive Blue Dolphin common stock will not be able to determine the value of the consideration that they will receive in connection with the merger until the closing, which will depend upon the market price of Blue Dolphin common stock upon completion of the merger. Variations in the trading prices of ARO and Blue Dolphin stock may result from:

- changes in the business or results of operations of ARO or Blue Dolphin;
- the prospects for the post-merger operations of Blue Dolphin;
- the timing of the merger;
- general stock market and economic conditions; and
- other factors beyond the control of ARO or Blue Dolphin, including those described elsewhere in this "Risk Factors" section.

Before voting and electing the form of consideration, stockholders are urged to obtain current market quotations for both Blue Dolphin and ARO common

stock.

No fairness opinion was obtained regarding the merger.

Due to the economics of the transaction and to conserve cash, no fairness opinion was received by either ARO or Blue Dolphin regarding the merger. No other parties, other than the special committee and the parties involved in the transaction, have evaluated the fairness of the merger consideration to be received by each stockholder of ARO.

Some stockholders of ARO common stock may not receive their requested form of merger consideration.

The merger agreement provides that the merger consideration will be paid in cash, Blue Dolphin common stock or a combination of cash and Blue Dolphin common stock. If the aggregate number of shares of ARO common stock for which cash elections are received is greater than 70% of the number of shares of ARO common stock outstanding at the effective time of the merger, the actual amount of cash consideration that holders of ARO common stock receive on a per share basis will be prorated.

Accordingly, no assurance can be given that holders of ARO common stock who elect to receive cash will receive all of their merger consideration in cash.

RISKS RELATING TO THE OPERATION OF BLUE DOLPHIN

Blue Dolphin will need to raise additional capital to meet its obligations and working capital requirements.

Blue Dolphin believes that it will need to raise between $3.0 to $5.5 million of capital to meet its obligations and working capital requirements in fiscal 2002. Blue Dolphin will have to either:

- sell assets;

- seek external financing by issuing equity or debt securities or from third party financing; or

- a combination of the above.

There can be no assurance that Blue Dolphin will be able to raise additional capital or that it will be able to raise additional capital on commercially acceptable terms. Blue Dolphin's inability to raise additional capital may cause it to reduce its level of operations and would have a material adverse effect on its financial condition. Furthermore, if Blue Dolphin is not able to raise additional capital, its ability to continue to operate as a going concern will be at question and the auditor's report that it receives may contain a qualification regarding Blue Dolphin's ability to continue as a going concern.

Oil and gas prices are volatile and a substantial and extended decline in the price of oil and gas would have a material adverse effect on Blue Dolphin.

Blue Dolphin's revenues, profitability, operating cash flow, the carrying value of its oil and gas properties and its potential for growth are

largely dependent on prevailing oil and gas prices. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply and demand for oil and gas, uncertainties within the market and a variety of other factors beyond Blue Dolphin's control. These factors include:

- weather conditions in the United States;
- the condition of the United States economy;
- the actions of the Organization of Petroleum Exporting Countries;
- governmental regulation;
- political stability in the Middle East and elsewhere;
- the foreign supply of oil and gas;
- the price of foreign imports; and
- the availability of alternate fuel sources.

In addition to decreasing Blue Dolphin's revenue and operating cash flow, low or declining oil and gas prices could have collateral effects that could adversely affect Blue Dolphin, including the following:

- reducing the overall volumes of oil and gas that Blue Dolphin can produce from its oil and gas reserves economically;
- resulting in an impairment to the historical carrying value of Blue Dolphin's oil and gas properties, which could compel Blue Dolphin, under generally accepted accounting principles, to recognize a significant write down of the carrying value of its oil and gas assets on its balance sheet and an associated charge to its income;

- increasing Blue Dolphin's dependence on external sources of capital to meet its cash needs; and
- impairing Blue Dolphin's ability to obtain needed equity or debt capital.

Volatile oil and gas prices also make it difficult to estimate the value of producing properties Blue Dolphin may acquire and also make it difficult for Blue Dolphin to budget for and project the return on acquisitions and development and exploitation projects.

Factors beyond Blue Dolphin's control affect its ability to market oil and gas.

Blue Dolphin's ability to market oil and gas from its wells depends upon several factors beyond its control. These factors include:

- the level of domestic production and imports of oil and gas;

- the proximity of gas production to gas pipelines;
- the available pipeline capacity;
- the demand for oil and gas by utilities and other end users;
- the availability of alternate fuel sources;
- the effect of inclement weather;
- state and federal regulation of oil and gas marketing; and
- federal regulation of gas sold or transported in interstate commerce.

If these factors were to change dramatically, Blue Dolphin's ability to market its oil and gas or obtain favorable prices for its oil and gas could be adversely affected.

The actual cost to abandon Blue Dolphin's Buccaneer Field offshore platform facilities could exceed the $4.9 million reserve it has established.

As a result of the termination of production from the Buccaneer Field located in the Gulf of Mexico, Galveston Blocks 288 and 296 in 2000, Blue Dolphin must remove the associated offshore platform facilities and debris around the platform facilities. As of September 30, 2001, Blue Dolphin's reserve for these costs was $4.9 million. Operations to remove the platform facilities commenced in September 2001. The actual cost of these operations could substantially exceed $4.9 million if weather conditions are adverse, debris removal is more excessive than expected and other unforeseen conditions are encountered.

An adverse result from the H&N Gas litigation could effect the consolidated financials of Blue Dolphin.

If ARO experiences an adverse outcome with respect to the H&N Gas litigation, ARO's ability to contribute to Blue Dolphin's consolidated financial operating results would be adversely affected. An adverse outcome could require Blue Dolphin to fund the on-going operations and cash-flow needs of ARO.

Blue Dolphin may be subject to contractual penalties if it is unable to pay its share of drilling costs.

If Blue Dolphin lacks and is unable to obtain cash sufficient to pay its proportionate share of the estimated costs to drill any well in which it owns less than 100% of the working interest, Blue Dolphin may be subject to contractual "non-consent" and other penalties. These penalties may include, for example, full or partial forfeiture of Blue Dolphin's interest in the well or a relinquishment of Blue Dolphin's interest in production from the well in favor of the participating working interest owners until the participating working interest owners have recovered a multiple of the costs which would have been borne by Blue Dolphin had Blue Dolphin elected to participate, which often ranges from 400% to 600% of such costs.

Blue Dolphin may record an impairment of the net book value of the Petroport and Sabine Seaport projects.

Blue Dolphin has been attempting to develop a deepwater port. Most of the costs that Blue Dolphin has incurred have been capitalized. At September 30, 2001, Blue Dolphin's financial statements included an asset of $1.9 million related to the Petroport and Sabine Seaport projects. There can be no assurance that Blue Dolphin will further develop the Petroport and Sabine Seaport projects. If additional progress on the development of these projects is not made, Blue Dolphin believes that an impairment of these assets will be recorded for the year ended December 31, 2001, possibly reducing the carrying value of these assets to $0.

Blue Dolphin's Petroport, Sabine Seaport, Avoca and Drillmar projects are in the development stage and Blue Dolphin may not be able to successfully complete them.

The cost of the Petroport and Sabine Seaport terminal complex and facilities are each estimated to be approximately $200.0 million. Deepwater ports, such as these facilities, must comply with extensive federal and state regulations. The licensing process is expected to require at least one year. Given the nature and complexity of obtaining the necessary licenses and permits, there can be no assurance that Blue Dolphin will be issued a deepwater port license and the other necessary permits for either facility. Further, the fabrication, construction and installation of a deepwater port is expected to require a minimum of two years. There can be no assurances that if either facility is completed further competition and regulations will not impede the operation of the deepwater port facility nor can there be any assurances as to when Blue Dolphin may expect to receive a return on its capital investment, if any.

Blue Dolphin's 25% interest in the Avoca salt cavern gas storage project is dependent upon Avoca developing a brine disposal solution and strong commitment base. Avoca is currently reviewing brine disposal alternatives to determine the technical and commercial viability of completing the construction of the Avoca gas storage facility. Avoca will either terminate the project or go forward with its completion based on the brine disposal solution. Further, given the highly regulated and competitive industry, Blue Dolphin can make no assurances that if Avoca goes forward with the project that it will obtain the necessary regulatory approval.

The success of Drillmar, in which Blue Dolphin owns a 12.8% interest, is dependent on its ability to obtain adequate financing to fund its operating costs and engineering work. The project is highly capital intensive and will require a strong contract base to succeed. Further, its success will also depend on its ability to obtain a patent to protect technology that it has developed. Blue Dolphin can make no assurances that Drillmar will obtain the financing necessary to fund its operations.

None of Petroport, Sabine Seaport, Avoca or Drillmar will earn any revenues until their completion. We cannot assure you that any of these projects will ever earn any revenues.

Blue Dolphin will need external financing to support its oil and gas operations and the development of its Avoca, Petroport, Sabine Seaport and Drillmar projects.

All of the businesses Blue Dolphin engages in are capital intensive. Blue Dolphin will need external financing to support its oil and gas business and to support the development of its Avoca, Petroport, Sabine Seaport and Drillmar projects. Blue Dolphin's ability to expand its reserve base, develop its oil and gas reserves and to fund the Avoca storage project and the Petroport and the Sabine Seaport facilities, is dependent upon its ability to obtain the necessary capital. Blue Dolphin cannot assure you that it will be able to obtain

necessary financing, on acceptable terms, to expand its reserve base and invest in future exploitation, acquisition and exploration opportunities. Under financing arrangements which Blue Dolphin may use for future purchases of oil and gas properties or to fund any development projects, it is likely that such property's entire net, after-tax cash flow will be subject to the terms of such financing and will thus be unavailable to Blue Dolphin until the financing is repaid. Any lender may also condition its financing upon its receipt of some form of ownership interest in the property which would reduce Blue Dolphin's interest in revenues from the property acquired. Lack of adequate external financing could prevent Blue Dolphin from acquiring desirable oil and gas properties, may curtail development of its existing oil and gas properties and could impact its ability to continue its Petroport and Sabine Seaport facilities or Avoca project. Lack of adequate capital could force Blue Dolphin to sell some of its assets and on-going projects at less than advantageous prices.

Blue Dolphin faces strong competition from larger oil and gas companies that may negatively affect its ability to carry on operations.

Blue Dolphin operates in a highly competitive industry. Blue Dolphin's competitors include major integrated oil companies, substantial independent energy companies, affiliates of major interstate and intrastate pipelines and national and local gas gatherers, many of which possess greater financial and other resources than Blue Dolphin does. Blue Dolphin's ability to successfully compete in the marketplace is affected by many factors.

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- Most of Blue Dolphin's competitors have greater financial resources than Blue Dolphin does, which gives them better access to sources of capital to acquire and develop oil and gas properties.

- Most of Blue Dolphin's competitors have longer operating histories and have more data generally available to them, including information relating to oil and gas properties.

- Blue Dolphin often establishes a higher standard for the minimum projected rate of return on an investment than some of its competitors since it cannot afford to absorb certain risks. This, Blue Dolphin believes, puts it at a competitive disadvantage in acquiring oil and gas properties.

Because of the highly competitive nature of the pipeline business, Blue Dolphin may not be able to retain existing customers or acquire new customers.

Competition is intense in the markets where Blue Dolphin operates pipeline gathering facilities. Some of Blue Dolphin's competitors have greater financial resources and access to customers who have larger supplies of natural gas than Blue Dolphin's customers. This could allow those competitors to price their services more aggressively than Blue Dolphin does, which could hurt Blue Dolphin's profitability.

Blue Dolphin cannot give any assurances that it will be able to renew or replace its current contracts as they expire. The renewal or replacement of existing long-term contracts with Blue Dolphin's customers at rates sufficient to maintain current revenues and cash flows depends on a number of factors beyond Blue Dolphin's control, including:

- competition from other pipelines;
- the price of, and demand for, natural gas in markets served;
- the successful drilling of new wells by other companies in the market area around Blue Dolphin's pipeline systems; and
- the production rates that wells connected to Blue Dolphin's pipeline produce.

Blue Dolphin's future success depends, in part, upon Blue Dolphin's ability to find, develop and acquire additional oil and gas reserves that are economically recoverable.

Blue Dolphin's future success depends upon its ability to find or acquire additional oil and gas reserves that are economically recoverable. Blue Dolphin's proved reserves will decline as they are produced unless Blue Dolphin conducts successful exploration or development activities or acquires properties containing proved reserves. Blue Dolphin must attempt to increase its proved reserves even during periods of low oil and gas prices when it is difficult to raise the capital necessary to finance these activities. Blue Dolphin cannot assure you that its planned development projects and acquisition activities will result in significant increases in its reserves or that Blue Dolphin will drill or participate in the drilling of productive wells at economic returns. The drilling of oil and gas wells involves a high degree of risk, especially the risk of dry holes or of wells that are not sufficiently productive to provide an economic return on the capital expended to drill the wells. The cost of drilling, completing and operating a well is uncertain, and Blue Dolphin's drilling or production may be curtailed or delayed as a result of many factors.

You should not place undue reliance on reserve information because reserve information represents estimates.

This joint proxy statement/prospectus incorporates estimates of Blue Dolphin's oil and gas reserves and the future net revenues from those reserves which Blue Dolphin and its independent petroleum consultants have prepared. Reserve engineering is a subjective process of estimating Blue Dolphin's recovery from underground accumulations of oil and gas that cannot be measured in an exact manner. The accuracy of Blue Dolphin's reserve estimates is a function of the quality of available data and of engineering and geological interpretation and judgment. Estimates of Blue Dolphin's economically recoverable oil and gas reserves and of future net cash flows necessarily depend upon a number of variable factors and assumptions, such as:

- historical production from the area compared with production from other producing areas;
- the assumed effects of regulations by governmental agencies; and

- assumptions concerning future oil and gas prices, future operating costs, severance and excise taxes, development costs and costs to restore or increase production on a producing well.

In addition, different reserve engineers may make different estimates

of reserve quantities and cash flows based upon the same available data. Blue Dolphin's reserve estimates are to some degree speculative. As a result there may be material variances between Blue Dolphin's actual results and costs, and Blue Dolphin's estimates of:

- the quantities of oil and gas that Blue Dolphin ultimately recovers;
- Blue Dolphin's production and operating costs;
- the amount and timing of Blue Dolphin's future development expenditures; and
- Blue Dolphin's future oil and gas sales prices.

Any significant variance in these assumptions could materially affect the estimated quantity and value of Blue Dolphin's reserves reported in this joint proxy statement/prospectus.

Blue Dolphin cannot accurately predict the size or foresee all related risks of an exploration target.

Blue Dolphin's decision to participate in the drilling of exploratory wells on exploratory prospects and, ultimately, the success of Blue Dolphin's participation depends largely on the results of geotechnical evaluations of 3-D seismic surveys being conducted or planned on such prospects. Seismic surveys are digital recordings of shock waves reflected off of underground formations. Three-dimensional seismic is the application of powerful computer workstations and sophisticated software to seismic data acquired from a dense pattern of shot points to create computer-generated, three-dimensional displays of subsurface formations. The acquisition and interpretation of 3-D and conventional seismic survey data and other geological and geophysical data involves subjective professional judgment. Reliance on such data and interpretations poses the risk that a decision to participate in the drilling of a well may be founded on incorrect data, erroneous interpretations of data, or both. Blue Dolphin believes its use of 3-D seismic surveys will increase the probability of success of such exploratory wells and will reduce average exploration costs through the elimination of prospects that might otherwise be drilled solely on the basis of 2-D seismic surveys, which provides two- dimensional displays, and other traditional methods. However, there can be no assurance as to the success of Blue Dolphin's participation in any drilling program.

Blue Dolphin cannot control the activities on properties it does not operate.

Other companies operate many of the properties in which Blue Dolphin has an interest. As a result, Blue Dolphin will depend on the operator of the wells to properly conduct lease acquisition, drilling, completion and production operations. The failure of an operator, or the drilling contractors and other service providers selected by the operator to properly perform services, could adversely affect Blue Dolphin.

Blue Dolphin has and generally anticipates that it will typically own substantially less than a 50% working interest in its prospects and will therefore engage in joint operations with other working interest owners. In instances in which Blue Dolphin owns or controls less than a majority of the working interest in a prospect, decisions affecting the prospect could be made by the owners of more than a majority of the working interest. For instance, if Blue Dolphin is unwilling or unable to participate in the costs of operations approved by a majority of the working interests in a well, Blue Dolphin's working interest in the well (and possibly other wells on the prospect) will likely be subject to contractual "non-consent penalties" such as those described

under the caption "Blue Dolphin may be subject to contractual penalties if it is unable to pay its share of drilling costs."

Blue Dolphin does not have a vested interest in all of its prospects.

Until an oil and gas exploration company acquires leases covering its "prospects," its prospects are geological ideas rather than recordable title interests in real property and are subject to prior lease in whole or in part by others. Certain of the prospects in Blue Dolphin's inventory are unleased. Until such time as all of the lands within these prospects are leased by Blue Dolphin, it is possible that all or a portion of such prospects could be leased by others.

Blue Dolphin has pursued, and intends to continue to pursue, acquisitions. Blue Dolphin's business may be adversely affected if it cannot effectively integrate acquired operations.

One of Blue Dolphin's business strategies has been to acquire operations and assets that are complementary to its existing businesses. Acquiring operations and assets involves financial, operational and legal risks. These risks include:

- inadvertently becoming subject to liabilities of the acquired company that were unknown to Blue Dolphin when it was acquired by Blue Dolphin, such as later asserted litigation matters or tax liabilities,
- the difficulty of assimilating operations, systems and personnel of the acquired businesses, and
- maintaining uniform standards, controls, procedures and policies.

Any future acquisitions would likely result in an increase in expenses. In addition, competition from other potential buyers could cause Blue Dolphin to pay a higher price than it otherwise might have to pay and reduce its acquisition opportunities. Blue Dolphin is often out-bid by larger, more capitalized companies for acquisition opportunities it pursues. Moreover, Blue Dolphin's past success in making acquisitions and in integrating acquired businesses does not necessarily mean Blue Dolphin will be successful in making acquisitions and integrating businesses in the future.

Operating hazards including those peculiar to the marine environment may adversely affect Blue Dolphin's ability to conduct business.

Blue Dolphin's operations are subject to risks inherent in the oil and gas industry, such as:

- sudden violent expulsions of oil, gas and mud while drilling a well, commonly referred to as a blowout;
- a cave in and collapse of the earth's structure surrounding a well, commonly referred to as cratering;
- explosions;

- fires;
- pollution; and
- other environmental risks.

These risks could result in substantial losses to Blue Dolphin from injury and loss of life, damage to and destruction of property and equipment, pollution and other environmental damage and suspension of operations. Blue Dolphin's offshore operations are also subject to a variety of operating risks peculiar to the marine environment, such as hurricanes or other adverse weather conditions and more extensive governmental regulation. These regulations may, in certain circumstances, impose strict liability for pollution damage or result in the interruption or termination of operations.

Losses and liabilities from uninsured or underinsured drilling and operating activities could have a material adverse effect on Blue Dolphin's financial condition and operations.

Blue Dolphin maintains several types of insurance to cover its operations, including maritime employer's liability and comprehensive general liability. Amounts over base coverages are provided by primary and excess umbrella liability policies with maximum limits of $50.0 million. Blue Dolphin also maintains operator's extra expense coverage, which covers the control of drilled or producing wells as well as redrilling expenses and pollution coverage for wells out of control.

Blue Dolphin may not be able to maintain adequate insurance in the future at rates it considers reasonable or losses may exceed the maximum limits under Blue Dolphin's insurance policies. If a significant event that is not fully insured or indemnified occurs, it could materially and adversely affect Blue Dolphin's financial condition and results of operations.

Compliance with environmental and other government regulations could be costly and could negatively impact production and pipeline operations.

Blue Dolphin's operations are subject to numerous laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. These laws and regulations may:

- require the acquisition of a permit before drilling commences;
- restrict the types, quantities and concentration of various substances that can be released into the environment from drilling and production activities;
- limit or prohibit drilling and pipeline activities on certain lands lying within wilderness, wetlands and other protected areas;
- require remedial measures to mitigate pollution from former operations, such as plugging abandoned wells and abandoning pipelines; and
- impose substantial liabilities for pollution resulting from Blue Dolphin's operations.

The recent trend toward stricter standards in environmental legislation and regulation is likely to continue. The enactment of stricter legislation or the adoption of stricter regulation could have a significant impact on Blue Dolphin's operating costs, as well as on the oil and gas industry in general.

Blue Dolphin's operations could result in liability for personal injuries, property damage, oil spills, discharge of hazardous materials, remediation and clean-up costs and other environmental damages. Blue Dolphin could also be liable for environmental damages caused by previous property owners. As a result, substantial liabilities to third parties or governmental entities may be incurred which could have a material adverse effect on Blue Dolphin's financial condition and results of operations. Blue Dolphin maintains insurance coverage for its operations, including limited coverage for sudden and accidental environmental damages, but Blue Dolphin does not believe that insurance coverage for environmental damages that occur over time or complete coverage for sudden and accidental environmental damages is available at a reasonable cost. Accordingly, Blue Dolphin may be subject to liability or may lose the privilege to continue exploration or production activities upon substantial portions of its properties if certain environmental damages occur.

The Oil Pollution Act of 1990 imposes a variety of regulations on "responsible parties" related to the prevention of oil spills. The implementation of new, or the modification of existing, environmental laws or regulations, including regulations promulgated pursuant to the Oil Pollution Act of 1990, could have a material adverse impact on Blue Dolphin.

Existing and future United States governmental regulation, taxation and price controls could seriously hinder Blue Dolphin.

Blue Dolphin's oil and gas leases in the Gulf of Mexico are administered principally by the Minerals Management Service, an agency of the U.S. Department of Interior. This agency strictly regulates the exploration, development and production of oil and gas reserves in the Gulf of Mexico. Such regulations could seriously impact Blue Dolphin's operations in the Gulf of Mexico. The federal government regulates the interstate transportation of oil and natural gas, through the Federal Energy Regulatory Commission. Federal reenactment of price controls or increased regulation of the transport of oil and natural gas could seriously hinder Blue Dolphin. None of the natural gas pipelines owned by Blue Dolphin are subject to Natural Gas Act regulation. The trend toward greater competition among gas pipelines subject to Natural Gas Act regulation is continuing, making it infeasible for regulated pipelines to rely upon exclusive monopoly status.

Blue Dolphin may issue shares of preferred stock with greater rights than its common stock.

Blue Dolphin's certificate of incorporation authorizes its board of directors to issue one or more series of preferred stock and set the terms of the preferred stock without seeking any further approval from its common stockholders. Any preferred stock that is issued may rank ahead of Blue Dolphin's common stock in terms of dividends, priority and liquidation premiums and may have greater voting rights than its common stock.

Provisions in Blue Dolphin's organizational documents and Delaware law could delay or prevent a change in control of Blue Dolphin, even if that change would be beneficial to Blue Dolphin's stockholders.

Certain provisions of Blue Dolphin's certificate of incorporation and the provisions of Section 203 of the Delaware General Corporation Law may delay, discourage, prevent or render more difficult an attempt to obtain control of Blue Dolphin, whether through a tender offer, business combination, proxy contest or otherwise, including the charter's authorization of "blank check" preferred stock. In addition, the vote of the holders of 80% of the outstanding shares is required to approve any amendment to the authorized capital stock of Blue Dolphin. Section 203 of the Delaware General Corporation law limits the ability of a company from engaging in a business combination with a party that became an interested stockholder. Each of these provisions could act as a "repellent" to an unsolicited offer from a buyer.

There is a limited trading market for Blue Dolphin's common stock.

Blue Dolphin's common stock is traded on the NASDAQ Small Cap Market. Average daily trading volume for Blue Dolphin's common stock, as reported by the NASDAQ Small Cap Market for the third quarter and fourth quarter of 2001, was approximately 433 and 1,053 shares, respectively. Despite the increase in the number of shares of common stock to be publicly held as a result of this offering, or should additional equity be issued, Blue Dolphin cannot assure you that a more active trading market will develop. Because there is a small public float in Blue Dolphin's common stock and it is thinly traded, sales of small amounts of common stock in the public market could materially adversely affect the market price for Blue Dolphin's common stock. If a more active market does not develop, Blue Dolphin may not be able to sell shares in the future promptly, for prices that it deems appropriate, or perhaps at all.

Blue Dolphin has not paid dividends on its common stock and does not expect to in the foreseeable future.

Blue Dolphin has not paid dividends on its common stock since its inception and does not expect to in the foreseeable future, so Blue Dolphin's stockholders will not be able to receive a return on their investments without selling their shares. Blue Dolphin presently anticipates that all earnings, if any, will be retained for development of its business. Any future dividends will be subject to the discretion of Blue Dolphin's board of directors and will depend on, among other things, future earnings, Blue Dolphin's operating and financial condition, Blue Dolphin's capital requirements and general business conditions.

The market price of Blue Dolphin's common stock could be adversely affected by sales of substantial amounts of common stock in the public market or the perception that such sales could occur.

As of January 23, 2002, Blue Dolphin had 6,091,592 shares of common stock outstanding. Approximately 153,173 additional shares of common stock were issuable upon the exercise of outstanding options, warrants and convertible securities. The market price of Blue Dolphin's common stock could be adversely affected by the issuance of shares of common stock pursuant to the terms of the merger.

PARTIES TO THE MERGER

AMERICAN RESOURCES OFFSHORE, INC.

ARO is an independent oil and gas company engaged in the acquisition, exploration, development, and production of oil and gas properties in the Gulf Coast region offshore Louisiana and Texas. ARO's principal offices are located at 801 Travis, Suite 2100, Houston, Texas 77002 and the telephone number is (713) 227-7660.

ARO's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and its Quarterly Report on Form 10-Q for the quarter ended September 30, 2001, accompany this joint proxy statement/prospectus.

BLUE DOLPHIN ENERGY COMPANY

Blue Dolphin conducts its business activities in two primary business segments:

- oil and gas exploration and production; and
- pipeline operations and activities, including our developmental midstream projects.

Blue Dolphin is a holding company that conducts substantially all of its operations through its subsidiaries. Blue Dolphin primarily concentrates on areas located along the western and central coasts of the Gulf of Mexico. Blue Dolphin's oil and gas exploration and production activities include the exploration, acquisition, development, operation and, when appropriate, disposition of oil and gas properties. Blue Dolphin's oil and gas assets are held by, and it conducts its operations through Blue Dolphin Exploration Company, its wholly-owned subsidiary, and ARO. Blue Dolphin's principal offices are located at 801 Travis, Suite 2100, Houston, Texas 77002 and the telephone number is (713) 227-7660.

Blue Dolphin's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and its Quarterly Report for the quarter ended September 30, 2001, accompany this joint proxy statement/prospectus.

BDCO MERGER SUB, INC.

The merger subsidiary was formed in August 2001 solely for the purposes of engaging in the merger. The merger subsidiary is a wholly-owned subsidiary of Blue Dolphin Exploration, a direct, wholly-owned subsidiary of Blue Dolphin. The merger subsidiary has not carried on any activities to date other than those incident to its formation and the negotiation and execution of the merger agreement. The merger subsidiary's principal offices are located at 801 Travis, Suite 2100, Houston, Texas 77002 and the telephone number is (713) 227-7660.

THE SPECIAL STOCKHOLDERS MEETING

DATE; TIME; PLACE AND RECORD DATE OF THE SPECIAL STOCKHOLDERS MEETING

The special stockholders meeting will be held on Tuesday, February 19, 2002, 10:00 a.m., local time, at ARO's corporate office, located at 801 Travis, Suite 2100, Houston, Texas 77002. The accompanying proxy is being solicited by ARO's Board of Directors and is to be voted at the special stockholders meeting or any adjournment(s) or postponement(s) thereof. The holders of record of ARO's

common stock or preferred stock as of the close of business on January 23, 2002 are entitled to receive notice of, and to vote at, the special stockholders meeting. On the record date, there were 51,286,766 shares of ARO common stock and 39,682 shares of preferred stock outstanding and entitled to vote. No other voting securities of ARO are outstanding.

THE MERGER

At the special stockholders meeting, you will be asked to consider and vote upon the approval and adoption of the merger agreement and the merger, which provides for the merger of a wholly-owned subsidiary of Blue Dolphin into ARO. In the merger, each issued and outstanding share of ARO common stock held by ARO's public stockholders will be canceled and converted into the right to receive either .0362 shares of Blue Dolphin common stock or $.06 in cash, at the election of the stockholder, subject to proration, and each issued and outstanding share of ARO preferred stock held by ARO's public stockholders will be canceled and converted into the right to receive .0301 shares of Blue Dolphin common stock or $.07 in cash, at the election of the stockholder. The shares of stock of the merger subsidiary, all of which are indirectly owned by Blue Dolphin, will be canceled and converted automatically into 100 shares of common stock of the surviving corporation in the merger. Following the merger, Blue Dolphin will hold indirectly 100% of the outstanding shares of stock in the surviving corporation. Treasury shares and shares of ARO common stock and preferred stock owned by Blue Dolphin, the merger subsidiary or by any of their wholly-owned subsidiaries will be canceled. Shares held by stockholders who perfect their dissenters' rights will be subject to appraisal in accordance with Delaware law.

RECOMMENDATION OF ARO'S BOARD OF DIRECTORS

The ARO board unanimously approved the merger agreement and the merger. The ARO board believes the merger agreement and the transaction contemplated by the merger agreement are advisable and in the best interests of the stockholders of ARO. Accordingly, the ARO board unanimously recommends the ARO common and preferred stockholders vote "FOR" approval and adoption of the merger agreement. For a discussion of the factors the ARO board considered in making this recommendation, see "The Merger."

VOTING INFORMATION

Each outstanding share of ARO common stock is entitled to one vote. Each outstanding share of ARO preferred stock is entitled to four votes. The merger agreement must be approved by two separate votes of ARO's stockholders. First, the holders of a majority of the combined voting power of the outstanding shares of ARO common stock and preferred stock entitled to vote at the special meeting will be asked to approve and adopt the merger agreement. Blue Dolphin, which owns approximately 77% of the outstanding ARO common stock, owns enough shares of ARO common stock to satisfy this vote requirement without the vote of any other holders of ARO common stock or preferred stock. Second, the holders of a majority of the outstanding shares of ARO preferred stock, voting separately as a class, will be asked to approve and adopt the merger agreement. Blue Dolphin, which also owns 50.4% of the outstanding ARO preferred stock, owns enough shares of ARO preferred stock to also satisfy this vote requirement without the vote of any other holders of ARO preferred stock. Blue Dolphin has indicated that it will vote its shares of ARO common stock and preferred stock in favor of the merger agreement. Blue Dolphin acquired the shares of preferred stock in November 2001 in exchange for restricted shares of Blue Dolphin common stock.

The presence, in person or by proxy, of the holders of a majority of the outstanding shares of ARO's common stock and preferred stock entitled to vote at the special stockholders meeting is necessary to constitute a quorum for

the transaction of business at the special stockholders meeting. Abstentions are counted for purposes of determining whether a quorum exists at the special stockholders meeting for purposes of the approval requirement.

Brokers who hold shares in street name for customers have the authority to vote on "routine" proposals when they have not received instructions from beneficial owners. However, absent specific instructions from the beneficial owner of the shares, brokers are not allowed to exercise their voting discretion with respect to the approval and adoption of non-routine matters such as the merger proposal. Abstentions and properly executed broker non-votes will be treated as shares that are present and entitled to vote at the special stockholders meeting for purposes of determining whether a quorum exists and will have the same effect as a vote against approval of the merger agreement.

SOLICITATION; REVOCATION AND USE OF PROXIES

ARO will pay the costs of all mailing and filing fees incurred in connection with this joint proxy statement/prospectus. Some of ARO's directors, officers and employees may solicit proxies by telephone, facsimile and personal contact, without separate compensation for those activities. Copies of solicitation materials will be furnished to fiduciaries, custodians and brokerage houses for forwarding to beneficial owners of common stock, and these persons will be reimbursed for their reasonable out-of-pocket expenses.

The grant of a proxy on the enclosed form does not preclude you from attending the special stockholders meeting and voting in person. You may revoke your proxy at any time before it is voted at the special stockholders meeting. If you are a record holder, you may revoke your proxy by:

- delivering to the Secretary of ARO, before the vote is taken at the special stockholders meeting, a written notice of revocation bearing a later date than the proxy;
- duly executing a later dated proxy relating to the same shares of common stock and delivering it to the Secretary of ARO before the vote is taken at the special stockholders meeting; or
- attending the special stockholders meeting and voting in person.

Attendance at the special stockholders meeting will not in and of itself constitute a revocation of a proxy. Any written notice of revocation or subsequent proxy should be sent to the Secretary of ARO at 801 Travis, Suite 2100, Houston, Texas 77002, or hand delivered to the Secretary of ARO before the vote is taken at the special stockholders meeting. All valid proxies will be voted at the special stockholders meeting in accordance with the instructions given. If no instructions are given, the shares represented by the proxy will be voted at the special stockholders meeting for approval and adoption of the merger agreement and the merger. If you hold your shares in "street name" and have instructed a broker to vote your shares, you must follow the directions received from your broker as to how to change your vote.

Stockholders who do not vote in favor of approval and adoption of the merger agreement and the merger, and who otherwise comply with the applicable statutory procedures of the Delaware General Corporation law summarized

elsewhere in this proxy statement, will be entitled to seek appraisal of the value of their common stock under Section 262 of the Delaware General Corporation law. See "The Merger -- Dissenters' Rights of Appraisal."

STOCKHOLDER ELECTIONS

Detailed instructions regarding how you may make an election between receiving Blue Dolphin common stock, cash or a mix of both are provided on the enclosed election form. If you do not make an election, you will receive Blue Dolphin common stock in exchange for all shares of ARO stock that you own. If you own ARO common stock and elect to receive cash your election may be prorated. If holders of more than 70% of the shares of ARO common stock that are outstanding at the effective time of the merger elect to receive cash, the actual amount of cash consideration that each holder of common stock will receive will be proportionately reduced.

PLEASE DO NOT SEND IN YOUR STOCK CERTIFICATES AT THIS TIME. IF THE MERGER IS COMPLETED, ARO WILL SEND YOU INSTRUCTIONS REGARDING THE PROCEDURES FOR EXCHANGING YOUR EXISTING STOCK CERTIFICATES FOR THE MERGER CONSIDERATION.

THE MERGER

This section of the joint proxy statement/prospectus describes the proposed merger. While ARO and Blue Dolphin believe that this description covers the material terms of the merger, this summary may not contain all of the information that is important to you. You should read carefully this entire joint proxy statement/prospectus and the documents we incorporate by reference for a more complete understanding of the merger. In addition, certain important business and financial information are incorporated about each of Blue Dolphin and ARO into this joint proxy statement/prospectus by reference. You may obtain the information incorporated by reference into this joint proxy statement/prospectus without charge by following the instructions in the section entitled "Where You Can Find More Information" that begins on Page 64.

BACKGROUND OF THE MERGER

BACKGROUND OF THE FORMATION AND BUSINESS OF AMERICAN RESOURCES OFFSHORE, INC.

ARO is an independent oil and gas company engaged in the acquisition, exploration, development, and production of oil and gas properties in the Gulf Coast region offshore Louisiana and Texas. In December 1999, ARO sold to Blue Dolphin Exploration Company, a wholly-owned subsidiary of Blue Dolphin, 39,509,457 shares of common stock. The net purchase price for the shares was $4.5 million.

In addition, on December 1999, ARO sold to Fidelity Oil Holdings, Inc. 80% of its interest in all of its oil and gas properties located in the Gulf of Mexico. The net purchase price for the 80% interest was $24.2 million.

The transactions resulted in Blue Dolphin Exploration owning shares of ARO common stock representing approximately 75% of the combined voting power of its outstanding voting securities and controlling ARO's management. Blue Dolphin Exploration's ownership interest increased to 77% in December 2000, when ARO repurchased 1,241,722 shares of its common stock.

BACKGROUND OF THE EVALUATION OF STRATEGIC ALTERNATIVES AND THE MERGER

The proposed merger is the result of an arm's length negotiation between representatives of ARO and Blue Dolphin. The following is a summary of the background of these negotiations, which led to the unanimous approval of the merger agreement by the boards of directors of both ARO and Blue Dolphin.

In April 2000, ARO received a letter from an ARO stockholder and former executive officer of ARO, recommending that ARO enter into discussions with Blue Dolphin to exchange shares of ARO common and preferred stock for shares of Blue Dolphin common stock.

On May 2, 2000, ARO formed a special committee consisting of Messrs. Douglas Hawthorne and Andrew Agosto to consider the possibility of a merger with Blue Dolphin. The special committee was formed to act on behalf of, and in the interests of, the public stockholders in evaluating the merits of, and negotiating the terms of, any potential transaction with Blue Dolphin. The full board of directors of ARO determined that Messrs. Hawthorne and Agosto should serve on the special committee because of their independence from Blue Dolphin and that because all of the other directors were either employed by or directors of, and had equity interests in Blue Dolphin.

On June 6, 2000, the special committee and their legal counsel met with representatives of Blue Dolphin to discuss a valuation of the two companies.

In July 2000, Blue Dolphin and the special committee decided to post-pone discussions regarding the merger until Blue Dolphin's registration statement that was filed with the Securities and Exchange Commission became effective.

In January 2001, upon Blue Dolphin's registration statement becoming effective, Mr. Brian Lloyd, Vice President, Treasurer and Secretary of Blue Dolphin contacted Mr. Hawthorne to resume merger discussions between ARO and Blue Dolphin. Mr. Hawthorne indicated that he needed additional information in connection with a possible merger and indicated that he would like to see updated reserve reports. Mr. Lloyd stated that the reports were currently being updated, but as soon as they were updated, they would be sent to the special committee of ARO.

In March 2001, preliminary reserve reports with various pricing cases were sent to Messrs. Agosto and Hawthorne along with drafts of Blue Dolphin's financial statements and background information on its other assets and activities.

On April 5, 2001, ARO held a meeting of its board of directors and discussed, among other things, a possible merger with Blue Dolphin. Final reserve reports for both ARO and Blue Dolphin were distributed to all directors. Mr. Ivar Siem discussed the changes that have occurred since the last discussions between the special committee and Blue Dolphin. Mr. Agosto requested an updated valuation analysis of Blue Dolphin. Mr. Siem stated that updated valuations of ARO and Blue Dolphin would be provided to the special committee.

During April 2001, Blue Dolphin provided the special committee with various pricing scenarios, valuations and stock trading activity of each of ARO and Blue Dolphin, and updated valuations for ARO and Blue Dolphin and additional information regarding the value of certain of Blue Dolphin's assets.

ARO held another board meeting on April 26, 2001 to continue discussions with respect to the Blue Dolphin merger. Each director was given

updated valuations that had been prepared for the special committee. A discussion ensued regarding the method of valuation of the assets. The Executive Vice President of Exploration and Operations of Blue Dolphin who is also a Vice President of ARO gave a detailed analysis of exploratory prospects for both Blue Dolphin and ARO. The meeting was adjourned so that the special committee could discuss the valuation. The special committee then met with representatives of Blue Dolphin to discuss the merger further. The special committee concluded the meeting by requesting that Blue Dolphin send them a written proposal.

On May 3, 2001, Blue Dolphin sent the special committee a written offer to exchange each outstanding share of ARO capital stock for shares of Blue Dolphin common stock at an exchange ratio of 38 to 1.

On May 8, 2001, the special committee sent a written rejection of the Blue Dolphin offer, and stated that they could not go above an exchange ratio of 30 to 1. The special committee stated that their position was based on the uncertainty in assessing an accurate value for several of the Blue Dolphin projects. The special committee also attached their own valuation for Blue Dolphin to review.

On May 15, 2001, Blue Dolphin responded to the special committee's letter by stating that management believes that the Blue Dolphin projects offer significant value, whereas ARO has no such similar upside and which should be considered in the valuation. Blue Dolphin offered to adjust the exchange ratio to 36 to 1.

In May and June, 2001, Mr. Lloyd and Mr. John Atwood engaged in discussions with Messrs. Hawthorne and Agosto regarding the exchange ratio. The parties initially agreed to an exchange ratio of 31 to 1. On June 11, 2001, the parties discussed the effect of a $.02 per share cash dividend to ARO common stockholders on the exchange ratio. On June 30, 2001, the ARO board declared a cash dividend of $.02 per share on all outstanding shares of ARO common stock. The cash dividend was paid on July 12, 2001. On June 19, 2001, Mr. Hawthorne and Mr. Lloyd agreed to adjust the exchange ratios to 36 to 1 as a result of the cash dividends.

On August 3, 2001, the special committee of ARO held a meeting to discuss the exchange ratios. At the meeting, the special committee approved the exchange ratios. On August 6, 2001, the full board of directors of ARO met and the special committee gave its presentation and recommendation to the full board of directors that the exchange ratios of one share of ARO common stock for .0276 of a share of Blue Dolphin common stock and one share of ARO preferred stock for .0301 of a share of Blue Dolphin common stock be approved. The ARO board of directors then unanimously approved the exchange ratios.

On August 22, 2001, a final draft of the merger agreement was circulated to the members of the board of directors of Blue Dolphin. On the same date, the board of Blue Dolphin held a meeting and discussed the merger agreement, the exchange ratios and related issues. The Blue Dolphin board then unanimously approved the merger agreement.

On August 27, 2001, the special committee of ARO unanimously recommended that the ARO board approve the merger agreement. On August 27, 2001, a final draft of the merger agreement, together with the special committee's recommendation was forwarded to the full board of ARO. On August 30, 2001, the full board of directors of ARO unanimously approved the merger agreement and authorized management to submit the merger agreement to the stockholders for their approval.

In late October 2001, Blue Dolphin notified the special committee of ARO of the occurrence of certain events that may adversely effect Blue Dolphin's financial condition and liquidity in the future, primarily the delay in receipt

of revenues from a

reversionary interest in a field located in the Gulf of Mexico. On November 14, 2001, Mr Hawthorne, on behalf of the special committee, informed Mr. Lloyd that the special committee, in light of the recent events and their potential effect on Blue Dolphin, felt it was important to provide an option for ARO's stockholders other than Blue Dolphin common stock. Mr. Hawthorne also informed Mr. Lloyd that the special committee believed that it was in the best interests of ARO's stockholders to revise the terms of the original merger agreement to allow ARO's stockholders to select either cash, Blue Dolphin common stock or a combination of both as a form of merger consideration.

In November, 2001, members of senior management of Blue Dolphin, including Mr. Lloyd, and the special committee of ARO began to discuss the possibility of revising the terms of the merger agreement to allow stockholders of ARO to elect the form of merger consideration, either Blue Dolphin common stock or cash, they desired. During the period between November 16 through December 4 members of senior management of Blue Dolphin and the special committee of ARO held conference calls and meetings to discuss the proposed revised terms of the merger agreement. On December 5, 2001, the special committee of ARO and senior management of Blue Dolphin agreed on the revised terms of the merger which, if approved by the boards of both companies, would amend the merger agreement to allow ARO's stockholders to select as a form of merger consideration of either Blue Dolphin common stock or cash.

On December 17, 2001 the special committee of ARO unanimously determined that the proposed terms of the amended and restated agreement and plan of merger were fair to, and in the best interest of, the stockholders of ARO, other than Blue Dolphin and its affiliates, and recommended that the board of directors approve the amended and restated merger agreement.

On December 18, 2001, the board of directors of ARO and Blue Dolphin both unanimously approved the amended and restated merger agreement.

On January 14, 2002, the board of directors of ARO held a special meeting to consider amending the amended and restated merger agreement. Mr. Lloyd made a presentation to the ARO board and recommended that the exchange ratio for the ARO common stock be based on the market price of Blue Dolphin's common stock at the time of mailing the joint proxy statement/prospectus to the ARO stockholders rather than a fixed ratio. After Mr. Lloyd's presentation, the ARO board considered and unanimously approved the proposed amendment to the amended and restated merger agreement which provided that the amount of Blue Dolphin common stock that holders of ARO's common stock would be entitled to receive would be the greater of either (a) .0276 of share of Blue Dolphin common stock, or (b) that amount of Blue Dolphin's common stock determined by dividing .06 by the average sales price of Blue Dolphin's common stock for the ten trading days immediately preceding the day the joint proxy statement/prospectus is first mailed to ARO's stockholders. On January 15, 2002, the board of directors of Blue Dolphin unanimously approved the amendment to the amended and restated merger agreement.

DETERMINATION OF THE SPECIAL COMMITTEE AND RECOMMENDATION OF THE ARO BOARD OF DIRECTORS; FAIRNESS OF THE MERGER

The special committee unanimously determined that the terms of the

merger are advisable, and are fair to, and in the best interests of, ARO's public stockholders and unanimously recommended to the ARO board that the merger agreement and the merger be approved and adopted by the ARO board. Following its receipt of the special committee recommendation the ARO board unanimously resolved that the terms of the merger are advisable, and are fair to, and in the bests interests of, ARO's public stockholders, and determined to approve the merger agreement and to recommend to ARO's public stockholders that the merger agreement and the merger be approved and adopted. The special committee and the ARO board considered a number of factors, as more fully described below, in making its determination and recommendation, respectively. The ARO board unanimously recommends that you vote FOR the approval and adoption of the merger agreement and the merger.

REASONS FOR THE SPECIAL COMMITTEE'S DETERMINATION AND THE ARO BOARD'S RECOMMENDATION

The special committee in reaching its determination, and the ARO Board in reaching its recommendation, considered a number of factors, both positive and negative, including the following material factors:

- the continued decline in trading prices for the ARO common stock in the period since its initial public offering;
- the financial performance of Blue Dolphin and its subsidiaries;
- uncertainty regarding ARO's future growth prospects;

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- uncertainty surrounding the outcome of the H&N litigation and effects on ARO if there is an adverse outcome.
- recent public capital market trends affecting small companies, and the impact of those trends on ARO, including the lack of liquidity in the public markets for ARO's common and preferred stock;
- ARO's debt;
- the costs associated with continuing to be a public company, including the costs of preparing and filing quarterly, annual, and other required reports with the SEC and publishing and distributing annual reports and proxy statements to stockholders, including fees for an audit by an independent accounting firm and legal fees;
- the burdens on management of public reporting and other obligations required of public companies, including for example, time and resources required to deal with stockholder and analyst inquiries and investor and public relations;
- the relatively low volume of trading in ARO common stock and the consideration that a merger based on a stock for stock exchange of ARO stock for Blue Dolphin stock would result in the ARO public stockholders' receiving a relatively more liquid, more readily tradable security. A combination of ARO and Blue Dolphin would likely result in greater access to

capital than ARO would have on its own;

- the special committee's and the ARO board's considerations of ARO's strategic alternatives and determinations that such alternatives would likely result in significantly less value for ARO's public stockholders than the merger consideration provided for in the merger agreement;

- the special committee's and the ARO board's judgments, in view of ARO's business growth, that it is unlikely that one or more strategic or financial acquirors would be willing to pay a price for ARO or its assets equal to the value of the shares of Blue Dolphin common stock to be received in the merger;

- structure of the proposed merger agreement such that the holders of ARO common and preferred stock could realize a loss on the transaction;

- the ability to have any new proposal approved considering that Blue Dolphin's approval as a majority stockholder of ARO would be essential to a proposed sale of ARO;

- the business reputation of Blue Dolphin and the belief that Blue Dolphin has the ability and desire to complete the merger in a timely manner; and

- if the merger is completed, ARO's public stockholders will not participate in any future growth of ARO, although in view of the risks and uncertainties associated with ARO's future prospects, and in light of the market price of its common stock, the special committee and the ARO board concluded that the merger was preferable to continuing as a public company with a speculative return to its public stockholders.

The foregoing discussion addresses the material information and factors considered by the special committee and the ARO board in their consideration of the merger, including factors that support the merger as well as those that may weigh against it. In view of the variety of factors and the amount of information considered, neither the special committee nor the ARO board found it practicable to, and did not specifically, make assessments of, quantify or otherwise assign relative weights to the various factors and analyses considered in reaching its determination. The determination to approve the merger agreement and the merger was made after consideration of all the factors as a whole.

FAIRNESS OF THE MERGER

The members of the special committee and the ARO board also determined that the merger is both fair to the public stockholders and procedurally fair because, among other things:

- the special committee, consisting solely of directors who are not officers or employees of Blue Dolphin or ARO, was given exclusive authority to, among other things, consider, negotiate and evaluate the terms of any proposed transaction, including the merger;

- the special committee retained and received advice from legal

counsel selected and engaged by it in negotiating and evaluating the terms of the Blue Dolphin proposal and the merger agreement;

- the merger consideration and the other terms and conditions of the merger agreement resulted from arm's-length bargaining between the special committee and its representatives, on one hand, and Blue Dolphin and its representatives, on the other hand; and

- the special committee's and the ARO board's consideration of ARO's strategic alternatives and determinations that such alternatives would likely result in significantly less value for ARO's public stockholders than the share exchange provided for in the merger agreement.

REASONS OF BLUE DOLPHIN FOR THE MERGER

Blue Dolphin intends to undertake the merger in order to acquire all of the outstanding shares of ARO capital stock. In deciding to acquire all of the outstanding shares of ARO common stock and preferred stock, Blue Dolphin considered the following factors:

- the costs of being a public company, including the costs of preparing and filing quarterly, annual and other required reports with the SEC and publishing and distributing annual reports and proxy statements to stockholders, which Blue Dolphin estimates to be approximately $100,000 per year, including fees for an audit by an independent accounting firm and legal fees;

- the burdens on management of public reporting and other tasks required of public companies, including for example, the time and resources required to deal with stockholder and analyst inquires, and investor and public relations; and

- the combined company should be able to reduce its corporate general and administrative expenses in the range of approximately $100,000 to $200,000 annually.

Blue Dolphin also considered the number of ARO shares held by the public stockholders, recent trends in the price of ARO common stock and the relative lack of liquidity for ARO common stock and preferred stock. Blue Dolphin also reviewed the net overall cost of the transaction and its benefits, including the transaction's contribution to Blue Dolphin's earnings and the risks associated with ARO's on-going litigation. Blue Dolphin also explored the impact on its own common stock of the issuance of shares proposed to be used for this transaction.

After consideration of the factors identified above, Blue Dolphin determined that the advantages of acquiring all of the outstanding shares of ARO outweighed the disadvantages, and decided to propose that Blue Dolphin acquire all of the outstanding shares of ARO common stock and preferred stock not already owned by Blue Dolphin in a stock for stock exchange.

Also see "The Merger -- Background of the Merger" for a discussion of the events that led to the decisions by Blue Dolphin and ARO to enter into the merger agreement on August 30, 2001, the amended merger agreement on December 19, 2001 and the amendment to the amended merger agreement on January 15, 2002. The transaction has been structured to provide the public stockholders of ARO with either shares of Blue Dolphin common stock or cash for all of their shares.

EFFECTS OF THE MERGER; PLANS FOR ARO FOLLOWING THE MERGER

After the effective time of the merger, ARO's public stockholders will cease to have ownership interests in ARO or rights as ARO stockholders. Upon completion of the merger, ARO will be an indirect wholly-owned subsidiary of Blue Dolphin. Blue Dolphin will be the sole beneficiary of the future earnings and growth of ARO, if any.

As a result of the merger, ARO will be a privately-held corporation with no public market for its common stock. After the merger, the common stock will cease to be quoted on the OTC Bulletin Board and bid and ask prices with respect to sales of shares of common stock in the public market will no longer be available. After the effective time of the merger, ARO will no longer be required by law to file periodic reports with the Securities and Exchange Commission.

At the effective time of the merger, the certificate of incorporation and bylaws of the merger subsidiary in effect immediately prior to the effective time will be the certificate of incorporation and bylaws, of the surviving corporation; provided however, that the

certificate of incorporation will be amended to provide that the name of the surviving entity is "American Resources Offshore, Inc." Subject to applicable law, the directors of the merger subsidiary immediately prior to the effective time of the merger will be the directors of the surviving corporation immediately following the effective time and will hold office until their respective successors are duly elected and qualified, or their earlier death, resignation or removal. The officers of ARO immediately prior to the effective time of the merger will be the officers of the surviving corporation immediately following the effective time and will hold office until their respective successors are duly elected and qualified, or their earlier death, resignation or removal.

Following the merger, Blue Dolphin expects that ARO will manage its business and assets in a manner to appropriately address the existing condition of ARO's business and the oil and gas industry in general. In this regard, after the merger, Blue Dolphin expects that ARO will evaluate its business, practices, operations, properties, corporate structure, management and personnel to determine what changes, if any, are desirable.

Blue Dolphin does not have any current plans or proposals relating to any extraordinary corporate transactions, such as a merger, reorganization, or liquidation involving ARO, any sale or transfer of a material amount of the assets of ARO or any other material change in ARO's corporate structure or business. However, Blue Dolphin will continue to review and explore any opportunities to maximize stockholder value and will evaluate any transactions involving its business, including a potential sale of ARO or some or all of its assets, as they arise.

RISK THAT THE MERGER WILL NOT BE COMPLETED

Completion of the merger is subject to various conditions, including, but not limited to, the following:

- performance in all material respects of the parties' obligations contained in the merger agreement at or before the effective time of the merger;

- consummation of the merger is not restrained, enjoined or prohibited by any order, judgment or decree of any court or governmental authority;

- no law or regulation is enacted or applicable to the merger that prevents the consummation of the merger or makes the consummation of the merger illegal; and

- certain representations and warranties made by the parties in the merger agreement must be true and correct in all material respects.

As a result of the various conditions to the completion of the merger, we cannot assure you that the merger will be completed even if the requisite stockholder approval is obtained.

It is expected that, if ARO stockholders do not approve and adopt the merger agreement and the merger, or if the merger is not completed for any other reason, the current management of ARO, under the direction of the ARO board, will continue to manage ARO as an on-going business.

INTERESTS OF ARO DIRECTORS AND OFFICERS IN THE MERGER

In considering the recommendations of the ARO board of directors, you should be aware that members of ARO's management and the ARO board of directors have interests in the transaction that are or may be different from, or in addition to, your interests as an ARO stockholder. In particular, three members of the ARO board of directors are also members of the Blue Dolphin board of directors and/or officers of Blue Dolphin and owe fiduciary duties to Blue Dolphin and its stockholders and each of them also owns Blue Dolphin stock. In connection with the discussions regarding the proposed merger of ARO and Blue Dolphin, the ARO board of directors appointed the special committee, consisting solely of directors who are not officers or employees of ARO or Blue Dolphin, to consider and negotiate the merger agreement and to evaluate whether the merger is in the best interests of ARO stockholders. The special committee was aware of these differing interests and considered them, among other matters, in determining that the merger is fair to and in the best interests of ARO's public stockholders and recommending that the ARO board of directors consider approval of the merger agreement and the merger. The ARO board of directors was also aware of these differing interests and considered them, among other matters in approving the merger and recommending that ARO stockholders approve and adopt the merger agreement and the merger.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Blue Dolphin is the beneficial owner of approximately 77.0% of ARO's outstanding common stock and 50.4% of ARO's outstanding preferred stock. Blue Dolphin Exploration and Blue Dolphin Services are wholly-owned subsidiaries of Blue Dolphin. Ivar Siem, the Chairman of ARO's Board of Directors, is a director and Chairman of the Board of Blue Dolphin. Additionally, Michael J. Jacobson and John P. Atwood, also members of ARO's Board of Directors, are President and Vice President - Business Development of Blue Dolphin, respectively.

As of December 20, 2001, ARO was indebted to Blue Dolphin Exploration for approximately $5.0 million. This indebtedness was incurred in 1999 in connection with ARO's restructuring transactions when Blue Dolphin Exploration acquired ARO's indebtedness from Den norske Bank. This indebtedness is due on the earlier of (i) the occurrence of an event of default under the credit agreement, or (ii) December 31, 2005. This indebtedness is non-interest bearing.

In connection with the Investment Agreement with Blue Dolphin Exploration, ARO entered into a Management Services Agreement pursuant to which Blue Dolphin Services provides the management and administrative services necessary to operate ARO's business. ARO pays Blue Dolphin Services a management fee of $83,333 per month. This agreement initially expired on December 31, 2000, but continues on a year-to-year basis unless terminated.

STOCK OPTIONS AND RESTRICTED STOCK

Pursuant to the merger agreement, all of the outstanding stock options, warrants, convertible securities or other rights entitling the holder to acquire common or preferred stock that ARO has granted will be canceled (without cost to ARO and without regard to whether these options are then vested), exercised or converted to the extent that these options remain outstanding immediately prior to the time that the merger becomes effective.

EMPLOYMENT AGREEMENTS

No officers of ARO currently have employment agreements. Consummation of the merger will not trigger any severance payments under any agreements of ARO.

ACCOUNTING TREATMENT OF THE MERGER

The merger will be accounted for as the acquisition of a minority interest by Blue Dolphin using the "purchase" method of accounting.

MATERIAL FEDERAL INCOME TAX CONSEQUENCES

The following is a summary of the material U.S. federal income tax consequences of the merger. This summary is based on laws, regulations, rulings and decisions now in effect, all of which are subject to change, possibly with retroactive effect. This summary does not address all of the U.S. federal income tax consequences that may be applicable to a particular holder of ARO's common and/or preferred stock or to holders who are subject to special treatment under U.S. federal income tax law (including, for example, banks, insurance companies, tax-exempt investors, S corporations, dealers in Securities, non-U.S. persons, holders who hold their ARO common and/or preferred stock as part of a hedge, straddle or conversion transaction, and holders who acquired ARO common and/or preferred stock through the exercise of employee stock options or other compensation arrangements). In addition, this summary does not address the tax consequences of the merger under applicable state, local or foreign tax laws. YOU SHOULD CONSULT YOUR TAX ADVISOR AS TO THE PARTICULAR TAX CONSEQUENCES TO YOU OF THE MERGER, INCLUDING THE APPLICATION OF ANY STATE, LOCAL OR FOREIGN TAX LAWS.

TAX CONSEQUENCES OF THE RECEIPT OF THE MERGER CONSIDERATION TO HOLDERS OF ARO COMMON STOCK AND PREFERRED STOCK

The merger will be treated as a taxable transaction, and not a tax free reorganization, by the ARO stockholders with respect to their shares of ARO preferred stock or common stock. As a result, subject to certain exceptions, each ARO stockholder will have a sale or exchange and recognize taxable gain, or loss, to the extent that the fair market value of the cash and/or Blue Dolphin

common stock received by the stockholder in the merger exceeds, or is less than, the stockholder's basis in the ARO stock surrendered. Such gain or loss will be a capital gain if the shareholder's ARO shares are held as a capital asset. The stockholder's basis in any Blue

Dolphin common stock received as such a sale or exchange in the merger will equal its fair market value at the effective time of the merger, and the holding period for such stock will commence on the day following the merger.

DISSENTERS

A holder of ARO common stock or preferred stock who perfects dissenters' rights will recognize capital gain or loss at the effective time of the merger equal to the difference between the "amount realized" by such holder and such holder's basis in such holder's shares of common stock or preferred stock. For this purpose, the amount realized generally will equal the trading value per share of common stock at the effective time of the merger. Such gain or loss will be capital gain or loss and will be long-term if such holder's holding period for the common stock or preferred stock at the effective time of the merger exceeds one year. Additional capital gain or loss will be recognized by such holder at the time the appraised fair value is received to the extent such payment exceeds (or is less than) the amount realized by such holder at the effective time of the merger. Also, a portion of such payment may be characterized as interest income.

TAX CONSEQUENCES OF THE MERGER TO ARO AND BLUE DOLPHIN

No gain or loss will be realized by ARO or Blue Dolphin as a result of the merger.

THE FOREGOING SUMMARY OF FEDERAL INCOME TAX CONSEQUENCES IS INCLUDED HEREIN FOR GENERAL INFORMATION PURPOSES ONLY. ACCORDINGLY, EACH HOLDER OF COMMON STOCK AND/OR PREFERRED STOCK IS URGED TO CONSULT HIS OR HER TAX ADVISOR REGARDING THE FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES OF THE MERGER.

REGULATORY MATTERS

ARO and Blue Dolphin have determined that no material governmental or regulatory approvals are required for the merger to occur. In particular, a filing is not required under Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

RESTRICTIONS ON SALES OF SHARES BY AFFILIATES OF ARO AND BLUE DOLPHIN

The shares of Blue Dolphin common stock to be issued in the merger will be registered under the Securities Act of 1933, as amended, and will be freely transferable under the Securities Act, except for shares of Blue Dolphin common stock issued to any person who is deemed to be an "affiliate" of either ARO or Blue Dolphin at the time of the special meeting. Persons who may be deemed to be affiliates include individuals or entities that control, are controlled by, or are under the common control of either ARO or Blue Dolphin. Affiliates may not sell their shares of Blue Dolphin common stock acquired in the merger except pursuant to:

- an effective registration statement under the Securities Act

covering the resale of those shares;

- an exemption under paragraph (d) of Rule 145 under the Securities Act; or

- any other applicable exemption under the Securities Act.

Blue Dolphin's registration statement on Form S-4, of which this joint proxy statement/prospectus forms a part, does not cover the resale of shares of Blue Dolphin common stock to be received by affiliates in the merger.

DISSENTERS' RIGHTS OF APPRAISAL

Under Section 262 of the Delaware General Corporation Law, which is referred to as the "DGCL" in this proxy statement, any holder of common stock who does not wish to accept .0276 of a share of Blue Dolphin common stock per share for the holder's shares of common stock or .0301 of a share of Blue Dolphin common stock per share for the holder's shares of preferred stock may dissent from the merger and elect to have the fair value of their shares of common stock and preferred stock (exclusive of any element of value arising from the accomplishment or expectation of the merger) judicially determined and paid to the holder in cash, together with a fair rate of interest, if any, provided that the holder complies with the provisions of Section 262.

The following discussion is not a complete statement of the law pertaining to appraisal rights under the DGCL, and is qualified in its entirety by the full text of Section 262, which is provided in its entirety as Appendix B to this proxy statement. All references in Section 262 and in this summary to a "stockholder" are to the record holder of the shares of common stock or preferred

stock as to which appraisal rights are asserted. A PERSON HAVING A BENEFICIAL INTEREST IN SHARES OF COMMON STOCK OR PREFERRED STOCK HELD OF RECORD IN THE NAME OF ANOTHER PERSON, SUCH AS A BROKER OR NOMINEE, MUST ACT PROMPTLY TO CAUSE THE RECORD HOLDER TO FOLLOW PROPERLY THE STEPS SUMMARIZED BELOW AND IN A TIMELY MANNER TO PERFECT APPRAISAL RIGHTS.

Under Section 262, where a proposed merger is to be submitted for approval and adoption at a meeting of stockholders, as in the case of the special stockholders meeting, the corporation, not less than 20 days before the meeting, must notify each of its stockholders entitled to appraisal rights that appraisal rights are available and include in that notice a copy of Section 262. This proxy statement constitutes that notice to the holders of common stock and preferred stock and the applicable statutory provisions of the DGCL are attached to this proxy statement as Appendix B. Any stockholder who wishes to exercise appraisal rights or who wishes to preserve the right to do so should review carefully the following discussion and Appendix B to this proxy statement. FAILURE TO COMPLY WITH THE PROCEDURES SPECIFIED IN SECTION 262 TIMELY AND PROPERLY WILL RESULT IN THE LOSS OF APPRAISAL RIGHTS. Moreover, because of the complexity of the procedures for exercising the right to seek appraisal of the common stock or preferred stock, ARO believes that stockholders who consider exercising such appraisal rights should seek the advice of counsel.

Any holder of common stock or preferred stock wishing to exercise the right to demand appraisal under Section 262 of the DGCL must satisfy each of the

following conditions:

- as more fully described below, the holder must deliver to ARO a written demand for appraisal of the holder's shares before the vote on the merger agreement at the special stockholders meeting, which demand will be sufficient if it reasonably informs ARO of the identity of the holder and that the holder intends to demand the appraisal of the holder's shares;

- the holder must not vote the holder's shares of common stock or preferred stock in favor of the merger agreement; a proxy which does not contain voting instructions will, unless revoked, be voted in favor of the merger agreement, therefore, a stockholder who votes by proxy and who wishes to exercise appraisal rights must vote against the merger agreement or abstain from voting on the merger agreement; and

- the holder must continuously hold the shares from the date of making the demand through the effective time of the merger; a stockholder who is the record holder of shares of common stock or preferred stock on the date the written demand for appraisal is made but who thereafter transfers those shares before the effective time of the merger will lose any right to appraisal in respect of those shares.

Neither voting (in person or by proxy) against, abstaining from voting on or failing to vote on the proposal to approve and adopt the merger agreement and the merger will constitute a written demand for appraisal within the meaning of Section 262. The written demand for appraisal must be in addition to and separate from any such proxy or vote.

Only a holder of record of shares of common stock or preferred stock issued and outstanding immediately before the effective time of the merger is entitled to assert appraisal rights for the shares of common stock registered in that holder's name. A demand for appraisal should be executed by or on behalf of the stockholder of record, fully and correctly, as the stockholder's name appears on the stock certificates, should specify the stockholder's name and mailing address, the number of shares of common stock or preferred stock owned and that the stockholder intends to demand appraisal of the stockholder's common stock or preferred stock, as the case may be. If the shares are owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, execution of the demand should be made in that capacity. If the shares are owned of record by more than one person, as in a joint tenancy or tenancy in common, the demand should be executed by or on behalf of all owners. An authorized agent, including one or more joint owners, may execute a demand for appraisal on behalf of a stockholder; however, the agent must identify the record owner or owners and expressly disclose the fact that, in executing the demand, the agent is acting as agent for such owner or owners. A record holder such as a broker who holds shares as nominee for several beneficial owners may exercise appraisal rights with respect to the shares held for one or more beneficial owners while not exercising appraisal rights with respect to the shares held for one or more beneficial owners; in such case, the written demand should set forth the number of shares as to which appraisal is sought, and where no number of shares is expressly mentioned the demand will be presumed to cover all shares held in the name of the record owner. STOCKHOLDERS WHO HOLD THEIR SHARES IN BROKERAGE ACCOUNTS OR OTHER NOMINEE FORMS AND WHO WISH TO EXERCISE APPRAISAL RIGHTS ARE URGED TO CONSULT WITH THEIR BROKERS TO DETERMINE APPROPRIATE PROCEDURES FOR THE MAKING OF A DEMAND FOR APPRAISAL BY THE NOMINEE.

A stockholder who elects to exercise appraisal rights under Section 262 should mail or deliver a written demand to: American Resources Offshore, Inc., 801 Travis, Suite 2100, Houston, Texas 77002, Attention: Corporate Secretary.

Within ten days after the effective time of the merger, ARO must send a notice as to the effectiveness of the merger to each former stockholder of ARO who has made a written demand for appraisal in accordance with Section 262 and who has not voted to approve and adopt the merger agreement and the merger. Within 120 days after the effective time of the merger, but not thereafter, either ARO or any dissenting stockholder who has complied with the requirements of Section 262 may file a petition in the Delaware Court of Chancery demanding a determination of the value of the shares of common stock or preferred stock held by all dissenting stockholders. ARO is under no obligation to and has no present intention to file a petition for appraisal, and stockholders seeking to exercise appraisal rights should not assume that ARO will file such a petition or that ARO will initiate any negotiations with respect to the fair value of the shares. Accordingly, stockholders who desire to have their shares appraised should initiate any petitions necessary for the perfection of their appraisal rights within the time periods and in the manner prescribed in Section 262. Inasmuch as ARO has no obligation to file such a petition, the failure of a stockholder to do so within the period specified could nullify the stockholder's previous written demand for appraisal.

Under the merger agreement Blue Dolphin is not required to close the transaction if ARO has received notice of any written demand for appraisal or if there has been instituted or pending any action under Delaware law by an ARO stockholder demanding appraisal of his shares.

Within 120 days after the effective time of the merger, any stockholder who has complied with the provisions of Section 262 to that point in time will be entitled to receive from ARO, upon written request, a statement setting forth the aggregate number of shares not voted in favor of the merger agreement and with respect to which demands for appraisal have been received and the aggregate number of holders of such shares. ARO must mail that statement to the stockholder within 10 days of receipt of the request or within 10 days after expiration of the period for delivery of demands for appraisals under Section 262, whichever is later.

A stockholder timely filing a petition for appraisal with the Delaware Court of Chancery must deliver a copy to ARO, which will then be obligated within 20 days to provide the Delaware Court of Chancery with a duly verified list containing the names and addresses of all stockholders who have demanded appraisal of their shares. After notice to those stockholders, the Delaware Court of Chancery is empowered to conduct a hearing on the petition to determine which stockholders are entitled to appraisal rights. The Delaware Court of Chancery may require stockholders who have demanded an appraisal for their shares and who hold stock represented by certificates to submit their certificates to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings, and if any stockholder fails to comply with the requirement, the Delaware Court of Chancery may dismiss the proceedings as to that stockholder.

After determining the stockholders entitled to an appraisal, the Delaware Court of Chancery will appraise the "fair value" of their shares, exclusive of any element of value arising from the accomplishment or expectation of the merger, together with a fair rate of interest, if any, to be paid upon the amount determined to be the fair value. The costs of the action may be determined by the Delaware Court of Chancery and taxed upon the parties as the Delaware Court of Chancery deems equitable. Upon application of a dissenting

stockholder, the Delaware Court of Chancery may also order that all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorneys' fees and the fees and expenses of experts, be charged pro rata against the value of all of the shares entitled to appraisal. STOCKHOLDERS CONSIDERING SEEKING APPRAISAL SHOULD BE AWARE THAT THE FAIR VALUE OF THEIR SHARES AS DETERMINED UNDER SECTION 262 COULD BE MORE THAN, THE SAME AS OR LESS THAN THE PERCENTAGE OF SHARES OF BLUE DOLPHIN COMMON STOCK PER SHARE THEY WOULD RECEIVE UNDER THE MERGER AGREEMENT IF THEY DID NOT SEEK APPRAISAL OF THEIR SHARES. STOCKHOLDERS SHOULD ALSO BE AWARE THAT BANKING OPINIONS ARE NOT OPINIONS AS TO FAIR VALUE UNDER SECTION 262.

In determining fair value and, if applicable, a fair rate of interest, the Delaware Court of Chancery is to take into account all relevant factors. In Weinberger v. UOP, Inc., the Delaware Supreme Court discussed the factors that could be considered in determining fair value in an appraisal proceeding, stating that "proof of value by any techniques or methods that are generally considered acceptable in the financial community and otherwise admissible in court" should be considered, and that "fair price obviously requires consideration of all relevant factors involving the value of a company." The Delaware Supreme Court stated that, in making this determination of fair value, the court must consider market value, asset value, dividends, earnings prospects, the nature of the enterprise and any other facts that could be ascertained as of the date of the merger that throw any light on future prospects of the merged corporation. In Weinberger, the Delaware Supreme Court stated that "elements of future value, including the nature of the enterprise, which are known or susceptible of proof as of the date of the merger and not the product of speculation, may be considered." Section 262 provides that fair value is to be "exclusive of any element of value arising from the accomplishment or expectation of the merger."

Any stockholder who has duly demanded an appraisal in compliance with Section 262 will not, after the effective time of the merger, be entitled to vote the shares subject to that demand for any purpose or be entitled to the payment of dividends or other distributions on those shares (except dividends or other distributions payable to holders of record of shares as of a record date before the effective time of the merger).

Any stockholder may withdraw its demand for appraisal and accept its allocable portion of Blue Dolphin shares by delivering to ARO a written withdrawal of the stockholder's demand for appraisal, except that (1) any such attempt to withdraw made more than 60 days after the effective time of the merger will require written approval of ARO and (2) no appraisal proceeding in the Delaware Court of Chancery will be dismissed as to any stockholder without the approval of the Delaware Court of Chancery, and such approval may be conditioned upon such terms as the Delaware Court of Chancery deems just. If ARO does not approve a stockholder's request to withdraw a demand for appraisal when that approval is required or if the Delaware Court of Chancery does not approve the dismissal of an appraisal proceeding, the stockholder would be entitled to receive only the appraised value determined in any such appraisal proceeding, which value could be more than, the same or less than its allocable portion of Blue Dolphin shares.

FAILURE TO COMPLY STRICTLY WITH ALL OF THE PROCEDURES SET FORTH IN SECTION 262 OF THE DGCL MAY RESULT IN THE LOSS OF A STOCKHOLDER'S STATUTORY APPRAISAL RIGHTS. CONSEQUENTLY, ANY STOCKHOLDER WISHING TO EXERCISE APPRAISAL

RIGHTS IS URGED TO CONSULT LEGAL COUNSEL BEFORE ATTEMPTING TO EXERCISE APPRAISAL RIGHTS.

LISTING OF BLUE DOLPHIN COMMON STOCK

Blue Dolphin will apply for listing on the Nasdaq Small Cap Market, or such securities exchange on which the Blue Dolphin common stock is then listed, of the shares of Blue Dolphin common stock to be issued in the merger. This listing is a condition to both ARO and Blue Dolphin to effect the merger.

THE MERGER AGREEMENT

The description of the merger agreement contained in this joint proxy statement/prospectus describes the material terms of the merger agreement. The actual legal terms of the merger agreement may be found in Appendix A to this joint proxy statement/prospectus and are incorporated herein by reference. You are urged to read the entire merger agreement as it is the legal document that governs the merger.

THE MERGER

The merger agreement provides that, subject to conditions summarized below, the merger subsidiary, a Delaware corporation, and wholly-owned subsidiary of Blue Dolphin will merge with and into ARO. Following the completion of the merger, the merger subsidiary will cease to exist as a separate entity, and ARO will be the surviving corporation.

EFFECTIVE TIME OF THE MERGER

The merger will become effective when a certificate of merger is filed with the Secretary of State of the State of Delaware in accordance with the DGCL or at such later time as is specified in the certificate of merger. This time is referred to as the "effective time" in this joint proxy statement/prospectus. The filing is expected to occur as soon as practicable after approval and adoption of the merger agreement by ARO's stockholders at the special stockholders meeting and satisfaction or waiver of the other conditions to the merger contained in the merger agreement. ARO cannot guarantee that all conditions contained in the merger agreement will be satisfied or waived. See "--Conditions to the Merger."

STRUCTURE; MERGER CONSIDERATION

At the effective time of the merger, each share of ARO common stock outstanding immediately before the effective time of the merger will be converted into the right to receive either .0362 of a share of Blue Dolphin common stock or $.06 in cash, at the election of the stockholder, and each share of ARO preferred stock outstanding immediately before the effective time of the merger will be converted into the right to receive .0301 of a share of Blue Dolphin common stock or $.07 in cash, at the election of the stockholder, without any other payment thereon, with the following exceptions:

- the merger has been structured and adjustments to the elections of holders of ARO common stock will be made, so that no more than 70% of the aggregate consideration paid to holders of ARO common stock will be cash. The proration mechanism is discussed below under "Election Procedure, Proration."

- in lieu of receiving fractional shares of common stock of Blue Dolphin, each holder of shares of ARO common stock or preferred stock that would otherwise be entitled to receive a fractional share of Blue Dolphin common stock by virtue of the merger will be paid cash (rounding up the aggregate cash to be paid to each such stockholder, to the extent necessary, to the next $.01), without any interest, equal to the average closing price per share of Blue Dolphin common stock on the five trading days immediately preceding the effective time multiplied by the fraction of a share that such holder would otherwise be entitled to receive (rounded to the nearest hundredth of a share);

- treasury shares and shares of ARO common stock owned by any wholly-owned subsidiary of ARO will be canceled without any payment thereon;

- shares of ARO common stock and preferred stock owned by Blue Dolphin, the merger subsidiary or any wholly owned subsidiary of Blue Dolphin will be canceled without any payment thereon; and

- shares held by stockholders who have perfected their dissenters' rights will be subject to appraisal in accordance with Delaware law.

At the effective time of the merger, each share of the merger subsidiary common stock issued and outstanding immediately before the effective time will be converted into the right to receive one share of surviving corporation common stock. As a result, the outstanding merger subsidiary common stock will be converted into 100 shares of surviving corporation common stock.

TREATMENT OF OPTIONS

At the effective time of the merger, all options, warrants, convertible securities and other securities or rights to purchase shares of ARO common stock outstanding and unexercised (whether vested or unvested) will be canceled at no cost to ARO or such options, warrants, convertible securities and rights to acquire ARO common stock will be exercised or converted.

STOCKHOLDER ELECTIONS; PRORATION

Included with this joint proxy statement/prospectus is a form of election. You should use the form of election to elect whether to receive cash or Blue Dolphin common stock as consideration in connection with the merger. For an election to be properly made, the form of election must be received by the exchange agent by 5:00 p.m., Central Standard Time, on February 18, 2002, which is the business day immediately preceding the special meeting. If no form of election is received, you will be deemed to have elected to convert your ARO stock to Blue Dolphin common stock. A form of election may be revoked by written notice to the exchange agent prior to the due date of the election form or after such time if the exchange agent is legally required to permit revocations and the merger is not yet effective. The determination of the exchange agent is binding as to whether an election has been properly made or revoked. If holders of ARO common stock elect to receive cash representing more than 70% of the

aggregate consideration to be paid to holders of ARO common stock, the exchange agent will allocate to the holders making this election on a pro rata basis, a sufficient number of shares of Blue Dolphin common stock instead of cash so that the number of shares of ARO common stock to be converted into cash equals 70% of the aggregate consideration paid to holders of ARO common stock.

PAYMENT FOR SHARES; EXCHANGE OF ARO CERTIFICATES

At the effective time, Blue Dolphin will deliver the cash, certificates representing the shares of Blue Dolphin common stock to be issued and the cash to be paid in lieu of fractional shares in the merger, which is referred to as the "merger consideration" in this joint proxy statement/prospectus, to Securities Transfer Corporation, the exchange agent. Promptly after the effective time, the exchange agent will mail to each record holder of ARO common stock and preferred stock a letter of transmittal and instructions to effect the surrender of the stock certificates that, immediately before the effective time, represented the record holder's shares of ARO common stock or preferred stock in exchange for payment of the merger consideration. When you deliver your certificates of ARO common stock and preferred stock to the exchange agent, along with a properly executed letter of transmittal and any other required documents, you will receive either cash and/or certificates representing, or statements indicating book-entry ownership of, the number of shares of Blue Dolphin common stock that you are entitled to receive under the merger agreement. The surrendered certificates will be canceled.

Each holder will be entitled to receive the merger consideration only upon surrender to the exchange agent of the relevant share certificates. No interest will accrue or will be paid on the cash portion, if any, of the merger consideration upon the surrender of any certificate. The exchange agent will not issue any securities or make payments to any person who is not the registered holder of the certificate surrendered unless the certificate is properly endorsed and otherwise in proper form for transfer. Further, the person requesting such certificates or payment will be required to pay any transfer or other taxes required by reason of the payment to a person other than the registered holder of the certificate surrendered or establish to the satisfaction of the exchange agent that such tax has been paid or is not payable.

Neither Blue Dolphin nor the exchange agent or any other person will be liable to any former ARO stockholder for any amount properly delivered to a public official pursuant to applicable abandoned property, escheat or similar laws.

YOU SHOULD NOT FORWARD STOCK CERTIFICATES WITH THE ENCLOSED PROXY CARD. YOU SHOULD SUBMIT YOUR STOCK CERTIFICATES WHEN YOU RECEIVE THE TRANSMITTAL INSTRUCTIONS AND A FORM OF LETTER OF TRANSMITTAL FROM THE EXCHANGE AGENT.

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TRANSFER OF SHARES

At and after the effective time, ARO's transfer agent will not record on the stock transfer books transfers of any shares of ARO common stock or preferred stock that were outstanding immediately prior to the effective time of the merger.

OFFICERS, DIRECTORS AND GOVERNING DOCUMENTS

From and after the effective time of the merger, the directors of the merger subsidiary will become the directors of the surviving corporation, and the officers of the merger subsidiary will become the officers of the surviving corporation, in each case until their successors are duly elected or appointed and qualified.

From and after the effective time of the merger, the certificate of incorporation of the merger subsidiary will become the certificate of incorporation of the surviving corporation until it is altered or amended and the bylaws of the merger subsidiary will become the bylaws of the surviving corporation until the bylaws are altered, amended, or repealed.

REPRESENTATIONS AND WARRANTIES

The merger agreement contains various representations and warranties made by ARO to Blue Dolphin and the merger subsidiary, subject to identified exceptions, including representations and warranties relating to:

- the due incorporation, valid existence, good standing, and necessary corporate powers of ARO;
- the capitalization of ARO;
- the authorization, execution, delivery and enforceability of the merger agreement;
- the absence of any conflicts between the merger agreement and ARO's certificate of incorporation or bylaws, any applicable laws and any other material contracts or documents;
- the absence of consents, approvals or authorizations of any governmental authorities, except those specified in the merger agreement, in order for ARO to complete the merger;
- the accuracy of information concerning ARO in this proxy statement and other documents required to be filed with the Securities and Exchange Commission in connection with the merger; and
- the approval of the merger by ARO's Board of Directors.

The merger agreement contains various representations and warranties made by Blue Dolphin and the merger subsidiary to ARO, subject to identified exceptions, including representations and warranties relating to:

- the due incorporation, valid existence, good standing and necessary corporate powers of Blue Dolphin and the merger subsidiary;
- the authorization, execution, delivery and enforceability of the merger agreement;
- the absence of any conflicts between the merger agreement and Blue Dolphin's or the merger subsidiary's certificate of incorporation or bylaws, any applicable laws and any other material contracts or documents;
- the absence of consents, waivers, approvals or authorizations of governmental authorities, except those specified in the merger agreement, in order for Blue Dolphin and the merger subsidiary to complete the merger; and

- the accuracy of information supplied for inclusion in this proxy statement and other documents required to be filed with the Securities and Exchange Commission in connection with the merger.

None of the representations and warranties in the merger agreement will survive after the completion of the merger.

CONDUCT OF BUSINESS PENDING THE MERGER

In the merger agreement, ARO has agreed, before completion of the merger, to conduct its operations only in the ordinary and usual course of business consistent with past practice and to use its best efforts to:

- preserve intact its business organization

- keep available the services of its present officers, employees and consultants; and

- preserve its current relations with suppliers, customers and others having material business relations with ARO.

STOCKHOLDERS MEETING; RECOMMENDATION OF BOARD OF DIRECTORS

In the merger agreement, ARO has agreed to:

- duly call, give notice of, convene and hold a special stockholders meeting as soon as practicable after the date of the merger agreement; and

- except as described below, include in the proxy statement sent to stockholders in connection with the solicitation of proxies relating to the merger the recommendation of ARO's special committee and Board of Directors that ARO's stockholders vote in favor of approval of the merger and adoption of the merger agreement.

The merger agreement provides that the ARO Board of Directors may withdraw, modify or change or propose publicly to withdraw, modify or change, in a manner adverse to Blue Dolphin or the merger subsidiary, its recommendation of the merger or the merger agreement if the ARO Board of Directors determines in good faith, after consultation with its outside legal counsel, that the failure to do so would violate the Board's fiduciary duty under applicable law.

The merger agreement also provides that the special committee may make or publicly propose, in a manner adverse to Blue Dolphin and the merger subsidiary, a recommendation as to the merger or the merger agreement or withdraw, modify or change or publicly propose to change, in a manner adverse to Blue Dolphin or the merger subsidiary, its determination that the merger and the merger agreement are fair and in the best interests of ARO's public stockholders, failure to do so would violate the Board's fiduciary duty under applicable law if the special committee determines in good faith, after consultation with its outside legal counsel, that the failure to do so would violate the Board's fiduciary duty under applicable law.

However, unless the merger agreement is terminated in accordance with its terms, even if an adverse board determination or an adverse special

committee determination occurs, ARO is still required to convene and hold the special stockholders meeting.

REGULATORY AND OTHER CONSENTS AND APPROVALS

Subject to the terms and conditions of the merger agreement, ARO, Blue Dolphin and the merger subsidiary have agreed to cooperate and use their reasonable best efforts to make all filings necessary, proper or advisable under applicable laws to consummate the merger and to do all other things necessary, proper or advisable under applicable laws to consummate the merger. Each of the parties has also agreed to use its reasonable best efforts to obtain as promptly as practicable all consents of any governmental entity or any other person required in connection with the consummation of the merger.

CONDITIONS TO THE MERGER

The obligations of ARO, Blue Dolphin and the merger subsidiary to complete the merger are subject to the satisfaction of each of the following conditions:

- stockholders who hold a majority of the combined voting power of the outstanding shares of ARO common stock and preferred stock, voting together as a single class, must approve and adopt the merger agreement and the merger;

- stockholders who hold a majority of ARO preferred stock, voting as a separate class, must approve and adopt the merger agreement and the merger;

- the consummation of the merger is not restrained, enjoined or prohibited by any order, judgment or decree of a court of competent jurisdiction or any governmental entity, including any pending action seeking damages;

- no law or regulation is enacted or deemed applicable to the merger that prevents the consummation of the merger or impose material limitations on the ability of the surviving corporation to exercise full rights of ARO's assets or business;

- this registration statement shall have been declared effective by the Securities and exchange commission;

- no stop order suspending the effectiveness of this registration statement and no proceedings for that purpose shall have been initiated;

- all state securities or "Blue Sky" permits or approval shall have been received; and

- NASDAQ, or such securities exchange on which the shares of Blue Dolphin common stock are then listed, shall have authorized for listing the Blue Dolphin common stock to be issued in connection with the merger.

The obligations of Blue Dolphin and the merger subsidiary to complete the merger are subject to the satisfaction of each of the following conditions:

- each of the representations and warranties made by ARO in the merger agreement that is qualified by a material adverse effect on ARO must be true and correct and each of the representations and warranties made by ARO in the merger agreement that is not so qualified must be true and correct except where the failure to be so true and correct would not reasonably be expected to have a material adverse effect on ARO, in each case as of the date of the merger agreement and with respect to certain representations and warranties as of the closing (provided that if a representation or warranty was made regarding a specific date, it need only be true as of that date);

- ARO must have observed and performed in all material respects all of its material covenants under the merger agreement.

- there shall have not been any event or occurrence that has had or would reasonably be expected to have a material adverse effect on ARO; and

- ARO shall not have received notice of any written demand for appraisal and there shall not be instituted or pending any action under Delaware law by an ARO stockholder demanding appraisal of his shares.

The obligation of ARO to complete the merger is subject to the satisfaction of each of the following conditions:

- each of the representations and warranties made by Blue Dolphin and the merger subsidiary in the merger agreement must be true and correct in all material respects as of the date of the merger agreement and as of the closing (provided that if a representation or warranty was made regarding a specific date, it need only be true as of that date); and

- each of Blue Dolphin and the merger subsidiary must have observed and performed in all material respects all of its material covenants under the merger agreement.

The merger agreement defines a material adverse effect on ARO as an effect, change, event, development or occurrence that has had or will have, individually or in the aggregate, a material adverse effect on the condition, financial or otherwise, business, business prospects, assets or results of operations of ARO. In this proxy statement, references to "a material adverse effect on ARO" are intended to refer to this definition.

TERMINATION OF THE MERGER AGREEMENT BY BLUE DOLPHIN OR ARO

At any time before the effective time of the merger, Blue Dolphin and ARO may terminate the merger agreement and abandon the merger by mutual written consent, regardless of whether the stockholders of ARO have adopted and approved the merger and the merger agreement. Either party may also terminate the merger agreement if:

- the stockholder approval condition, requiring that the merger agreement and the merger be approved and adopted by the affirmative vote of the holders of a majority of the combined voting power of the outstanding shares of ARO common

stock and ARO preferred stock, voting together as a single class, and the affirmative vote a majority of the outstanding shares of the preferred stock, voting as a separate class, is not met; or

- the effective time has not occurred on or before April 30, 2002, provided that the right to terminate shall not be available to a party whose failure to perform any of its obligations under this merger agreement results in the failure of the effective time not occurring before April 30, 2002.

Termination by Blue Dolphin. Blue Dolphin may terminate the merger agreement before the effective time of the merger upon a material breach by ARO of any of its representations, warranties, covenants or agreements which would give rise to a material change relating to ARO and is not cured with 30 days after written notice thereof or is not curable by ARO.

Termination by ARO. ARO may terminate the merger agreement before the effective time of the merger upon a breach by Blue Dolphin or the merger subsidiary of any of their representations, warranties, covenants or agreements which would give rise to a material change relating to Blue Dolphin and is not cured with 30 days after written notice thereof or is not curable by Blue Dolphin.

AMENDMENT AND WAIVER

Any provision of the merger agreement may be amended before the effective time of the merger. Further, at any time before the effective time, any party to this agreement may extend, in writing, the time for the performance of any obligation of any other party, waive any inaccuracy in the representations and warranties of any other party in the merger agreement or in any other document and waive compliance with any agreement or condition to its obligations.

NO TERMINATION FEE

ARO is not required by the terms of the merger agreement to pay any termination fees to Blue Dolphin if the merger agreement is terminated in accordance with its terms.

FEES AND EXPENSES

Whether or not the merger is completed and except as otherwise provided in the merger agreement, all fees and expenses incurred in connection with the merger will be paid by the party incurring those fees and expenses. Estimated fees and expenses (rounded to the nearest thousand) to be incurred in connection with the merger and related transactions are as follows:

Filing fees (Securities and Exchange Commission)	$	56
Legal and accounting fees and expense	$	272,13
Printing and solicitation fees and expenses	$	25,00
Total	$	297,70

The fees and expenses listed above include approximately $136,067 in estimated legal and accounting fees and expenses to be paid by Blue Dolphin Energy Company to its advisors.

PRICE RANGE OF COMMON STOCK AND DIVIDENDS

The following table shows the high and low sales prices for Blue Dolphin Energy Company common stock and ARO common stock for the periods presented in the table.

ARO's common stock is quoted on the OTC Bulletin Board under the trading symbol "GASS.OB." Prior to August 19, 1999, ARO's common stock was traded on the NASDAQ SmallCap Market under the trading symbol "GASS." Blue Dolphin's common stock trades and is quoted on the NASDAQ Small Cap Market under the symbol "BDCO."

These prices are believed to be representative inter-dealer quotations, without retail mark-up, mark-down or commissions and may not represent prices at which actual transactions occurred.

	ARO	
	HIGH	LOW
YEAR ENDED DECEMBER 31, 1999		
First quarter	0.563	0.250
Second quarter	0.500	0.156
Third quarter	0.344	0.130
Fourth quarter	0.188	0.063
YEAR ENDED DECEMBER 31, 2000		
First quarter	0.297	0.078
Second quarter	0.313	0.094
Third quarter	0.141	0.094
Fourth quarter	0.109	0.040
YEAR ENDED DECEMBER 31, 2001		
First quarter	0.172	0.063
Second quarter	0.180	0.070
Third quarter	0.160	0.060
Fourth quarter	0.090	0.030

On August 30, 2001, the last full trading day before the public announcement of the merger agreement, the high and low prices for ARO common stock as reported on the OTC Bulletin Board were $.09 and $.10 per share,

respectively, and the closing sales price on that date was $.09 per share. On January 24, 2002, the last trading day before the date of this proxy statement, the closing sales price for shares of ARO common stock, as reported on the OTC Bulletin Board, was $0.06. There is no public market for the ARO preferred stock. You are urged to obtain current market quotations for ARO common stock before making any decision with respect to the merger.

On August 30, 2001, the last full trading day before the public announcement of the merger agreement, the high and low sales prices for Blue Dolphin common stock as reported on the Nasdaq Small Cap Market were $3.69 and $3.95 per share, respectively, and the closing sales price on that date was $3.90 per share. On January 23, 2002, the last trading day before the date of this proxy statement, the closing sales price for shares of the common stock, as reported on the Nasdaq Small Cap Market, was $1.64. You are urged to obtain current market quotations for Blue Dolphin common stock before making any decision with respect to the merger.

Holders of shares of ARO's Series 1993 Preferred Stock, $12.00 par value, are entitled to receive, when declared, cumulative dividends at the rate of 8% per share based upon the total number of shares outstanding. Such dividends are payable semi-annually to holders of record on the 15th of January and July of each year. All dividends are payable in cash or common stock, at ARO's election. On July 12, 2001, ARO made a cash dividend to its holders of common stock of record on July 2, 2001. Blue Dolphin has never paid cash dividends on its common stock and does not intend to do so in the future. Any future dividends will be subject to the discretion of Blue Dolphin's board of directors and will depend on, among other things, future earnings, Blue Dolphin's operating and financial condition, Blue Dolphin's capital requirements and general business conditions.

DESCRIPTION OF BLUE DOLPHIN'S CAPITAL STOCK

Common Stock. Each share of common stock is entitled to one vote on all matters submitted for a vote to the holders of the capital stock of Blue Dolphin. The common stock does not have cumulative voting rights. Subject to the superior rights of any series of preferred stock, the holders of common stock may receive ratably dividends if, when and as declared by the board of directors of Blue Dolphin out of funds legally available therefore and, upon liquidation of Blue Dolphin, are entitled to all assets remaining after the satisfaction of liabilities. The common stock has no redemption, conversion, preemptive or other subscription rights. The Transfer agent and registrar of the common stock is Securities Transfer Corporation, Dallas, Texas.

Preferred Stock. The board of directors is empowered, without the approval of the stockholders, to authorize the issuance of preferred stock in one or more series, to establish the number of shares included in each series, and to fix the relative rights, powers, preferences and limitations of each series. As a result, the board of directors has the power to afford the holders of any series of preferred stock greater rights, powers, preferences and limitations than the holders of common stock. The ability of the board of directors to establish the rights, powers, preferences and limitations and to issue preferred stock could be used as an anti-takeover device.

COMPARISON OF RIGHTS OF STOCKHOLDERS OF BLUE DOLPHIN AND ARO

Both ARO and Blue Dolphin were incorporated under the laws of the State of Delaware. At the time the merger becomes effective, the stockholders of ARO who elect to receive Blue Dolphin common stock will become stockholders of Blue Dolphin. As stockholders of Blue Dolphin, their rights will be governed by the Delaware General Corporation Law and Blue Dolphin's certificate of incorporation and bylaws, which differ in certain respects from ARO's certificate of incorporation and bylaws.

The following is a summary of the material differences between the rights of the holders of Blue Dolphin common stock and ARO capital stock. You might regard as important other differences that we do not include here. You should refer to the documents and statutory sections we mention in this section if you want more information. THE SUMMARY CONTAINED IN THE CHART BELOW IS NOT INTENDED TO BE A COMPLETE STATEMENT OF THE RIGHTS OF HOLDERS OF BLUE DOLPHIN COMMON STOCK AND ARO COMMON OR PREFERRED STOCK UNDER THE DELAWARE GENERAL CORPORATION LAW OR THE CHARTER OR BYLAWS OF EITHER COMPANY.

	ARO	
Authorized Capital Stock:	The authorized capital stock of ARO consists of 73,000,000 shares, 70,000,000 of which are shares of ARO common stock, 1,000,000 of which are shares of Series 1993 8% Convertible Preferred Stock, and 2,000,000 of which are shares of ARO preferred stock. The ARO charter grants specific authority to the board of directors, without action by the stockholders, to issue preferred stock with designations, preferences, and special rights and qualifications, limitations, or restrictions designated by the board of directors. At January 24, 2002, 51,286,766 shares of ARO common stock were outstanding, and 39,682 shares of Series 1993 8% Convertible Preferred Stock were outstanding. ARO's charter does not provide for cumulative voting and no preemptive rights are granted by ARO's charter or bylaws.	The authorized cap consists of 12,500 which are shares o and 2,500,000 of w Blue Dolphin prefe charter grants spe directors, without issue preferred st preferences, and s limitations, and r board of directors 6,091,592 shares o were outstanding. cumulative voting granted by Blue Do
Stockholder Proposals:	The bylaws and charter of ARO do not contain any provisions regarding stockholder proposals or nominations for director.	The bylaws provide person nominated b eligible for elect required informati consent of such pe the secretary of B with respect to an prior to the anniv respect to an elec ten days after not delivered.
Class Voting:	The ARO charter provides that so long as any shares of the Series 1993 Preferred Stock remain outstanding the affirmative vote or consent of at least a majority of such shares are required for	The Blue Dolphin c class voting only; Delaware law.

	certain corporate actions.	
Number, Term and Election of Directors:	The ARO bylaws provide for a single class of directors which shall consist of not less than three nor more than nine directors to be elected at the annual meeting of stockholders, and each director shall serve until the director's successor shall be elected and shall qualify.	The Blue Dolphin b directors shall be the board of direc determination the shall be five. Eac the annual meeting office for the ter a successor shall or until his earli removal.

	ARO	
Vacancies on the Board of Directors:	The ARO bylaws provide that if there is any vacancy on the board of directors, the stockholders by a majority vote, may appoint any qualified person to fill such vacancy, and that person shall hold office for the unexpired term until his successor shall be duly chosen.	The Blue Dolphin b be filled by a maj office, although l remaining director shall hold office and until his succ shall qualify, unl
Removal of Directors:	The ARO bylaws provide that any director may be removed either for or without cause at any time by the affirmative vote of the holders of a majority of all the shares of stock outstanding and entitled to vote, at a special meeting of the stockholders called for the purpose of removal. ARO's bylaws also provide that stockholders may effect the removal of a director who is a member of a classified board of directors only for cause.	The bylaws and cha contain any specif procedures to be f
Amendment of Bylaws:	The ARO bylaws provide that the board of directors shall have the power without the assent or vote of the stockholders to adopt, amend, or repeal the bylaws.	The Blue Dolphin c may be altered, am bylaws may be adop subject to the rig alter, amend or re law subject to any Blue Dolphin bylaw
Action by Written Consent and Special Meetings of Stockholders:	ARO's bylaws provide that any action required to be taken at any annual or special meeting of stockholders, or any action which may be taken at any annual or special meeting, may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the	The Blue Dolphin b permitted or requi bylaws to be taken may be taken witho notice and without writing, setting f be signed by the h

	holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. The ARO bylaws also provide that special meetings of the stockholders for any purpose or purposes may be called by the President or Secretary, or by resolution of the board of directors.	having not less th that would be nece action at a meetin to vote thereon we Dolphin bylaws als of the stockholder of the board, the directors and shal request, stating t signed by the hold the shares outstan such meeting.

	ARO	
Indemnification of Directors and Officers:	The ARO bylaws provide that the corporation shall have the power to indemnify any person who was or is a party or is threatened to be made a party to any suit by reason of the fact that he is or was a director, officer, employee, or agent of the corporation against expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action, had no reasonable cause to believe his conduct was unlawful. ARO's bylaws also provide that to the extent that a director, officer, employee, or agent of the corporation has been successful on the merits or otherwise in defense of any action, he shall be indemnified against expenses actually and reasonably incurred by him in connection therewith. ARO's bylaws also give the corporation the power to purchase insurance on behalf of any person who is or was a director, officer, employee, or agent of the corporation.	The Blue Dolphin c who was or is made made a party to or reason of the fact whom he or she is was or has agreed of the corporation harmless by the co authorized by the against all expens reasonably incurre connection therewi shall continue as serve in the capac such person to ind the corporation sh seeking indemnific proceeding initiat proceeding was aut board of directors
Limitation of Director Liability:	ARO's charter provides that, to the fullest extent permitted by the Delaware General Corporation Law, no director or the corporation shall be liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director.	Blue Dolphin's cha shall not be perso or its stockholder breach of his or h except for liabili o any breach of s the corporation o acts or omissio involve intenti

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SECURITY OWNERSHIP OF CERTAIN
BENEFICIAL OWNERS AND MANAGEMENT

ARO

The following table furnishes information concerning all persons known to beneficially own 5% or more of any class of voting stock of ARO as of January 23, 2002.

Title of Class	Name and Address of Beneficial Owner	Sha Benefi Own
Common Stock	Blue Dolphin Energy Company Blue Dolphin Exploration Company 801 Travis, Suite 2100 Houston, Texas 77002	39,51
	TECO Oil & Gas, Inc. 702 North Franklin Street Tampa, Florida 33602	2,75
Series 1993 Preferred Stock	Blue Dolphin Energy Company 801 Travis, Suite 2100 Houston, Texas 77002	20,
	James and Daphne Perry, JTWROS 2608 Ridgeview Road Sioux Falls, South Dakota 57105	12,

The following table furnishes information concerning the ownership by directors, officers and directors and officers as a group of any class of voting stock of ARO as of January 23, 2002.

Title of Class	Name and Address of Beneficial Owner	Sha Benefi Own

Common Stock	Douglas L. Hawthorne	20
Common Stock	Directors and Executive Officers as a Group	20

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(1) Includes 181,400 shares held in Mr. Hawthorne's retirement plan and 1,792 shares of common stock to which Mr. Hawthorne is entitled as a 1/3 beneficiary of the Frances R. Hawthorne Trust.

* Represents less than 1%.

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BLUE DOLPHIN

The following table sets forth, as of January 23, 2002, certain information with respect to the beneficial ownership of shares of Blue Dolphin common stock (Blue Dolphin's only class of voting security issued and outstanding) as to

- all persons known by Blue Dolphin to be beneficial owners of 5% or more of the outstanding shares of Blue Dolphin,
- each director,
- each executive officer, and
- all executive officers and directors, as a group.

Unless otherwise indicated, each of the following persons has sole voting and dispositive power with respect to such shares.

NAME OF BENEFICIAL OWNER	SHARES OWNED BENEFICIALLY	
	NUMBER	PERCENT (1)
Colombus Petroleum Limited, Inc. (2)	911,712	15.1
Ivar Siem (3)	438,562	7.3
Harris A. Kaffie (3)	710,147	11.8
Michael S. Chadwick (3)	13,473	*
Robert Barbanell (3)	30,706	*
Michael J. Jacobson (3)	146,000	2.4
Roland B. Keller (3)	47,137	*
John P. Atwood (3)	28,535	*
Robert D. Wagner, Jr.	706	*

Directors, as a Group (9 persons) (3)	1,433,039	23.7

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* Less than 1%

(1) Based upon 6,091,592 shares of Blue Dolphin common stock outstanding on January 24, 2002.

(2) Based on a Schedule 13D filed with the Securities and Exchange Commission on February 1, 1999. The address of Colombus Petroleum Limited, Inc., is Aeulestrasse 74, FL-9490, Vaduz, Liechtenstein.

(3) Includes shares of Common Stock issuable upon exercise of options that may be exercised within 60 days of December __, 2001 as follows: Mr. Siem - 22,667; Mr. Kaffie - 8,556; Mr. Chadwick - 4,890; Mr. Barbanell - 10,000; Mr. Jacobson - 17,333; Mr. Keller - 13,890; Mr. Atwood - 11,558 and all directors and executive officers as a group - 94,673.

DIRECTORS AND EXECUTIVE OFFICERS OF BLUE DOLPHIN

The following table provides certain information with respect to the directors and the executive officers of Blue Dolphin.

NAME	AGE	POSITION	POSITION HELD SINC
Ivar Siem	55	Chairman of the Board	1989
Robert L. Barbanell	71	Director	2000
Michael S. Chadwick	50	Director	1992
Harris A. Kaffie	51	Director	1989
Robert D. Wagner, Jr.	59	Director	2001
Michael J. Jacobson	55	President and Chief Executive Officer	1990
Roland B. Keller	63	Executive Vice President	1990
John P. Atwood	49	Vice President	1998
G. Brian Lloyd	43	Vice President, Treasurer and Secretary	1989

The following is a brief description of the background and principal occupation of each director and executive officer:

Ivar Siem - Chairman of the Board of Directors - From 1995 to 2000, Mr. Siem served on the Board of Directors of Grey Wolf, Inc., during which time he served as Chairman from 1995 to 1998 and interim President (1995) during its restructuring. Since 1985, he has been an international consultant in energy, technology and finance. He has served as a Director of Business Development for Norwegian Petroleum Consultants and as an independent consultant to the oil and gas exploration and production industry based in London, England. Mr. Siem holds a Bachelor of Science Degree in Mechanical Engineering from the University of

California, Berkeley, and has completed an executive MBA program at Amos Tuck School of Business, Dartmouth University. Since October 1999, Mr. Siem has also served as a director of ARO, and since December 1999 he has served as President of American Resources, which is a 77% owned subsidiary of the Company.

Robert L. Barbanell - Director - Mr. Barbanell has served as President of Robert L. Barbanell Associates, Inc., a financial consulting firm since July 1994. Mr. Barbanell was employed by Bankers Trust New York Corporation from June 1986 to June 1994 as Managing Director and from December 1981 to June 1986 as Senior Vice President. He is also a director of Cantel Medical Corp. and Pride International, Inc.

Michael S. Chadwick - Director - Mr. Chadwick has been engaged in the commercial and investment banking businesses since 1975. From 1988 to 1994, Mr. Chadwick was President of Chadwick, Chambers & Associates, Inc., a private merchant and investment banking firm in Houston, Texas, which he founded in 1988. In 1994, Mr. Chadwick joined Sanders Morris Harris, an investment banking and financial advisory firm, as Senior Vice President and a Managing Director in the Corporate Finance Group. Mr. Chadwick holds a Bachelor of Arts Degree in Economics from the University of Texas at Austin and a Master of Business Administration Degree from Southern Methodist University.

Harris A. Kaffie - Director - Mr. Kaffie is a partner in Kaffie Brothers, a real estate, farming and ranching company, and investment company. He currently serves as a Director of KBK Capital Corporation and Director of CCNG, Inc., the General Partner of Corpus Christi Natural Gas Company, L.P., a privately-held company which owns and operates natural gas pipelines and processing facilities, and is engaged in the marketing of natural gas. Mr. Kaffie received a Bachelor of Business Administration Degree from Southern Methodist University in 1972.

Robert D. Wagner, Jr. - Director - Mr. Wagner was the Managing Director of Arthur Andersen's Global Energy Corporate Finance Group from 1999 through April 2001. He previously was the Managing Director of Energy Corporate Finance of Bankers Trust/BT Alex. Brown and Bear Stearns and was an Executive Vice President of First City Houston. He is a past President and Director of the Petroleum Club of Houston. He is also a director of Comfort Systems USA and Electric City. Mr. Wagner received his Bachelor of Arts degree in History from Holy Cross College in 1963 and his Master of Business Administration degree in Finance from New York University in 1971.

Michael J. Jacobson - President and Chief Executive Officer - Mr. Jacobson has been associated with the energy industry since 1968, serving in various senior management capacities since 1980. He served as Senior Vice President and Chief Financial and Administrative Officer for Creole International, Inc. and it's subsidiaries, international providers of engineering and technical services to the energy sector, as well as Vice President of Operations for the parent holding company, from 1985 until joining Blue Dolphin in January 1990. He has also served as Vice President and Chief Financial Officer of Volvo Petroleum, Inc., and for certain Fred. Olsen oil and gas interests. Mr. Jacobson began his career with Shell Oil Company, where he served in various analytical and management capacities in the exploration and production organization during the period 1968 through 1974. Mr. Jacobson holds a Bachelor of Science Degree in Finance from the University of Colorado. Mr. Jacobson has served as President and Chief Executive Officer of Blue Dolphin since January 1990. Since October 1999, Mr. Jacobson has served as a Director of

ARO.

Roland B. Keller - Executive Vice President Exploration and Production - Mr. Keller has been associated with the energy industry since 1962, serving in senior management capacities since 1976. Prior to joining Blue Dolphin in 1990, he served as Senior Vice President - Exploration for Sandefer Oil and Gas Company, an independent oil and gas company from 1982. He served as Vice President - Exploration and Production for Volvo Petroleum, Inc., from 1980 to 1982, and Vice President and Division Manager for Florida Exploration Co., from 1976 to 1980. Mr. Keller began his career with Amoco Production Co., serving in various technical and management capacities from 1962 through 1976. Mr. Keller holds Bachelor of Science and Master of Science degrees in Geology from the University of Florida. Mr. Keller has served as Executive Vice President - Exploration and Production of Blue Dolphin since September 1990. Since December 1999, Mr. Keller has served as Vice President of ARO.

John P. Atwood - Vice President, Business Development - Mr. Atwood has been associated with the energy industry since 1974, serving in various management capacities since 1981. He served as Senior Vice President of Land and Administration for Glickehaus Energy from 1987 to 1991, Area Land Manager for CSX Oil & Gas Corporation and Division Land Manager for Hamilton Brothers Oil Company/Volvo Petroleum, Inc. He served in various land capacities for Tenneco Oil Company from 1977 to 1981. Mr. Atwood is a Certified Professional Landman and holds a Bachelor of Arts Degree from Oklahoma City University and a Master of Business Administration Degree from Houston Baptist University. Mr. Atwood has held various positions with Blue Dolphin. He served as Vice President of Land from 1991 to 1998 and Vice President of Finance and Corporate Development from 1998 until his appointment as Vice President of Business Development in 2001. Since December 1999, Mr. Atwood has served as a Director, Vice President and Secretary of ARO.

G. Brian Lloyd - Vice President, Treasurer and Secretary - Mr. Lloyd is a Certified Public Accountant and has been employed by Blue Dolphin since December 1985. Prior to joining Blue Dolphin, he was an accountant for DeNovo Oil and Gas Inc., an independent oil and gas company. Mr. Lloyd received a Bachelor of Science Degree in Finance from Miami University, Oxford, Ohio in 1982 and attended the University of Houston in 1983 and 1984. Mr. Lloyd has served as Secretary of Blue Dolphin since May 1989, Treasurer since September 1989 and Vice President since March 1998. Since December 1999, Mr. Lloyd has served as Vice President and Treasurer of ARO.

There are no family relationships between any director or executive officer.

EXECUTIVE COMPENSATION FOR BLUE DOLPHIN

EXECUTIVE OFFICERS

The following table sets forth the compensation paid to the Chief Executive Officer and each of the executive officers of Blue Dolphin whose annual salary exceeded $100,000 in fiscal 2000 for services rendered to Blue Dolphin.

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION* SALARY	BONUS	SE
Ivar Siem	2000	$150,000	--	
Chairman of the Board	1999	$150,000	--	
	1998	$ 65,085	--	
Michael J. Jacobson	2000	$200,000	--	
President and Chief Executive	1999	$200,000	--	
Officer	1998	$200,000	--	
Roland B. Keller	2000	$140,000	--	
Executive Vice President -	1999	$140,000	--	
Exploration and Production	1998	$140,000	--	
John P. Atwood **	2000	$124,167	--	
Vice President -	1999	$120,000	--	
Business Development	1998	$105,000	--	

* Excludes certain personal benefits, the aggregate value of which do not exceed 10% of the Annual Compensation shown for each person.

** Mr. Atwood became an executive officer in October 1998.

OPTION GRANTS IN LAST FISCAL YEAR

Name	Number of Securities Underlying Options Granted #	Percent of Total Options Granted to Employees In Fiscal Year	Exercise or Base Price ($/Sh)	Expiration Date	Pot V A St for 5% (
Ivar Siem	8,000	14%	$6.00	5/17/2010	$20
Michael J. Jacobson	6,000	11%	$6.00	5/17/2010	$15
Roland B. Keller	3,000	5%	$6.00	5/17/2010	$ 7
John P. Atwood	4,000	7%	$6.00	5/17/2010	$10

(1) The per share market price, as reported by the Nasdaq Smallcap Market on May 17, 2000, the date of grant was $5.25.

AGGREGATE OPTION EXERCISES IN LAST FISCAL YEAR
AND YEAR-END OPTION VALUES

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED	NUMBER OF UNEXERCISED OPTIONS AT YEAR END(#)		VA
			EXERCISABLE	UNEXERCISABLE	
Ivar Siem	2,778	$ 3,539	16,444	8,446	
Michael J. Jacobson	23,445	$ 14,166	22,223	7,332	
Roland B. Keller	0	$ 0	11,222	8,112	
John P. Atwood	1,000	$ 1,274	8,778	8,669	

(1) Based on the difference between the average of the closing bid and ask prices on December 29, 2000 (the last trading day of 2000) and the exercise price.

DIRECTORS

In fiscal 2000 the Blue Dolphin paid non-employee members of its Board of Directors an annual retainer of $3,000, plus $500 for each committee the director served on, and stock options as determined by the compensation committee. In 2001, Blue Dolphin increased the annual retainer to $12,000, payable 50% in cash and 50% in Blue Dolphin common stock. The Audit Committee chairman receives an annual retainer of $3,000 and other Audit Committee members receive an annual retainer of $1,500. In addition, directors shall receive stock options to acquire Blue Dolphin common stock with a market value of $20,000. No additional remuneration is paid to directors for committee meetings attended, except that directors are entitled to be reimbursed for expenses related to attendance of board or committee meetings.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS FOR BLUE DOLPHIN

In June 1999, Blue Dolphin received $1,960,000 through a private placement of 392,000 shares of Blue Dolphin common stock at $5.00 per share. Harris A. Kaffie, a director of Blue Dolphin, purchased 100,000 shares in the private placement.

In December 1999, Blue Dolphin completed a private placement of 1,016,718 shares of common stock at $6.00 per share. Consideration for the common stock sold consisted of approximately $4,200,000 cash and the surrender of approximately $1,900,000 of Blue Dolphin's promissory notes due December 31, 2000 along with accrued interest through December 1, 1999. Two directors and one former director of Blue Dolphin participated in this private placement:

- Daniel B. Porter, paid cash for 16,667 shares and tendered a note and accrued interest totaling $100,200 for 16,700 shares;
- Mr. Kaffie tendered a note and accrued interest totaling $187,800 for 31,300 shares; and
- Ivar Siem tendered a note and accrued interest totaling

$28,200 for 4,700 shares.

On December 1, 1999, Blue Dolphin issued a $1,000,000 convertible promissory note to Mr. Kaffie. The note was originally due June 1, 2000, bore interest at 10% per annum, and was convertible into common stock at a conversion price of $6.60 per share. The due date of the note was subsequently extended to March 31, 2001, and the conversion price was reduced to $6.00 per share. Blue Dolphin issued three convertible promissory notes to Mr. Siem in the principal amount of $200,000, $200,000 and $600,000 on May 25, 2000, July 6, 2000 and November 30, 2000, respectively. These convertible promissory notes to Mr. Siem were due March 31, 2001, bore interest at the rate of 10% per annum and were convertible into common stock at a conversion price of $6.00 per share. The principal and accrued interest due to Messrs. Kaffie and Siem were paid in full in January 2001.

In late 2000, Blue Dolphin formed Drillmar, Inc., a Delaware corporation and had a 37.5% equity interest in Drillmar. In addition to Mr. Siem's position with Blue Dolphin, he also serves as Chairman and President of Drillmar. In late 2000 Drillmar acquired a 1% general partner interest in Zephyr Drilling, Ltd. Zephyr owns a semi-submersible drilling rig that is being retrofitted into a semi-tender. At December 31, 2000, Drillmar's investment in Zephyr was $86,000. Messrs. Kaffie and Siem were limited partners in Zephyr owning 37.5% and 37.1% interests, respectively.

On May 1, 2001 Blue Dolphin increased its ownership in Drillmar from 37.5% to 64%. Blue Dolphin paid cash of approximately $131,000 and contributed services in the amount of $434,000. A portion of the services contributed by Blue Dolphin to Drillmar were pursuant to an agreement with Drillmar whereby Blue Dolphin agreed to provide office space and certain administrative services to Drillmar for approximately $40,000 per month. Historically, Blue Dolphin has used the payments it is entitled to receive under this agreement to fund its investment in Drillmar. Blue Dolphin received a partial payment under this agreement in October 2001 and began receiving full payments in November 2001. This agreement may be terminated by mutual agreement of both parties.

On September 30, 2001, Drillmar entered into a merger agreement and merged with Zephyr. Prior to the merger, Zephyr was a limited partnership in which Drillmar was the general partner. As a result of the merger, Blue Dolphin's interest in Drillmar decreased from 64% to 12.8%, and Messrs. Kaffie and Siem now hold ownership interests in Drillmar of 30.6% and 30.3%, respectively.

At June 30, 2001, Ivar Siem loaned Drillmar $100,000 and was issued an unsecured promissory note due December 31, 2001, bearing interest at 10% per annum. In July 2001, Drillmar was loaned $300,000 from Mr. Siem and $200,000 from Mr. Kaffie and they were issued unsecured promissory notes due December 31, 2001 bearing interest at 10% per annum. The promissory note and

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accrued interest of $986 due to Mr. Kaffie was paid in August 2001. In August 2001, Drillmar was loaned $125,000 from Mr. Siem and $125,000 from Mr. Kaffie and they were issued unsecured promissory notes due December 31, 2001, bearing interest at 10% per annum. In October 2001, Mr. Kaffie loaned an additional $200,000 to Drillmar under the same terms. The promissory notes issued by Drillmar are non-recourse to Blue Dolphin.

OTHER MATTERS

The Board of Directors does not presently know of any matters to be presented for consideration at the special stockholders meeting other than matters described in the notice of special stockholders meeting mailed together with this joint proxy statement/prospectus. If other matters are presented, the persons named in the accompanying proxy to vote on such matters will have discretionary authority to vote in accordance with their best judgment.

LEGAL OPINION

The validity of the shares of Blue Dolphin common stock offered by this joint proxy statement/prospectus will be passed upon for Blue Dolphin by Porter & Hedges, L.L.P.

EXPERTS

The consolidated financial statements of Blue Dolphin Energy Company as of December 31, 2000 and 1999, and for each of the years in the three year period ended December 31, 2000, have been included in and incorporated by reference herein and in the registration statement in reliance upon the reports of KPMG LLP and Ernst & Young LLP, independent certified public accountants, included in and incorporated by reference herein, and upon the authority of said firms as experts in accounting and auditing. The report of KPMG LLP covering the December 31, 2000 and 1999 consolidated financial statements of Blue Dolphin Energy Company refers to a change in the method of accounting for costs of start-up activities.

The consolidated financial statements of American Resources Offshore, Inc. at December 31, 2000 and 1999, and for each of the three years in the period ended December 31, 2000, appearing in this joint proxy statement/prospectus and the financial statements incorporated by reference in the registration statement of which this joint proxy statement forms a part have been audited by Ernst & Young LLP, independent auditors as set forth in their reports thereon appearing elsewhere herein and incorporated by reference, and are included and incorporated by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

The estimated reserve evaluations and related calculations of Ryder Scott Company, L.P., independent petroleum engineering consultants, incorporated by reference in this registration statement have been incorporated by reference in reliance on the authority of said firm as experts in petroleum engineering.

FUTURE STOCKHOLDER PROPOSALS

If the merger is completed there will be no public participation in any future meetings of stockholders of ARO. However, if the merger is not completed, ARO stockholders will continue to be entitled to attend and participate in ARO's stockholders meetings. If the merger is not completed, you will be informed, by press release or other means determined reasonable by us, of the date by which stockholder proposals must be received by us for inclusion in the proxy materials relating to the annual meeting, which proposals must comply with the rules and regulations of the Commission then in effect.

WHERE YOU CAN FIND MORE INFORMATION

ARO and Blue Dolphin file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any reports, statements or other information filed by ARO or Blue Dolphin at the Commission's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549, and at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Please call the Commission at 1-800-732-0330 for further information on the operation of the Public Reference Room. ARO's and Blue Dolphin's filings with the Commission are also available to the public from commercial document retrieval services and at the website maintained by the Commission located at: "http://www.sec.gov."

The Commission allows ARO and Blue Dolphin to "incorporate by reference" information into this proxy statement. This means that ARO and Blue Dolphin can disclose important information by referring to another document filed separately with the Commission. The information incorporated by reference is considered to be part of this proxy statement.

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS DOCUMENT OR THAT TO WHICH WE HAVE REFERRED YOU. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH ANY INFORMATION THAT IS DIFFERENT.

ARO

The following documents, filed by ARO with the Commission, are hereby incorporated by reference into this joint proxy statement/prospectus:

- ARO's Annual Report on Form 10-K for the year ended December 31, 2000;
- ARO's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2001, June 30, 2001 and September 30, 2001; and
- ARO's Current Reports on Form 8-K, dated June 21, 2001, August 31, 2001 and December 20, 2001.

BLUE DOLPHIN

The following documents, filed by Blue Dolphin with the Commission, are hereby incorporated by reference into this joint proxy statement/prospectus:

- Blue Dolphin's Annual Report on Form 10-K for the year ended December 31, 2000;
- Blue Dolphin's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2001, June 30, 2001 and September 30, 2001; and
- Blue Dolphin's Current Reports on Form 8-K, dated January 31, 2001, August 31, 2001, November 8, 2001 and December 20, 2001.

Any statement contained in a document incorporated or deemed to be incorporated by reference into this joint proxy statement/prospectus will be deemed to be modified or superseded for purposes of this joint proxy statement/prospectus to the extent that a statement contained in this joint proxy statement/prospectus modifies or supersedes the statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this joint proxy statement/prospectus.

The documents incorporated by reference into this joint proxy statement/prospectus are available from us upon request. We will provide a copy

of any and all of the information that is incorporated by reference in this joint proxy statement/prospectus to any person, without charge, upon written or oral request. ANY REQUEST FOR DOCUMENTS SHOULD BE MADE BY FEBRUARY 12, 2002 TO ENSURE TIMELY DELIVERY OF THE DOCUMENTS.

Requests for documents relating to ARO or Blue Dolphin should be directed to: Haavard Strommen, Blue Dolphin Energy Company, 801 Travis, Suite 2100, Houston, Texas 77002 (telephone: (713) 227-7660; facsimile: (713) 227-7626.

Blue Dolphin has filed a registration statement on Form S-4 under the Securities Act with the Commission with respect to the Blue Dolphin common stock to be issued to ARO stockholders in the merger. This joint proxy statement/prospectus constitutes the prospectus of Blue Dolphin filed as part of the registration statement. This joint proxy statement/prospectus does not contain all of the information set forth in the registration statement because certain parts of the registration statement are omitted in accordance with the rules and regulations of the Commission. The registration statement and its exhibits are available for inspection and copying as set forth above.

Copies of ARO's Form 10-K for the year ended December 31, 2000, and its Quarterly Report on Form 10-Q for the quarter ended September 30, 2001, are attached to this joint proxy statement/prospectus as Appendices C and D, respectively. Copies of Blue Dolphin's Annual Report on Form 10-K for the year ended December 31, 2000, and its Quarterly Reports on Form 10-Q for the quarter ended September 30, 2001, are attached to this joint proxy statement/prospectus as Appendices E and F, respectively. Please read each of such documents in their entirety for the important information they contain regarding the business of ARO and Blue Dolphin.

THIS JOINT PROXY STATEMENT/PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO PURCHASE, THE SECURITIES OFFERED BY THIS JOINT PROXY STATEMENT/PROSPECTUS, OR THE SOLICITATION OF A PROXY, IN ANY JURISDICTION TO OR FROM ANY PERSON TO WHOM OR FROM WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER, SOLICITATION OF ANY OFFER OR PROXY SOLICITATION IN SUCH JURISDICTION. NEITHER THE DELIVERY OF THIS JOINT PROXY STATEMENT/PROSPECTUS NOR ANY DISTRIBUTION OF SECURITIES PURSUANT TO THIS JOINT PROXY STATEMENT/PROSPECTUS SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE INFORMATION SET FORTH OR INCORPORATED INTO THIS JOINT PROXY STATEMENT/PROSPECTUS BY REFERENCE OR IN OUR AFFAIRS SINCE THE DATE OF THIS JOINT PROXY STATEMENT/PROSPECTUS.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This joint proxy statement/prospectus and the documents incorporated by reference into this proxy statement prospectus (see "WHERE YOU CAN FIND MORE INFORMATION") include forward-looking statements about Blue Dolphin and ARO within the "safe harbor" provisions of Section 21E of the Exchange Act and Section 27A of the Securities Act. These statements relate to expectations concerning matters that are not historical facts, such as future financial performance, anticipated developments, business strategy, projected costs and plans and objectives of Blue Dolphin and ARO. Many of these statements are preceded by, followed by or otherwise include the words "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates" or similar expressions. These statements may be made expressly in this document or may be incorporated by reference to other documents Blue Dolphin and ARO have filed

with the Commission.

Although each of Blue Dolphin and ARO believes that such forward-looking statements are reasonable, neither can assure you that such expectations will prove to be correct. Forward-looking statements are not guarantees of future performance an are subject to risks and uncertainties that may cause actual results of Blue Dolphin or ARO to be materially different from any future results expressed or implied by either Blue Dolphin or ARO. The risks and uncertainties include those risks, uncertainties and risk factors identified, among other places, under "RISK FACTORS" in this document. Important factors that could cause actual results to differ materially from those described in the forward-looking statements include the following:

- benefits, effects or results of the merger;
- cost reductions, operating efficiencies or synergies and the integration of operations;
- future stock market valuations;
- timing of the merger;
- tax and accounting treatment of the merger;
- repayment of debt;
- market conditions, expansion and other development trends in the oil and gas industry;
- business strategies;

- expansion and growth of operations after the merger; and
- future operating results and financial condition after the merger.

These cautionary statements should not be construed by you as an exhaustive list or as any admission by Blue Dolphin or ARO regarding the adequacy of disclosures made by either company. We cannot always predict or determine after the fact what factors would cause actual results to differ materially from those indicated by the forward-looking statements or other statements. All cautionary statements should be read as being applicable to all forward-looking statements wherever they appear. Blue Dolphin and ARO do not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed herein might not occur.

APPENDIX A
(Composite)

AMENDED AND RESTATED

AGREEMENT AND PLAN OF MERGER

AMONG

BLUE DOLPHIN ENERGY COMPANY,

BDCO MERGER SUB, INC.

AND

AMERICAN RESOURCES OFFSHORE, INC.

DATED AS OF DECEMBER 19, 2001

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AMENDED AND RESTATED
AGREEMENT AND PLAN OF MERGER

AMENDED AND RESTATED AGREEMENT AND PLAN OF MERGER, dated as of December 19, 2001 ("Agreement"), by and among Blue Dolphin Energy Company, a Delaware corporation ("BDCO"), BDCO Merger Sub, Inc., a Delaware corporation and wholly-owned subsidiary of BDCO ("Merger Sub"), and American Resources Offshore, Inc., a Delaware corporation ("ARO").

W I T N E S S E T H:

WHEREAS, the parties hereto desire to cause Merger Sub to merge with and into ARO (the "Merger") on the terms and subject to the conditions herein set forth and in accordance with the Delaware General Corporation Law (the "DGCL");

WHEREAS, a special committee (the "Special Committee") of the Board of Directors of ARO deems that the Merger and this Agreement are fair to and in the best interests of stockholders of ARO (other than BDCO and its affiliates) and has recommended approval of this Agreement by the Board of Directors of ARO;

WHEREAS, the Board of Directors of ARO deems that the Merger is advisable and in the best interest of the stockholders and has approved and adopted this Agreement and the transactions contemplated hereby and recommended approval and adoption of this Agreement by the stockholders of ARO;

WHEREAS, the Board of Directors of each of BDCO and Merger Sub deem that the Merger is advisable and in the best interest of their respective stockholders and have approved and adopted this Agreement and the transactions contemplated hereby; and

WHEREAS, this Agreement and the transactions contemplated hereby have been approved by the sole stockholder of Merger Sub by written consent of its

sole stockholder, BDCO.

NOW, THEREFORE, in consideration of the premises and of the representations, covenants and agreements contained herein, the parties hereto hereby agree as follows:

ARTICLE 1

THE MERGER

1.1 The Merger. Upon the terms and subject to conditions of this Agreement, at the Effective Time (as defined in Section 1.3) Merger Sub shall be merged with and into ARO in accordance with DGCL, whereupon the separate existence of Merger Sub shall cease, and ARO shall be the surviving corporation in the merger (the "Surviving Corporation").

1.2 Closing. Upon the terms and subject to the conditions of this Agreement, the closing of the Merger (the "Closing") shall take place at the offices of Porter & Hedges, L.L.P., 700 Louisiana Street, Suite 3500, Houston, Texas 77002 on a date to be specified by the parties (the "Closing Date") which shall be no later than the fifth business day after satisfaction or waiver of the conditions set forth in Article 5, unless another time, date or place is agreed to in writing by the parties hereto.

1.3 Effective Time. Subject to the provisions of this Agreement, as soon as practicable on or after the Closing Date, the parties shall (i) file a certificate of merger with the Secretary of State of the State of Delaware and (ii) make all other filings or recordings required by the DGCL in connection with the Merger. The Merger shall become effective at such time as the certificate of merger is duly filed with the Secretary of State of the State of Delaware or at such other time as is specified in the certificate of merger (the "Effective Time").

1.4 Effects of the Merger. The Merger shall have the effects set forth in the DGCL. From and after the Effective Time, the Surviving Corporation shall possess all the rights, privileges, powers and franchises and be subject to all of the restrictions, disabilities and duties of Merger Sub and ARO, and all debts and liabilities of Merger Sub and ARO shall become the debts and liabilities of the Surviving Corporation, all as provided under the DGCL.

1.5 Certificate of Incorporation. At the Effective Time, the Certificate of Incorporation of Merger Sub, attached hereto as EXHIBIT A, shall become the Certificate of Incorporation of the Surviving Corporation until the same shall be altered or amended in accordance with applicable law.

1.6 Bylaws. At the Effective Time, the Bylaws of Merger Sub, attached hereto as EXHIBIT B, shall become the Bylaws of the Surviving Corporation until the same shall be altered, amended, or repealed, or until new bylaws shall be adopted in accordance with applicable law or the Certificate of Incorporation.

1.7 Directors and Officers of the Surviving Corporation. From and after the Effective Time, until the earlier of their death, resignation or removal or until their respective successors are duly elected and qualified in accordance with applicable law, as the case may be, (a) the directors of Merger Sub at the Effective Time shall be the directors of the Surviving Corporation, and (b) the officers of ARO at the Effective Time shall be the officers of the Surviving Corporation.

1.8 Conversion of Capital Stock. At the Effective Time:

(a) Cancellation of Capital Stock. Immediately prior to the Effective Time, (i) all shares of capital stock of ARO held in treasury by ARO or any subsidiary of ARO and (ii) any shares of common stock, par value $0.00001 per share (the "Common Stock"), of ARO and Series 1993 Preferred Stock, par value $12.00 per share (the "Preferred Stock"), of ARO owned by BDCO or any subsidiary of BDCO, including the shares of Common Stock owned by Blue Dolphin Exploration Company, a wholly owned

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subsidiary of BDCO ("BDEX"), shall be cancelled and retired and shall cease to exist from the Effective Time and no consideration shall be paid with respect thereto.

(b) Conversion of Common Stock. At the Effective Time, each issued and outstanding share of Common Stock, other than Dissenting Shares (as defined in Section 1.12) that are owned by Dissenting Stockholders (as defined in Section 1.12) that have properly exercised appraisal rights pursuant to Section 262 of the DGCL and shares to be cancelled in accordance with Section 1.8(a), shall be converted into the right to receive, at the election of the holder thereof, one of the following (as adjusted pursuant to Section 1.11, the "Common Stock Merger Consideration"):

(i) for each share of Common Stock with respect to which an election to receive shares of BDCO common stock, par value $0.01 per share (the "BDCO Common Stock"), has been effectively made, and not revoked or lost, pursuant to Section 1.10 (a "Common Share Election") and for each share with respect to which a Common Share Election is deemed to have been made pursuant to Section 1.10, the right to receive a fraction of a share of BDCO Common Stock equal to the Common Exchange Ratio (as defined below) (the "Common Stock Consideration"); and

(ii) for each such share of Common Stock with respect to which an election to receive Cash has been effectively made, and not revoked or lost, pursuant to Section 1.10 (a "Common Cash Election"), the right to receive $.06 in cash, without interest, (the "Common Cash Consideration").

All such shares of Common Stock shall no longer be outstanding and shall automatically be cancelled and retired and shall cease to exist, and each holder of a certificate representing any such shares of Common Stock shall cease to have any rights with respect thereto, except the right to receive the Merger Consideration (as defined in Section 1.9(a)) upon surrender of such certificate in accordance with Section 1.9. The "Common Exchange Ratio" shall be equal to the greater of either (A) .0276 or (B) .06 divided by the BDCO Share Price (as defined below). The "BDCO Share Price" shall be equal to the average of the per share sales price (excluding after-market trading) for BDCO Common

Stock on the Small Cap Market System of the National Association of Securities Dealers Automated Quotation System as reported in the Wall Street Journal, calculated to two decimal places, for the ten (10) trading days immediately preceding the date on which the Proxy Statement is first mailed.

(c) Conversion of Preferred Stock. At the Effective Time, each issued and outstanding share of Preferred Stock, other than Dissenting Shares that are owned by Dissenting Stockholders that have properly exercised appraisal rights pursuant to Section 262 of the DGCL and shares to be cancelled in accordance with Section 1.8(a), shall be converted into the right to receive, at the election of the holder thereof, one of the following (the "Preferred Stock Merger Consideration"):

(i) for each share of Preferred Stock with respect to which an election to receive shares of BDCO Common Stock has been effectively made, and not revoked or lost, pursuant to Section 1.10 (a "Preferred Share Election", and together with the Common Share Election, a "Share Election"), and for each share with respect to which a Preferred Share

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Election is deemed to have been made pursuant to Section 1.10, the right to receive .0301 of a share of BDCO Common Stock (the "Preferred Stock Consideration", and together with the Common Stock Consideration, the "Stock Consideration"); and

(ii) for each such share of Preferred Stock with respect to which an election to receive cash has been effectively made, and not revoked or lost, pursuant to Section 1.10 (a "Preferred Cash Election" and together with a Common Cash Election, a "Cash Election") the right to receive $.07 in cash, without interest, (the "Preferred Cash Consideration" and together with the Common Cash Consideration, the "Cash Consideration").

All such shares of Preferred Stock shall no longer be outstanding and shall automatically be cancelled and retired and shall cease to exist, and each holder of a certificate representing any such shares of Preferred Stock shall cease to have any rights with respect thereto, except the right to receive the Merger Consideration upon surrender of such certificate in accordance with Section 1.9.

(d) Conversion of Merger Sub Common Stock. At the Effective Time, each issued and outstanding share of common stock, par value $.01 per share, of Merger Sub shall be converted into one fully paid and nonassessable share of common stock, par value $.01 per share, of the Surviving Corporation ("Surviving Corporation Common Stock").

(e) Stock Rights. ARO agrees that prior to the Effective Time it will cause any and all options, warrants, convertible securities (or other securities or rights issued by ARO, which entitle the holder to acquire Common Stock, Preferred Stock, other securities or assets from ARO), other than the Preferred Stock, to be (i) canceled without cost to ARO, or (ii) exercised or converted into Common Stock.

1.9 Surrender and Payment of Certificates.

(a) Exchange Agent. Prior to the Effective Time, BDCO shall appoint Securities Transfer Corporation (or such other person or entity as BDCO may designate) to act as Exchange Agent (the "Exchange Agent"). As soon as practicable after the Effective Time, BDCO shall deposit with the Exchange Agent an amount of cash, certificates representing shares of BDCO Common Stock and cash in lieu of fractional shares, if any, as provided below, (the Cash Consideration and Stock Consideration together with any cash necessary to make payments in lieu of fractional shares, the "Merger Consideration") to be issued in exchange for the issued and outstanding shares of Common Stock and Preferred Stock. Promptly after the Effective Time, the Exchange Agent will send, to each holder of record, as of the Effective Time, of a certificate or certificates which at the Effective Time represented shares of Common Stock and

Preferred Stock (the "Certificates") (i) a letter of transmittal (which shall specify that the delivery shall be effected, and risk of loss and title shall pass, only upon proper delivery of the Certificates to the Exchange Agent and which shall be in customary form and have such provisions as BDCO may reasonably specify) and (ii) instructions for use in surrendering the Certificates in exchange for the Merger Consideration.

(b) Upon surrender of a Certificate for cancellation to the Exchange Agent, together with a duly completed and validly executed letter of transmittal and such other documents as the Exchange Agent and BDCO shall reasonably require, the holder of such Certificates will be entitled to receive the Merger Consideration payable in respect of each such Certificate. Until so surrendered, each such Certificate shall, after the Effective Time, represent for all purposes, only the right to receive the Merger Consideration.

(c) If any portion of the Merger Consideration is to be paid to a Person (as defined in Section 7.3) other than the registered holder of the Common Stock or Preferred Stock represented by the Certificates surrendered in exchange therefor, it shall be a condition to such payment that the Certificates so surrendered shall be properly endorsed or otherwise be in proper form for transfer and that the Person requesting such payment shall pay to the Exchange Agent any transfer or other taxes required as a result of such payment to a Person other than the registered holder of such Certificates or establish to the satisfaction of the Exchange Agent that such tax has been paid or is not payable.

(d) Termination of Payment Fund. Any portion of the Merger Consideration made available to the Exchange Agent pursuant to Section 1.9(a) that remains unclaimed by holders of Common Stock and Preferred Stock six months after the Effective Time shall be promptly returned to the Surviving Corporation, upon demand, and any such holder who has not

exchanged his Certificates for the Merger Consideration in accordance with this Section prior to that time shall thereafter look only to the Surviving Corporation for payment of their claim for the Merger Consideration.

(e) No Liability. Notwithstanding the foregoing, the Surviving Corporation shall not be liable to any holder of Common Stock or Preferred Stock for any amount paid to a public official pursuant to any applicable abandoned property law. Any amounts remaining unclaimed by holders of Common Stock or Preferred Stock two years after the Effective Time (or such earlier date immediately prior to such time as such amounts would otherwise escheat to or become property of any governmental entity) shall, to the extent permitted by applicable law, become the property of the Surviving Corporation free and clear of any claims or interest of any Person previously entitled thereto.

1.10 Share Elections.

(a) Each person who, on or prior to the Election Date (as hereinafter defined), is a record holder of shares of Common Stock or Preferred Stock shall be entitled, with respect to all or any portion of such shares, to make a Cash Election, subject to adjustment pursuant to Section 1.11, or an unconditional Share Election, in each case specifying that

number of shares of Common Stock or Preferred Stock such holder desires to have converted into the Share Consideration and that number of shares of Common Stock or Preferred Stock such holder desires to have converted into the Cash Consideration, as applicable, on or prior to such Election Date, on the basis hereinafter set forth.

(b) BDCO shall prepare a form of election, which form shall be subject to the reasonable approval of ARO (the "Form of Election") and shall be mailed with the Proxy Statement (as defined in Section 4.4(a)) to the record holders of Common Stock and Preferred Stock as of the record date for the ARO Stockholders' Meeting (as defined in Section 4.5), which Form of Election shall be used by each record holder of shares of Common Stock and Preferred Stock who wishes to elect to receive the Share Consideration or the Cash Consideration as applicable, for any or all shares of Common Stock and Preferred Stock held by such holder. ARO shall use all reasonable efforts to make the Form of Election and the Proxy Statement available to all persons who become record holders of Common Stock and Preferred Stock during that period between such record date and the Election Date. Any such holder's (and such authorized representative's) election to receive the Share Consideration or the Cash Consideration, as applicable, shall have been properly made only if the Exchange Agent shall have received a Form of Election, properly completed and signed, at its designated office, by 5:00 p.m., Central Standard Time, on the business day immediately preceding the date of the ARO Stockholders' Meeting (the "Election Date").

(c) Any Form of Election may be revoked, by the stockholder who submitted such Form of election to the Exchange Agent, only by written notice received by the Exchange Agent (i) prior to 5:00 p.m., Central Standard Time, on the Election Date or (ii) after such time, if (and only to the extent that) the Exchange Agent is legally required to permit revocations and only if the Effective Time shall not have

occurred prior to such date. In addition, all Forms of Election shall automatically be revoked if the Exchange Agent is notified in writing by BDCO and ARO that the Merger has been abandoned. If a Form of Election is revoked, the Certificate or Certificates (or guarantees of delivery, as appropriate) for the shares of Common Stock or Preferred Stock, to which such Form of Election is relates shall be promptly returned to the stockholder that submitted the same to the Exchange Agent.

(d) The determination of the Exchange Agent in its sole discretion shall be binding as to whether or not elections to receive the Stock Consideration or the Cash Consideration have been properly made or revoked pursuant to this Section 1.10 with respect to shares of Common Stock or Preferred Stock and when elections and revocations were received by it. If no Form of Election is received with respect to shares of Common Stock or Preferred Stock, or if the Exchange Agent determines that any election to receive the Merger Consideration was not properly made with respect to shares of Common Stock or Preferred Stock, the holder of such shares shall be treated by the Exchange Agent as having submitted a Share Election with respect to 100% of the shares held by such holder. The Exchange Agent shall also make all computations as to the proration contemplated by Section 1.11, and absent manifest error any such computation

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shall be conclusive and binding on the holders of shares of Common Stock and Preferred Stock. The Exchange Agent may, with the mutual agreement of BDCO and ARO, make such rules as are consistent with this Section 1.10 for the implementation of the elections provided for herein as shall be necessary or desirable fully to effect such elections and the provisions of this Section 1.10.

1.11 Proration.

(a) For purposes of this Section 1.11:

(i) "Common Stock Number" shall mean the number of shares of Common Stock that are issued and outstanding at the Effective Time (excluding any shares of Common Stock to be canceled pursuant to Section 1.8(a).

(ii) "Aggregate Common Transaction Value" shall mean the product of (x) the Common Stock Number, multiplied by (y) the Common Cash Consideration.

(b) The maximum aggregate amount of Common Cash Consideration to be paid to holders of Common Stock pursuant to this Article 1 (the "Common Cash Cap") shall be equal to the product of (x) 0.7 and (y) the Aggregate Common Transaction Value.

(c) In the event that the aggregate amount of cash subject to Common Cash Elections (the "Requested Common Cash Amount") exceeds the Common Cash Cap, then each holder who has made a Common Cash Election shall receive, for each share of Common Stock with respect to which a Common Cash Election has been made, (i) cash in an amount equal to (A) the Common Cash Consideration multiplied by (B) a fraction, the numerator of which is the Common Cash Cap and the denominator of which is the Requested Common Cash Amount (the "Common Cap Fraction"), (ii) a whole number of shares of BDCO Common Stock equal to (A) .0276

multiplied by (B) one minus the Common Cap Fraction, and (iii) cash in lieu of any fractional shares of BDCO Common Stock.

1.12 Dissenters' Rights. Notwithstanding anything in this Agreement to the contrary, any shares of Common Stock or Preferred Stock outstanding immediately prior to the Effective Time and held by a holder who has not voted in favor of the Merger or consented thereto in writing (a "Dissenting Stockholder") and who has timely delivered a written demand for appraisal of such shares in accordance with Section 262 of the DGCL ("Dissenting Shares"), if any, shall not be converted into the right to receive the Merger Consideration, unless and until such holder fails to perfect or effectively withdraws or otherwise loses his right to appraisal and payment under the DGCL. If any person who otherwise would be deemed a Dissenting Stockholder shall have failed to properly perfect or shall have effectively withdrawn or lost the right to dissent with respect to any Common Stock or Preferred Stock, such shares of Common Stock or Preferred Stock shall thereupon be treated as though such shares had been converted into the right to receive the Merger Consideration with respect to such Common Stock and Preferred Stock as

provided in this Article 1. ARO shall give BDCO (i) prompt notice of any written demands for appraisal, attempted withdrawals of such demands and any other instruments served pursuant to applicable law received by ARO relating to stockholders' rights of appraisal and (ii) the opportunity to participate in all negotiations and proceedings with respect to demand for appraisal under the DGCL. ARO shall not, except with the prior written consent of BDCO, voluntarily make any payment with respect to any demands for appraisals of Dissenting Shares, offer to settle or settle any such demands or approve any withdrawal of any such demands.

1.13 Stock Transfer Books. After the Effective Time, there shall be no further registration of transfers of shares of the Common Stock or Preferred Stock on the stock transfer books of the Surviving Corporation. If, after the Effective Time, certificates representing shares of Common Stock or Preferred Stock are presented to the Surviving Corporation or the Exchange Agent, they shall be canceled and exchanged for the Merger Consideration provided for, and in accordance with the procedures set forth, in this Article 1.

1.14 Fractional Shares. No certificates representing fractional shares of BDCO Common Stock shall be issued to holders of Common Stock or Preferred Stock upon the surrender for exchange of Certificates, and such holders shall not be entitled to any voting rights, rights to receive any dividends or distributions or other rights as a stockholder of BDCO with respect to any fractional shares of BDCO Common Stock that would otherwise be issued to such holders. In lieu of any fractional shares of BDCO Common Stock that would otherwise be issued, each holder of Common Stock or Preferred Stock that would have been entitled to receive a fractional share of BDCO Common Stock shall, upon proper surrender of such holder's Certificates, receive a cash payment (rounded to the nearest cent), without interest, equal to the average closing price per share of BDCO Common Stock as reported in the consolidated transaction reporting system on the five trading days immediately preceding the Effective Time, multiplied by the fraction of a share that such holder would otherwise be entitled to receive (rounded to the nearest hundredth of a share).

1.15 Further Assurances. Each party hereto agrees that it will take appropriate action so that if, at any time after the Effective Time, any further action is necessary or desirable to carry out the purposes of this Agreement, the persons who are officers and directors of the Surviving Corporation are fully authorized in the name of Merger Sub and ARO to take, and shall take, all

such lawful and necessary action.

ARTICLE 2

REPRESENTATIONS, WARRANTIES AND
AGREEMENTS OF ARO

ARO represents and warrants to BDCO and Merger Sub that:

2.1 Organization and Standing. ARO is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, has full requisite corporate power and authority to carry on its business as it is presently conducted, and to own and operate the

properties owned and operated by it. ARO is, or at the Effective Time will be, duly qualified or licensed to do business in, and is, or at the Effective Time will be, in good standing as a foreign corporation authorized to do business in, all jurisdictions in which the character of the properties owned or the nature of the business conducted would make such qualification or licensing necessary, except in those jurisdictions where the failure to be so qualified or licensed and in good standing does not and will not, individually or in the aggregate, have a Material Adverse Effect (as defined in Section 8.44) on ARO.

2.2 Authorization; Validity of Agreement; Company Action. The execution and delivery of this Agreement by ARO has been duly authorized by the Board of Directors of ARO, and consummation of the transactions contemplated hereby are within ARO's corporate powers and has been duly and validly authorized by all necessary corporate action on the part of ARO, subject only to the adoption of this Agreement by the affirmative vote of (i) a majority of the combined voting power the Common Stock and Preferred Stock voting together as a class and (ii) the holders of a majority of the Preferred Stock voting separately as a class. This Agreement is a valid and binding obligation of ARO, enforceable against it in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting the rights of creditors generally and general principles of equity.

2.3 Capitalization.

(a) The authorized capital stock of ARO consists of (i) 70,000,000 shares of Common Stock, of which 51,285,178 shares are issued and outstanding and 39,682 shares of Common Stock reserved issuance upon exercise of outstanding options or conversion of Preferred Stock on the date of this Agreement, and (ii) 3,000,000 shares of Preferred Stock, of which 39,682 are shares issued and outstanding. Other than the Common Stock and Preferred Stock, no other class or series of security has been authorized or designated by the Board of Directors of ARO. All outstanding shares of Common Stock have been, and all shares which may be issued pursuant to exercise of outstanding options or conversion of Preferred Stock will be, when issued in accordance with the respective terms thereof, duly authorized and validly issued, fully paid and non-assessable, issued in compliance with all applicable state and federal laws.

(b) There are no outstanding subscriptions, options, notes, bonds, debentures, convertible securities, warrants, rights or calls of any kind issued or granted by or binding upon ARO which entitle any person to purchase or otherwise acquire any security of, or equity interest in, ARO other than the Preferred Stock and options to acquire

100,000 shares of Common Stock. There are no outstanding rights or agreements of any kind obligating ARO to repurchase or redeem any securities of ARO or any other Person. No shares of ARO capital stock are held as treasury shares. To the knowledge of ARO, none of ARO's outstanding Common Stock is subject to any right of first refusal, voting trust, voting agreement, or other agreement or understanding with respect to the voting thereof, nor is any proxy in existence with respect thereto, other than proxies solicited by the Board of Directors of ARO in connection with the ARO Stockholders' Meeting.

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(c) Immediately after the Effective Time: (i) there will be no outstanding subscriptions, options, convertible securities, warrants, rights or calls of any kind issued or granted by ARO, or binding upon the Surviving Corporation, which would entitle the holder thereof upon exercise or conversion to acquire Common Stock, Preferred Stock, or any other equity security or debt security of ARO or to receive any of the Merger Consideration; and (ii) any outstanding subscriptions, options, warrants, rights or calls to acquire shares of Common Stock, and, any securities convertible into Common Stock that were outstanding immediately prior to the Effective Time shall be canceled whether or not then vested, or exercisable or convertible.

2.4 Board Approval. The execution and delivery of the Agreement by ARO, and the consummation of the transactions contemplated hereby, has been recommended to the Board of Directors of ARO by the Special Committee of the Board of Directors of ARO formed for the purpose of considering the transactions contemplated hereby, and the Special Committee has not withdrawn or modified its recommendation as of the date of this Agreement. The Board of Directors of ARO, upon recommendation of the Special Committee that this Agreement is fair to, and in the best interests of, the stockholders of ARO (other than BDCO and its subsidiaries), has, as of the date of this Agreement, unanimously (i) adopted a resolution approving this Agreement and declaring its advisability, (ii) determined that the Merger is fair to and in the best interests of, ARO and its stockholders (other than BDCO and its subsidiaries), and (iii) determined to recommend that the stockholders of ARO vote to adopt this Agreement.

2.5 Registration Statement, Proxy Statement/Prospectus. The information to be supplied by or on behalf of ARO for inclusion in the Registration Statement (as defined in Section 4.4(a)), including any information incorporated by reference in the Registration Statement from other filings made by ARO with the U.S. Securities and Exchange Commission (the "SEC"), shall not at the time the Registration Statement becomes effective under the Securities Act of 1933, as amended (the "Securities Act"), contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein not misleading in light of the circumstances under which they were made. Other than with respect to the information supplied by or on behalf of BDCO or the Merger Sub, the Proxy Statement shall not on the date the Proxy Statement is first mailed to stockholders or at the time of the ARO Stockholders' Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statement therein, in light of the circumstances under which they are made, not false or misleading. The Proxy Statement will comply (other than with respect to information relating to BDCO and/or Merger Sub) as to form in all material respects with the provisions of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the rules and regulations thereunder.

2.6 SEC Reports and Financial Statements.

(a) ARO has timely filed with the SEC all forms, reports, schedules, statements and other documents required to be filed by it since December 31, 1997 under the Exchange Act, without regard to Rule 12b-25 under the Exchange Act, (as such documents have been amended since the time of their filing, collectively, the "ARO SEC

Documents"). As of their respective dates or, if amended, as of the date of the last such amendment, ARO's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 (the "2000 Form 10-K") and the quarterly reports on Form 10-Q for the periods ended March 31, 2001 and June 30, 2001 (collectively, the "Form 10-Qs"), and all other forms, reports, schedules, statements and other documents required to be filed since January 1, 2001 under the Exchange Act, including, without limitation, any financial statements or schedules included therein (i) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading and (ii) complied in all material respects with the applicable requirements of the Exchange Act, as the case may be, and the applicable rules and regulations thereunder. The financial statements (and the related notes thereto collectively, the "Financial Statements") included in the 2000 Form 10-K and the Form 10-Qs have been prepared in accordance with United States generally accepted accounting principles ("GAAP") applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto and subject, in the case of quarterly financial statements, to normal and recurring year-end adjustments) and fairly present the consolidated financial position and the consolidated results of operations and cash flows (and changes in financial position, if any) of ARO at the dates thereof or for the periods presented therein.

(b) There is no event or condition which would render ARO ineligible for, or would otherwise prevent (i) the suspension of its reporting obligations pursuant to Rule 12h-3 under the Exchange Act, or (ii) the deregistration of the Common Stock and the Preferred Stock under Section 12(g) of the Exchange Act.

(c) ARO is not a party to or bound by any contract, document or arrangement prohibiting ARO from (i) obtaining the suspension of its reporting obligations pursuant to Rule 12h-3 under the Exchange Act, or (ii) causing the Common Stock and the Preferred Stock to be deregistered under the Exchange Act.

2.7 No Violation of Agreements or Governing Documents. Neither the execution and delivery of this Agreement by ARO nor consummation of the Merger by ARO or the other transactions contemplated hereby by ARO will (a) conflict with the certificate of incorporation or the bylaws of ARO, (b) result in any breach or termination of, or constitute an event which with notice or lapse of time, or both, would become a default under, or result in the creation of any Encumbrance (as defined in Section 8.23) upon any asset of ARO, or create any rights of termination, cancellation, modification, amendment, or acceleration in any Person under any agreement, lease, insurance policy, arrangement or commitment, (c) violate any order, writ, injunction or decree, to which ARO is a party or by which any of its assets, businesses or operations may be bound or affected, or under which ARO or any of its assets, businesses or operations receive benefits, (d) require the consent, approval, authorization, or order of

any person or Governmental Authority (as defined in Section 8.29) (other than the stockholders of ARO), or court under any agreement, arrangement, commitment, order, writ, injunction, or decree not heretofore obtained other than those consents or approvals specifically contemplated hereby,

or (e) result in the loss or modification of any license, franchise, permit or other authorization granted to or otherwise held by ARO. ARO agrees that it will use its best efforts to obtain any consents necessary to be obtained by ARO prior to the Effective Time.

2.8 Litigation. Except for the proceedings styled H&N Gas Limited Partnership, et. al. v. Richard A. Hale, et. al. (Case No. H-02-1371) and James D. Lyon, Trustee, v. American Resources of Delaware, Inc. et. al. (Adversary Case No. 98-5023) and as would not, individually or in the aggregate have a Material Adverse Effect on the Company, there is no suit, action, or legal, administrative, arbitration, or other proceeding or governmental investigation pending or threatened to which ARO is a party and none is threatened.

2.9 Investigations. No investigation or review by any Governmental Authority with respect to ARO or any of the transactions contemplated by this Agreement is pending or threatened, nor has any Governmental Authority indicated to ARO an intention to conduct the same. There is no action, suit or proceeding pending or threatened against or specially affecting ARO at law or in equity, or before any Governmental Authority.

2.10 Brokers. No broker, investment banker, financial advisor or other person is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement.

2.11 Vote Required. The affirmative votes of a majority of (i) the combined voting power of the outstanding shares of Common Stock and Preferred Stock voting together as a class and (ii) the holders of the Preferred Stock voting separately as a class are the only votes of the holders of any class or series of capital stock of ARO necessary to approve the Merger and the transactions contemplated hereby.

2.12 Untrue Statements. This Agreement, the Disclosure Letter, the exhibits, the Financial Statements and all other documents and information furnished by ARO or any of its respective Affiliates (as defined in Section 7.3) or representatives to BDCO or their representatives pursuant hereto or in connection herewith does not include and will not include any untrue statement of a material fact or omit to state any material fact necessary to make the statements made herein and therein not misleading. There are no facts which materially and adversely affect or, so far as ARO can now reasonably foresee, will materially and adversely affect the business, prospects, operations or principal properties of ARO or the ability of any party to perform its obligations under this Agreement.

ARTICLE 3

REPRESENTATIONS AND WARRANTIES OF BDCO

BDCO hereby represents and warrants to ARO:

3.1 Organization and Standing. Each of BDCO and Merger Sub is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, has full

requisite corporate power and authority to carry on its business as it is presently conducted, and to own and operate the properties owned and operated by it. BDCO is duly qualified or licensed to do business in, and is in good standing as a foreign corporation authorized to do business in, all jurisdictions in which the character of the properties owned or the nature of the business conducted would make such qualification or licensing necessary, except in those jurisdictions where the failure to be so qualified or licensed and in good standing does not and will not, individually or in the aggregate, have a Material Adverse Effect on BDCO.

3.2 Authorization; Validity of Agreement; Company Action. The execution and delivery of this Agreement by BDCO and Merger Sub has been duly authorized by the Board of Directors of BDCO and Merger Sub, respectively, and consummation of the transactions contemplated hereby are within the corporate powers of BDCO and Merger Sub and has been duly and validly authorized by all necessary corporate action. This Agreement is a valid and binding obligation of each of BDCO and Merger Sub, enforceable against BDCO and Merger Sub in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting the rights of creditors generally and general principles of equity.

3.3 Capitalization. The authorized capital stock of BDCO consists of (i) 10,000,000 shares of BDCO Common Stock of which 6,020,051 shares are issued and outstanding and 146,903 shares are reserved for issuance upon exercise of outstanding options on the date of this Agreement, and (ii) 2,500,000 shares of preferred stock, par value $0.10 per share (the "BDCO Preferred Stock"). Other than the BDCO Common Stock and the BDCO Preferred Stock, no other class or series of security has been authorized or designated by the Board of Directors of BDCO. All outstanding shares of BDCO Common Stock have been, and all shares which may be issued pursuant to exercise of outstanding options or conversion of promissory notes will be, when issued in accordance with the respective terms thereof, duly authorized and validly issued, fully paid and non-assessable, and issued in compliance with all applicable state and federal laws.

3.4 Registration Statement, Proxy Statement/Prospectus. The information to be supplied by or on behalf of BDCO and Merger Sub for inclusion in the Proxy Statement (including any information incorporated by reference in the Registration Statement from other filings made by BDCO with the SEC) shall not on the date the Proxy Statement is first mailed to stockholders or at the time of the ARO Stockholders' Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statement therein, in light of the circumstances under which they are made, not false or misleading. Other than with respect to the information supplied by or on behalf of ARO, the Registration Statement shall not at the time the Registration Statement becomes effective under the Securities Act contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein not misleading in light of the circumstances under which they were made. The Registration Statement will comply (other than with respect to information relating to ARO) as to form in all material respects with the provisions of the Securities Act and the rules and regulations thereunder.

3.5 SEC Reports and Financial Statements. As of their respective dates

or, if amended, as of the date of the last such amendment, all reports and other documents required to be filed by BDCO under the Exchange Act since January 1, 2001 (as such documents have been amended since the time of their filing, collectively, the "BDCO SEC Documents"), including, without limitation, any financial statements or schedules included therein (i) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading and (ii) complied in all material respects with the applicable requirements of the Exchange Act, as the case may be, and the applicable rules and regulations thereunder. The financial statements (and the related notes thereto collectively the "BDCO Financial Statements") included in BDCO's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, as amended, (the "BDCO 2000 Form 10-K") and the quarterly reports on Form 10-Q for the periods ended March 31, 2001 and June 30, 2001 (collectively, the "BDCO Form 10-Qs"), have been prepared in accordance with GAAP applied on a consist basis during the periods involved (except as may be indicated in the notes thereto and subject, in the case of quarterly financial statements, to normal and recurring year-end adjustments) and fairly present the consolidated financial position and the consolidated results of operations and cash flows (and changes in financial position, if any) of BDCO as of the dates thereof or for the periods presented therein.

3.6 No Violation of Agreements or Governing Documents. Neither the execution and delivery of this Agreement by each of BDCO and Merger Sub nor consummation of the Merger or the other transactions contemplated hereby will (a) conflict with the certificate of incorporation or the bylaws of BDCO, or the certificate of incorporation or the bylaws of Merger Sub, (b) result in any breach or termination of, or constitute an event which with notice or lapse of time, or both, would become a default under, or result in the creation of any Encumbrance upon any asset of BDCO, or create any rights of termination, cancellation, modification, amendment, or acceleration in any Person under any agreement, lease, insurance policy, arrangement or commitment, (c) violate any order, writ, injunction or decree, to which BDCO is a party or by which any of its assets, businesses or operations may be bound or affected, or under which BDCO or any of its assets, businesses or operations receive benefits, (d) require the consent, approval, authorization, or order of any person or Governmental Authority, or court under any agreement, arrangement, commitment, order, writ, injunction, or decree not heretofore obtained other than those consents or approvals specifically contemplated hereby, or (e) result in the loss or modification or any license, franchise, permit or other authorization granted to or otherwise held by BDCO. BDCO agrees that it will use its best efforts to obtain any consents necessary to be obtained by BDCO prior to the Effective Time.

3.7 Litigation. Except as would not, individually or in the aggregate, have a Material Adverse Effect on the Company or as described in the BDCO SEC Documents, there is no suit, action, or legal, administrative, arbitration, or other proceeding or governmental investigation pending or threatened to which BDCO is a party and none is threatened.

3.8 Investigations. No investigation or review by any Governmental Authority with respect to BDCO or any of the transactions contemplated by this Agreement is pending or

threatened, nor has any Governmental Authority indicated to BDCO an intention to conduct the same. There is no action, suit or proceeding pending or threatened against or specially affecting BDCO at law or in equity, or before any Governmental Authority.

3.9 Undisclosed Liabilities. Neither BDCO nor any of its Subsidiaries has any liabilities or obligations of any nature, whether or not fixed, accrued, contingent or otherwise, except liabilities and obligations that (i) are disclosed in the BDCO SEC Documents or (ii) do not and are not reasonably likely to have, individually or in the aggregate, a Material Adverse Effect on BDCO.

3.10 Brokers. No broker, investment banker, financial advisor or other person is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement.

3.11 Untrue Statements. This Agreement, the exhibits and appendices hereto, the financial statements and all other documents and information furnished by BDCO or any of its respective Affiliates or representatives to ARO or their representatives pursuant hereto or in connection herewith does not include and will not include any untrue statement of a material fact or omit to state any material fact necessary to make the statements made herein and therein not misleading. There are no facts which materially and adversely affect or, so far as BDCO can now reasonably foresee, will materially and adversely affect the business, prospects, operations or principal properties of BDCO or the ability of any party to perform its obligations under this Agreement.

3.12 Merger Sub. Since the date of its incorporation, Merger Sub has not engaged in any activities other than in connection with or as contemplated by this Agreement.

ARTICLE 4

COVENANTS AND ADDITIONAL AGREEMENTS

4.1 Conduct of Business by ARO. ARO agrees that from the date hereof to the Effective Time it shall (i) conduct its business only in the usual, ordinary course in a manner consistent with past practice, except to the extent otherwise expressly provided in this Agreement; (ii) use its best efforts to preserve intact its present business organization, keep available the services of its present officers, employees and consultants; and (iii) preserve the present relationships with its customers, suppliers, and other persons with whom it has material business relations.

4.2 Conduct of Business by BDCO. BDCO agrees that from the date hereof to the Effective Time, it shall (i) conduct its business only in the usual, ordinary course in a manner consistent with past practice, except to the extent otherwise expressly provided in this Agreement; (ii) use its best efforts to preserve intact its present business organization, keep available the services of its present officers, employees and consultants; and (iii) preserve the present relationships with its customers, suppliers, and other persons with who it has material business

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relations. Without limiting the generality of the foregoing and subject to the last sentence of this Section 4.2 and except as set forth on the BDCO Disclosure Schedules, without the prior written consent of ARO (which shall not be unreasonably withheld) or as contemplated by this Agreement, from the date of this Agreement until the Effective Time:

(a) BDCO will not, and will not permit any of its subsidiaries to, adopt or propose any change in its certificate of incorporation or bylaws, except as contemplated by this Agreement;

(b) BDCO will not adopt a plan or agreement of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of BDCO or any of its Subsidiaries (other than transactions between direct and/or indirect wholly owned Subsidiaries of BDCO);

(c) BDCO will not (i) split, combine, subdivide or reclassify its outstanding shares of capital stock or (ii) declare, set aside or pay any dividend or other distribution payable in cash, stock or property with respect to its capital stock;

(d) BDCO will not, and will not permit any Subsidiary of BDCO to, redeem, purchase or otherwise acquired directly or indirectly any of BDCO's capital stock, except for repurchases, redemptions or acquisitions required by or in connection with the respective terms of any employee stock option plan or compensation plan or arrangement of BDCO;

(e) except for any such change which is not material or which is required by the SEC or reason of a concurrent change in GAAP, BDCO will not, and will not permit any Subsidiary of BDCO to, change any method of accounting or accounting practice (other than any change for tax purposes) used by it; and

(f) BDCO will not, and will not permit any of its Subsidiaries to, take any action that would make any representation or warranty of BDCO hereunder inaccurate in any material respect at, or as of any time prior to, the Effective Time.

4.3 Obligations of Merger Sub. BDCO will take all action necessary to cause Merger Sub to perform its obligations under or related to this Agreement.

4.4 Additional Agreements Regarding Registration Statement, Proxy Statement/Prospectus.

(a) As promptly as practicable after the execution of this Agreement, ARO and BDCO will jointly prepare and file with the SEC a preliminary proxy statement (with appropriate requests for confidential treatment) relating to the Merger and this Agreement (such proxy statement, as amended or supplemented, the "Proxy Statement"), and BDCO will prepare and file with the SEC a registration statement on Form S-4 (as amended or supplemented, the "Registration Statement"), in which the Proxy Statement shall be

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included as a part of the prospectus. BDCO will use commercially reasonable efforts to cause the Registration Statement to be declared effective under the Securities Act as soon as practicable after such filing, and will take all actions required under applicable federal or state securities laws in connection with the issuance of the BDCO Common Stock in the Merger. Each party will notify the other promptly upon the receipt of any comments from the SEC or its staff and of any request by the SEC or its staff or any other government officials for amendments or supplements to the Proxy Statement, the Registration Statement and any other filing or for additional information and will supply the other party with copies of all correspondence between such party or any of its representatives, on the one hand, and the SEC, or its staff or any other government officials, on the other hand, with respect to the Registration Statement, the Proxy Statement or the

Merger. Whenever any event occurs that is required to be set forth in an amendment or supplement to the Registration Statement or the Proxy Statement, the relevant party will promptly inform the other party of such occurrence and cooperate in filing with the SEC or its staff or any other government officials, and/or mailing to stockholders of ARO, such amendment or supplement.

(b) The Proxy Statement will include the recommendation of the Special Committee in favor of approval of this Agreement (except that the Special Committee may withdraw, modify or refrain from making such recommendation to the extent that the Special Committee determines after consultation with outside legal counsel that failure to do so would violate the Special Committee's fiduciary duties under applicable law).

(c) The Proxy Statement will include the recommendation of the Board of Directors of ARO in favor of approval of this Agreement (except that the Board of Directors of ARO may withdraw, modify or refrain from making such recommendation to the extent that the Board determines after consultation with outside legal counsel that failure to do so would violate the Board's fiduciary duties under applicable law).

(d) ARO agrees that the Proxy Statement: (i) will be prepared and circulated pursuant to and in compliance with Section 14(a) of the Exchange Act, Regulation 14A promulgated under the Exchange Act, and all other applicable federal and state securities laws and regulations; (ii) will contain all notices and disclosures to stockholders required by the DGCL with respect to this Agreement, the Merger and the other transactions contemplated hereby, and (iii) will not contain any statement which, at the time and in the light of the circumstances under which it is made, is false or misleading with respect to any material fact, or which omits to state any material fact necessary in order to make the statements therein not false or misleading or necessary to correct any statement in any earlier communication with respect to the solicitation of a proxy for the same meeting or subject matter which has become false or misleading.

4.5 Meeting of the ARO Stockholders. Promptly after the date hereof, ARO will, in accordance with the DGCL and its certificate of incorporation and bylaws, use its reasonable best efforts to convene a stockholders' meeting (the "ARO Stockholders' Meeting") to be held as promptly as practicable for the purpose of voting upon this Agreement and the Merger. Unless

the Special Committee determines, after consultation with outside legal counsel, that to do so would be inconsistent with the Board's or the Special Committee's fiduciary duties under applicable law, ARO will use its reasonable best efforts to solicit from its stockholders proxies in favor of the approval of this Agreement and the Merger and to take all other reasonable action necessary or advisable to secure the vote or consent of its stockholders required by the DGCL to obtain such approvals. BDEX shall vote or cause to be voted, all of the Common Stock then owned by it and any of its subsidiaries in favor of the approval of this Agreement and the Merger.

4.6 Public Disclosure. BDCO and ARO will consult with each other before issuing any press release or otherwise making any public statement with respect to the Merger or this Agreement and will not issue any such press release or make any such public statement prior to such consultation, except as may be required by applicable law or any rules or regulations of any securities

exchange or automated quotation system of a national securities association. Promptly upon the execution hereof, the parties shall jointly make a press release with respect to the transactions contemplated by this Agreement, in form reasonably satisfactory to the Special Committee.

4.7 NASDAQ Small Cap Market Listing. BDCO shall use its best efforts to cause all shares of BDCO Common Stock issuable to holders of Common Stock and Preferred Stock as a result of the Merger to be authorized for listing on the NASDAQ Small Cap Market or such securities exchange or automated quotation system of a national securities association on which the BDCO Common stock is then listed or upon which the BDCO Common Stock will become listed upon the Closing.

4.8 Indemnification.

(a) BDCO shall indemnify each current director and officer of the Company and its subsidiaries (the "Indemnified Parties") who was or is a party or is threatened to be a party to any action, suit or proceeding by reason of the fact that such person is or was a director or officer of ARO or its subsidiaries to the fullest extent permitted by Delaware law.

(b) BDCO agrees that all rights to indemnification and advancement of expenses now existing in favor of any Indemnified Party and any other person who was a director or officer of ARO and its subsidiaries as provided in their respective charters or by-laws shall survive the Merger and shall continue in full force and effect for a period of not less than the longer of six years from the Effective Time and any applicable statute of limitations. After the Effective Time, BDCO agrees to cause the Surviving Corporation to honor all rights to indemnification and advancement of expenses referred to in the preceding sentence.

(c) BDCO agrees that the Surviving Corporation shall cause to be maintained in effect for not less than six years (except as provided in the last sentence of this Section 4.8(c)) from the Effective Time the current policies of the directors' and officers' liability insurance maintained by ARO; provided that the surviving corporation may

substitute therefor other not less advantageous (other than to a de minimis extent) to the beneficiaries of the current policies and provided that such substitution shall not result in any gaps or lapses in coverage with respect to matters occurring prior to the Effective Time.

(d) From and after the Effective Time, any Indemnified Party wishing to claim indemnification under paragraphs (a) or (b) of this Section 4.8, upon learning of any such claim, action, suit, proceeding or investigation, shall promptly notify BDCO thereof. In the event of any such claim, action, suit, proceeding or investigation (whether arising before or after the Effective Time), (i) BDCO or the Surviving Corporation shall have the right, from and after the Effective Time, to assume the defense thereof and BDCO shall not be liable to such Indemnified Parties for any legal expenses of other counsel or any other expenses subsequently incurred by such Indemnified Parties in connection with the defense thereof, (ii) the Indemnified Parties will cooperate in the defense of any such matter, and (iii) BDCO shall not

be liable for any settlement effected without its prior written consent, provided that BDCO shall not have any obligation hereunder to any Indemnified Party when and if a court of competent jurisdiction shall ultimately determine, and such determination shall have become final, that such person is not entitled to indemnification under applicable law.

ARTICLE 5

CONDITIONS PRECEDENT TO OBLIGATIONS OF BDCO AND ARO

5.1 Conditions to the Obligations of Each Party. The obligations of BDCO, Merger Sub and ARO to consummate the Merger are subject to the satisfaction of the following conditions:

(a) No provision of any applicable United States federal or state statute, rule or regulation and no judgment, preliminary or permanent injunction, order or decree shall prohibit the consummation of the Merger or impose material limitations on the ability of the Surviving Corporation to exercise full rights of ownership of ARO's assets or business; and

(b) All action by or in respect of or filings with any governmental body, agency, official, or authority or any other third party required or necessary to permit the consummation of the Merger shall have been obtained.

(c) Registration Statement. The Registration Statement shall have been declared effective by the SEC and no stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for that purpose shall have been initiated or threatened by the SEC.

(d) Blue Sky. All state securities or "blue sky" permits or approvals required to issue the BDCO Common Stock as contemplated by this Agreement shall have been received.

(e) Stockholder Approval. This Agreement shall have been approved and adopted by the requisite vote under the DGCL by the stockholders of ARO.

(f) NASDAQ Small Cap Market Listing. The shares of BDCO Common Stock to be issued in the Merger shall have been approved for listing on the NASDAQ Small Cap Market or such securities exchange or automated quotation system of a national securities association on which the BDCO Common Stock is then listed or upon which the BDCO Common Stock will become listed upon the Closing, subject to official notice of issuance.

(g) No Injunctions or Restraints. There shall not be instituted or pending any action or proceeding before any court or Governmental Authority or agency seeking (i) to restrain, prohibit or otherwise interfere with the Merger or the other transactions contemplated by this Agreement or (ii) damages from BDCO, Merger Sub or ARO as a result of the Merger.

5.2 Conditions to the Obligations of ARO. The obligations of ARO to consummate the Merger are subject to the satisfaction of the following

conditions:

(a) Representations and Warranties. Each of the representations and warranties of BDCO shall be true and correct in all material respects as of the date of this Agreement and as of the Closing Date (except to the extent such representations and warranties speak as of a specific date in which case such representations and warranties shall be true and correct as of such specific date).

(b) Covenants. BDCO shall have observed and performed in all material respects all of its material covenants under this Agreement.

5.3 Conditions to the Obligations of BDCO and Merger Sub. The obligations of BDCO and Merger Sub are subject to the satisfaction of the following conditions:

(a) Representations and Warranties. Each of the representations and warranties of ARO that is qualified by a Material Adverse Effect on ARO shall be true and correct and each of the representations and warranties of ARO that is not so qualified shall be true and correct except where the failure to be so true and correct would not reasonably be expected to have a Material Adverse Effect on ARO, in each case, as of the date of this Agreement and as of the Closing Date (except to the extent such representations and warranties speak as of a specific date in which case such representations and warranties shall be so true and correct as of such specific date).

(b) Covenants. ARO shall have observed and performed in all material respects all of its material covenants under this Agreement.

(c) Material Adverse Effect. At any time after the date of this Agreement, there shall not have been any event or occurrence that has had or would reasonably be expected to have a Material Adverse Effect on ARO.

(d) Exercise of Dissenter's Rights. ARO shall not have received notice of any written demand for appraisal and there shall not be instituted or pending any action, pursuant to Section 262 of the DGCL, by a Dissenting Stockholder demanding appraisal of his shares of Common Stock or Preferred Stock.

ARTICLE 6

TERMINATION, AMENDMENT AND WAIVER

6.1 Termination. Anything contained in this Agreement to the contrary notwithstanding, this Agreement may be terminated and the Merger abandoned at any time (whether before or after the approval and adoption thereof by the stockholders of ARO) prior to the Effective Time:

(a) By mutual written consent of BDCO and ARO;

(b) by either BDCO or ARO:

(i) if the Merger shall not have been consummated by April 30, 2002; provided, however, that the right to terminate this Agreement pursuant to this Section 6.1(b)(i) shall not be

available to any party whose failure to perform any of its obligations under this Agreement results in the failure of the Merger to be consummated by such time; or

(ii) if stockholder approval shall not have been obtained at the ARO Stockholders' Meeting duly convened therefor or at any adjournment or postponement thereof.

(c) By BDCO, if ARO shall have breached or failed to perform in any material respect any of its representations, warranties, covenants or other agreements contained in this Agreement, which breach or failure to perform would give rise to a material adverse change relating to ARO and (A) is not cured within 30 days after written notice thereof or (B) is incapable of being cured by ARO; or

(d) By ARO, if BDCO shall have breached or failed to perform in any material respect any of its representations, warranties, covenants or other agreements contained in this Agreement, and such breach or failure to perform (A) is not cured within 30 days after written notice thereof or (B) is incapable of being cured by BDCO.

6.2 Effect of Termination. In the event of the termination and abandonment of this Agreement pursuant to and in accordance with the provisions of Section 6.1(a), hereof, this Agreement shall become void and have no effect, without any liability on the part of any party hereto (or its stockholders or controlling persons or directors or officers).

6.3 Amendment. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties.

6.4 Extension; Waiver. At any time prior to the Effective Time, a party may (a) extend the time for the performance of any of the obligations or other acts of the other party, (b) waive any inaccuracies in the representations and warranties of the other party contained in this Agreement or in any document delivered pursuant to this Agreement or (c) waive compliance by the other party with any of the agreements or conditions contained in this Agreement. Any agreement on the part of a party to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a wavier of such rights.

6.5 Procedure for Termination, Amendment, Extension or Waiver. A termination of this Agreement pursuant to Section 6.1 shall, in order to be effective, require, in the case of BDCO or ARO, action by its Board of Directors or, with respect to any amendment to this Agreement, the duly authorized committee of its Board of Directors to the extent permitted by law.

6.6 Fees and Expenses. All fees and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such expenses, whether or not the Merger is consummated.

ARTICLE 7

MISCELLANEOUS

7.1 Survival of Representations and Warranties. None of the representations and warranties of ARO or BDCO contained herein or any

certificate or other writing delivered or to be delivered pursuant to or in connection with this Agreement, shall survive the Effective Time, except for the agreements set forth in Sections 1.3, and 1.8 through 1.12., which shall survive the Effective Time. All covenants and agreements contained herein shall survive the Closing without limitation, except as otherwise provided herein.

7.2 Notices. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given if served personally on the party entitled thereto to whom notice is to be given, or if mailed to the party entitled thereto to whom notice is to be given, by first-class mail, registered or certified, postage prepaid, or if telexed or telefaxed to the party entitled thereto to whom notice is to be given, addressed as follows (or such other address as the party entitled thereto may have prior thereto specified by

notice given as contemplated in this Section). Any such notice shall initially be directed as follows:

(a) If to ARO:

801 Travis, Suite 2100
Houston, Texas 77002
Attention: John P. Atwood

(b) If to Merger Sub:

801 Travis, Suite 2100
Houston, Texas 77002
Attention: G. Brian Lloyd

(c) If to BDCO:

801 Travis, Suite 2100
Houston, Texas 77002
Attention: G. Brian Lloyd

with copies to:

Porter & Hedges, L.L.P.
700 Louisiana, Suite 3500
P. O. Box 4744
Houston, Texas 77210-4744
Attention: Nick D. Nicholas

If mailed or telefaxed, the same shall not be deemed effective unless and until actually received by the party entitled thereto.

7.3 Interpretation. When a reference is made in this Agreement to an Article, Section or Exhibit, such reference shall be to an Article or Section of, or an Exhibit to, this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation." The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. All terms defined in this Agreement shall have the defined meanings when used in any certificate or other document made or delivered pursuant hereto unless otherwise defined therein. The

definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such term. Any agreement, instrument or statute defined or referred to herein or in any agreement or instrument that is referred to herein means such agreement, instrument or statute as from time to

time amended, modified or supplemented, including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and references to all attachments thereto and instruments incorporated therein. For purposes of this Agreement, (i) "Person" means an individual, corporation, partnership, limited liability company, joint venture, association, trust, unincorporated organization or other entity, (including its permitted successors and assigns) and (ii) an "Affiliate" of any person means another person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such first person, where "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of a person, whether through the ownership of voting securities, by contract or otherwise.

7.4 Time of Essence. Time is of the essence in the performance of this Agreement.

7.5 Headings and Captions. The headings and captions contained in this Agreement are solely for convenient reference and shall not be deemed to affect the meaning or interpretation of any Article, Section, or paragraph hereof, of this Agreement.

7.6 Entire Agreement. This Agreement (including the schedules and appendices hereto, all of which are by this reference fully incorporated into this Agreement for all purposes) sets forth the entire agreement and understanding of the parties with respect to the transactions contemplated hereby, and supersedes all prior agreements, arrangements, and understandings relating to the subject matter hereof.

7.7 Successors and Assigns. All of the terms, provisions, covenants, representations, warranties, and conditions of this Agreement shall be binding upon and shall inure to the benefit of and be enforceable by the parties hereto and their respective heirs, legal representatives, and successors, but this Agreement and the rights and obligations hereunder shall not be assignable or delegable by any party.

7.8 Gender, and Certain References. Whenever from the context it appears appropriate, each term stated in either the singular or the plural shall include both the singular and the plural, and pronouns stated in the masculine or the neutral gender shall include the masculine, the feminine and the neutral gender. The terms "hereof," "herein," "herewith," or "hereunder" refer to this Agreement as a whole and not to any particular Article, Section, or paragraph hereof. The term "include" and derivatives thereof are used in an illustrative sense and not in a limiting sense. The term "or" is not exclusive.

7.9 Applicable Law and Venue. All questions concerning the construction, validity and interpretation of this Agreement shall be governed by the internal laws, and not the law of conflicts, of the State of Delaware. Except where arbitration is expressly provided for in this agreement, all controversies which may arise out of or in connection with this agreement, particularly with respect to the performance, interpretation, breach, or enforcement of this agreement, shall be brought and resolved solely and

exclusively in the state or federal courts of Texas, and each party hereto consents to service, jurisdiction, and venue of such courts for such purpose, and each hereby irrevocably waives any other venue to which it might be entitled by virtue of domicile, residence, jurisdiction of formation or otherwise. Each party hereto

acknowledges and agrees that it has consulted legal counsel in connection with the negotiation of this Agreement and that it has bargaining power equal to that of the other parties hereto in connection with the negotiation and execution of this Agreement. Accordingly, the rule of contract construction that an agreement shall be interpreted and construed against the draftsman shall have no application in the interpretation or construction of this Agreement.

7.10 Severability. If any term, provision, covenant, or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, void, or unenforceable, the remainder of the terms, provisions, covenants and restrictions shall remain in full force and effect and shall in no way be affected, impaired or invalidated. It is hereby stipulated and declared to be the intention of the parties that they would have executed this Agreement had the terms, provisions, covenants and restrictions which may be hereafter declared invalid, void, or unenforceable not initially been included herein.

7.11 Rights of Parties. Nothing in this Agreement, whether express or implied, is intended to confer any rights or remedies under or by reason of this Agreement on any persons other than the parties to it and their respective successors and assigns, nor shall any provision give any third persons any right of subrogation or action over or against any party to this Agreement. Without limiting the generality of the foregoing, it is expressly understood that this Agreement does not create any third party beneficiary rights.

ARTICLE 8

DEFINITIONS

As used in this Agreement, the following terms shall have the meanings assigned to them below:

8.1 2000 Form 10-K. Shall have the meaning given that term in Section 2.6(a).

8.2 Affiliate. Shall have the meaning given that term in Section 7.3.

8.3 Aggregate Common Transaction Value. Shall have the meaning given that term in Section 1.11(a).

8.4 Agreement. Shall have the meaning given that term in the Recital.

8.5 ARO. Shall have the meaning given that term in the Recital.

8.6 ARO SEC Documents. Shall have the meaning given that term in Section 2.6(a).

8.7 ARO Stockholders' Meeting. Shall have the meaning given that term in Section 4.5.

8.8 BDCO. Shall have the meaning given that term in the Recital.

8.9 BDCO 2000 Form 10-K. Shall have the meaning given that term in Section 3.5.

8.10 BDCO Common Stock. Shall have the meaning given that term in Section 1.8(b).

8.11 BDCO Financial Statements. Shall have the meaning given that term in Section 3.5.

8.12 BDCO Form 10-Qs. Shall have the meaning given that term in Section 3.5.

8.13 BDCO Preferred Stock. Shall have the meaning given that term in Section 3.3.

8.14 BDCO SEC Documents. Shall have the meaning given that term in Section 3.5.

8.15 BDEX. Shall have the meaning given that term in Section 1.8(a).

8.16 Cash Consideration. Shall have the meaning given that term in Section 1.8(c).

8.17 Cash Election. Shall have the meaning given that term in Section 1.8(c).

8.18 Certificates. Shall have the meaning given that term in Section 1.9(a).

8.19 Closing. Shall have the meaning given that term in Section 1.2.

8.20 Closing Date. Shall have the meaning given that term in Section 1.2.

8.21 Common Cash Cap. Shall have the meaning given that term in Section 1.11(b).

8.22 Common Cap Fraction. Shall have the meaning given that term in Section 1.11(c).

8.23 Common Cash Consideration. Shall have the meaning given that term in Section 1.8(b).

8.24 Common Cash Election. Shall have the meaning given that term in Section 1.8(b).

8.25 Common Share Election. Shall have the meaning given that term in Section 1.8(b).

8.26 Common Stock. Shall have the meaning given that term in Section 1.8(a).

8.27 Common Stock Consideration. Shall have the meaning given that term in Section 1.8(b).

8.28 Common Stock Merger Consideration. Shall have the meaning given that term in Section 1.8(b).

8.29 Common Stock Number. Shall have the meaning given that term in Section 1.11(a).

8.30 DGCL. Shall have the meaning given that term in the Recital.

8.31 Dissenting Shares. Shall have the meaning given that term in Section 1.12.

8.32 Dissenting Stockholders. Shall have the meaning given that term in Section 1.12.

8.33 Effective Time. Shall have the meaning given that term in Section 1.3.

8.34 Election Date. Shall have the meaning given that term in Section 1.10(b).

8.35 Encumbrance. The term "Encumbrance" means and includes (a) any security interest, mortgage, deed of trust, lien, charge, claim, demand, action, defect, contract or lease obligation, equitable interest, power of attorney, or restriction of any kind, including but not limited to, any restriction or servitude on the use, transfer, receipt of income, or other exercise of any attributes of ownership, and (b) any Uniform Commercial Code financing statement or other public filing, notice, or record that by its terms purports to evidence or notify interested parties of any of the matters referred to in clause (a) that has not been terminated or released by another proper public filing, notice, or record.

8.36 Exchange Act. Shall have the meaning given that term in Section 2.5.

8.37 Exchange Agent. Shall have the meaning given that term in Section 1.9(a).

8.38 Financial Statements. Shall have the meaning given that term in Section 2.6(a).

8.39 Form 10-Qs. Shall have the meaning given that term in Section 2.6(a).

8.40 Form of Election. Shall have the meaning given that term in Section 1.10(b).

8.41 GAAP. Shall have the meaning given that term in Section 2.6(a).

8.42 Governmental Authority. Any (a) federal, state, county, municipal, or other local governmental body, department, agency, commission, board, or authority, or any subdivision thereof, (b) any Indian tribe and any council, commission, board or authority or subdivision thereof, or (c) any private or quasi-governmental body exercising any regulatory or taxing authority.

8.43 Indemnified Parties. Shall have the meaning given that term in Section 4.8(a).

8.44 Material Adverse Effect. Shall mean with respect to any Person a

material adverse effect on, or change in, the financial condition, business, liabilities, properties, assets or results of operations, taken as a whole, of such Person and its Subsidiaries on a consolidated basis,

except for such effects or changes in general economic conditions in industries in which the Person operates or resulting from the announcement of this Agreement.

8.45 Merger. Shall have the meaning given that term in the Recital.

8.46 Merger Consideration. Shall have the meaning given that term in Section 1.9(a).

8.47 Merger Sub. Shall have the meaning given that term in the Recital.

8.48 Person. Shall have the meaning given that term in Section 7.3.

8.49 Preferred Cash Consideration. Shall have the meaning given that term in Section 1.8(c).

8.50 Preferred Cash Election. Shall have the meaning given that term in Section 1.8(c).

8.51 Preferred Share Election. Shall have the meaning given that term in Section 1.8(c).

8.52 Preferred Stock. Shall have the meaning given that term in Section 1.8(a).

8.53 Preferred Stock Consideration. Shall have the meaning given that term in Section 1.8(c).

8.54 Preferred Stock Merger Consideration. Shall have the meaning given that term in Section 1.8(c).

8.55 Proxy Statement. Shall have the meaning given that term in Section 4.4(a).

8.56 Registration Statement. Shall have the meaning given that term in Section 4.4(a).

8.57 Requested Common Cash Amount. Shall have the meaning given that term in Section 1.11(c).

8.58 SEC. Shall have the meaning given that term in Section 2.5.

8.59 Securities Act. Shall have the meaning given that term in Section 2.5.

8.60 Share Election. Shall have the meaning given that term in Section 1.8(c).

8.61 Special Committee. Shall have the meaning given that term in the Recital.

8.62 Stock Consideration. Shall have the meaning given that term in Section 1.8(c).

8.63 Surviving Corporation. Shall have the meaning given that term in Section 1.1.

8.64 Surviving Corporation Common Stock. Shall have the meaning given that term in Section 1.8(d).

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed in their respective corporate names by their respective duly authorized representatives, all as of the day and year first above written.

AMERICAN RESOURCES OFFSHORE, INC.

By: John P. Atwood
Title: Vice President

BLUE DOLPHIN ENERGY COMPANY

By: G. Brian Lloyd
Title: Vice President and Treasurer

BDCO MERGER SUB, INC.

By: G. Brian Lloyd
Title: Vice President and Treasurer

EXHIBIT A

CERTIFICATE OF INCORPORATION OF MERGER SUB

CERTIFICATE OF INCORPORATION
OF
BDCO MERGER SUB, INC.

ARTICLE 1

The name of the corporation is BDCO Merger Sub, Inc. (the "Corporation").

ARTICLE 2

The address of its registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware, 19801. The name of its registered agent at such address is The Corporation Trust Company.

ARTICLE 3

The purpose of the Corporation shall be to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware (as from time to time in effect, the "DGCL").

ARTICLE 4

The authorized capital stock of the Corporation consists of 100 shares of common stock, par value $0.01 per share ("Common Stock").

Shares of any class of capital stock of the Corporation may be issued for such consideration and for such corporate purposes as the board of directors of the Corporation may from time to time determine. Each share of Common Stock shall be entitled to one vote. No stockholder shall, by reason of the holding of shares of any class or series of capital stock of the Corporation, have a preemptive or preferential right to acquire or subscribe for any shares or securities of any class, whether now or hereafter authorized, which may at any time be issued, sold or offered for sale by the Corporation.

ARTICLE 5

A. Directors. The business and affairs of the Corporation shall be managed by or under the direction of the board of directors. In addition to the authority and powers conferred upon the board of directors by the DGCL or by the other provisions of this Certificate of Incorporation, the board of directors is hereby authorized and empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, subject

to the provisions of the DGCL, this Certificate of Incorporation and any bylaws adopted by the stockholders of the Corporation; provided, however, that no bylaws hereafter adopted by the stockholders of the Corporation, or any amendments thereto, shall invalidate any prior act of the board of directors that would have been valid if such bylaws or amendment had not been adopted.

B. Number, Election and Terms of Directors. The number of directors constituting the board of directors shall be fixed by, or in a manner provided

in, the bylaws. Each director shall serve for a term ending on the next annual meeting of stockholders following his or her election to the board of directors and until such director's successor shall have been duly elected and qualified or until his or her earlier death, resignation or removal. Election of directors shall not be by written ballot unless the bylaws of the corporation shall so provide.

C. Removal of Directors. Any director, or the entire board of directors, may be removed from office with or without cause by the affirmative vote of the holders of a majority of the voting power of the then outstanding shares of stock entitled to vote generally in the election of directors, voting together as a single class.

D. Action Without a Meeting. Any action required or permitted by law or by the Certificate of Incorporation or the bylaws of the Corporation to be taken at a meeting of the board of directors or a committee thereof may be taken without a meeting, without prior notice, and without a vote, if a written consent or consents, setting forth the action so taken, shall have been signed by all the members of the board of directors or such committee.

E. Amendments of Certificate of Incorporation. The affirmative vote of the holders of a majority of the outstanding shares of capital stock of the Corporation entitled to vote thereon shall be required to alter, amend, adopt any provision inconsistent with, or repeal, this Article 5 or any provision hereof.

ARTICLE 6

No director of the Corporation shall be personally liable to the Corporation or any of its stockholders for monetary damages for breach of fiduciary duty as a director, provided, however, that this Article 6 shall not eliminate or limit the liability of a director:

A. for any breach of the director's duty of loyalty to the Corporation or its stockholders;

B. for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;

C. under Section 174 of the DGCL, as it may hereafter be amended from time to time, for any unlawful payment of a dividend or unlawful stock purchase or redemption; or

D. for any transaction from which the director derived an improper personal benefit.

If the DGCL is amended after the filing of this Certificate of Incorporation to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the DGCL, as so amended. No amendment to or repeal of this Article 6 will apply to, or have any effect on, the liability or alleged liability of any director of the Corporation for or with respect to any acts or omissions of the director occurring prior to such amendment or repeal.

ARTICLE 7

A. Mandatory Indemnification. Each person who at any time is or was a director or officer of the Corporation, and is threatened to be or is made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, arbitrative or investigative (a "Proceeding"), by reason of the fact that such person is or was a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director, officer, partner, venturer, proprietor, member, employee, trustee, agent or similar functionary of another domestic or foreign corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other for-profit or non-profit enterprise, whether the basis of a Proceeding is alleged action in such person's official capacity or in another capacity while holding such office, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the DGCL, or any other applicable law as may from time to time be in effect (but, in the case of any such amendment or enactment, only to the extent that such amendment or law permits the Corporation to provide broader indemnification rights than such law prior to such amendment or enactment permitted the Corporation to provide), against all expense, liability and loss (including, without limitation, court costs and attorneys' fees, judgments, fines, excise taxes or penalties, and amounts paid or to be paid in settlement) actually and reasonably incurred or suffered by such person in connection with a Proceeding if such person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful, and such indemnification shall continue as to a person who has ceased to be a director or officer of the Corporation or a director, officer, partner, venturer, proprietor, member, employee, trustee, agent or similar functionary of another domestic or foreign corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other for-profit or non-profit enterprise, and shall inure to the benefit of such person's heirs, executors and administrators. The Corporation's obligations under this paragraph A include, but are not limited to, the convening of any meeting, and the consideration of any matter thereby, required by statute in order to determine the eligibility of any person for indemnification.

B. Prepayment of Expenses. Expenses incurred by a director or officer of the Corporation in defending a Proceeding shall be paid by the Corporation in advance of the final disposition of such Proceeding to the fullest extent permitted by, and only in compliance with, the DGCL or any other applicable laws as may from time to time be in effect, including, without limitation, any provision of the DGCL which requires, as a condition precedent to such expense advancement, the delivery to the Corporation of an undertaking, by or on behalf of such director

or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under paragraph A of this Article 7 or otherwise. Repayments of all amounts so advanced shall be upon such terms and conditions, if any, as the Corporation's board of directors deems appropriate.

C. Vesting. The Corporation's obligation to indemnify and to prepay expenses under paragraphs A and B of this Article 7 shall arise, and all rights granted to the Corporation's directors and officers hereunder shall vest, at the time of the occurrence of the transaction or event to which a Proceeding

relates, or at the time that the action or conduct to which such Proceeding relates was first taken or engaged in (or omitted to be taken or engaged in), regardless of when such Proceeding is first threatened, commenced or completed. Notwithstanding any other provision of this Certificate of Incorporation or the bylaws of the Corporation, no action taken by the Corporation, either by amendment of this Certificate of Incorporation or the bylaws of the Corporation or otherwise, shall diminish or adversely affect any rights to indemnification or prepayment of expenses granted under paragraphs A and B of this Article 7 which shall have become vested as aforesaid prior to the date that such amendment or other corporate action is effective or taken, whichever is later.

D. Enforcement. If a claim under either or both of paragraphs A and B of this Article 7 is not paid in full by the Corporation within thirty days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit in a court of competent jurisdiction against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall also be entitled to be paid the expense of prosecuting such claim. It shall be a defense to any such suit (other than a suit brought to enforce a claim for expenses incurred in defending any Proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the Corporation) that the claimant has not met the standards of conduct which make it permissible under the DGCL or other applicable law to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. The failure of the Corporation (including its board of directors, independent legal counsel, or stockholders) to have made a determination prior to the commencement of such suit as to whether indemnification is proper in the circumstances based upon the applicable standard of conduct set forth in the DGCL or other applicable law shall neither be a defense to the action nor create a presumption that the claimant has not met the applicable standard of conduct. The termination of any Proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal Proceeding, had reasonable cause to believe that his conduct was unlawful.

E. Nonexclusive. The indemnification provided by this Article 7 shall not be deemed exclusive of any other rights to which a person seeking indemnification may be entitled under any statute, bylaw, other provisions of this Certificate of Incorporation, agreement, vote of by the stockholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office.

F. Permissive Indemnification. The rights to indemnification and prepayment of expenses which are conferred to the Corporation's directors and officers by paragraphs A and B of this Article 7 may be conferred upon any employee or agent of the Corporation if, and to the extent, authorized by the board of directors.

G. Insurance. The Corporation shall have power to purchase and maintain insurance, at its expense, on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, partner, venturer, proprietor, member, employee, trustee, agent or similar functionary of another domestic or foreign corporation, partnership, joint venture, sole

proprietorship, trust, employee benefit plan or other for-profit or non-profit enterprise against any expense, liability or loss asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the Corporation would have the power to indemnify him against such expense, liability or loss under the Corporation's bylaws, the provisions of this Article 7, the DGCL or other applicable law.

H. Other Arrangements for Indemnification. Without limiting the power of the Corporation to procure or maintain insurance or other arrangement on behalf of any of the persons as described in paragraph G of this Article 7, the Corporation may, for the benefit of persons eligible for indemnification by the Corporation, (1) create a trust fund, (2) establish any form of self-insurance, (3) secure its indemnity obligation by grant of a security interest or other lien on the assets of the Corporation or (4) establish a letter of credit, guaranty or surety arrangement.

ARTICLE 8

The board of directors is expressly authorized to adopt, amend or repeal the bylaws of the Corporation, or adopt new bylaws, without any action on the part of the stockholders, except as may be otherwise provided by applicable law or the bylaws of the Corporation. Any bylaws made, altered or amended by the board of directors under the powers conferred hereby may be further altered or amended, or repealed, by the directors or by the stockholders, provided, however, that the bylaws shall not be altered, amended or repealed and no provision inconsistent therewith shall be adopted by stockholder action without the affirmative vote of a majority of the voting power of the then outstanding shares entitled to vote generally in the election of directors, voting together as a single class.

ARTICLE 9

The names and mailing addresses of the persons who are to serve as the directors of the Company until the first annual meeting of its stockholders or until their successors are elected and qualified are as follows:

Ivan Siem	c/o Blue Dolphin Energy Co. 801 Travis, Suit 2100 Houston, TX 77002
John P. Atwood	c/o Blue Dolphin Energy Co. 801 Travis, Suit 2100 Houston, TX 77002
Michael J. Jacobson	c/o Blue Dolphin Energy Co. 801 Travis, Suit 2100 Houston, TX 77002

ARTICLE 10

The name and mailing address of the incorporator is as follows:

NAME	ADDRESS
Bryan K. Brown	Porter & Hedges, L.L.P. 700 Louisiana, 35th Floor Houston, Texas 77002

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EXHIBIT B

BYLAWS OF MERGER SUB

BYLAWS
OF
BDCO MERGER SUB, INC.

ARTICLE 1

OFFICES

Section A. Registered Office. The registered office of the Corporation required by the General Corporation Law of the State of Delaware to be maintained in the State of Delaware shall be the registered office named in the Certificate of Incorporation of the Corporation, or such other office as may be designated from time to time by the board of directors in the manner provided by law. Should the Corporation maintain a principal office or place of business within the State of Delaware, such registered office need not be identical to such principal office or place of business of the Corporation.

Section B. Other Offices. The Corporation may also have offices at such other places within or without the State of Delaware as the board of directors may from time to time determine or the business of the Corporation may require.

ARTICLE 2

MEETINGS OF STOCKHOLDERS

Section A. Place of Meetings. All meetings of the stockholders will be held at the principal office of the Corporation, or at such other place within or without the State of Delaware as may be determined by the board of directors and stated in the notice of the meeting or in duly executed waivers of notice the meeting.

Section B. Annual Meetings. An annual meeting of the Corporation's stockholders shall be held for the election of directors at such date, time and place, either within or without the State of Delaware, as may be designated by resolution of the board of directors from time to time; provided that each

successive annual meeting shall be held on a date within 13 months after the date of the preceding annual meeting.

Section C. Postponement or Adjournment of Meetings. The board of directors may, at any time prior to the holding of a meeting of shareholders, postpone such meeting to such time and place as is specified in the notice of postponement of such meeting, which notice shall be given in accordance with Article 6 of these bylaws at least ten days before the date to which the meeting is postponed. In addition, any meeting of the stockholders may be adjourned at any time by the Chairman of the Board or such other person who shall be lawfully acting as chairman of the meeting, if such adjournment is deemed by the chairman of the meeting to be a reasonable course of action under the circumstances.

Section D. Notice of Annual Meeting. Written or printed notice of the annual meeting, stating the place, day and hour thereof, will be served upon or mailed to each stockholder entitled to vote thereat at such address as appears on the books of the Corporation, not less than ten days nor more than 60 days before the date of the meeting.

Section E. Special Meeting. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute or the Certificate of Incorporation, may only be called by the President, the Chairman of the Board, the Chief Executive Officer or one or more stockholders holding in the aggregate not less than a majority of the outstanding shares entitled to vote at such special meeting.

Section F. Notice of Special Meeting. Written notice of a special meeting of stockholders, stating the place, day and hour and purpose or purposes thereof, will be served upon or mailed to each stockholder entitled to vote thereat at such address as appears on the books of the Corporation, not less than ten days nor more than 60 days before the date of the meeting.

Section G. Business at Special Meeting. Business transacted at all special meetings will be confined to the purpose or purposes stated in the notice.

Section H. Stockholder List. At least ten days before each meeting of stockholders, a complete list of the stockholders entitled to vote at such meeting or any adjournment thereof, arranged in alphabetical order, with the address of and the number of shares held by each stockholder, will be prepared by the Secretary. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during usual business hours, for a period of ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice, or, if not so specified, at the place where the meeting is to be held. Such list will also be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any stockholder during the whole time of the meeting.

Section I. Quorum. The holders of a majority of the shares of capital stock issued and outstanding and entitled to vote thereat, represented in person or by proxy, will constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute, the Certificate of Incorporation or these bylaws. If, however, a quorum is not present or represented at any meeting of the stockholders, the chairman of the meeting or a majority of the shares of stock, present in person or represented by proxy, although not constituting a quorum, shall have power to postpone or recess the meeting without notice other than announcement at the meeting of the

date, time and place of the postponed or recessed meeting. At any such adjourned meeting at which a quorum is represented any business may be transacted which might have been transacted at the meeting as originally noticed.

Section J. Required Vote. When a quorum is present at any meeting, the vote of the holders of a majority of the shares having voting power represented at the meeting in person or by proxy will decide any question brought before the meeting, unless the question is one upon which, by statute or express provision of the Certificate of Incorporation or these bylaws, a different vote is required, in which case such express provision will govern and control the

decision of such question. Where a separate vote by class is required, the affirmative vote of the majority of shares of such class present in person or represented by proxy at the meeting shall be the act of such class.

Section K. Proxies. At any meeting of the stockholders every stockholder having the right to vote will be entitled to vote in person or by proxy appointed by an instrument in writing subscribed by such stockholder or his duly authorized attorney in fact and bearing a date not more than eleven months prior to the date of the meeting.

Section L. Voting. Unless otherwise provided by statute, the Certificate of Incorporation or these bylaws, each stockholder will have one vote for each share of stock having voting power, registered in his name on the books of the Corporation. Stockholders may take action by written consent as contained in the General Corporation Law of the State of Delaware.

Section M. Consent of Stockholders in Lieu of a Meeting. Unless otherwise prohibited by statute, any action required to be taken at any annual or special meeting of stockholders of a corporation, or any action which may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and shall be delivered to the Corporation by delivery to its registered office in Delaware, its principal place of business or an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery to the Corporation's registered office shall be by hand or by certified or registered mail, return receipt requested.

Every written consent shall bear the date of signature of each stockholder who signs the consent, and no written consent shall be effective to take the corporate action referred to therein unless, within 60 days of the earliest dated consent delivered in the manner required by this section to the Corporation, written consents signed by a sufficient number of holders to take action are delivered to the Corporation by delivery to its registered office in Delaware, its principal place of business or an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery to the Corporation's registered office shall be by hand or by certified or registered mail, return receipt requested.

Prompt notice of the taking of the corporate action without a meeting without a meeting by less than unanimous written consent shall be given to those stockholders or members who have not consented in writing and who, if the action had been taken at a meeting, would have been entitled to notice of the meeting if the record date for such meeting had been the date that written consents

signed by a sufficient number of holders or members to take the action were delivered to the corporation as provided in the preceding paragraph. If the action that is consented to is such that the filing of a certificate under any section of the statute is required, the certificate filed under such section shall state that written consent has been given in accordance with Section 228 of the Delaware General Corporation Law.

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Section N. Voting of Stock of Certain Holders; Elections; Inspections. Shares standing in the name of another corporation, domestic or foreign, may be voted by such officers, agent or proxy as the bylaws of such corporation may prescribe, or in the absence of such provision, as the board of directors of such corporation may determine. Shares standing in the name of a deceased person may be voted by the executor or administrator of such deceased person, either in person or by proxy. Shares standing in the name of a guardian, conservator or trustee may be voted by such fiduciary, either in person or by proxy, but no fiduciary shall be entitled to vote shares held in such fiduciary capacity without a transfer of such shares into the name of the fiduciary. Shares standing in the name of a receiver may be voted by the receiver. A stockholder whose shares are pledged shall be entitled to vote such shares, unless in the transfer by the pledgor on the books of the Corporation, he has expressly emp