UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR QUARTER ENDING MARCH 31, 2001

COMMISSION FILE NUMBER 0-6247

ARABIAN AMERICAN DEVELOPMENT COMPANY
(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	75-1256622 (I.R.S. employer identification no.)
10830 NORTH CENTRAL EXPRESSWAY, SUITE 175 DALLAS, TEXAS (Address of principal executive offices)	75231 (Zip code)
Registrant"s telephone number, including area code:	(214) 692-7872

Former name, former address and former fiscal year, if changed since last report.
NONE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

YES [X] NO [ ]

Number of shares of the Registrant's Common Stock (par value $0.10 per share), outstanding at March 31, 2001: 22,788,994.

ARABIAN AMERICAN DEVELOPMENT COMPANY AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	MARCH 31, 2001 (UNAUDITED)	DECEMBER 31, 2000
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 144,127	$ 158,977
Trade Receivables	4,819,212	5,239,769
Inventories	545,892	960,494

Total Current Assets	5,509,231	6,359,240
REFINERY PLANT, PIPELINE AND EQUIPMENT	17,310,550	17,248,891
Less: Accumulated Depreciation	(5,916,911)	(5,570,930)
Net Plant, Pipeline and Equipment	11,393,639	11,677,961
AL MASANE PROJECT	35,387,171	35,304,240
OTHER INTERESTS IN SAUDI ARABIA	2,431,248	2,431,248
MINERAL PROPERTIES IN THE UNITED STATES	1,279,038	1,282,142
OTHER ASSETS	505,718	543,864
TOTAL ASSETS	$ 56,506,045	$ 57,598,695
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable-Trade	$ 5,047,845	$ 5,306,121
Accrued Liabilities	1,305,120	1,259,272
Accrued Liabilities in Saudi Arabia	1,062,375	1,062,375
Notes Payable	11,973,780	11,923,780
Current Portion of Long-Term Debt	8,071,504	8,060,981
Total Current Liabilities	27,460,624	27,612,529
ACCRUED LIABILITIES IN SAUDI ARABIA	855,149	841,489
DEFERRED REVENUE	122,793	131,401
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	956,340	999,011
STOCKHOLDERS' EQUITY		
COMMON STOCK-authorized 40,000,000 shares of $.10 par value; issued and outstanding, 22,488,994 shares in 2001 and 2000	2,248,899	2,248,899
ADDITIONAL PAID-IN CAPITAL	36,523,606	36,523,606
ACCUMULATED DEFICIT	(11,661,366)	(10,758,240)
Total Stockholders' Equity	27,111,139	28,014,265
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 56,506,045	$ 57,598,695

</TABLE>

See notes to consolidated financial statements.

ARABIAN AMERICAN DEVELOPMENT COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED MARCH 31, 2001	THREE MONTHS ENDED MARCH 31, 2000
<S>	<C>	<C>
REVENUES		
Refined Product Sales	$ 7,295,822	$ 10,050,805
Processing Fees	1,064,701	517,945
	8,360,523	10,568,750
OPERATING COSTS AND EXPENSES		
Cost of Refined Product Sales and Processing	7,952,108	9,903,130
General and Administrative	700,784	776,982

Depreciation	345,983	219,882
	8,998,875	10,899,994
OPERATING LOSS	(638,352)	(331,244)
OTHER INCOME (EXPENSE)		
Interest Income	11,646	20,992
Interest Expense	(351,342)	(204,524)
Minority Interests	42,671	15,386
Foreign Exchange Transaction Gain	4,850	--
Miscellaneous Income	27,401	22,782
	(264,774)	(145,364)
NET LOSS	$ (903,126)	$ (476,608)
NET LOSS PER COMMON SHARE:		
Basic	$ (0.04)	$ (0.02)
Diluted	$ (0.04)	$ (0.02)
WEIGHTED AVERAGE NUMBER OF COMMON EQUIVALENT SHARES OUTSTANDING:		
Basic	22,788,994	22,325,148
Diluted	22,788,994	22,325,148

</TABLE>

See notes to consolidated financial statements.

ARABIAN AMERICAN DEVELOPMENT COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2001

<TABLE>
<CAPTION>

	COMMON STOCK		ADDITIONAL PAID-IN	ACCUMULATED	
	SHARES	AMOUNT	CAPITAL	DEFICIT	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
JANUARY 1, 2001	22,488,994	$ 2,248,899	$ 36,523,606	$(10,758,240)	$ 28,014,265
Net Loss	--	--	--	(903,126)	(903,126)
MARCH 31,2001	22,488,994	$ 2,248,899	$ 36,523,606	$(11,661,366)	$ 27,111,139

</TABLE>

See notes to consolidated financial statements.

ARABIAN AMERICAN DEVELOPMENT COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<TABLE>

<CAPTION>

	THREE MONTHS ENDED	
	MARCH 31, 2001	MARCH 31, 2000
<S>	<C>	<C>
OPERATING ACTIVITIES		
Net Loss	$ (903,126)	$ (476,608)
Adjustments for Non-Cash Transactions		
Depreciation	345,983	219,882
(Decrease) in Deferred Revenue	(8,608)	(8,608)
Effects of Changes in Operating Assets and Liabilities		
Decrease (Increase) in Trade Receivables	420,557	(338,152)
Decrease in Inventories	414,602	316,807
Decrease (Increase) in Other Assets	38,146	(51,122)
(Decrease) in Accounts Payable and Accrued Liabilities	(212,428)	(566,326)
Increase in Accrued Liabilities in Saudi Arabia	13,660	12,875
Other	(42,673)	27,503
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	66,113	(863,749)
INVESTING ACTIVITIES		
Proceeds from Sale of Short-Term Investments	--	20,597
Purchase of Business (Net of Cash Acquired)	--	(2,279,665)
Additions to Al Masane Project	(82,931)	(110,350)
Additions to Refinery Plant, Pipeline and Equipment	(61,659)	(261,599)
Reduction in Mineral Properties in the United States	3,104	18,734
NET CASH USED IN INVESTING ACTIVITIES	(141,486)	(2,612,283)
FINANCING ACTIVITIES		
Additions to Notes Payable and Long-Term Obligations	87,526	1,781,827
Reduction of Notes Payable and Long-Term Obligations	(27,003)	(178,335)
NET CASH PROVIDED BY FINANCING ACTIVITIES	60,523	1,603,492
NET DECREASE IN CASH	(14,850)	(1,872,540)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	158,977	3,934,313
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 144,127	$ 2,061,773

</TABLE>

See notes to consolidated financial statements.

ARABIAN AMERICAN DEVELOPMENT COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The consolidated financial statements reflect all adjustments (consisting only of normal and recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of Arabian American Development Company and Subsidiaries" financial position and operating results for the interim period. Interim period results are not necessarily indicative of the results for the calendar year. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information and the Company's December 31, 2000 Annual Report on Form 10-K.

These financial statements include the accounts of Arabian American Development Company (the "Company") and its wholly-owned subsidiaries,

American Shield Refining Company (the "Refining Company") and American Shield Coal Company (the "Coal Company"). The Refining Company owns all of the capital stock of Texas Oil and Chemical Company II, Inc. ("TOCCO"). TOCCO owns all of the capital stock of South Hampton Refining Company ("South Hampton") and South Hampton owns all of the capital stock of Gulf State Pipe Line Company, Inc. ("Gulf State"). TOCCO also owns 92% of the capital stock of Productos Quimicos Coin, S.A. de. C.V. ("Coin"), a specialty petrochemical products refining company located near Veracruz, Mexico, which was purchased on January 25, 2000 for $2.5 million. The Company also owns approximately 51% of the capital stock of Pioche-Ely Valley Mines, Inc. ("Pioche"), which owns mining properties in Nevada. The Refining Company and its subsidiaries constitute the Company's Specialty Petrochemicals or Refining Segment. The Coal Company, Pioche and the Company's mineral properties in Saudi Arabia constitute its Mining Segment.

2. INVENTORIES

Inventories include the following:

<TABLE>
<CAPTION>

	MARCH 31, 2001	DECEMBER 31, 2000
<S>	<C>	<C>
Refined products	$ 545,892	$ 960,494

</TABLE>

Inventories are recorded at the lower of cost, determined on the last-in, first-out method (LIFO), or market. At March 31, 2001 and December 31, 2000, current cost exceeded LIFO value by approximately $103,000 and $178,000, respectively.

3. NET INCOME (LOSS) PER COMMON SHARE

The following table (in thousands, except per share amounts) sets forth the computation of basic and diluted net income (loss) per share for the three months ended March 31, 2001 and 2000, respectively.

<TABLE>
<CAPTION>

	Three Months Ended March 31,	
	2001	2000
<S>	<C>	<C>
Net Loss	$ (903)	$ (477)
Weighted average shares outstanding - basic and diluted	22,789	22,325
Net Loss per share:		
Basic	$ (.04)	$ (.02)
Diluted	$ (.04)	$ (.02)

</TABLE>

In the three months ended March 31, 2001 and 2000, options for 872,000 shares and 1,570,000 shares, respectively, were excluded from diluted shares outstanding because their effect was antidilutive.

4. SEGMENT INFORMATION

As discussed in Note 1, the Company has two business segments. The Company measures segment profit or loss as operating income (loss), which represents income (loss) before interest, miscellaneous income and minority interest. Information on the segments is as follows:

<TABLE>

<CAPTION>

Three Months ended March 31, 2001	Refining	Mining	Total
<S>	<C>	<C>	<C>
Revenue from external customers	$ 8,360,523	$ --	$ 8,360,523
Depreciation	345,401	582	345,983
Operating loss	(585,280)	(53,072)	(638,352)
Total assets	$ 18,697,922	$ 37,808,123	$ 56,506,045

</TABLE>

<TABLE>
<CAPTION>

Three Months ended March 31, 2000	Refining	Mining	Total
<S>	<C>	<C>	<C>
Revenue from external customers	$ 10,568,750	$ --	$ 10,568,750
Depreciation	219,315	567	219,882
Operating loss	(281,942)	(49,302)	(331,244)
Total assets	$ 19,697,443	$ 38,443,256	$ 58,140,699

</TABLE>

Information regarding foreign operations for the three months ended March 31, 2001 and 2000 follows (in thousands). Revenues are attributed to countries based upon the origination of the transaction.

<TABLE>
<CAPTION>

	Three Months ended March 31,	
	2001	2000
<S>	<C>	<C>
Revenues		
United States	$ 7,849	$ 8,614
Mexico	512	1,955
Saudi Arabia	--	--
	$ 8,361	$10,569
Long-lived Assets		
United States	$ 7,148	$ 6,400
Mexico	5,525	5,129
Saudi Arabia	37,818	37,163
	$50,491	$48,692

</TABLE>

5. LEGAL PROCEEDINGS

South Hampton, together with several other companies, is a defendant in five lawsuits filed in Jefferson County and Orange County, Texas filed in the period from December 1997 to December 2000 by former employees of the southeast Texas plants of the Goodyear Tire & Rubber Company, Dupont, Atlantic Richfield and South Hampton. In each of these suits, the plaintiff claims illnesses and diseases resulting from alleged exposure to chemicals, including benzene, butadiene and/or isoprene, during their employment. The plaintiffs claim the defendant companies engaged in the business of manufacturing, selling and/or distributing these chemicals in a manner which subjected each and all of them to liability for unspecified actual and punitive damages. One of the lawsuits brought in Jefferson County, Texas has been settled, with South Hampton contributing $10,000 toward such settlement. South Hampton intends to vigorously defend itself against the remaining lawsuits.

In August 1997, the Texas Natural Resource Conservation Commission ("TNRCC") notified South Hampton that it had violated various rules and procedures. It proposed administrative penalties totaling $709,408 and recommended that South Hampton undertake certain actions necessary to bring the operations at its refinery into compliance The violations generally relate to various air and water quality issues. Appropriate modifications have been made by South Hampton where it appeared there were legitimate concerns. South Hampton feels the penalty is greatly overstated and intends to vigorously defend itself against it. A preliminary hearing was held in November 1997, but no further action has been taken.

On February 2, 2000, the TNRCC amended its pending administrative action against South Hampton to add allegations dating through May 21, 1998 of 35 regulatory violations relating to air quality control and industrial solid waste requirements. The TNRCC proposes that administrative penalties be increased to approximately $765,000 and that certain corrective action be taken. South Hampton intends to vigorously defend itself against these additional allegations, the proposed penalties and proposed corrective actions.

In May 1991, the Company filed a complaint with the U.S. Department of Justice ("DOJ") against Hunt Oil Company of Dallas, Texas ("Hunt"). The Company's complaint alleged various violations of the Foreign Corrupt Practices Act ("FCPA") by Hunt, at the Company's detriment, in obtaining its 1981 Petroleum Production Sharing Agreement ("PSA") in Yemen. The DOJ requested additional documentation regarding the Company's allegations in 1995 that the Company provided in early 1996. In late 1996, the DOJ advised the Company that the documents presented did not provide sufficient evidence of any criminal activity and that the DOJ did not intend to pursue the investigation. In December 1996, after providing the DOJ with additional legal analyses, the Company's representatives were told that the DOJ would take a more aggressive stance if additional legal evidence was presented to the DOJ. In an effort to comply with the DOJ's request, in 1997 the Company requested certain documents from the Central Intelligence Agency ("CIA") under the Freedom of Information Act ("FOIA"). The Company believes the requested documents may contain the evidentiary information that the DOJ needs to properly and sufficiently evaluate the Company's compliant against Hunt. The CIA refused to either confirm or deny the existence of the requested information. After exhausting its administrative appeals, the Company filed suit against the CIA in early 1998 in the U.S. District Court for the Northern District of Texas seeking a judicial determination of the Company's FOIA request. The Company argued that the FOIA specifically prohibits any agency from using Executive Order 12958, relating to classification of documents, and the FOIA to conceal criminal activity, in this instance Hunt's violation of the FCPA. Following a February 1999 hearing, the Court rejected the Company's arguments and issued a summary judgment in favor of the CIA. The Company filed an appeal with the U.S. Court of Appeals for the Fifth Circuit, which on January 28, 2000 rejected the Company's appeal. The Company believes that this could be a landmark case. As a consequence, on April 22, 2000, it filed a writ of certiorari with the United States Supreme Court in which the Company argued that the District and Appellate Courts erred in their judgments. The Company has requested the Supreme Court to issue its ruling that the matter be remanded to the trial court with instructions that the CIA review its own documents to determine if any information requested by the Company should not have been classified but handed over the Company for use in the pursuit of its case with the DOJ against Hunt for conspiracy and violation of the FCPA. On July 1, 2000, the Supreme Court assigned Cause No. 00-17 to the Company's Petition. On October 2, 2000, the Supreme Court denied the Company's Petition without giving any opinion. The Company has requested and will continue to request additional documents from both the CIA and DOJ under appropriate provisions of the FOIA and may seek judicial review in the event its requests are denied. In the event the Company is able to provide the DOJ with appropriate legal evidence and the DOJ prevails in any FCPA action against Hunt regarding the PSA, the Company would then institute an appropriate action against Hunt in accordance with the provisions of the Victim Restitution Act. Based on the advice of its counsel, the Company believes that it would be entitled to restitution of monies lost as a result of the wrongdoing by Hunt, if Hunt is convicted under the FCPA. The Company further believes, based on such advice, that the amount of restitution could include all of the profits received by Hunt from its Yemen operations and also could include proceeds from the sale of a portion of Hunt's interest in the PSA. However, there can be no assurance that the DOJ will pursue or obtain a conviction of Hunt regarding the PSA under the FCPA and no assurance that the Company would receive or be entitled to receive any restitution as a result of any such conviction. The cost to the Company of these pursuits is minimal.

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

GENERAL

Statements in Part 1, Item 2 as well as elsewhere in, or incorporated by reference in, this Quarterly Report on Form 10-Q regarding the Company's financial position, business strategy and plans and objectives of the Company's management for future operations and other statements that are not historical facts, are "forward-looking statements" as that term is defined under applicable Federal securities laws. In some case, "forward-looking statements" can be identified by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "contemplates," "proposes," believes," "estimates," "predicts," "potential" or "continue" or the negative of such terms and other comparable terminology. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such statements. Such risks, uncertainties and factors include, but are not limited to, general economic conditions domestically and internationally; insufficient cash flows from operating activities; difficulties in obtaining financing; outstanding debt and other financial and legal obligations; competition; industry cycles; feedstock, specialty petrochemical product and mineral prices; feedstock availability; technological developments; regulatory changes; environmental matters; foreign government instability; foreign legal and political concepts; and foreign currency fluctuations, as well as other risks detailed in the Company's filings with the U.S. Securities and Exchange Commission, including this Quarterly Report on Form 10-Q, all of which are difficult to predict and many of which are beyond the Company's control.

LIQUIDITY AND CAPITAL RESOURCES

The Company operates in two business segments, specialty petrochemicals (which is composed of the entities owned by the Refining Company) and mining. Its corporate overhead needs are minimal. A discussion of each segment's liquidity and capital resources follows.

SPECIALTY PETROCHEMICALS SEGMENT. Historically, this segment has contributed substantially all of the Company's internally generated cash flows from operating activities and its primary sources of revenue are the specialty products refineries owned and operated by South Hampton near Silsbee, Texas and by Coin in Mexico. However, significant increases in the prices of feedstock and natural gas resulted in a loss from operations in 2000 of $2.8 million which, in turn, resulted in violations of certain loan agreement covenants and a lack of liquidity. These prices have declined in early 2001 allowing a return to positive cash flows in February and Mach 2001. Feedstock prices, in particular, have declined so that operating margins are returning to sustainable levels. Sales are currently sustainable and there has been little downturn in demand. Management expects adequate margins throughout the remainder of 2001, although there can be no assurance of this effect, and has taken steps to protect the operations from extreme fluctuations in natural gas prices over the next 12 months. A return to normal profitability is expected in the second quarter, although there is no assurance that this will occur.

This business segment entered into a $3.25 million credit agreement in September 1999 with Southwest Bank of Texas, N.A., located in Houston, Texas. The Company is not in compliance with certain covenants contained in the loan agreement. In connection with the acquisition of the common stock of Coin, South Hampton and Gulf State entered into the $3.5 million credit agreement in December 1999 with Heller Financial Leasing, Inc. The credit agreement is secured by a pledge of all of the capital stock of South Hampton and Gulf State, a first lien on all of South Hampton's and Gulf State's present and future machinery and equipment and a ground lease relating to South Hampton's real property, and is guaranteed by the Company, the Refining Company and TOCCO. At March 31, 2001, the Company was not in compliance with certain covenants contained in the loan agreement, however, an amended promissory note dated April 1, 2001 is presently being circulated for signatures that requires an interest only payment on April 1, 2001, two consecutive monthly installment payments of $25,000 each commencing on May 1, 2001, and the remaining principal and interest payable in thirty-one (31) consecutive monthly installments commencing July 1, 2001.

MINING SEGMENT. This segment is in the development stage. Its most significant asset is the Al Masane mining project in Saudi Arabia, which is a net user of the Company's available cash and capital resources. In order to commercially develop the Al Masane project, the Company entered into a joint venture arrangement with Al Mashreq Company for Mining Investments ("Al Mashreq"), a Saudi limited liability company owned by Saudi Arabian investors (including certain of the Company's shareholders). The partners formed The Arabian Shield Company for Mining Industries Ltd., a Saudi limited liability company ("Arabian Mining"), which was officially registered and licensed in August 1998 to conduct business in Saudi Arabia and authorized to mine and process minerals from the Al Masane lease area. Arabian Mining received conditional approval for a $38.1 million interest-free loan from the Saudi Industrial Development Fund ("SIDF"), and deposited $26 million of equity capital into its bank account.

Due to the severe decline in the open market prices for the minerals to be produced by the Al Masane project and the financial crisis affecting Eastern Asia in 1998, SIDF and other potential lenders required additional guarantees and other financing conditions, which were unacceptable to the Company and Al Mashreq. As a consequence, Al Mashreq withdrew from the joint venture and all equity capital was returned. By letter dated May 11, 1999, the Company informed the Ministry of Petroleum and Mineral Resources that the joint venture was dissolved and that implementation of the project would be delayed until open market prices for the minerals to be produced by the Al Masane project improve to the average price levels experienced during the period from 1988 through 1997. At that time, the Company will attempt to locate a joint venture partner, form a joint venture and, together with the joint venture partner, attempt to obtain acceptable financing to commercially develop the project. There can be no assurances that the Company will be able to locate a joint venture partner, form a joint venture or obtain financing from SIDF or any other sources. Financing plans for the above are currently being studied. In the meantime, the Company intends to maintain the Al Masane mining lease through the payment of the annual advance surface rental, the implementation of a drilling program to attempt to increase proven and probable reserves and to attempt to improve the metallurgical recovery rates beyond those stated in the feasibility study, which may improve the commercial viability of the project at lower metal prices than those assumed in the feasibility study.

On June 22, 1999, the Company submitted a formal application for a five-year exclusive mineral exploration license for the Greater Al Masane Area of approximately 2,850 square kilometers, which surrounds the Al Masane mining lease area and includes the Wadi Qatan and Jebel Harr. The Company previously worked the Greater Al Masane Area after obtaining written authorization from the Saudi Ministry of Petroleum and Mineral Resources, and has expended over $3 million in exploration work. Geophysical and geochemical work and diamond core drilling on the Greater Al Masane area has revealed mineralization similar to that discovered at Al Masane. If the Saudi Arabian government does not issue the exploration license, the Company believes that it will be entitled to a refund of the monies expended, since the Company was authorized by the Saudi Arabian government to carry out exploration work in this area while waiting for the exploration license to be issued.

The Company's mineral interests in the United States include its ownership interests in the Coal Company and Pioche. The Coal Company's sole remaining asset is its net operating loss carryforward of approximately $5.9 million at December 31, 2000 and its future, if any, is uncertain. Pioche has been inactive for many years. Its properties include 48 patented and 80 unpatented claims totaling approximately 3,500 acres in Lincoln County, Nevada. There are prospects and mines on these claims that previously produced silver, gold, lead, zinc and copper.

Management also is addressing two other significant financing issues within this segment. These issues are the $11.0 million note payable due the Saudi Arabian government and accrued salaries and termination benefits of approximately $1,062,000 due employees working in Saudi Arabia (this amount does not include any amounts due the Company's President and Chief Executive Officer who also primarily works in Saudi Arabia and is owed approximately $855,000). Regarding the note payable, this loan was originally due in ten annual installments beginning in 1984. The Company has not made any repayments nor has it received any payment demands or other communications regarding the note payable from the Saudi government. By memorandum to the King of Saudi Arabia in 1986, the Saudi Ministers of Finance and Petroleum recommended that the $11.0 million note be incorporated into a loan from SIDF to finance 50% of the cost of

the Al Masane project, repayment of the total amount of which would be made through a mutually agreed upon repayment schedule from the Company's share of the operating cash flows generated by the project. The Company remains active in Saudi Arabia and received the Al Masane mining lease at a time when it had not made any of the agreed upon repayment installments. Based on its experience to date, management believes that as long as the Company diligently attempts to explore and develop the Al Masane project no repayment demand will be made. The Company has communicated to the Saudi government that its delay in repaying the note is a direct result of the government's lengthy delay in granting the Al Masane lease and has requested formal negotiations to restructure this obligation. Based on its interpretation of the Al Masane mining lease and other documents, management believes the government is likely to agree to link repayment of this

note to the Company's share of the operating cash flows generated by the commercial development of the Al Masane project and to a long-term installment repayment schedule. In the event the Saudi government were to demand immediate repayment of this obligation, which management considers unlikely, the Company would be unable to pay the entire amount due. If a satisfactory rescheduling agreement could not reached, and there are no assurances that one could be, the Company believes it could obtain the necessary resources to meet the rescheduled installment payments by making certain changes at the Refining Company.

With respect to the accrued salaries and termination benefits due employees working in Saudi Arabia, the Company plans to continue employing these individuals until it is able to generate sufficient excess funds to begin payment of this liability. Management will then begin the process of gradually releasing certain employees and paying its obligations as they are released from the Company's employment. The salary and social security benefits for these employees currently total approximately $108,000 per year.

At this time, the Company has no definitive plans for the development of its domestic mining assets. It periodically receives proposals from outside parties who are interested in possibly developing or using certain assets. Management will continue to review these proposals as they are received, but at this time does not anticipate making any significant domestic mining capital expenditures or receiving any significant proceeds from the sale or use of these assets.

If the Company seeks additional outside financing, there is no assurance that sufficient funds could be obtained. It is also possible that the terms of any additional financing that the Company would be able to obtain would be unfavorable to the Company and its existing shareholders.

RESULTS OF OPERATIONS

SPECIALTY PETROCHEMICALS SEGMENT. In the quarter ended March 31, 2001, total revenue decreased approximately $2,200,000 or 21%, while the cost of sales (excluding depreciation) decreased approximately $1,950,000 from the same period in 2000. Consequently, the gross profit margin in the first three months of 2001 decreased approximately $257,000 or 39% compared to the same period in 2000. The primary factor, which has adversely affected the operating results in the last year, was the dramatic rise in the cost of feedstock. Beginning in late 1999 and continuing into the first month of 2001, feedstock costs rose in conjunction with the large increase in crude oil prices worldwide. These costs increased from $.33 per gallon in the first quarter of 1999 to over $.95 per gallon in the fourth quarter of 2000, an increase of 188%. The prices peaked in December 2000 and January 2001, and in February they dropped back into the $.70 per gallon range. They have remained at this level for the balance of the first quarter and into the second quarter of 2001. The cost of natural gas, which is the single largest expense other than feedstock costs, also rose in 2000 due to the increases in worldwide prices. In the second quarter of 1999, the Company was paying $1.70 per MMBTU for fuel gas, which increased to $5.40 per MMBTU by the end of the third quarter of 2000. The gas market prices have dropped to about $5.00 per MMBTU after reaching a peak of $9.94 per MMBTU in January 2001, but are expected to remain strong for the rest of the year. Management is attempting to negotiate a fixed price for its gas supply which should allow adequate margins to continue throughout the usually volatile winter months, but there can be no assurance of this.

Toll processing fee income of approximately $1,065,000 in the first three months of 2001 was 106% over the prior year period, which partially offset the feedstock price increases. This part of the business has steadily increased and has contributed in large part to offset reductions in earnings and cash flow. The increase in these fees is primarily due to the addition of a new unit in May 1999 and an additional unit in July 2000. The Company currently has toll processing contracts with five different entities.

Administrative expenses in the first three months of 2001 for this segment were lower by approximately $107,000, due primarily to management's efforts to reduce all possible costs. Sales of the Company's products remain stable and expanded marketing efforts have kept the Silsbee refinery at near capacity since the second quarter of 1997.

At the Mexico refinery, normal operations had to be stopped temporarily in August 2000, due to the increased feedstock and natural gas costs, with cash flow coming only from brokerage sales. Process modifications are being designed which should produce an additional 60,000 gallons per month of premium product for sale in the U.S., but the proposed work has been postponed and is dependent on the return of favorable market conditions. Capital costs of approximately $225,000 are estimated and should pay back in less than one year under normal conditions. The marketing capability has been upgraded with the addition of experienced petrochemical sales personnel, which is expected to result in moving more products to Central and South America. The reorganization of the refinery in Mexico and the blending of its similar operations with the Silsbee refinery will continue.

MINING SEGMENT AND GENERAL CORPORATE EXPENSES. None of the Company's other operations generate significant operating or other revenues. The minority interest amount represents the Pioche and Coin minority stockholders' share of the losses from the Pioche and Coin operations. Pioche losses are primarily attributable to the costs of maintaining the Nevada mining properties.

The Company periodically reviews and evaluates its mineral exploration and development projects as well as its other mineral properties and related assets. The recoverability of the Company's carrying values of its development properties are assessed by comparing the carrying values to estimated future net cash flows from each property. In 2000, for purposes of estimating future cash flows, the price assumptions used by its mining consultant were taken from the projections of a major international metal's company. These latest price assumptions are averages over the projected life of the Al Masane mine and are $1.05 per pound for copper, $.60 per pound for zinc, $400 per ounce for gold, and $6.00 per ounce for silver. For its other mineral properties and related assets, carrying values were compared to estimated net realizable values on market comparables. Using these price assumptions, no asset impairments were evident.

The Company assesses the carrying values of its assets on an ongoing basis. Factors which may affect carrying values include, but are not limited to, mineral prices, capital cost estimates, the estimated operating costs of any mines and related processing, ore grade and related metallurgical characteristics, the design of any mines and the timing of any mineral production. There are no assurances that, the Company will not be required to take a material write-down of its mineral properties.

ARABIAN AMERICAN DEVELOPMENT COMPANY AND SUBSIDIARIES

PART II. OTHER INFORMATION

ITEM 5. OTHER INFORMATION

SHAREHOLDER" PROPOSALS

Any proposal by a shareholder of the Company intended to be presented at the 2002 annual meeting of shareholders, which is tentatively scheduled sometime in May 2002, must be received by the Company at its principal executive office no later than December 3, 2001 for inclusion in the Company"s Proxy Statement and form of proxy. Any such proposal must also comply with the other requirements of the proxy solicitation rules of the Securities and Exchange Commission. The Company intends to exercise discretionary voting authority granted under any proxy, which is executed and returned to the Company on any matter that may properly come before the 2002 annual meeting of shareholders, unless written notice of the matter is delivered to the Company at its principal executive office no later than February 15, 2002.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

10 (a) - First Amendment to Loan Agreement between South Hampton Refining Company and Southwest Bank of Texas, N.A., dated June 20, 2000, together with related Promissory Note, Security Agreement, Arbitration Agreement and Guaranty Agreement made to Texas Oil and Chemical Co. II, Inc. The original Loan Agreement, dated September 30, 1999, was filed as Exhibit 10 (r) to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

(b) REPORTS ON FORM 8-K

No Reports on Form 8-K were filed during the quarter ended March 31, 2001.

SIGNATURES

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

DATE: May 10, 2001

ARABIAN AMERICAN DEVELOPMENT COMPANY
(Registrant)

/s/ J. A. CRICHTON
J. A. Crichton, Chairman of the Board of Directors

/s/ DREW WILSON, JR.
Drew Wilson, Jr. Secretary/Treasurer

EXHIBIT INDEX

<TABLE>
<CAPTION>
EXHIBIT NUMBER | DESCRIPTION
<S> <C> <C>

10 (a)	-	First Amendment to Loan Agreement between South Hampton Refining Company and Southwest Bank of Texas, N.A., dated June 20, 2000, together with related Promissory Note, Security Agreement, Arbitration Agreement and Guaranty Agreement made to Texas Oil and Chemical Co. II, Inc. The original Loan Agreement, dated September 30, 1999, was filed as Exhibit 10 (r) to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

</TABLE>

FIRST AMENDMENT TO LOAN AGREEMENT

THIS FIRST AMENDMENT TO LOAN AGREEMENT (this "Amendment"), dated as of June 20, 2000, is between SOUTH HAMPTON REFINING CO., a Texas corporation ("Borrower"), and SOUTHWEST BANK OF TEXAS, N.A., a national banking association ("Lender").

RECITALS:

A. Borrower and Lender entered into that certain Loan Agreement dated as of September 30, 1999 (the "Agreement").

B. Borrower and Lender now desire to amend the Agreement as herein set forth.

NOW, THEREFORE, in consideration of the premises herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I.

Definitions

Section 1.1. Definitions. Capitalized terms used in this Amendment, to the extent not otherwise defined herein, shall have the meanings given to such terms in the Agreement, as amended hereby.

ARTICLE II.

Amendments

Section 2.1. Amendment to Certain Definitions. Effective as of date hereof, the definition of each of the following terms contained in Section 1.1 of the Agreement is amended to read in its respective entirety as follows:

> "Commitment" means the obligation of Lender to make Advances and issue Letters of Credit hereunder in an aggregate principal amount at any time outstanding up to but not exceeding $3,250,000.00.

Section 2.2. Amendment to Exhibits. Effective as of the date hereof, (a) Exhibit "A" (Note) to the Agreement is amended to conform in its entirety to Annex "A" to this Amendment, (b) Exhibit "C" (Guaranty) to the Agreement is amended to conform in its entirety to Annex "C" to this Amendment, (c) Exhibit "E" (Borrowing Base Certificate) to the Agreement is amended to conform in its entirety to Annex "D" to this Amendment and (d) Exhibit "G" (Arbitration Agreement) to the Agreement is amended to conform in its entirety to Annex "E" to this Amendment.

ARTICLE III.

Conditions Precedent

Section 3.1. Conditions. The effectiveness of this Amendment is subject to the receipt by Lender of the following in form and substance satisfactory to Lender:

> (a) Resolutions-Borrower. Resolutions of the Board of Directors of Borrower certified by its Secretary or an Assistant Secretary which authorize the execution, delivery and performance by Borrower of this Amendment and the other Loan Documents to which Borrower is or is to be a party hereunder.
>
> (b) Incumbency Certificate-Borrower. A certificate of incumbency certified by the Secretary or an Assistant Secretary of Borrower certifying the names and signatures of the officers of Borrower authorized to sign this Amendment and each of the other Loan

Documents to which Borrower is or is to be a party hereunder.

(c) Resolutions-Guarantor. Resolutions of the Board of Directors of Guarantor certified by its Secretary or an Assistant Secretary which authorize the execution, delivery and performance by Guarantor of the Guaranty and the other Loan Documents to which Guarantor is or is to be a party hereunder.

(d) Incumbency Certificate-Guarantor. A certificate of incumbency certified by the Secretary or an Assistant Secretary of Guarantor certifying the names and signatures of the officers of Guarantor authorized to sign the Guaranty and each of the other Loan Documents to which Guarantor is or is to be a party hereunder.

(e) Certificates of Existence and Good Standing. Certificates of the appropriate governmental officials regarding the existence and good standing (i) of Borrower in the state of Texas, and (ii) of Guarantor in the state of Texas.

(f) Note. The Note executed by Borrower.

(g) Amendment to Security Agreement. A First Amendment to Security Agreement executed by Borrower substantially in the form of Annex "B" hereto.

(h) Guaranty. The Guaranty executed by Guarantor.

(i) Additional Information. Such additional documents, instruments and information as Lender may request.

Section 3.2. Additional Conditions. The effectiveness of this Amendment is also subject to the satisfaction of the additional conditions precedent that (a) the representations and warranties contained herein and in all other Loan Documents, as amended hereby, shall be true and correct as of the date hereof as if made on the date hereof, (b) all proceedings, corporate or otherwise, taken in connection with the transactions contemplated by this Amendment and all documents, instruments and other legal matters incident thereto shall be satisfactory to Lender, and (c) no Event of Default shall have occurred and be continuing and no event or condition shall have occurred that with the giving of notice or lapse of time or both would be an Event of Default.

ARTICLE IV.

Ratifications, Representations, and Warranties

Section 4.1. Ratifications. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Agreement and except as expressly modified and superseded by this Amendment, the terms and provisions of the Agreement are ratified and confirmed and shall continue in full force and effect. Borrower and Lender agree that the Agreement as amended hereby shall continue to be the legal, valid and binding obligation of such Persons enforceable against such Persons in accordance with its terms.

Section 4.2. Representations, Warranties and Agreements. Borrower hereby represents and warrants to Lender that (a) the execution, delivery, and performance of this Amendment and any and all other Loan Documents executed or delivered in connection herewith have been authorized by all requisite action on the part of Borrower and will not violate the articles of incorporation or bylaws of Borrower, (b) the representations and warranties contained in the Agreement as amended hereby, and all other Loan Documents are true and correct on and as of the date hereof as though made on and as of the date hereof, (c) no Event of Default has occurred and is continuing and no event or condition has occurred that with the giving of notice or lapse of time or both would be an Event of Default, (d) Borrower is in full compliance with all covenants and agreements contained in the Agreement as amended hereby, (e) Borrower is indebted to Lender pursuant to the terms of the Note, as the same may have been renewed, modified, extended and rearranged, including, without

limitation, renewals, modifications and extensions made pursuant to this Amendment, (f) the liens, security interests, encumbrances and assignments created and evidenced by the Loan Documents are, respectively, valid and subsisting liens, security interests, encumbrances and assignments and secure the Note as the same may have been renewed, modified or rearranged, including, without limitation, renewals, modifications and extensions made pursuant to this Amendment, and (g) Borrower has no claims, credits, offsets, defenses or counterclaims arising from the Loan Documents or Lender's performance under the Loan Documents.

ARTICLE V.

Miscellaneous

Section 5.1. Survival of Representations and Warranties. All representations and warranties made in this Amendment or any other Loan Documents including any Loan Document furnished in connection with this Amendment shall fully survive the execution and delivery of this Amendment and the other Loan Documents, and no investigation by Lender or any closing shall affect the representations and warranties or the right of Lender to rely on them.

Section 5.2. Reference to Agreement. Each of the Loan Documents, including the Agreement and any and all other agreements, documents, or instruments now or hereafter executed and delivered pursuant to the terms hereof or pursuant to the terms of the Agreement, as amended hereby, are hereby amended so that any reference in such Loan Documents to the Agreement shall mean a reference to the Agreement, as amended hereby.

Section 5.3. Expenses of Lender. As provided in the Agreement, Borrower agrees to pay on demand all costs and expenses incurred by Lender in connection with the preparation, negotiation and execution of this Amendment and the other documents and instruments executed pursuant hereto and any and all amendments, modifications and supplements thereto, including, without limitation, the costs and fees of Lender's legal counsel, and all costs and expenses incurred by Lender in connection with the enforcement or preservation of any rights under the Agreement, as amended hereby, or any other Loan Document, including, without limitation, the costs and fees of Lender's legal counsel.

Section 5.4. Severability. Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

SECTION 5.5. APPLICABLE LAW. THIS AMENDMENT AND ALL OTHER LOAN DOCUMENTS EXECUTED PURSUANT HERETO SHALL BE DEEMED TO HAVE BEEN MADE

AND TO BE PERFORMABLE IN HOUSTON, HARRIS COUNTY, TEXAS AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.

Section 5.6. Successors and Assigns. This Amendment is binding upon and shall inure to the benefit of Lender and Borrower and their respective successors and assigns, except Borrower may not assign or transfer any of its rights or obligations hereunder without the prior written consent of Lender.

Section 5.7. Counterparts. This Amendment may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same instrument.

Section 5.8. Effect of Waiver. No consent or waiver, express or implied, by Lender to or for any breach of or deviation from any covenant, condition or duty by Borrower shall be deemed a consent or waiver to or of any other breach of the same or any other covenant, condition or duty.

Section 5.9. Headings. The headings, captions, and arrangements used

in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

Section 5.10. ENTIRE AGREEMENT. THIS AMENDMENT AND ALL OTHER INSTRUMENTS, DOCUMENTS, AND AGREEMENTS EXECUTED AND DELIVERED IN CONNECTION WITH THIS AMENDMENT EMBODY THE FINAL, ENTIRE AGREEMENT AMONG THE PARTIES HERETO WITH RESPECT TO THE SUBJECT MATTER HEREOF AND THEREOF AND SUPERSEDE ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THIS AMENDMENT AND THE OTHER INSTRUMENTS, DOCUMENTS AND AGREEMENTS EXECUTED AND DELIVERED IN CONNECTION WITH THIS AMENDMENT, AND MAY NOT BE CONTRADICTED OR VARIED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OF THE PARTIES HERETO. THERE ARE NO ORAL AGREEMENTS AMONG THE PARTIES HERETO.

Executed as of the date first written above.

BORROWER:

SOUTH HAMPTON REFINING CO.

By: /s/ NICK CARTER

Nick Carter
President

LENDER:

SOUTHWEST BANK OF TEXAS, N.A.

By: /s/ A. STEPHEN KENNEDY

A. Stephen Kennedy
Senior Vice President

LIST OF ANNEXES

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<CAPTION>

Annex	Document
<S>	<C>
A	Note
B	First Amendment to Security Agreement
C	Guaranty
D	Borrowing Base Certificate
E	Arbitration Agreement

</TABLE>

ANNEX "A"

Note

PROMISSORY NOTE

$3,250,000.00 Houston, Texas June 20, 2000

FOR VALUE RECEIVED, the undersigned, SOUTH HAMPTON REFINING CO., a Texas corporation ("Maker"), hereby promises to pay to the order of SOUTHWEST BANK OF TEXAS, N.A., a national banking association ("Payee"), at its offices at Five Post Oak Park, 4400 Post Oak Parkway, Houston, Harris County, Texas, or such other address as may be designated by Payee, in lawful money of the United States of America, the principal sum of THREE MILLION TWO HUNDRED FIFTY THOUSAND AND NO/100 DOLLARS ($3,250,000.00), or so much thereof as may be advanced and outstanding hereunder, together with interest on the outstanding principal balance from day to day remaining, at a varying rate per annum which shall from day to day be equal to the lesser of (a) the Maximum Rate (hereinafter defined) or (b) the Prime Rate (hereinafter defined) of Payee in effect from day to day plus one-half of one percent (.5O%), and each change in the rate of interest charged hereunder shall become effective, without notice to Maker, on the effective date of each change in the Prime Rate or the Maximum Rate, as the case may be; provided, however, if at any time the rate of interest specified in clause (b) preceding shall exceed the Maximum Rate, thereby causing the interest rate hereon to be limited to the Maximum Rate, then any subsequent reduction in the Prime Rate shall not reduce the rate of interest hereon below the Maximum Rate until the total amount of interest accrued hereon equals the amount of interest which would have accrued hereon if the rate specified in clause (b) preceding had at all times been in effect.

Principal of and interest on this Note shall be due and payable as follows:

(a) Accrued and unpaid interest on this Note shall be payable monthly, on the first (1st) day of each month commencing on July 1, 2000 and upon the maturity of this Note, however such maturity may be brought about; and

(b) All outstanding principal of this Note and all accrued interest thereon shall be due and payable on May 31, 2001.

Principal of this Note shall be subject to mandatory prepayment at the times described in the Agreement (hereinafter defined). If an Event of Default (hereinafter defined) has occurred and is existing, the principal hereof and any past due interest hereon shall bear interest at the Default Rate (hereinafter defined).

Interest on the indebtedness evidenced by this Note shall be computed on the basis of a year of 360 days and the actual number of days elapsed (including the first day but excluding the last day) unless such calculation would result in a usurious rate in which case interest shall be calculated on the basis of a year of 365 or 366 days, as the case may be.

As used in this Note, the following terms shall have the respective meanings indicated below:

"Agreement" means that certain Loan Agreement dated as of September 30, 1999 between Maker and Payee, as amended by First Amendment to Loan Agreement dated as of June 20, 2000, and as the same may be further amended or modified from time to time.

"Default Rate" means the lesser of (a) the sum of the Prime Rate plus five percent (5.O%), or (b) the Maximum Rate.

"Event of Default" shall have the meaning given to such term

in the Agreement.

"Maximum Rate" means the maximum rate of nonusurious interest permitted from day to day by applicable law, including Chapter 303 of the Texas Finance Code (the "Code") (and as the same may be incorporated by reference in other Texas statutes). To the extent that Chapter 303 of the Code is relevant to any holder of this Note for the purposes of determining the Maximum Rate, each such holder elects to determine such applicable legal rate pursuant to the "weekly ceiling," from time to time in effect, as referred to and defined in Chapter 303 of the Code; subject, however, to the limitations on such applicable ceiling referred to and defined in the Code, and further subject to any right such holder may have subsequently, under applicable law, to change the method of determining the Maximum Rate.

"Prime Rate" shall mean that variable rate of interest per annum established by Payee from time to time as its prime rate which shall vary from time to time. Such rate is set by Payee as a general reference rate of interest, taking into account such factors as Payee may deem appropriate, it being understood that many of Payee's commercial or other loans are priced in relation to such rate, that it is not necessarily the lowest or best rate charged to any customer and that Payee may make various commercial or other loans at rates of interest having no relationship to such rate.

This Note (a) is the Note provided for in the Agreement and (b) is secured as provided in the Agreement. Maker may prepay the principal of this Note upon the terms and conditions specified in the Agreement. Maker may borrow, repay, and reborrow hereunder upon the terms and conditions specified in the Agreement.

Notwithstanding anything to the contrary contained herein, no provisions of this Note shall require the payment or permit the collection of interest in excess of the Maximum Rate. If any excess of interest in such respect is herein provided for, or shall be adjudicated to be so provided, in this Note or otherwise in connection with this loan transaction, the provisions of this paragraph shall govern and prevail, and neither Maker nor the sureties, guarantors, successors or assigns of Maker shall be obligated to pay the excess amount of such interest,

or any other excess sum paid for the use, forbearance or detention of sums loaned pursuant hereto. If for any reason interest in excess of the Maximum Rate shall be deemed charged, required or permitted by any court of competent jurisdiction, any such excess shall be applied as a payment and reduction of the principal of indebtedness evidenced by this Note; and, if the principal amount hereof has been paid in full, any remaining excess shall forthwith be paid to Maker. In determining whether or not the interest paid or payable exceeds the Maximum Rate, Maker and Payee shall, to the extent permitted by applicable law, (a) characterize any non-principal payment as an expense, fee, or premium rather than as interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the entire contemplated term of the indebtedness evidenced by this Note so that the interest for the entire term does not exceed the Maximum Rate.

If default occurs in the payment of principal or interest under this Note, or upon the occurrence of any other Event of Default, as such term is defined in the Agreement, the holder hereof may, at its option, (a) declare the entire unpaid principal of and accrued interest on this Note immediately due and payable without notice, demand or presentment, all of which are hereby waived, and upon such declaration, the same shall become and shall be immediately due and payable, (b) foreclose or otherwise enforce all liens or security interests securing payment hereof, or any part hereof, (c) offset against this Note any sum or sums owed by the holder hereof to Maker and (d) take any and all other actions available to Payee under this Note, the Agreement, the Loan Documents (as such term is defined in the Agreement) at law, in equity or otherwise. Failure of the holder hereof to exercise any of the foregoing options shall not constitute a waiver of the right to exercise the same upon the occurrence of a subsequent Event of Default.

If the holder hereof expends any effort in any attempt to enforce payment of all or any part or installment of any sum due the holder hereunder,

or if this Note is placed in the hands of an attorney for collection, or if it is collected through any legal proceedings, Maker agrees to pay all costs, expenses, and fees incurred by the holder, including all reasonable attorneys' fees.

THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS AND THE APPLICABLE LAWS OF THE UNITED STATES OF AMERICA. THIS NOTE IS PERFORMABLE IN HARRIS COUNTY, TEXAS.

Maker and each surety, guarantor, endorser, and other party ever liable for payment of any sums of money payable on this Note jointly and severally waive notice, presentment, demand for payment, protest, notice of protest and non-payment or dishonor, notice of acceleration, notice of intent to accelerate, notice of intent to demand, diligence in collecting, grace, and all other formalities of any kind, and consent to all extensions without notice for any period or periods of time and partial payments, before or after maturity, and any impairment of any collateral securing this Note, all without prejudice to the holder. The holder shall similarly have the right to deal in any way, at anytime, with one or more of the foregoing parties without notice to any other party, and to grant any such party any extensions of time

for payment of any of said indebtedness, or to release or substitute part or all of the collateral securing this Note, or to grant any other indulgences or forbearances whatsoever, without notice to any other party and without in any way affecting the personal liability of any party hereunder.

This Note is in renewal and increase of, but not in discharge or novation of, that certain promissory note in the original principal amount of $2,250,000.00, dated September 30, 1999, executed by Maker and payable to the order of Payee.

SOUTH HAMPTON REFINING CO.

By: _____
Nick Carter
President

ANNEX "B"

First Amendment to Security Agreement

FIRST AMENDMENT TO SECURITY AGREEMENT

This FIRST AMENDMENT TO SECURITY AGREEMENT ("Amendment"), dated as of June 20, 2000, is between SOUTH HAMPTON REFINING CO., a Texas corporation ("Debtor") and SOUTHWEST BANK OF TEXAS, N.A., a national banking association ("Secured Party").

RECITALS:

WHEREAS, Debtor and Secured Party have entered into that certain Loan Agreement dated as of September 30, 1999, as amended by First Amendment to Loan Agreement dated as of June 20, 2000 (such Loan Agreement, as amended and as the same may be further amended from time to time is referred to as the "Loan Agreement").

WHEREAS, pursuant to the Loan Agreement Debtor executed that certain Security Agreement, dated as of September 30, 1999 (the "Security Agreement").

WHEREAS, the execution of this Amendment is a condition to Secured Party entering into the First Amendment to Loan Agreement referred to above.

NOW, THEREFORE, for good and valuable consideration the receipt and sufficiency of which are acknowledged and agreed, Debtor and Secured Party hereby agree as follows:

ARTICLE I.

Amendments

1. Amendment to Section 1.02(a). Effective as of the date hereof, Section 1.02(a) of the Security Agreement is amended to read in its entirety as follows:

> (a) the obligations and indebtedness of Debtor to Secured Party evidenced by that certain promissory note in the original principal amount of $3,250,000.00 dated June 20, 2000, executed by Debtor and payable to the order of Secured Party, which was executed in renewal and increase of that certain promissory note in the original principal amount of $2,250,000.00 dated September 30, 1999, executed by Debtor and payable to the order of Secured Party;

ARTICLE II.

Additional Provisions

1. Acknowledgment by Debtor. Except as otherwise specified herein, the terms and provisions hereof shall in no manner impair, limit, restrict or otherwise affect the obligations of Debtor or any third party to Secured Party under any Loan Document (as defined in the Loan Agreement).

2. Additional Documentation. From time to time, Debtor shall execute or procure and deliver to Secured Party such other and further documents and instruments evidencing, securing or pertaining to the Security Agreement or the other Loan Documents as shall be reasonably requested by Secured Party so as to evidence or effect the terms and provisions hereof.

3. Continued Effectiveness. Except as expressly modified by the terms and provisions hereof, each of the terms and provisions of the Security Agreement and the other Loan Documents are hereby ratified and confirmed, and shall remain in full force and effect. The liens and security interests created by the Security Agreement remain in full force and effect.

4. Governing Law. THE TERMS AND PROVISIONS HEREOF SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.

5. Binding Agreement. This Amendment shall be binding upon the heirs, executors, administrators, personal representatives, successors and assigns of the parties hereto.

6. Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be deemed an original and all of which together shall be construed as one and the same instrument.

7. No Oral Agreements. This Amendment, the Loan Agreement and the other Loan Documents embody the final, entire agreement among the parties hereto. There are no oral agreements among the parties hereto.

EXECUTED as of the date first above written.

DEBTOR:

SOUTH HAMPTON REFINING CO.

By:

Nick Carter
President

SECURED PARTY:

SOUTHWEST BANK OF TEXAS, NA.

By:

A. Stephen Kennedy
Vice President

ANNEX "C"

Guaranty

GUARANTY AGREEMENT

WHEREAS, the execution of this Guaranty Agreement is a condition to SOUTHWEST BANK OF TEXAS, N.A., a national banking association ("Lender") making certain loans to SOUTH HAMPTON REFINING CO., a Texas corporation ("Borrower"), pursuant to that certain Loan Agreement dated as of September 30, 1999, between Borrower and Lender, as amended by First Amendment to Loan Agreement dated as of June 20, 2000 (such Loan Agreement, as amended and as it may hereafter be further amended or modified from time to time, is hereinafter referred to as the "Loan Agreement");

NOW, THEREFORE, for valuable consideration, the receipt and adequacy of which are hereby acknowledged, the undersigned, TEXAS OIL & CHEMICAL CO. II, INC., a Texas corporation (the "Guarantor"), hereby irrevocably and unconditionally guarantees to Lender the full and prompt payment and performance of the Guaranteed Indebtedness (hereinafter defined). This Guaranty Agreement shall be upon the following terms:

1. The term "Guaranteed Indebtedness", as used herein means all of the "Obligations", as defined in the Loan Agreement. The term "Guaranteed Indebtedness" shall include any and all post-petition interest and expenses (including attorneys' fees) whether or not allowed under any bankruptcy, insolvency, or other similar law. As of the date of this Guaranty Agreement, the Obligations include, but are not limited to, that certain promissory note in the original principal amount of $3,250,000.00, dated as of July 20, 2000, executed by Borrower and payable to the order of Lender, and all renewals, extensions and modifications thereof.

2. This instrument shall be an absolute, continuing, irrevocable, and unconditional guaranty of payment and performance, and not a guaranty of collection, and Guarantor shall remain liable on its obligations hereunder until the payment and performance in full of the Guaranteed Indebtedness. No set-off, counterclaim, recoupment, reduction, or diminution of any obligation, or any defense of any kind or nature which Borrower may have against Lender or any other party, or which Guarantor may have against Borrower, Lender, or any other party, shall be available to, or shall be asserted by, Guarantor against Lender or any subsequent holder of the Guaranteed Indebtedness or any part thereof or against payment of the Guaranteed Indebtedness or any part thereof.

3. If Guarantor becomes liable for any indebtedness owing by Borrower to Lender by endorsement or otherwise, other than under this Guaranty Agreement, such liability shall not be in any manner impaired or affected hereby, and the rights of Lender hereunder shall be cumulative of any and all other rights that Lender may ever have against Guarantor. The exercise by Lender of any right or remedy hereunder or under any other instrument, or at law or in equity, shall not preclude the concurrent or subsequent exercise of any other right or remedy.

4. In the event of default by Borrower in payment or performance of the Guaranteed Indebtedness, or any part thereof, when such Guaranteed Indebtedness becomes due, whether by its terms, by acceleration, or otherwise, Guarantor shall promptly pay the amount due thereon to Lender without notice or demand in lawful currency of the United States of America and it shall not be necessary for Lender, in order to enforce such payment by Guarantor, first to institute suit or exhaust its remedies against Borrower or others liable on such Guaranteed Indebtedness, or to enforce any rights against any collateral which shall ever have been given to secure such Guaranteed Indebtedness. Until the Guaranteed Indebtedness is paid in full and a period of ninety (90) days has passed following such payment, Guarantor waives any and all rights it may now or hereafter have under any agreement or at law or in equity (including, without limitation, any law subrogating the Guarantor to the rights of Lender) to assert any claim against or seek contribution, indemnification or any other form of reimbursement from Borrower or any other party liable for payment of any or all of the Guaranteed Indebtedness for any payment made by Guarantor under or in connection with this Guaranty Agreement or otherwise.

5. If acceleration of the time for payment of any amount payable by Borrower under the Guaranteed Indebtedness is stayed upon the insolvency, bankruptcy, or reorganization of Borrower, all such amounts otherwise subject to acceleration under the terms of the Guaranteed Indebtedness shall nonetheless be payable by Guarantor hereunder forthwith on demand by Lender.

6. Guarantor hereby agrees that its obligations under this Guaranty Agreement shall not be released, discharged, diminished, impaired, reduced, or affected for any reason or by the occurrence of any event, including, without limitation, one or more of the following events, whether or not with notice to or the consent of Guarantor: (a) the taking or accepting of collateral as security for any or all of the Guaranteed Indebtedness or the release, surrender, exchange, or subordination of any collateral now or hereafter securing any or all of the Guaranteed Indebtedness; (b) any partial release of the liability of Guarantor hereunder, or the full or partial release of any other guarantor from liability for any or all of the Guaranteed Indebtedness; (c) any disability of Borrower, or the dissolution, insolvency, or bankruptcy of Borrower, Guarantor, or any other party at any time liable for the payment of any or all of the Guaranteed Indebtedness; (d) any renewal, extension, modification, waiver, amendment, or rearrangement of any or all of the Guaranteed Indebtedness or any instrument, document, or agreement evidencing, securing, or otherwise relating to any or all of the Guaranteed Indebtedness; (e) any adjustment, indulgence, forbearance, waiver, or compromise that may be granted or given by Lender to Borrower, Guarantor, or any other party ever liable for any or all of the Guaranteed Indebtedness; (f) any neglect, delay, omission, failure, or refusal of Lender to take or prosecute any action for the collection of any of the Guaranteed Indebtedness or to foreclose or take or prosecute any action in connection with any instrument, document, or agreement evidencing, securing, or otherwise relating to any or all of the Guaranteed Indebtedness; (g) the unenforceability or invalidity of any or all of the Guaranteed Indebtedness or of any instrument, document, or agreement evidencing, securing,

or otherwise relating to any or all of the Guaranteed Indebtedness; (h) any payment by Borrower or any other party to Lender is held to constitute a preference under applicable bankruptcy or insolvency law or if for any other reason Lender is required to refund any payment or pay the amount thereof to someone else (i) the settlement or compromise of any of the Guaranteed Indebtedness; (j) the non-perfection of any security interest or lien securing any or all of the Guaranteed Indebtedness; (k) any impairment of any collateral securing any or all of the Guaranteed Indebtedness; (1) the failure of Lender to sell any collateral securing any or all of the Guaranteed Indebtedness in a commercially reasonable manner or as otherwise required by law; (m) any change in the corporate existence, structure, or ownership of Borrower; or (n) any other circumstance which might otherwise constitute a defense available to, or discharge of, Borrower or Guarantor.

7. Guarantor represents and warrants to Lender as follows:

(a) Guarantor is a corporation duly organized, validly existing and in good standing under the laws of the state of its incorporation, is qualified to do business in all jurisdictions in which the nature of the business conducted by it makes such

qualification necessary and where failure to so qualify would have a material adverse effect on its business, financial condition, or operations.

(b) Guarantor has the corporate power, authority and legal right to execute, deliver, and perform its obligations under this Guaranty Agreement and this Guaranty Agreement constitutes the legal, valid, and binding obligation of Guarantor, enforceable against Guarantor in accordance with its respective terms, except as limited by bankruptcy, insolvency, or other laws of general application relating to the enforcement of creditor's rights.

(c) The execution, delivery, and performance by Guarantor of this Guaranty Agreement have been duly authorized by all requisite action on the part of Guarantor and do not and will not violate or conflict with the articles of incorporation or bylaws of Guarantor or any law, rule, or regulation or any order, writ, injunction or decree of any court, governmental authority or agency, or arbitrator and do not and will not conflict with, result in a breach of, or constitute a default under, or result in the imposition of any lien upon any assets of Guarantor pursuant to the provisions of any indenture, mortgage, deed of trust, security agreement, franchise, permit, license, or other instrument or agreement to which Guarantor or its properties is bound.

(d) No authorization, approval, or consent of, and no filing or registration with, any court, governmental authority, or third party is necessary for the execution, delivery or performance by Guarantor of this Guaranty Agreement or the validity or enforceability thereof.

(e) The value of the consideration received and to be received by Guarantor as a result of Borrower and Lender entering into the Loan Agreement and Guarantor executing and delivering this Guaranty Agreement is reasonably worth at least as much as the liability and obligation of Guarantor hereunder, and such liability and obligation and the Loan Agreement have benefitted and may reasonably be expected to benefit Guarantor directly or indirectly.

8. Guarantor covenants and agrees that, as long as the Guaranteed Indebtedness or any part thereof is outstanding or Lender has any commitment under the Loan Agreement:

(a) Guarantor will deliver to Lender the financial statements of Guarantor described in the Loan Agreement at the times required by the Loan Agreement.

(b) Guarantor will furnish promptly to Lender written notice of the occurrence of any default under this Guaranty Agreement or an Event of Default under the Loan Agreement of which Guarantor has knowledge.

(c) Guarantor will furnish promptly to Lender such additional information concerning Guarantor as Lender may request.

(d) Guarantor will maintain the covenants contained in Article IX of the Loan Agreement.

9. Upon the occurrence of an Event of Default (as defined in the Loan Agreement) Lender shall have the right to set off and apply against this Guaranty Agreement or the Guaranteed Indebtedness or both, at any time and without notice to Guarantor, any and all deposits (general or special, time or demand, provisional or final) or other sums at any time credited by or owing from Lender to Guarantor whether or not the Guaranteed Indebtedness is then due and irrespective of whether or not Lender shall have made any demand under this Guaranty Agreement. In addition to Lender's right of setoff and as further security for this Guaranty Agreement and the Guaranteed Indebtedness, Guarantor hereby grants Lender a security interest in all deposits (general or special, time or demand, provisional or final) and all other accounts of Guarantor now or hereafter on deposit with or held by Lender and all other sums at any time credited by or owing from Lender to Guarantor. The rights and remedies of Lender hereunder are in addition to other rights and remedies (including, without limitation, other rights of setoff) which Lender may have.

10. No amendment or waiver of any provision of this Guaranty Agreement

or consent to any departure by the Guarantor therefrom shall in any event be effective unless the same shall be in writing and signed by Lender. No failure on the part of Lender to exercise, and no delay in exercising, any right, power, or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power, or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power, or

privilege. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

11. This Guaranty Agreement is for the benefit of Lender and its successors and assigns, and in the event of an assignment of the Guaranteed Indebtedness, or any part thereof, the rights and benefits hereunder, to the extent applicable to the indebtedness so assigned, may be transferred with such indebtedness. This Guaranty Agreement is binding not only on Guarantor, but on Guarantor's successors and assigns.

12. Guarantor recognizes that Lender is relying upon this Guaranty Agreement and the undertakings of Guarantor hereunder in making extensions of credit to Borrower under the Loan Agreement and further recognizes that the execution and delivery of this Guaranty Agreement is a material inducement to Lender in entering into the Loan Agreement. Guarantor hereby acknowledges that there are no conditions to the full effectiveness of this Guaranty Agreement.

13. This Guaranty Agreement is executed and delivered as an incident to a lending transaction negotiated, consummated, and performable in Harris County, Texas, and shall be governed by and construed in accordance with the laws of the State of Texas. Except as provided in the Arbitration Agreement among Borrower, Guarantor, Lender and others (the "Arbitration Agreement"), any action or proceeding against Guarantor under or in connection with this Guaranty Agreement may be brought in any state or federal court in Harris County, Texas, and Guarantor hereby irrevocably submits to the nonexclusive jurisdiction of such courts, and waives any objection it may now or hereafter have as to the venue of any such action or proceeding brought in such court. Guarantor agrees that service of process upon it may be made by certified or registered mail, return receipt requested, at its address specified in the Loan Agreement. Except as provided in the Arbitration Agreement, nothing herein shall affect the right of Lender to serve process in any other matter permitted by law or shall limit the right of Lender to bring any action or proceeding against Guarantor or with respect to any of Guarantor's property in courts in other jurisdictions. Except as provided in the Arbitration Agreement, any action or proceeding by Guarantor against Lender shall be brought only in a court located in Harris County, Texas.

14. Guarantor shall pay on demand all attorneys' fees and all other costs and expenses incurred by Lender in connection with the preparation, administration, enforcement, or collection of this Guaranty Agreement.

15. Guarantor hereby waives promptness, diligence, notice of any default under the Guaranteed Indebtedness, demand of payment, notice of acceptance of this Guaranty Agreement, presentment, notice of protest, notice of dishonor, notice of the incurring by Borrower of additional indebtedness, and all other notices and demands with respect to the Guaranteed Indebtedness and this Guaranty Agreement.

16. The Loan Agreement, and all of the terms thereof, are incorporated herein by reference, the same as if stated verbatim herein, and Guarantor agrees that Lender may exercise any and all rights granted to it under the Loan Agreement and the other Loan Documents (as defined in the Loan Agreement) without affecting the validity or enforceability of this Guaranty Agreement. Any notices given hereunder shall be given in the manner provided by and to the addresses set forth in the Loan Agreement.

17. Guarantor hereby represents and warrants to Lender that Guarantor has adequate means to obtain from Borrower on a continuing basis information concerning the financial condition and assets of Borrower and that Guarantor is not relying upon Lender to provide (and Lender shall have no duty to provide) any such information to Guarantor either now or in the future.

18. THIS GUARANTY AGREEMENT EMBODIES THE FINAL, ENTIRE AGREEMENT OF GUARANTOR AND LENDER WITH RESPECT TO GUARANTOR'S GUARANTY OF THE GUARANTEED INDEBTEDNESS AND SUPERSEDES ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS, AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THE

SUBJECT MATTER HEREOF AND MAY NOT BE CONTRADICTED OR VARIED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OR OTHER EXTRINSIC EVIDENCE OF ANY NATURE. THERE ARE NO ORAL AGREEMENTS BETWEEN GUARANTOR AND LENDER. THIS GUARANTY AGREEMENT MAY NOT BE AMENDED EXCEPT IN WRITING BY GUARANTOR AND LENDER.

DATED AND EXECUTED as of July 20, 2000.

GUARANTOR:

TEXAS OIL & CHEMICAL CO. II, INC.

By: _____
Nick Carter
President

ANNEX "D"

Borrowing Base Certificate

BORROWING BASE CERTIFICATE

TO: Southwest Bank of Texas, N.A.
Five Post Oak Park
4400 Post Oak Parkway
Houston, Texas 77027
Attention: A. Stephen Kennedy

Ladies and Gentlemen:

The undersigned is an authorized representative of SOUTH HAMPTON REFINING CO. (the "Borrower"), and is authorized to make and deliver this certificate pursuant to that certain Loan Agreement dated as of September 30, 1999 between the Borrower and Southwest Bank of Texas, N.A. (the "Lender"), as amended by First Amendment to Loan Agreement dated as of June 20, 2000. (Such Loan Agreement, as amended and as it may be further amended is referred to as the "Loan Agreement"). All terms defined in the Loan Agreement shall have the same meaning herein.

Pursuant to the terms and provisions of the Loan Agreement, the undersigned hereby certifies that the following statements and information are true, complete and correct:

(a) The representations and warranties contained in Article VI of the Loan Agreement and in each of the other Loan Documents are true and correct on and as of the date hereof with the same force and effect as if made on and as of such date.

(b) No Event of Default has occurred and is continuing, and no event has occurred and is continuing that, with the giving of notice or lapse of time or both, would be an Event of Default. Borrower acknowledges that if an Event of Default exists Lender is not obligated to fund any request for an Advance.

(c) Since the date of the financial statements of Borrower most recently delivered to Lender pursuant to the Loan Agreement, there has been no Material Adverse Effect.

(d) The amount of the outstanding Advances does not exceed the lesser of (i) the Borrowing Base minus the outstanding Letter of Credit Liabilities or (ii) the Commitment minus the outstanding Letter of Credit Liabilities.

(e) The total Eligible Accounts and Eligible Inventory referred to below represent the Eligible Accounts and Eligible Inventory that qualifies for purposes of determining the Borrowing Base under the Loan Agreement. Borrower represents and

warrants that the information and calculations set forth below regarding the Eligible Accounts and Eligible Inventory and the Borrowing Base are true and correct in all material respects.

<TABLE>
<CAPTION>
Calculation of Borrowing Base

<S>			<C>
1.	Total Accounts		$
2.	Ineligible Accounts		
	(a)	more than 90 days past invoice date	$
	(b)	accounts from officers, employees subsidiaries or affiliates	$
	(c)	conditional accounts	$
	(d)	foreign accounts	$
	(e)	accounts subject to dispute, counterclaim, setoff or retainage	$
	(f)	pre-billings or unearned income	$
	(g)	accounts of insolvent or bankrupt account debtors	$
	(h)	accounts of U.S. government	$
	(i)	terms in excess of 30 days past invoice date	$
	(j)	more than 20% over 89 days	$
	(k)	more than 20% concentration	$
	Total		$
3.	Eligible Accounts [line (1) minus line (2)]		$
4.	80% of line (3)		$
5.	Eligible Inventory		$
6.	50% of line (5)		$
7.	Lesser of line (6) or $750,000.00		$
8.	Borrowing Base [sum of line (4) plus line(7)]		$
9.	Commitment		$3,250,000.00

</TABLE>

<TABLE>

<S>		<C>
10.	Lesser of line (8) or line (9)	$
11.	Amount of outstanding Advances	$
12.	Letter of Credit Liabilities	$

13.	Sum of line (11) plus line (12)	$
14.	Available Amount [line (10) minus line (13)]	$

</TABLE>

(f) Attached hereto as Schedule 1 is a list of Borrower's accounts receivable, designating Eligible Accounts, and showing all accounts receivable by customer name, the amount owing to Borrower and the age of each receivable.

(g) Attached hereto as Schedule 2 is a list of Borrower's inventory, designating Eligible Inventory and showing all inventory by product type, volume and value.

Date: _____

BORROWER:

SOUTH HAMPTON REFINING CO.

By: _____

Name: _____

Title: _____

Schedule 1 - List of Accounts Receivable

Schedule 2 - List of Eligible Inventory

ANNEX "E"

Arbitration Agreement

ARBITRATION AGREEMENT

Re: Loan in the principal amount of $3,250,000.00 dated June 20, 2000, from SOUTHWEST BANK OF TEXAS, N.A. to SOUTH HAMPTON REFINING CO., and all renewals, increases, extensions, modifications and substitutions thereof.

In consideration of the premises and the mutual agreements herein, the undersigned agree as follows:

Binding Arbitration. Notwithstanding any provision in any Documents (defined below) to the contrary, upon the request of any of the undersigned (collectively called the "parties" and individually called a "party"), whether made before or after the institution of any legal proceeding, any action, dispute, claim or controversy of any kind (for example, whether in contract or in tort, under statutory or common law, or legal or equitable) now existing or hereafter arising between or among the parties in any way arising out of, pertaining to or in connection with (1) the referenced Loan, any related agreements, documents, or instruments (collectively, the "Documents") or any transaction contemplated thereby, before or after maturity, or (2) any aspect of the past or present relationships of the parties to the Documents shall be resolved by mandatory and binding arbitration in accordance with the terms of this Arbitration Agreement.

The occurrence of any of the foregoing matters shall be referred to as a "Dispute." Any party to this Arbitration Agreement may bring by summary proceedings (for example, a plea in abatement or motion to stay further proceedings) an action in court to compel arbitration of any Dispute.

Governing Rules. Notwithstanding any provision in any Documents to the contrary, all Disputes between the parties shall be resolved by mandatory and binding arbitration administered by the American Arbitration Association (the "AAA") pursuant to the Federal Arbitration Act (Title 9 of the United States Code) in accordance with this Arbitration Agreement and the Commercial Arbitration Rules of the AAA. If Title 9 of the United States Code is inapplicable to any such claim or controversy for any reason, such arbitration shall be conducted pursuant to the Texas General Arbitration Act and in accordance with this Arbitration Agreement and the Commercial Arbitration Rules of the AAA. To the extent that any inconsistency exists between this Arbitration Agreement and such statutes and rules, this Arbitration Agreement shall control. Judgment upon the award rendered by the arbitrators may be entered in and enforced by any court having jurisdiction and in accordance with the practice of such court; provided, however, that nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. Section 91, Texas Banking Code art. 342-609 or 342-705, or any other protection provided banks by the laws of Texas or the United States.

No Waiver; Preservation of Remedies. No provision of, nor the exercise of any rights under, this Arbitration Agreement shall limit the right of any party to employ other remedies, including, without limitation, (1) foreclosing against any real or personal property collateral or other security by the exercise of a power of sale under a deed of trust, mortgage, or other security agreement or instrument, or applicable law, (2) exercising self-help remedies (including without limitation set-off rights), or (3) obtaining provisional or ancillary remedies such as, without limitation, injunctive relief, sequestration, attachment, garnishment, or the appointment of a receiver from a court having jurisdiction before, during, or after the pendency of any arbitration. The institution and maintenance of an action for judicial relief, pursuit of provisional or ancillary remedies, or exercise of self-help remedies shall not constitute a waiver of the right of any party, including without limitation, the plaintiff, to submit any Dispute to arbitration nor render inapplicable the compulsory arbitration provisions hereof.

In Disputes involving indebtedness or other monetary obligations, each party agrees that the other party may proceed against all liable persons, jointly and severally, or against one or more of them, being less than all, without impairing rights against other liable persons. Nor shall a party be required to join any principal obligor or any other liable persons (including, without limitation, sureties or guarantors) in any proceeding against a particular person. A party may release or settle with one or more liable persons as the party deems fit without releasing or impairing rights to proceed against any persons not so released.

Arbitration Proceeding. All statutes of limitation that would otherwise be applicable shall apply to any arbitration proceeding. Any attorney-client privilege and other protection against disclosure of confidential information, including, without limitation, any protection afforded the work product of any attorney, that could otherwise be claimed by any party shall be available to and may be claimed by any such party in any arbitration proceeding. No party waives any attorney-client privilege or any other protection against disclosure of confidential information by reason of anything contained in or done pursuant to or in connection with this Arbitration Agreement. Any arbitration proceeding shall be conducted in Harris County, Texas by a panel of three arbitrators each having substantial experience and recognized expertise in the field or fields of the matter(s) in dispute.

Other Matters. This Arbitration Agreement constitutes the entire agreement of the parties with respect to its subject matter and supersedes all prior discussions, arrangements, negotiations, and other communications on dispute resolution. The provisions of this Arbitration Agreement shall survive any termination, amendment or expiration of the Documents unless the parties otherwise expressly agree in writing. This Arbitration Agreement may be amended, changed or modified only by the express provisions of a writing which specifically refers to this Arbitration Agreement and which is signed by all parties. If any provision of this Arbitration Agreement shall be unenforceable, unlawful or invalid in any respect, then such provision shall be deemed severable from the remaining provisions and the enforceability, lawfulness and validity of the remaining provisions will not be affected or impaired. This Arbitration

PROMISSORY NOTE

$3,250,000.00 Houston, Texas June 20, 2000

FOR VALUE RECEIVED, the undersigned, SOUTH HAMPTON REFINING CO., a Texas corporation ("Maker"), hereby promises to pay to the order of SOUTHWEST BANK OF TEXAS, N.A., a national banking association ("Payee"), at its offices at Five Post Oak Park, 4400 Post Oak Parkway, Houston, Harris County, Texas, or such other address as may be designated by Payee, in lawful money of the United States of America, the principal sum of THREE MILLION TWO HUNDRED FIFTY THOUSAND AND NO/100 DOLLARS ($3,250,000.00), or so much thereof as may be advanced and outstanding hereunder, together with interest on the outstanding principal balance from day to day remaining, at a varying rate per annum which shall from day to day be equal to the lesser of (a) the Maximum Rate (hereinafter defined) or (b) the Prime Rate (hereinafter defined) of Payee in effect from day to day plus one-half of one percent (50%), and each change in the rate of interest charged hereunder shall become effective, without notice to Maker, on the effective date of each change in the Prime Rate or the Maximum Rate, as the case may be; provided, however, if at any time the rate of interest specified in clause (b) preceding shall exceed the Maximum Rate, thereby causing the interest rate hereon to be limited to the Maximum Rate, then any subsequent reduction in the Prime Rate shall not reduce the rate of interest hereon below the Maximum Rate until the total amount of interest accrued hereon equals the amount of interest which would have accrued hereon if the rate specified in clause (b) preceding had at all times been in effect.

Principal of and interest on this Note shall be due and payable as follows:

(a) Accrued and unpaid interest on this Note shall be payable monthly, on the first (1st) day of each month commencing on July 1, 2000 and upon the maturity of this Note, however such maturity may be brought about; and

(b) All outstanding principal of this Note and all accrued interest thereon shall be due and payable on May 31, 2001.

Principal of this Note shall be subject to mandatory prepayment at the times described in the Agreement (hereinafter defined). If an Event of Default (hereinafter defined) has occurred and is existing, the principal hereof and any past due interest hereon shall bear interest at the Default Rate (hereinafter defined).

Interest on the indebtedness evidenced by this Note shall be computed on the basis of a year of 360 days and the actual number of days elapsed (including the first day but excluding the last day) unless such calculation would result in a usurious rate in which case interest shall be calculated on the basis of a year of 365 or 366 days, as the case may be.

As used in this Note, the following terms shall have the respective meanings indicated below:

"Agreement" means that certain Loan Agreement dated as of September 30, 1999 between Maker and Payee, as amended by First Amendment to Loan Agreement dated as of June 20, 2000, and as the same may be further amended or modified from time to time.

"Default Rate" means the lesser of (a) the sum of the Prime Rate plus five percent (5.0%), or (b) the Maximum Rate.

"Event of Default" shall have the meaning given to such term in the Agreement.

"Maximum Rate" means the maximum rate of nonusurious interest permitted from day to day by applicable law, including Chapter 303 of the Texas Finance Code (the "Code") (and as the same may be incorporated by reference in other Texas statutes). To the extent that Chapter 303 of the Code is relevant to any holder of this Note for the purposes of determining the Maximum Rate, each such holder elects to determine such applicable legal rate pursuant to the "weekly ceiling," from time to time in effect, as referred to and defined in Chapter 303 of the Code; subject, however, to the limitations on such applicable ceiling referred to and defined in the Code, and further subject to any right such holder may have subsequently, under applicable law, to

change the method of determining the Maximum Rate.

"Prime Rate" shall mean that variable rate of interest per annum established by Payee from time to time as its prime rate which shall vary from time to time. Such rate is set by Payee as a general reference rate of interest, taking into account such factors as Payee may deem appropriate, it being understood that many of Payee's commercial or other loans are priced in relation to such rate, that it is not necessarily the lowest or best rate charged to any customer and that Payee may make various commercial or other loans at rates of interest having no relationship to such rate.

This Note (a) is the Note provided for in the Agreement and (b) is secured as provided in the Agreement. Maker may prepay the principal of this Note upon the terms and conditions specified in the Agreement. Maker may borrow, repay, and reborrow hereunder upon the terms and conditions specified in the Agreement.

Notwithstanding anything to the contrary contained herein, no provisions of this Note shall require the payment or permit the collection of interest in excess of the Maximum Rate. If any excess of interest in such respect is herein provided for, or shall be adjudicated to be so provided, in this Note or otherwise in connection with this loan transaction, the provisions of this paragraph shall govern and prevail, and neither Maker nor the sureties, guarantors, successors or assigns of Maker shall be obligated to pay the excess amount of such interest,

or any other excess sum paid for the use, forbearance or detention of sums loaned pursuant hereto. If for any reason interest in excess of the Maximum Rate shall be deemed charged, required or permitted by any court of competent jurisdiction, any such excess shall be applied as a payment and reduction of the principal of indebtedness evidenced by this Note; and, if the principal amount hereof has been paid in full, any remaining excess shall forthwith be paid to Maker. In determining whether or not the interest paid or payable exceeds the Maximum Rate, Maker and Payee shall, to the extent permitted by applicable law, (a) characterize any non-principal payment as an expense, fee, or premium rather than as interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the entire contemplated term of the indebtedness evidenced by this Note so that the interest for the entire term does not exceed the Maximum Rate.

If default occurs in the payment of principal or interest under this Note, or upon the occurrence of any other Event of Default, as such term is defined in the Agreement, the holder hereof may, at its option, (a) declare the entire unpaid principal of and accrued interest on this Note immediately due and payable without notice, demand or presentment, all of which are hereby waived, and upon such declaration, the same shall become and shall be immediately due and payable, (b) foreclose or otherwise enforce all liens or security interests securing payment hereof, or any part hereof, (c) offset against this Note any sum or sums owed by the holder hereof to Maker and (d) take any and all other actions available to Payee under this Note, the Agreement, the Loan Documents (as such term is defined in the Agreement) at law; in equity or otherwise. Failure of the holder hereof to exercise any of the foregoing options shall not constitute a waiver of the right to exercise the same upon the occurrence of a subsequent Event of Default.

If the holder hereof expends any effort in any attempt to enforce payment of all or any part or installment of any sum due the holder hereunder, or if this Note is placed in the hands of an attorney for collection, or if it is collected through any legal proceedings, Maker agrees to pay all costs, expenses, and fees incurred by the holder, including all reasonable attorneys fees.

THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS AND THE APPLICABLE LAWS OF THE UNITED STATES OF AMERICA. THIS NOTE IS PERFORMABLE IN HARRIS COUNTY, TEXAS.

Maker and each surety, guarantor, endorser, and other party ever liable for payment of any sums of money payable on this Note jointly and severally waive notice, presentment, demand for payment, protest, notice of protest and non-payment or dishonor, notice of acceleration, notice of intent to accelerate, notice of intent to demand, diligence in collecting, grace, and all other formalities of any kind, and consent to all extensions without notice for any period or periods of time and partial payments, before or after maturity,

and any impairment of any collateral securing this Note, all without prejudice to the holder. The holder shall similarly have the right to deal in anyway, at any time, with one or more of the foregoing parties without notice to any other party, and to grant any such party any extensions of time

for payment of any of said indebtedness, or to release or substitute part or all of the collateral securing this Note, or to grant any other indulgences or forbearances whatsoever, without notice to any other party and without in any way affecting the personal liability of any party hereunder.

This Note is in renewal and increase of, but not in discharge or novation of, that certain promissory note in the original principal amount of $2,250,000.00, dated September 30, 1999, executed by Maker and payable to the order of Payee.

SOUTH HAMPTON REFINING CO.

By: /s/ NICK CARTER

Nick Carter
President

FIRST AMENDMENT TO SECURITY AGREEMENT

This FIRST AMENDMENT TO SECURITY AGREEMENT ("Amendment"), dated as of June 20, 2000, is between SOUTH HAMPTON REFINING CO., a Texas corporation ("Debtor") and SOUTHWEST BANK OF TEXAS, N.A., a national banking association ("Secured Party").

RECITALS:

WHEREAS, Debtor and Secured Party have entered into that certain Loan Agreement dated as of September 30, 1999, as amended by First Amendment to Loan Agreement dated as of June 20, 2000 (such Loan Agreement, as amended and as the same may be further amended from time to time is referred to as the "Loan Agreement").

WHEREAS, pursuant to the Loan Agreement Debtor executed that certain Security Agreement, dated as of September 30, 1999 (the "Security Agreement").

WHEREAS, the execution of this Amendment is a condition to Secured Party entering into the First Amendment to Loan Agreement referred to above.

NOW, THEREFORE, for good and valuable consideration the receipt and sufficiency of which are acknowledged and agreed, Debtor and Secured Party hereby agree as follows:

ARTICLE I.

Amendments

1. Amendment to Section 1.02(a). Effective as of the date hereof, Section 1.02(a) of the Security Agreement is amended to read in its entirety as follows:

> (a) the obligations and indebtedness of Debtor to Secured Party evidenced by that certain promissory note in the original principal amount of $3,250,000.00 dated June 20, 2000, executed by Debtor and payable to the order of Secured Party, which was executed in renewal and increase of that certain promissory note in the original principal amount of $2,250,000.00 dated September 30, 1999, executed by Debtor and payable to the order of Secured Party;

ARTICLE II.

Additional Provisions

1. Acknowledgment by Debtor. Except as otherwise specified herein, the terms and provisions hereof shall in no manner impair, limit, restrict or otherwise affect the obligations of Debtor or any third party to Secured Party under any Loan Document (as defined in the Loan Agreement).

2. Additional Documentation. From time to time, Debtor shall execute or procure and deliver to Secured Party such other and further documents and instruments evidencing, securing or pertaining to the Security Agreement or the other Loan Documents as shall be reasonably requested by Secured Party so as to evidence or effect the terms and provisions hereof.

3. Continued Effectiveness. Except as expressly modified by the terms and provisions hereof, each of the terms and provisions of the Security Agreement and the other Loan Documents are hereby ratified and confirmed, and shall remain in full force and effect. The liens and security interests created by the Security Agreement remain in full force and effect.

4. Governing Law. THE TERMS AND PROVISIONS HEREOF SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.

5. Binding Agreement. This Amendment shall be binding upon the heirs, executors, administrators, personal representatives, successors and assigns of the parties hereto.

6. Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be deemed an original and all of which together shall be construed as one and the same instrument.

7. No Oral Agreements. This Amendment, the Loan Agreement and the other Loan Documents embody the final, entire agreement among the parties hereto. There are no oral agreements among the parties hereto.

EXECUTED as of the date first above written.

DEBTOR:

SOUTH HAMPTON REFINING CO.

By: /s/ NICK CARTER

Nick Carter
President

SECURED PARTY:

SOUTHWEST BANK OF TEXAS, N.A.

By: /s/ A. STEPHEN KENNEDY

A. Stephen Kennedy
Senior Vice President

GUARANTY AGREEMENT

WHEREAS, the execution of this Guaranty Agreement is a condition to SOUTHWEST BANK OF TEXAS, N.A., a national banking association ("Lender") making certain loans to SOUTH HAMPTON REFINING CO., a Texas corporation ("Borrower"), pursuant to that certain Loan Agreement dated as of September 30, 1999, between Borrower and Lender, as amended by First Amendment to Loan Agreement dated as of June 20, 2000 (such Loan Agreement, as amended and as it may hereafter be

further amended or modified from time to time, is hereinafter referred to as the "Loan Agreement");

NOW, THEREFORE, for valuable consideration, the receipt and adequacy of which are hereby acknowledged, the undersigned, TEXAS OIL & CHEMICAL CO. II, INC., a Texas corporation (the "Guarantor"), hereby irrevocably and unconditionally guarantees to Lender the full and prompt payment and performance of the Guaranteed Indebtedness (hereinafter defined). This Guaranty Agreement shall be upon the following terms:

1. The term "Guaranteed Indebtedness", as used herein means all of the "Obligations", as defined in the Loan Agreement. The term "Guaranteed Indebtedness" shall include any and all post-petition interest and expenses (including attorneys' fees) whether or not allowed under any bankruptcy, insolvency, or other similar law. As of the date of this Guaranty Agreement, the Obligations include, but are not limited to that certain promissory note in the original principal amount of $3,250,000.00, dated as of June 20, 2000, executed by Borrower and payable to the order of Lender, and all renewals, extensions and modifications thereof.

2. This instrument shall be an absolute, continuing, irrevocable, and unconditional guaranty of payment and performance, and not a guaranty of collection, and Guarantor shall remain liable on its obligations hereunder until the payment and performance in full of the Guaranteed Indebtedness. No set-off, counterclaim, recoupment, reduction, or diminution of any obligation, or any defense of any kind or nature which Borrower may have against Lender or any other party, or which Guarantor may have against Borrower, Lender, or any other party, shall be available to, or shall be asserted by, Guarantor against Lender or any subsequent holder of the Guaranteed Indebtedness or any part thereof or against payment of the Guaranteed Indebtedness or any part thereof.

3. If Guarantor becomes liable for any indebtedness owing by Borrower to Lender by endorsement or otherwise, other than under this Guaranty Agreement, such liability shall not be in any manner impaired or affected hereby, and the rights of Lender hereunder shall be cumulative of any and all other rights that Lender may ever have against Guarantor. The exercise by Lender of any right or remedy hereunder or under any other instrument, or at law or in equity, shall not preclude the concurrent or subsequent exercise of any other right or remedy.

4. In the event of default by Borrower in payment or performance of the Guaranteed Indebtedness, or any part thereof, when such Guaranteed Indebtedness becomes due, whether by its terms, by acceleration, or otherwise, Guarantor shall promptly pay the amount due thereon to Lender without notice or demand in lawful currency of the United States of America and it shall not be necessary for Lender, in order to enforce such payment by Guarantor, first to institute suit or exhaust its remedies against Borrower or others liable on such Guaranteed Indebtedness, or to enforce any rights against any collateral which shall ever have been given to secure such Guaranteed Indebtedness. Until the Guaranteed Indebtedness is paid in full and a period of ninety (90) days has passed following such payment, Guarantor waives any and all rights it may now or hereafter have under any agreement or at law or in equity (including, without limitation, any law subrogating the Guarantor to the rights of Lender) to assert any claim against or seek contribution, indemnification or any other form of reimbursement from Borrower or any other party liable for payment of any or all of the Guaranteed Indebtedness for any payment made by Guarantor under or in connection with this Guaranty Agreement or otherwise.

5. If acceleration of the time for payment of any amount payable by Borrower under the Guaranteed Indebtedness is stayed upon the insolvency, bankruptcy, or reorganization of Borrower, all such amounts otherwise subject to acceleration under the terms of the Guaranteed Indebtedness shall nonetheless be payable by Guarantor hereunder forthwith on demand by Lender.

6. Guarantor hereby agrees that its obligations under this Guaranty Agreement shall not be released, discharged, diminished, impaired, reduced, or affected for any reason or by the occurrence of any event, including, without limitation, one or more of the following events, whether or not with notice to or the consent of Guarantor: (a) the taking or accepting of collateral as security for any or all of the Guaranteed Indebtedness or the release, surrender, exchange, or subordination of any collateral now or hereafter securing any or all of the Guaranteed Indebtedness; (b) any partial release of the liability of Guarantor hereunder, or the full or partial release of any other guarantor from liability for any or all of the Guaranteed Indebtedness; (c) any disability of Borrower, or the dissolution, insolvency, or bankruptcy of Borrower, Guarantor, or any other party at any time liable for the payment of any or all of the Guaranteed Indebtedness; (d) any renewal, extension, modification, waiver, amendment, or rearrangement of any or all of the

Guaranteed Indebtedness or any instrument, document, or agreement evidencing, securing, or otherwise relating to any or all of the Guaranteed Indebtedness; (e) any adjustment, indulgence, forbearance, waiver, or compromise that may be granted or given by Lender to Borrower, Guarantor, or any other party ever liable for any or all of the Guaranteed Indebtedness; (f) any neglect, delay, omission, failure, or refusal of Lender to take or prosecute any action for the collection of any of the Guaranteed Indebtedness or to foreclose or take or prosecute any action in connection with any instrument, document, or agreement evidencing, securing, or otherwise relating to any or all of the Guaranteed Indebtedness; (g) the unenforceability or invalidity of any or all of the Guaranteed Indebtedness or of any instrument, document, or agreement evidencing, securing,

or otherwise relating to any or all of the Guaranteed Indebtedness; (h) any payment by Borrower or any other party to Lender is held to constitute a preference under applicable bankruptcy or insolvency law or if for any other reason Lender is required to refund any payment or pay the amount thereof to someone else (i) the settlement or compromise of any of the Guaranteed Indebtedness; (j) the non-perfection of any security interest or lien securing any or all of the Guaranteed Indebtedness; (k) any impairment of any collateral securing any or all of the Guaranteed Indebtedness; (1) the failure of Lender to sell any collateral securing any or all of the Guaranteed Indebtedness in a commercially reasonable manner or as otherwise required by law; (m) any change in the corporate existence, structure, or ownership of Borrower; or (n) any other circumstance which might otherwise constitute a defense available to, or discharge of, Borrower or Guarantor.

7. Guarantor represents and warrants to Lender as follows:

(a) Guarantor is a corporation duly organized, validly existing and in good standing under the laws of the state of its incorporation, is qualified to do business in all jurisdictions in which the nature of the business conducted by it makes such qualification necessary and where failure to so qualify would have a material adverse effect on its business, financial condition, or operations.

(b) Guarantor has the corporate power, authority and legal right to execute, deliver, and perform its obligations under this Guaranty Agreement and this Guaranty Agreement constitutes the legal, valid, and binding obligation of Guarantor, enforceable against Guarantor in accordance with its respective terms, except as limited by bankruptcy, insolvency, or other laws of general application relating to the enforcement of creditor's rights.

(c) The execution, delivery, and performance by Guarantor of this Guaranty Agreement have been duly authorized by all requisite action on the part of Guarantor and do not and will not violate or conflict with the articles of incorporation or bylaws of Guarantor or any law, rule, or regulation or any order, writ, injunction or decree of any court, governmental authority or agency, or arbitrator and do not and will not conflict with, result in a breach of, or constitute a default under, or result in the imposition of any lien upon any assets of Guarantor pursuant to the provisions of any indenture, mortgage, deed of trust, security agreement, franchise, permit, license, or other instrument or agreement to which Guarantor or its properties is bound.

(d) No authorization, approval, or consent of, and no filing or registration with, any court, governmental authority, or third party is necessary for the execution, delivery or performance by Guarantor of this Guaranty Agreement or the validity or enforceability thereof.

(e) The value of the consideration received and to be received by Guarantor as a result of Borrower and Lender entering into the Loan Agreement and Guarantor executing and delivering this Guaranty Agreement is reasonably worth at least as much as the liability and obligation of Guarantor hereunder, and such liability and obligation and the Loan Agreement have benefitted and may reasonably be expected to benefit Guarantor directly or indirectly.

8. Guarantor covenants and agrees that, as long as the Guaranteed Indebtedness or any part thereof is outstanding or Lender has any commitment

under the Loan Agreement:

(a) Guarantor will deliver to Lender the financial statements of Guarantor described in the Loan Agreement at the times required by the Loan Agreement.

(b) Guarantor will furnish promptly to Lender written notice of the occurrence of any default under this Guaranty Agreement or an Event of Default under the Loan Agreement of which Guarantor has knowledge.

(c) Guarantor will furnish promptly to Lender such additional information concerning Guarantor as Lender may request.

(d) Guarantor will maintain the covenants contained in Article IX of the Loan Agreement.

9. Upon the occurrence of an Event of Default (as defined in the Loan Agreement) Lender shall have the right to set off and apply against this Guaranty Agreement or the Guaranteed Indebtedness or both, at any time and without notice to Guarantor, any and all deposits (general or special, time or demand, provisional or final) or other sums at any time credited by or owing from Lender to Guarantor whether or not the Guaranteed Indebtedness is then due and irrespective of whether or not Lender shall have made any demand under this Guaranty Agreement. In addition to Lender's right of setoff and as further security for this Guaranty Agreement and the Guaranteed Indebtedness, Guarantor hereby grants Lender a security interest in all deposits (general or special, time or demand, provisional or final) and all other accounts of Guarantor now or hereafter on deposit with or held by Lender and all other sums at any time credited by or owing from Lender to Guarantor. The rights and remedies of Lender hereunder are in addition to other rights and remedies (including, without limitation, other rights of setoff) which Lender may have.

10. No amendment or waiver of any provision of this Guaranty Agreement or consent to any departure by the Guarantor therefrom shall in any event be effective unless the same shall be in writing and signed by Lender. No failure on the part of Lender to exercise, and no delay in exercising, any right, power, or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power, or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power, or

privilege. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

11. This Guaranty Agreement is for the benefit of Lender and its successors and assigns, and in the event of an assignment of the Guaranteed Indebtedness, or any part thereof, the rights and benefits hereunder, to the extent applicable to the indebtedness so assigned, may be transferred with such indebtedness. This Guaranty Agreement is binding not only on Guarantor, but on Guarantor's successors and assigns.

12. Guarantor recognizes that Lender is relying upon this Guaranty Agreement and the undertakings of Guarantor hereunder in making extensions of credit to Borrower under the Loan Agreement and further recognizes that the execution and delivery of this Guaranty Agreement is a material inducement to Lender in entering into the Loan Agreement. Guarantor hereby acknowledges that there are no conditions to the full effectiveness of this Guaranty Agreement.

13. This Guaranty Agreement is executed and delivered as an incident to a lending transaction negotiated, consummated, and performable in Harris County, Texas, and shall be governed by and construed in accordance with the laws of the State of Texas. Except as provided in the Arbitration Agreement among Borrower, Guarantor, Lender and others (the "Arbitration Agreement"), any action or proceeding against Guarantor under or in connection with this Guaranty Agreement may be brought in any state or federal court in Harris County, Texas, and Guarantor hereby irrevocably submits to the nonexclusive jurisdiction of such courts, and waives any objection it may now or hereafter have as to the venue of any such action or proceeding brought in such court. Guarantor agrees that service of process upon it may be made by certified or registered mail, return receipt requested, at its address specified in the Loan Agreement. Except as provided in the Arbitration Agreement, nothing herein shall affect the right of Lender to serve process in any other matter permitted by law or shall limit the right of Lender to bring any action or proceeding against Guarantor or with respect to any of Guarantor's property in courts in other jurisdictions. Except as provided in the Arbitration Agreement, any action or proceeding by Guarantor

against Lender shall be brought only in a court located in Harris County, Texas.

14. Guarantor shall pay on demand all attorneys' fees and all other costs and expenses incurred by Lender in connection with the preparation, administration, enforcement, or collection of this Guaranty Agreement.

15. Guarantor hereby waives promptness, diligence, notice of any default under the Guaranteed Indebtedness, demand of payment, notice of acceptance of this Guaranty Agreement, presentment, notice of protest, notice of dishonor, notice of the incurring by Borrower of additional indebtedness, and all other notices and demands with respect to the Guaranteed Indebtedness and this Guaranty Agreement.

16. The Loan Agreement, and all of the terms thereof, are incorporated herein by reference, the same as if stated verbatim herein, and Guarantor agrees that Lender may exercise any and all rights granted to it under the Loan Agreement and the other Loan Documents (as defined in the Loan Agreement) without affecting the validity or enforceability of this Guaranty Agreement. Any notices given hereunder shall be given in the manner provided by and to the addresses set forth in the Loan Agreement.

17. Guarantor hereby represents and warrants to Lender that Guarantor has adequate means to obtain from Borrower on a continuing basis information concerning the financial condition and assets of Borrower and that Guarantor is not relying upon Lender to provide (and Lender shall have no duty to provide) any such information to Guarantor either now or in the future.

18. THIS GUARANTY AGREEMENT EMBODIES THE FINAL, ENTIRE AGREEMENT OF GUARANTOR AND LENDER WITH RESPECT TO GUARANTOR'S GUARANTY OF THE GUARANTEED INDEBTEDNESS AND SUPERSEDES ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS, AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THE SUBJECT MATTER HEREOF AND MAY NOT BE CONTRADICTED OR VARIED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OR OTHER EXTRINSIC EVIDENCE OF ANY NATURE. THERE ARE NO ORAL AGREEMENTS BETWEEN GUARANTOR AND LENDER. THIS GUARANTY AGREEMENT MAY NOT BE AMENDED EXCEPT IN WRITING BY GUARANTOR AND LENDER.

DATED AND EXECUTED as of June 20, 2000.

GUARANTOR:

TEXAS OIL & CHEMICAL CO. II, INC.

By: /s/ NICK CARTER

Nick Carter
President

ARBITRATION AGREEMENT

Re: Loan in the principal amount of $3,250,000.00 dated June 20, 2000, from SOUTHWEST BANK OF TEXAS, N.A. to SOUTH HAMPTON REFINING CO., and all renewals, increases, extensions, modifications and substitutions thereof.

In consideration of the premises and the mutual agreements herein, the undersigned agree as follows:

Binding Arbitration. Notwithstanding any provision in any Documents (defined below) to the contrary, upon the request of any of the undersigned (collectively called the "parties" and individually called a "party"), whether made before or after the institution of any legal proceeding, any action, dispute, claim or controversy of any kind (for example, whether in contract or in tort, under statutory or common law, or legal or equitable) now existing or hereafter arising between or among the parties in any way arising out of, pertaining to or in connection with (1) the referenced Loan, any related agreements, documents, or instruments (collectively, the "Documents") or any transaction contemplated thereby, before or after maturity, or (2) any aspect of the past or present relationships of the parties to the Documents shall be resolved by mandatory and binding arbitration in accordance with the terms of this Arbitration Agreement.

The occurrence of any of the foregoing matters shall be referred to as a "Dispute." Any party to this Arbitration Agreement may bring by summary proceedings (for example, a plea in abatement or motion to stay further proceedings) an action in court to compel arbitration of any Dispute.

Governing Rules. Notwithstanding any provision in any Documents to the contrary, all Disputes between the parties shall be resolved by mandatory and binding arbitration administered by the American Arbitration Association (the "AAA") pursuant to the Federal Arbitration Act (Title 9 of the United States Code) in accordance with this Arbitration Agreement and the Commercial Arbitration Rules of the AAA. If Title 9 of the United States Code is inapplicable to any such claim or controversy for any reason, such arbitration shall be conducted pursuant to the Texas General Arbitration Act and in accordance with this Arbitration Agreement and the Commercial Arbitration Rules of the AAA. To the extent that any inconsistency exists between this Arbitration Agreement and such statutes and rules, this Arbitration Agreement shall control. Judgment upon the award rendered by the arbitrators may be entered in and enforced by any court having jurisdiction and in accordance with the practice of such court; provided, however, that nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. Section 91, Texas Banking Code art. 342-609 or 342-705, or any other protection provided banks by the laws of Texas or the United States.

No Waiver; Preservation of Remedies. No provision of, nor the exercise of any rights under, this Arbitration Agreement shall limit the right of any party to employ other remedies, including, without limitation, (1) foreclosing against any real or personal property collateral or other security by the exercise of a power of sale under a deed of trust, mortgage, or other security agreement or instrument, or applicable law, (2) exercising self-help remedies (including without limitation set-off rights), or (3) obtaining provisional or ancillary remedies such as, without limitation, injunctive relief, sequestration, attachment, garnishment, or the appointment of a receiver from a court having jurisdiction before, during, or after the pendency of any arbitration. The institution and maintenance of an action for judicial relief, pursuit of provisional or ancillary remedies, or exercise of self-help remedies shall not constitute a waiver of the right of any party, including without limitation, the plaintiff, to submit any Dispute to arbitration nor render inapplicable the compulsory arbitration provisions hereof.

In Disputes involving indebtedness or other monetary obligations, each party agrees that the other party may proceed against all liable persons, jointly and severally, or against one or more of them, being less than all, without impairing rights against other liable persons. Nor shall a party be required to join any principal obligor or any other liable persons (including, without limitation, sureties or guarantors) in any proceeding against a particular person. A party may release or settle with one or more liable persons as the party deems fit without releasing or impairing rights to proceed against any persons not so released.

Arbitration Proceeding. All statutes of limitation that would otherwise be applicable shall apply to any arbitration proceeding. Any attorney-client privilege and other protection against disclosure of confidential information, including, without limitation, any protection afforded the work product of any attorney, that could otherwise be claimed by any party shall be available to and may be claimed by any such party in any arbitration proceeding. No party waives any attorney-client privilege or any other protection against disclosure of confidential information by reason of anything contained in or done pursuant to or in connection with this Arbitration Agreement. Any arbitration proceeding shall be conducted in Harris County, Texas by a panel of three arbitrators each having substantial experience and recognized expertise in the field or fields of the matter(s) in dispute.

Other Matters. This Arbitration Agreement constitutes the entire agreement of the parties with respect to its subject matter and supersedes all prior discussions, arrangements, negotiations, and other communications on dispute resolution. The provisions of this Arbitration Agreement shall survive any termination, amendment or expiration of the Documents unless the parties otherwise expressly agree in writing. This Arbitration Agreement may be amended, changed or modified only by the express provisions of a writing which specifically refers to this Arbitration Agreement and which is signed by all parties. If any provision of this Arbitration Agreement shall be unenforceable, unlawful or invalid in any respect, then such provision shall be deemed severable from the remaining provisions and the enforceability, lawfulness and validity of the remaining provisions will not be affected or impaired. This Arbitration

Agreement shall inure to the benefit of and bind the heirs, representatives, trustees, successors and assigns of the parties. The captions or headings in this Arbitration Agreement are for convenience only and shall not be dispositive in interpreting or construing any of this Arbitration Agreement.

DATED AND EXECUTED as of June 20, 2000.

BORROWER:

SOUTH HAMPTON REFINING CO.

By: /s/ NICK CARTER

Nick Carter
President

GUARANTOR

TEXAS OIL & CHEMICAL CO. II, INC.

By: /s/ NICK CARTER

Nick Carter
President

LENDER:

SOUTHWEST BANK OF TEXAS, N.A.

By: /s/ A. STEPHEN KENNEDY

A. Stephen Kennedy
Senior Vice President

SOUTH HAMPTON REFINING CO.

OFFICER'S CERTIFICATE

I, the undersigned, hereby certify that I am the duly elected, qualified, and acting Assistant Secretary of SOUTH HAMPTON REFINING CO., a Texas corporation (the "Corporation"), and that I am authorized to execute and deliver this certificate, and I do hereby further certify as follows:

1. Resolutions. The following resolutions have been duly adopted at a meeting (duly convened where a quorum of directors was present) of, or by the unanimous written consent of, the Board of Directors of the Corporation, and such resolutions have not been amended or revoked, and are now in full force and effect:

"WHEREAS, the Corporation and Southwest Bank of Texas, N.A. (the "Lender") have entered in that certain Loan Agreement dated September 30, 1999, (the "Loan Agreement")."

"RESOLVED, that the renewal and increase of the revolving credit indebtedness of the Corporation to the Lender created pursuant to the Loan Agreement to be evidenced by a promissory note in the principal amount of $3,250,000.00 (the "Note") executed by the Corporation and payable to the order of the Lender, are hereby approved; and further

"RESOLVED, that the form and content of that certain First Amendment to Loan Agreement (the "Amendment") to be entered into by the Corporation and the Lender in the form of drafts exhibited to each director, with such changes as are hereinafter authorized, are hereby approved; and further

"RESOLVED, that the form and content of the Note, the First Amendment to Security Agreement and the Arbitration Agreement and all other documents to be executed in connection with the Amendment (collectively, the "Loan Documents"), as exhibited to each director and

with such changes as are hereinafter authorized, are hereby approved; and further

"RESOLVED, that the President or any Vice President of the Corporation is hereby authorized, on behalf of the Corporation, to execute the Amendment and the Loan Documents and deliver the same to Lender in substantially the form approved by these resolutions, with such amendments or changes thereto as the officer so acting may approve, such approval to be conclusively evidenced by such person's execution and delivery of the same; and further

"RESOLVED, that the President or any Vice President of the Corporation is hereby authorized, on behalf of the Corporation, to execute such other instruments and documents, and to take such other actions as the officer so acting deems necessary or desirable to effectuate the transactions contemplated by these resolutions; and further

"RESOLVED, that the Secretary or any Assistant Secretary of the Corporation is hereby authorized, on behalf of the Corporation, to certify and attest any documents which such person may deem necessary or appropriate to consummate the transactions contemplated by these resolutions; provided that such attestation shall not be required for the validity of any such documents; and further

"RESOLVED, that any and all actions taken by any of the officers or representatives of the Corporation, for and on behalf and in the name of the Corporation, with Lender prior to the adoption of these resolutions, including, without limitation, the negotiation of the Amendment and the Loan Documents, are hereby ratified, confirmed, are approved in all respects for all purposes; and further.

"RESOLVED, that the powers and authorizations contained herein shall continue in full force and effect until written notice of revocation has been given to, and received by, the Lender."

2. Incumbency. The following named persons are duly elected or appointed, acting, and qualified officers of the Corporation holding at the date hereof the offices set forth opposite their respective names, and the signatures appearing opposite their respective names are their genuine signatures:

<TABLE>
<CAPTION>

NAME	TITLE	SPECIMEN SIGNATURE
<S>	<C>	<C>
Nick Carter	President	/s/ NICK CARTER
Connie Cook	Assistant Secretary	/s/ CONNIE COOK

</TABLE>

3. Articles of Incorporation. The Articles of Incorporation of the Corporation have not been amended (except as reflected in any attachments hereto) or revoked since September 30, 1999, and remain in full force and effect in the form delivered to the Lender.

4. By-Laws. The By-Laws of the Corporation have not been amended (except as reflected in any attachments hereto) or revoked since September 30, 1999, and remain in full force and effect in the form delivered to the Lender.

IN WITNESS WHEREOF, I have duly executed this certificate as of June 23, 2000.

/s/ CONNIE COOK

Assistant Secretary

I, Nick Carter, President of the Corporation, do hereby certify that Connie Cook is the duly elected and qualified Assistant Secretary of the

Corporation and the signature appearing opposite such person's name is such person's genuine signature.

DATED: As of June 23, 2000.

/s/ NICK CARTER

President

TEXAS OIL & CHEMICAL CO. II, INC.

OFFICER'S CERTIFICATE

I, the undersigned, hereby certify that I am the duly elected, qualified, and acting Assistant Secretary of TEXAS OIL & CHEMICAL CO. II, INC., a Texas corporation (the "Corporation"), and that I am authorized to execute and deliver this certificate, and I do hereby further certify as follows:

1. Resolutions. The following resolutions have been duly adopted at a meeting (duly convened where a quorum of directors was present) of, or by the unanimous written consent of, the Board of Directors of the Corporation, and such resolutions have not been amended or revoked, and are now in full force and effect:

"WHEREAS, SOUTH HAMPTON REFINING CO. (the "Borrower") and Southwest Bank of Texas, N.A. (the "Lender") have entered in that certain Loan Agreement dated September 30, 1999 (the "Loan Agreement"); and"

"WHEREAS, it is proposed that the Lender renew and increase the revolving credit indebtedness of the Borrower to the Lender created pursuant to the Loan Agreement to be evidenced by a promissory note in the principal amount of $3,250,000.00 (the "Note") executed by the Borrower and payable to the order of the Lender; and further

"WHEREAS, the Borrower and the Lender propose to enter into that certain First Amendment to Loan Agreement (the "Amendment") to be entered into by the Borrower and the Lender; and further

"WHEREAS, it is proposed that, as security for full and complete performance and payment of the indebtedness of Borrower pursuant to the Loan Agreement, the Corporation execute and deliver to the Lender the following documents:

(a) The Guaranty Agreement (the "Guaranty"), pursuant to which the Corporation will guarantee all obligations of the Borrower to the Lender, now existing or hereafter arising; and

(b) The Arbitration Agreement (the "Arbitration Agreement"), pursuant to which the Corporation agrees to arbitrate all disputes between itself and the Lender.

"WHEREAS, the proposed Guaranty Agreement and Arbitration Agreement (collectively referred to as the "Loan Documents") have been submitted to, and reviewed by, each of the directors of the Corporation.

"NOW, THEREFORE, RESOLVED, that in the judgment of the directors of the Corporation (a) the value of the consideration received and to be received by the Corporation, as a result of Borrower and Lender entering into the Amendment is reasonably worth at least as much, as the liability and obligation of the Corporation under the Guaranty and (b) such liability and obligation may reasonably be expected to benefit, directly or indirectly, the Corporation; and

further

"RESOLVED, that the form and content of the Amendment in substantially the form submitted to each director is hereby approved; and further

"RESOLVED, that the form and content of the Loan Documents as exhibited to each director and with such changes as are hereinafter authorized, are hereby approved; and further

"RESOLVED, that the President or any Vice President of the Corporation is hereby authorized, on behalf of the Corporation, to execute the Amendment and the Loan Documents and deliver the same to Lender in substantially the form approved by these resolutions, with such amendments or changes thereto as the officer so acting may approve, such approval to be conclusively evidenced by such person's execution and delivery of the same; and further

"RESOLVED that the President or any Vice President of the Corporation is hereby authorized, on behalf of the Corporation, to execute and deliver to Lender the Loan Documents in substantially the form approved by these resolutions, with such amendments or changes thereto as the officer so acting may approve, such approval to be conclusively evidenced by such person's execution and delivery of the same; and further

"RESOLVED, that the President or any Vice President of the Corporation is hereby authorized, on behalf of the Corporation, to execute such other instruments and documents, and to take such other actions as the officer so acting deems necessary or desirable to effectuate the transactions contemplated by these resolutions; and further

"RESOLVED, that the Secretary or any Assistant Secretary of the Corporation is hereby authorized, on behalf of the Corporation, to certify and attest any documents which such person may deem necessary or appropriate to consummate the transactions contemplated by these resolutions; provided that such attestation shall not be required for the validity of any such documents; and further

"RESOLVED, that any and all actions taken by any of the officers or representatives of the Corporation, for and on behalf and in the name of the Corporation, with Lender prior to the adoption of these resolutions, including, without limitation, the negotiation of the Amendment and the Loan Documents, are hereby ratified, confirmed, are approved in all respects for all purposes; and further

"RESOLVED, that the powers and authorizations contained herein shall continue in full force and effect until written notice of revocation has been given to, and reviewed by, the Lender."

2. Incumbency. The following named persons are duly elected or appointed, acting, and qualified officers of the Corporation holding at the date hereof the offices set forth opposite their respective names, and the signatures appearing opposite their respective names are their genuine signatures:

<TABLE>
<CAPTION>

NAME	TITLE	SPECIMEN SIGNATURE
<S>	<C>	<C>
Nick Carter	President	/s/ NICK CARTER
Connie Cook	Assistant Secretary	/s/ CONNIE COOK

</TABLE>

3. Articles of Incorporation. The Articles of Incorporation of the

Corporation have not been amended (except as reflected in any attachments hereto) or revoked since September 30, 1999, and remain in full force and effect in the form delivered to the Lender.

4. By-Laws. The By-Laws of the Corporation have not been amended (except as reflected in any attachments hereto) or revoked since September 30, 1999, and remain in full force and effect in the form delivered to the Lender.

IN WITNESS WHEREOF, I have duly executed this certificate as of June 23rd ,2000.

/s/ CONNIE COOK

Assistant Secretary

I, Nick Carter, President of the Corporation, do hereby certify that Connie Cook is duly elected and qualified Assistant Secretary of the Corporation and the signature appearing opposite such person's name is such person's genuine signature.

DATE: As of June 23rd, 2000.

/s/ NICK CARTER

President