



Your Specialty Chemical Partner

Sidoti Fall 2018 Conference

TREC



Safe Harbor

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Why Invest in Trecora?

Trecora Resources (NYSE: TREC) is a leading provider of high-purity light hydrocarbons, specialty waxes and custom processing services

1. Strong base business with limited competition and opportunity to grow



- **South Hampton Resources:** Leading manufacturer of high-purity pentanes
- **Trecora Chemical:** Manufacturer of polyethylene wax and wax derivatives
- Well positioned to benefit from the resurgence of the US chemical industry
- Experiencing strong demand for custom processing
- Focus on improving operations and organizational effectiveness to drive performance
- Multiple initiatives in place to increase gross, operating and Adjusted EBITDA margins



2. Recently completed \$115 million capital campaign – state-of-the-art production facilities will increase capacity and are expected to approximately double 2017 Adjusted EBITDA of \$32 million by 2022



- **South Hampton Resources**
 - D Train completed – ramping volume to generate \$6-\$8M in incremental EBITDA between 2018 and 2022
 - Advanced Reformer completed July 2018 – optimizing performance in 3Q18 – \$12-\$14M in incremental EBITDA by 2022
- **Trecora Chemical**
 - B Plant – expected to add \$4-\$6M to EBITDA by end of 2018
 - Hydrogenation/Distillation – expected to add \$6-\$8 million in EBITDA by 2019



3. Al-Masane Al Kobara Mining Company (AMAK) monetization opportunity

- Planned divestiture of 33.4% interest in legacy mining operations



Company Evolution

***Transformation from an origin in mining ...
to a leading provider of specialty petrochemicals***

1967

Company incorporated as Arabian Shield Development Company

1987

Acquired Sinclair Oil Refinery – now operating as SHR

2014

Acquired TC & changed name to Trecora Resources

2015 - 2018

Company executes \$115 million in capital projects

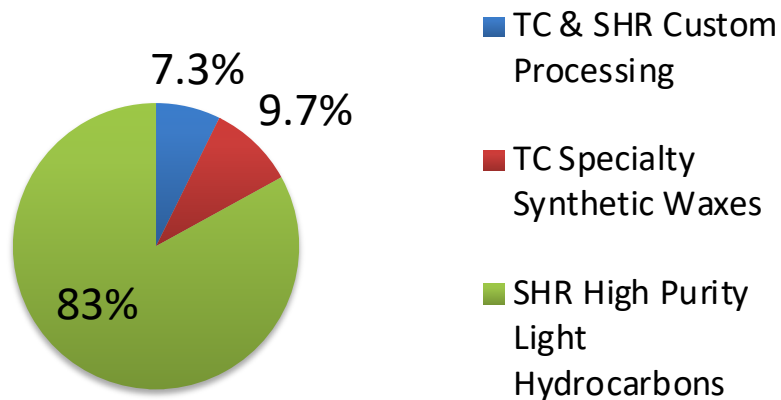
2018 - 2022

Well positioned for future growth

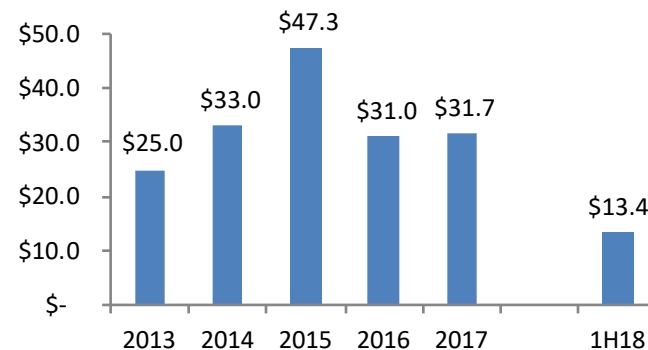
- 2015 – D Train complete
- 2016 – B Plant Acquired
- 2017 – Hydrogenation/ Distillation unit complete
- July 2018 – Advanced reformer completed
- Estimated incremental EBITDA from capital projects of \$28 to \$36 million by 2022
- Potential monetization of AMAK ownership

Financial Summary

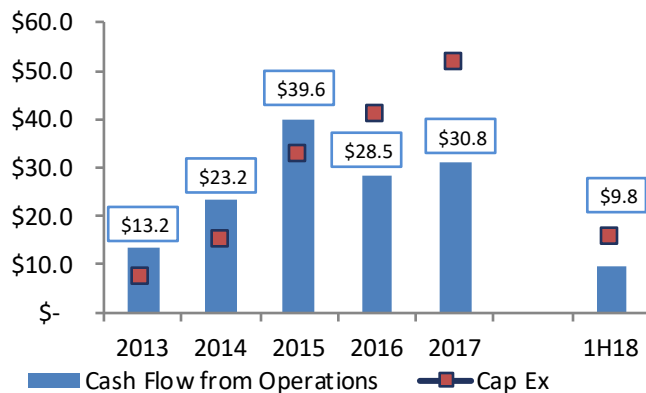
2017 Total Revenues \$245.2 Million



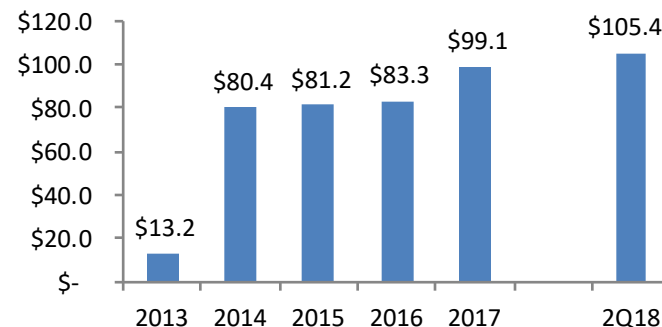
Adjusted EBITDA (\$mm)



Cash Flow from Operations and Capex (\$mm)



Total Debt (\$mm)

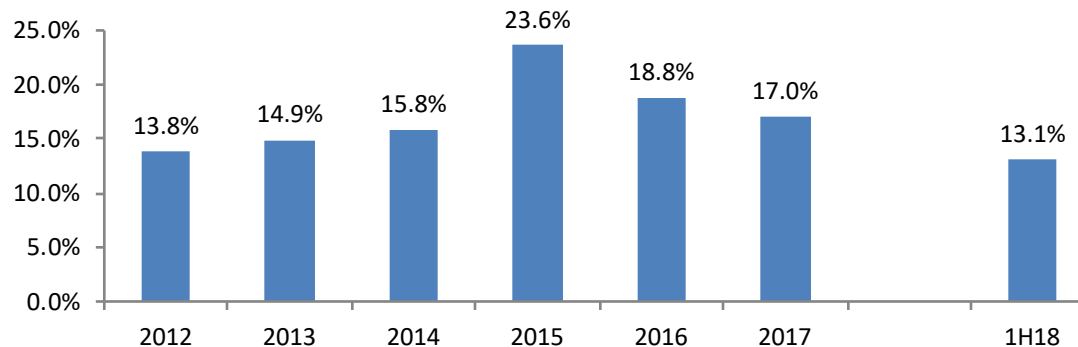


Objective: Improve Gross Margin as Revenue Grows

Ongoing Gross Margin Initiatives

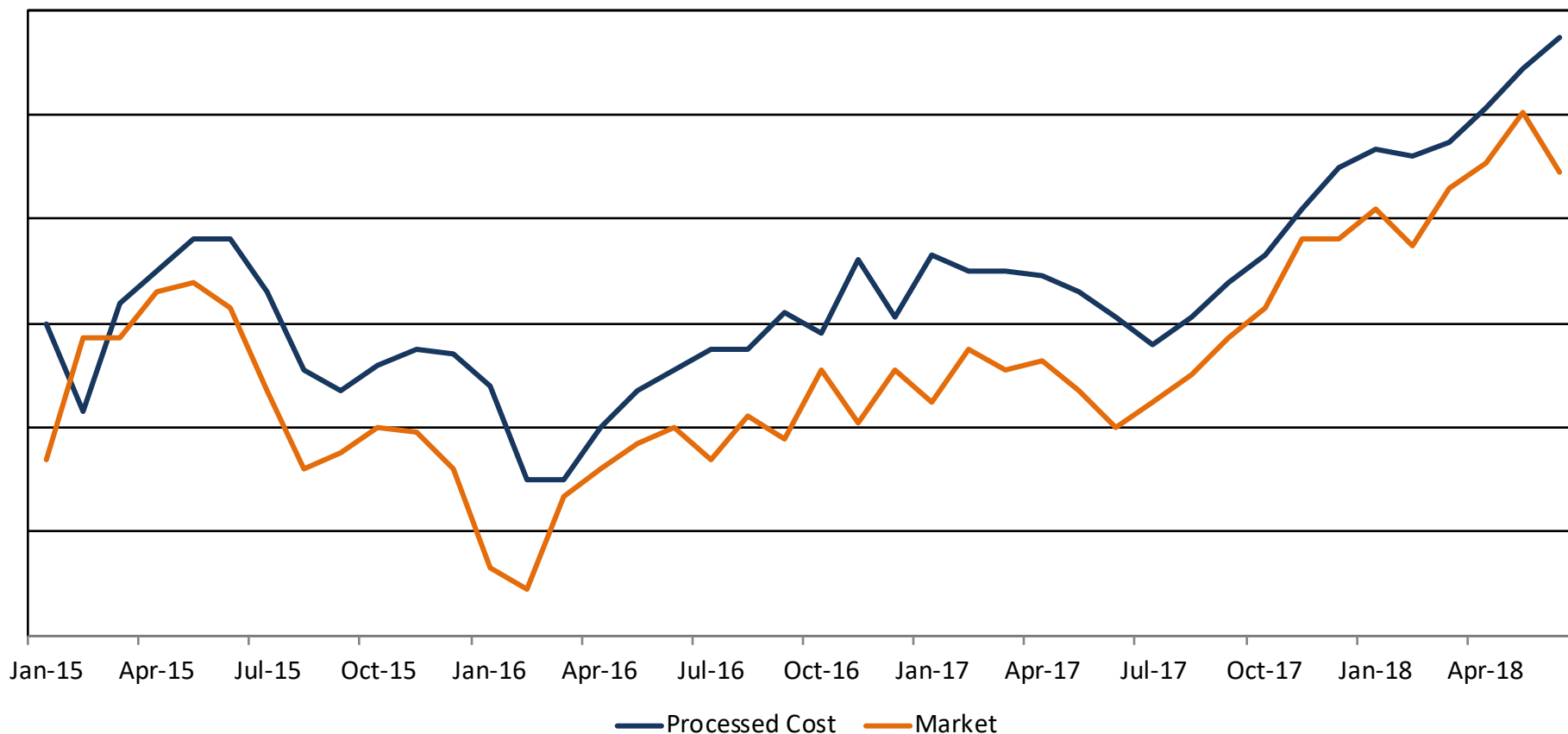
- Ramping volume will drive operational leverage and economies of scale
- Continuing price leadership efforts to drive appropriate prime product margins as input costs rise
- Commissioned Advanced Reformer in July – optimizing performance in Q3 – will significantly increase value of byproducts and improve margins
 - Approximately \$1 million of non-recurring costs associated with the start-up of the Advanced Reformer in Q218
- Organizational changes designed to enhance focus on production and deliver operational excellence
 - Cost control initiatives are being implemented – overtime, headcount and internal railcar costs are under full review

Gross Margin – Initiatives in place to improve gross margin rate



Petrochemical Feed Cost Summary

Processed Feedstock Cost versus Market Price
(per gallon)



South Hampton Resources

Specialty Petrochemical Segment

- **Leading manufacturer of high-purity light hydrocarbons**
 - Disappointing volumes in 2Q18 as several specific customers dealt with their own production issues
 - Expect a return to growth in the second half of 2018
 - Blue Chip customer base
- **Market leader with approximately 60% market share and only one competitor in high-purity pentanes**
- **Easy access to major transportation networks**



SHR: Blue Chip Customers



SHR: Growth Drivers

➤ New polyethylene plants in North America

- Adding 8.0 million metric tons/year of manufacturing capacity by 2020
- 40% increase over current capacity
- Cost advantage driving polyethylene exports

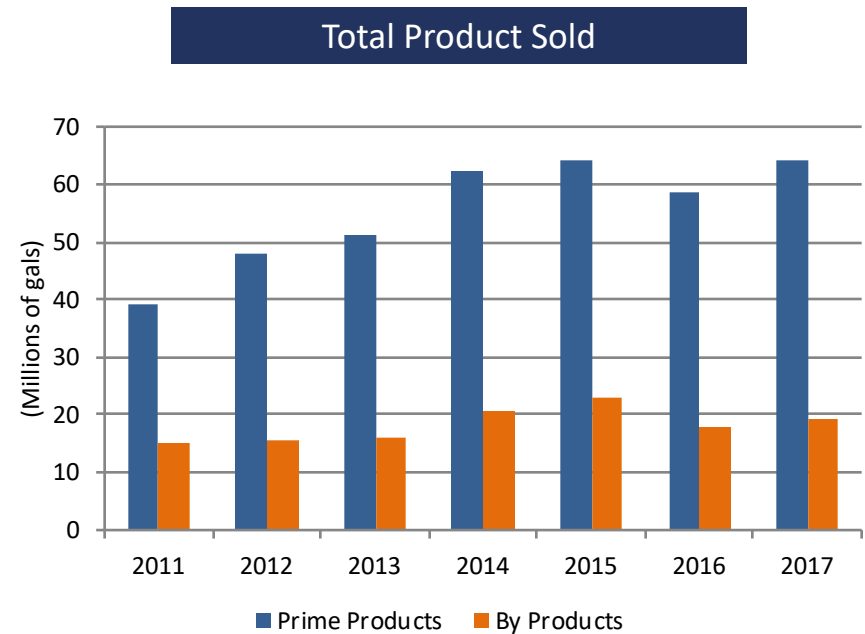
➤ Second Canadian oil sands customer up and running; expect volumes in 2019

➤ Global growth (including Asia)

➤ New product volumes increasing

➤ Major capital projects complete

- Advanced Reformer completed in July 2018: adds significant value to byproduct stream and will deliver between \$12 million to \$14 million in annual EBITDA by 2022
- D Train: Three production trains provide significantly more flexibility and reliability
- Capacity allows for new product development



SHR Advanced Reformer Project

Catalyst to EBITDA Growth



- Advanced Reformer safely and successfully commissioned in early July, 2018
- At \$58 million, our largest capital project designed to produce a significantly higher value-added byproduct stream
 - During Q3 operations will be optimized
- At current byproduct pricing, the margin uplift is approximately 40 cents per gallon
- Production levels will grow as pentane volumes grow – annual EBITDA contribution reaching \$12-\$14 million by 2022

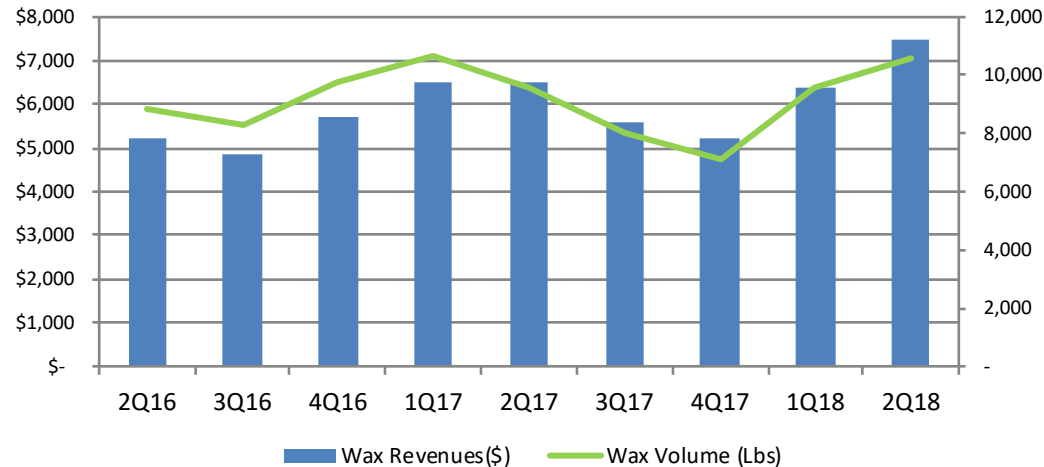
Trecora Chemical

Specialty Waxes Segment

Revenues

Wax Volume and Revenue Overview

Volumes



- **Manufactures polyethylene wax and wax derivatives**
 - 2017 Revenues: \$34.8 million; 2Q18 Revenues: \$7.4 million – up 14% from 2017
- **Wax Markets**
 - Hot Melt Adhesives & PVC Lubricants
 - Strong growth in these high margin markets
- **Strong feedstock supply network**
- **Organizational changes implemented in 1Q18; catalyst for driving operational excellence**

TC: Hydrogenation/Distillation Project Completed

Catalyst to EBITDA Growth



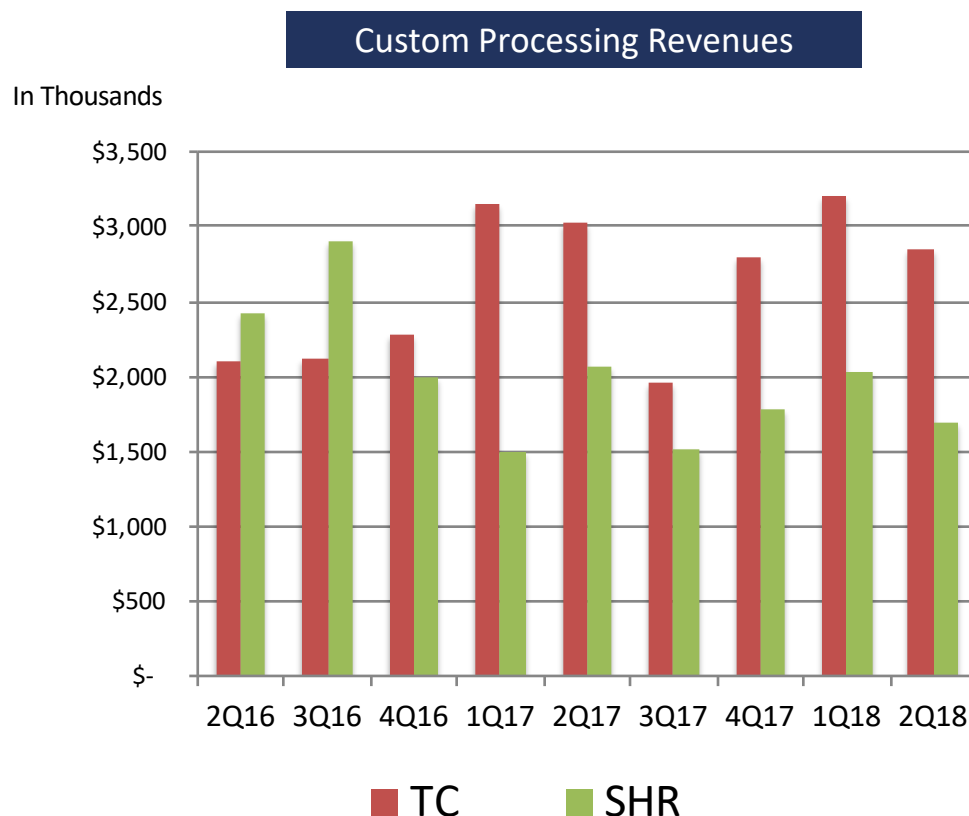
- \$25 million investment
- Expect additional \$6-\$8 M/year in EBITDA run date by 2019

➤ Hydrogenation/Distillation Unit

- Leverage existing relationships with petrochemical customers and generate new custom processing business
- Operating issues and ancillary equipment downtime has delayed full benefit to EBITDA until 2019
- Generated revenue of \$400K in 2Q18 as production ramps

Custom Processing Overview

- **Convert feedstock into value-added products based upon customer specifications**
 - Customers supply and maintain title to feedstock
- **Contractual take or pay agreements with high operating margins**
 - Significant operating leverage above break-even
- **Adding process capabilities that are in short supply in the region**
 - Will benefit from the resurgence in U.S. Chemicals



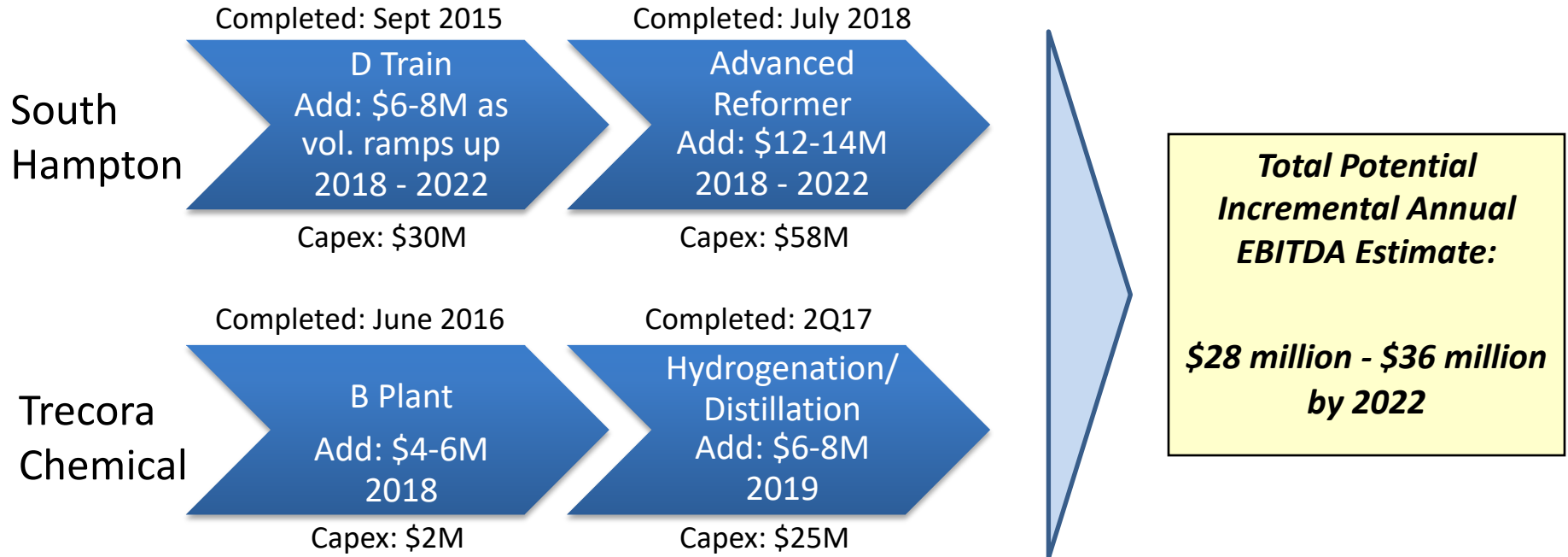
TRECORA[™]
Chemical

 **South Hampton
Resources**

TRECORA
Resources

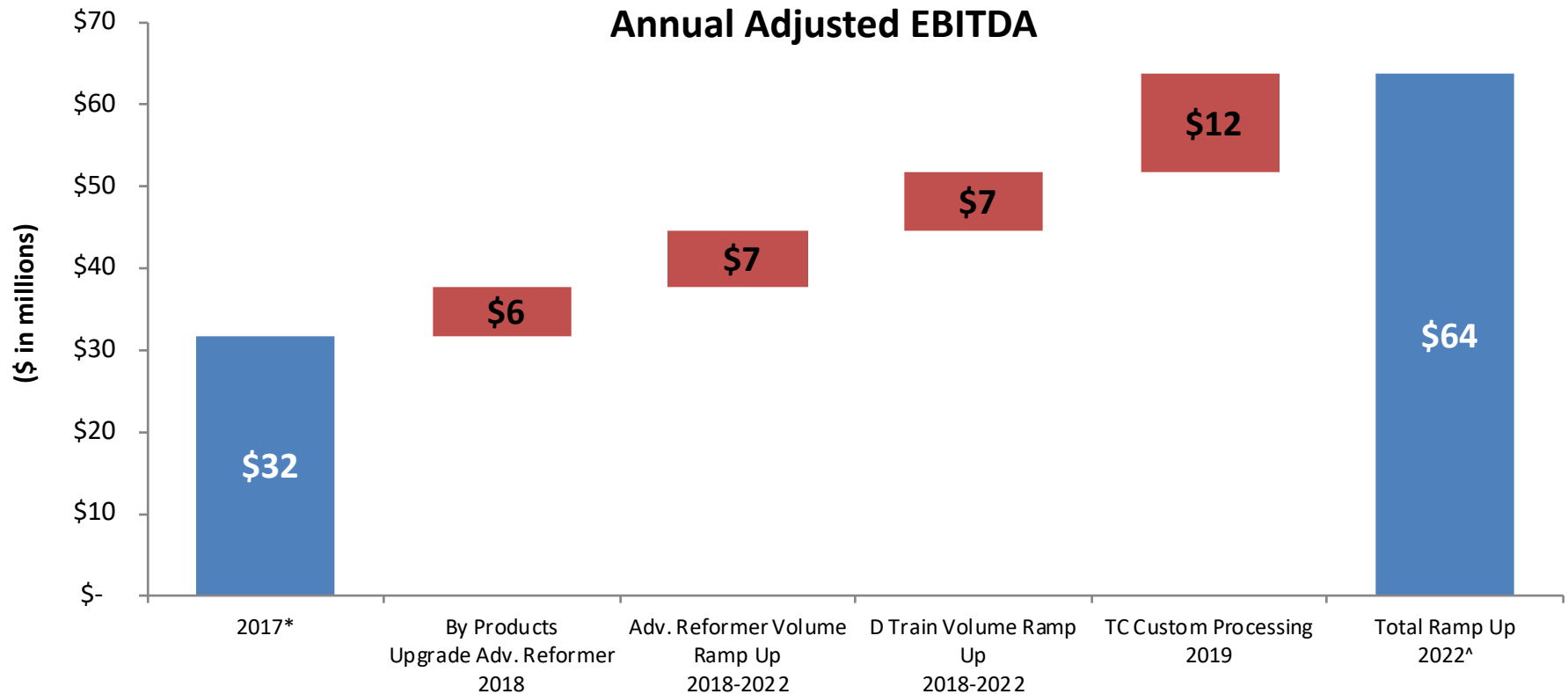
NYSE
EURONEXT

Significant Capital Projects Complete



With capital campaign completed, Cap Ex run-rate declines to approximately \$6 to \$8 million annually

EBITDA Projection From Recent Capital Projects



*- Denotes Adjusted EBITDA for 2017

^- Denotes Projected EBITDA for 2022

AMAK Mine Developments



Operations

- 14,400 dmt sold in 2Q18
 - 6,400 dmt copper concentrate and 8,000 dmt zinc concentrate
- Concentrate quality, throughput rates and recoveries continued steady progress (brief recurrence of water quality issues in June)
- Equity in earnings of \$0.2 million in 2Q18
- Net profit before depreciation and amortization in 1H18 improved \$19.4 million from 1H17



Exploration

- Drilling in Guyana and surrounding areas likely to continue through year end
- Guyana gold project pushed back six months
 - Commission Guyana Gold Project at end of 2019 (design slower, more time for drilling, financing)
- Drilling continues for Al Masane copper and zinc



Precious Metal Circuit/SART

- Availability of PMC, SART capacity continue to improve
- Gold and silver sales doré sales now expected in 3rd quarter



Saudi Industrial Development Fund (SIDF) loan amended on July 8, 2018

- Repayment schedule adjusted and repayment terms extended through April 2024



Growing consistency of operations and established cash flow generation enhances marketability

- Potential buyers approached in Q2
- Saudi investor most likely to purchase our position

Investment Summary



- **Opportunity to double 2017 Adjusted EBITDA by 2022 by improving margins and leveraging recent capital projects to drive revenue**



- **Strong core specialty chemical company addressing expanding profitable market opportunities**



- **Investing in higher margin businesses**
- **Internationally competitive in high-growth developed and emerging markets**
 - Footprint in Canada, Middle East and Asia, and expanding into additional markets



- **Organizationally aligned to transition culture into one of operational excellence to drive growth and EBITDA contribution**



- **AMAK monetization opportunity**

- **Objective is financial exit which could generate significant cash**
- **Growing consistency of operations and established cash flow generation enhances marketability**
- **Net profit before depreciation and amortization in 1H18 improved \$19.4 million from 1H17**



Thank You

Please visit our websites:

www.trecora.com

www.southhamptonnr.com

www.TrecChem.com

www.amak.com.sa

TREC 2Q 2018 Income Statement

TRECORA RESOURCES AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

| | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
|--|------------------------|----------------|------------------------|-----------------|
| | JUNE 30, | | JUNE 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| | (thousands of dollars) | | (thousands of dollars) | |
| REVENUES | | | | |
| Petrochemical and Product Sales | \$ 63,569 | \$ 57,016 | \$ 130,268 | \$ 107,915 |
| Processing Fees | <u>4,537</u> | <u>5,099</u> | <u>9,579</u> | <u>9,742</u> |
| | 68,106 | 62,115 | 139,847 | 117,657 |
| OPERATING COSTS AND EXPENSES | | | | |
| Cost of Sales and Processing (including depreciation and amortization of \$2,837, \$2,363, \$5,667, and \$4,746, respectively) | <u>59,964</u> | <u>51,008</u> | <u>121,565</u> | <u>95,932</u> |
| GROSS PROFIT | 8,142 | 11,107 | 18,282 | 21,725 |
| GENERAL AND ADMINISTRATIVE EXPENSES | | | | |
| General and Administrative | 4,554 | 5,740 | 10,889 | 11,961 |
| Depreciation | <u>191</u> | <u>205</u> | <u>387</u> | <u>410</u> |
| | <u>4,745</u> | <u>5,945</u> | <u>11,276</u> | <u>12,371</u> |
| OPERATING INCOME | 3,397 | 5,162 | 7,006 | 9,354 |
| OTHER INCOME (EXPENSE) | | | | |
| Interest Income | 14 | -- | 21 | -- |
| Interest Expense | (815) | (678) | (1,693) | (1,314) |
| Equity in Earnings (Losses) of AMAK | 228 | (3,298) | 458 | (4,264) |
| Miscellaneous Expense | <u>(13)</u> | <u>(22)</u> | <u>(39)</u> | <u>(64)</u> |
| | <u>(586)</u> | <u>(3,998)</u> | <u>(1,253)</u> | <u>(5,642)</u> |
| INCOME BEFORE INCOME TAXES | 2,811 | 1,164 | 5,753 | 3,712 |
| INCOME TAXES | <u>596</u> | <u>332</u> | <u>1,186</u> | <u>1,393</u> |
| NET INCOME | 2,215 | 832 | 4,567 | 2,319 |
| NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST | -- | -- | -- | -- |
| NET INCOME ATTRIBUTABLE TO TRECORA RESOURCES | <u>\$ 2,215</u> | <u>\$ 832</u> | <u>\$ 4,567</u> | <u>\$ 2,319</u> |
| Basic Earnings per Common Share | | | | |
| Net Income Attributable to Trecora Resources (dollars) | \$ 0.09 | \$ 0.03 | \$ 0.19 | \$ 0.10 |
| Basic Weighted Average Number of Common Shares Outstanding | <u>24,370</u> | <u>24,256</u> | <u>24,354</u> | <u>24,248</u> |
| Diluted Earnings per Common Share | | | | |
| Net Income Attributable to Trecora Resources (dollars) | \$ 0.09 | \$ 0.03 | \$ 0.18 | \$ 0.09 |
| Diluted Weighted Average Number of Common Shares Outstanding | <u>25,014</u> | <u>25,034</u> | <u>25,119</u> | <u>25,044</u> |

TREC Adjusted EBITDA Calculation

(In Thousands)

| | Three months ended | | | | | Twelve months ended | |
|--|--------------------|-----------------|-----------------|-----------------|-----------------|---------------------|------------------|
| | 6/30/2018 | 3/31/2018 | 12/31/2017 | 9/30/2017 | 6/30/2017 | 12/31/2017 | 12/31/2016 |
| NET INCOME (LOSS) | \$ 2,215 | \$ 2,352 | \$ 13,972 | \$ 1,718 | \$ 832 | \$ 18,009 | \$ 19,428 |
| Interest | 815 | 878 | 822 | 795 | 678 | 2,931 | 1,985 |
| Taxes | 596 | 590 | (9,129) | 577 | 332 | (7,159) | 10,504 |
| Depreciation and amortization | 191 | 196 | 217 | 246 | 205 | 872 | 761 |
| Depreciation and amortization in cost of sales | 2,837 | 2,829 | 2,778 | 2,564 | 2,363 | 10,089 | 9,016 |
| EBITDA | 6,654 | 6,846 | 8,660 | 5,900 | 4,410 | 24,742 | 41,694 |
| Share based compensation | (220) | 592 | 702 | 716 | 656 | 2,707 | 2,552 |
| Bargain purchase gain | - | - | - | - | - | - | (11,549) |
| Gain from additional equity issuance by AMAK | - | - | - | - | - | - | (3,168) |
| Equity in losses of AMAK | (228) | (230) | (900) | 897 | 3,298 | 4,261 | 1,479 |
| Adjusted EBITDA | <u>\$ 6,206</u> | <u>\$ 7,208</u> | <u>\$ 8,462</u> | <u>\$ 7,513</u> | <u>\$ 8,364</u> | <u>\$ 31,710</u> | <u>\$ 31,008</u> |
| Revenue | 68,106 | 71,741 | 65,978 | 61,508 | 62,115 | 245,143 | 212,399 |
| Adjusted EBITDA Margin (adjusted EBITDA/revenue) | 9.1% | 10.0% | 12.8% | 12.2% | 13.5% | 12.9% | 14.6% |

TREC Balance Sheet as of 2Q 2018

TRECORA RESOURCES AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

| | JUNE 30, <u>2018</u> (unaudited) | DECEMBER 31, <u>2017</u> |
|---|--|--------------------------------|
| | <i>(thousands of dollars)</i> | |
| ASSETS | | |
| Current Assets | | |
| Cash | \$ 3,387 | \$ 3,028 |
| Trade receivables, net | 26,467 | 25,779 |
| Insurance receivable | 493 | -- |
| Inventories | 17,003 | 18,450 |
| Prepaid expenses and other assets | 5,188 | 4,424 |
| Taxes receivable | <u>1,291</u> | <u>5,584</u> |
| Total current assets | 53,829 | 57,265 |
| Plant, pipeline and equipment, net | 192,084 | 181,742 |
| Goodwill | 21,798 | 21,798 |
| Intangible assets, net | 19,877 | 20,808 |
| Investment in AMAK | 45,452 | 45,125 |
| Mineral properties in the United States | <u>588</u> | <u>588</u> |
| TOTAL ASSETS | <u>\$ 333,628</u> | <u>\$ 327,326</u> |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable | \$ 11,927 | \$ 18,347 |
| Accrued liabilities | 5,638 | 3,961 |
| Current portion of post-retirement benefit | 28 | 305 |
| Current portion of long-term debt | 8,061 | 8,061 |
| Current portion of other liabilities | <u>916</u> | <u>870</u> |
| Total current liabilities | 26,570 | 31,544 |
| Long-term debt, net of current portion | 97,015 | 91,021 |
| Post-retirement benefit, net of current portion | 365 | 897 |
| Other liabilities, net of current portion | 1,297 | 1,611 |
| Deferred income taxes | <u>18,315</u> | <u>17,242</u> |
| Total liabilities | <u>143,562</u> | <u>142,315</u> |
| EQUITY | | |
| Common stock—authorized 40 million shares of \$.10 par value; issued 24.5 million in 2018 and 2017 and outstanding 24.3 million shares in 2018 and 2017 | 2,451 | 2,451 |
| Additional paid-in capital | 56,365 | 56,012 |
| Common stock in treasury, at cost | (61) | (196) |
| Retained earnings | <u>131,022</u> | <u>126,455</u> |
| Total Trecora Resources Stockholders' Equity | 189,777 | 184,722 |
| Noncontrolling Interest | <u>289</u> | <u>289</u> |
| Total equity | <u>190,066</u> | <u>185,011</u> |
| TOTAL LIABILITIES AND EQUITY | <u>\$ 333,628</u> | <u>\$ 327,326</u> |