

August 4, 2016



# Trecora Resources Reports Second Quarter 2016 Results

**Strong Revenue Growth at TC, Up 31.8% Year-over-Year**

**Key Capital Projects Continue on Schedule**

**Conference Call at 4:30 pm ET Today**

SUGAR LAND, Texas, Aug. 4, 2016 /PRNewswire/ -- Trecora Resources (NYSE: TREC) a leading provider of high purity specialty hydrocarbons and waxes, today announced financial results for the second quarter and six months ended June 30, 2016.



## Second Quarter 2016 Highlights

- Net income of \$12.1 million, or \$0.48 per diluted share, compared with net income of \$6.4 million, or \$0.25 per diluted share, for the second quarter of 2015. Net income benefited from a bargain purchase gain on the recently acquired BASF facility ("B Plant") of \$11.5 million and equity in earnings for AMAK of \$1.8 million for an estimated combined impact of \$0.34 per diluted share on an after-tax basis
- Installation of the Aromax<sup>®</sup> Process unit at South Hampton Resources began following receipt of the construction and operating permit from the Texas Commission on Environmental Quality
- Expansion of the custom processing distillation and hydrogenation unit at Trecora Chemical proceeded on schedule with completion expected in January 2017
- Trecora Chemical initiated operations at B Plant with production one month after acquiring the facility from BASF

Trecora President and CEO Simon Uphill-Brown commented, "We achieved solid profitability levels in the second quarter while managing customer maintenance turnarounds, other mostly temporary volume shortfalls, and pricing pressure due to the challenging energy market. At South Hampton Resources, lower volumes and average selling prices impacted revenue, while feedstock cost volatility contributed to a narrowing of gross margins. On the

positive side, we expect continued strong demand from Canadian oil sands projects, and see a growing order pipeline from other international customers. At Trecora Chemical, record wax sales drove strong year-over-year revenue growth. In addition, B Plant immediately demonstrated its value by processing a wax order just weeks after we acquired the facility."

## **Second Quarter Financial 2016 Results**

Total revenue in the second quarter was \$48.9 million, compared with \$59.4 million in the second quarter of 2015. The decline in reported revenue was driven by a 13.3% decrease in petrochemical sales volume, and a 13.1% decrease in the average sales price of petrochemical products, both compared with the second quarter of 2015. The lower average sales price was the result of a 21.4% year-over-year reduction in the average per-gallon cost of petrochemical feedstock, which is the basis for the formula pricing for over 60% of the Company's petrochemical product sales.

Gross profit in the second quarter was \$11.6 million, or 23.7% of total revenues, compared with \$14.6 million, or 24.6% of total revenues, in the second quarter of 2015. Operating income for the second quarter was \$5.9 million, compared with operating income of \$9.5 million for the second quarter of 2015.

Net income for the second quarter was \$12.1 million, or \$0.48 per diluted share, compared with net income of \$6.4 million, or \$0.25 per diluted share, for the second quarter of 2015. Net income benefited from a bargain purchase gain on the recently acquired B Plant of \$11.5 million and equity in earnings for AMAK of \$1.8 million for an estimated combined impact of \$0.34 per diluted share on an after-tax basis. Equity in loss of AMAK in the second quarter of 2015 was \$0.4 million.

Adjusted EBITDA was \$8.9 million, compared with Adjusted EBITDA of \$12.3 million in the year-ago period. Adjusted EBITDA margin was 18.1% in the second quarter of 2016, compared with 20.8% in the second quarter of 2015.

Mr. Uphill-Brown added, "During the quarter, we continued to make significant progress on our capital project initiatives. Construction of the Aromax<sup>®</sup> Process unit is underway and will be completed by the middle of next year; we remain on schedule at TC to complete construction of the hydrogenation and distillation unit in early 2017; and B Plant is being successfully integrated with TC operations.

"These key capital projects, combined with the previously completed D-Train at SHR, are focused at increasing revenue and improving profitability. Our total level of investment of nearly \$100 million was undertaken in anticipation of significant chemical industry expansion that is expected to come on line in the coming years and to allow us to stay ahead of demand for pentanes. We have identified several major polyethylene projects in North America, mostly in the Gulf Coast region, that are expected to startup between 2016 and 2020. High margin custom processing opportunities will likewise grow significantly. We believe our capacity expansions and profitability improvement projects have the potential to drive an additional estimated \$28 million to \$36 million in annual EBITDA beginning in the 2018 to 2020 time frame, which clearly justifies our large capital investment. It is important to note that our capital expenditures return to a maintenance level of approximately \$8 million per year in the second half of 2017. The exciting market environment, combined with our successful track record of serving the largest and most demanding customers in the chemical

industry, is the foundation for driving long-term shareholder value," Mr. Upfill-Brown concluded.

### South Hampton Resources (SHR)

Petrochemical volume in the second quarter was 17.0 million gallons, compared with 19.6 million gallons in the second quarter of 2015. Prime product volume in the second quarter of 2016 was 13.6 million gallons, compared with 15.3 million gallons in the second quarter of 2015. Byproduct volume, which is sold at lower margins, was down 20.6% year-over-year to 3.4 million gallons.

International volume represented 21.4% of total petrochemical volume during the quarter.

#### SHR SEGMENT INFORMATION\*

	THREE MONTHS ENDED		
	<u>JUNE 30,</u>		
	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Product sales	\$ 39,202	\$52,342	(25.1)
Processing fees	2,419	1,521	59.0
Net revenues	41,621	53,863	(22.7)
Operating profit before depreciation and amortization	9,476	12,850	(26.3)
Operating profit	8,048	11,902	(32.4)
Depreciation and amortization	1,428	950	50.3
EBITDA	9,470	12,850	(26.3)
Adjusted EBITDA	9,470	12,850	(26.3)
Capital expenditures	5,739	6,204	(7.5)

\*Dollar amount in thousands

### Trecora Chemical (TC)

In the second quarter, TC generated revenues of \$7.2 million, up 31.8% from \$5.5 million from the second quarter of 2015. TC revenue included \$5.2 million of wax product sales, up 19.5%, and \$2.1 million of custom processing fees, up 77.7%, both compared with the second quarter of 2015.

Excluding the bargain purchase gain from B Plant, TC's Adjusted EBITDA in the second quarter was \$0.7 million, compared with \$0.4 million in the second quarter of 2015.

During the quarter, B Plant initiated its first production run which was a new high purity specialty wax product that could not be handled at TC due to capacity constraints. B Plant continues to review several projects to drive future revenue growth while helping TC achieve significant operating efficiencies.

#### TC SEGMENT INFORMATION\*

	THREE MONTHS ENDED		
	<u>JUNE 30,</u>		
	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Product sales	\$ 5,164	\$4,323	19.5

Processing fees	2,069	1,164	77.7
Net revenues	7,233	5,487	31.8
Operating profit before depreciation and amortization	584	430	35.8
Operating loss	(196)	(732)	73.2
Depreciation and amortization	780	1,161	(32.8)
EBITDA	12,264	400	2966.0
Adjusted EBITDA (excluding bargain purchase gain)	715	400	78.8
Capital expenditures	5,053	2,903	74.1

*\*Dollar amount in thousands*

### **Al Masane Al Kobra Mining Company (AMAK)**

Trecora reported equity in earnings of AMAK of approximately \$1.8 million during the second quarter of 2016. As previously announced, in July AMAK sold 3.75 million shares at \$5.33 per share to provide additional funds for ongoing exploration work and mine start-up activities. Trecora Resources did not participate in the offering, thereby reducing its ownership percentage in AMAK to 33.4% from 35.3%. Exploration and renovation work, including installation of new equipment, continued during the quarter, and zinc and copper production is expected to resume in the fourth quarter of 2016.

### **Year-to-Date 2016 Results**

Total revenue for the six months ended June 30, 2016 was \$101.1 million, compared with revenue of \$114.5 million in the first six months of 2015.

Gross profit for the first six months of 2016 was \$23.3 million, compared with \$29.7 million in the same period in 2015. Gross profit margin in the first six months of 2016 was 23.1%, compared with 26.0% in the same period in 2015.

Net income for the first six months of 2016 was \$19.3 million, compared with \$12.2 million in the same period of 2015. Diluted EPS was \$0.77, compared with \$0.48 in the same period of 2015. Net income benefitted from equity in earnings for AMAK of \$7.2 million and a bargain purchase gain on the acquisition of B Plant of \$11.5 million for an estimated combined impact of \$0.48 per diluted share on an after-tax basis.

Adjusted EBITDA for the first six months of 2016 was \$18.0 million, compared with \$24.9 million in the same period in 2015. Adjusted EBITDA margin in the first six months of 2016 was 17.8%, compared with 21.7% in the same period of 2015.

### **South Hampton Resources (SHR)**

Petrochemical volume in the first half was 37.4 million gallons, compared with 37.7 million gallons in the first half of 2015. Prime product volume in the first half of 2016 was 28.2 million gallons, compared with 29.4 million gallons in the first half of 2015. Byproduct volume, which is sold at lower margins, was down 9.7% year-over-year to 9.2 million gallons.

International volume represented 21.0% of total petrochemical volume during the quarter.

#### **SHR SEGMENT INFORMATION\***

**SIX MONTHS ENDED**

**JUNE 30,**

	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Product sales	\$ 81,826	\$99,525	(17.8)
Processing fees	<u>3,860</u>	<u>3,045</u>	26.8
Net revenues	85,686	102,570	(16.5)
Operating profit before depreciation and amortization	17,886	24,562	(27.2)
Operating profit	15,122	22,519	(32.8)
Depreciation and amortization	2,764	2,043	35.2
EBITDA	17,880	24,602	(27.3)
Adjusted EBITDA	17,880	24,602	(27.3)
Capital expenditures	11,401	13,019	(12.4)

*\*Dollar amount in thousands*

## Trecora Chemical (TC)

In the first half, TC generated revenues of \$15.4 million, up 28.9% from \$11.9 million from the first half of 2015.

### TC SEGMENT INFORMATION\*

	<u>SIX MONTHS ENDED</u>		
	<u>JUNE 30,</u>		
	<u>2016</u>	<u>2015</u>	<u>% Change</u>
Product sales	\$ 9,721	\$7,681	26.6
Processing fees	<u>5,647</u>	<u>4,242</u>	33.1
Net revenues	15,368	11,923	28.9
Operating profit before depreciation and amortization	2,647	2,503	5.8
Operating profit	816	196	316.3
Depreciation and amortization	1,831	2,307	(20.6)
EBITDA	14,321	2,471	479.6
Adjusted EBITDA (excluding bargain purchase gain)	2,772	2,471	12.2
Capital expenditures	6,993	3,831	82.5

*\*Dollar amount in thousands*

## Balance Sheet

As of June 30, 2016, cash and cash equivalents were \$9.3 million, compared with \$18.6 million at the close of 2015. Inventory was \$20.1 million, compared with \$15.8 million at December 31, 2015. Excluding loan fees, total debt was \$78.1 million. Capital expenditures during the second quarter were \$10.8 million including the acquisition of B Plant, the hydrogenation/distillation unit project, the new advanced reformer unit, a new cooling tower, and a new custom processing unit along with various improvements throughout both facilities.

## Earnings Call

Today's conference call and presentation slides will be simulcast live on the Internet, and can be accessed on the investor relations section of the Company's website at <http://www.trecora.com> or at <http://public.viavid.com/index.php?id=120138>. A replay of the call will also be available through the same link.

To participate via telephone, callers should dial in five to ten minutes prior to the 4:30 pm Eastern start time; domestic callers (U.S. and Canada) should call 1-888-510-1765 or 1-719-325-2281 if calling internationally, using the conference ID 5809421. To listen to the

playback, please call 1-877-870-5176 if calling within the United States or 1-858-384-5517 if calling internationally. Use pin number 5809421 for the replay.

### Use of Non-GAAP Measures

The Company reports its financial results in accordance with U.S. generally accepted accounting principles ("GAAP"). This press release contains the non-GAAP measures: Adjusted EBITDA and Adjusted EBITDA Margin. Our non-GAAP measures are not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP.

### Forward-Looking Statements

Statements in this press release that are not historical facts are forward looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based upon our belief, as well as, assumptions made by and information currently available to us. Because such statements are based upon expectations as to future economic performance and are not statements of fact, actual results may differ from those projected. These risks, as well as others, are discussed in greater detail in Trecora Resources' filings with the Securities and Exchange Commission, including Trecora Resources' Annual Report on Form 10-K for the year ended December 31, 2015, and the Company's subsequent Quarterly Reports on Form 10-Q. All forward-looking statements included in this press release are based upon information available to the Company as of the date of this press release.

### About Trecora Resources (TREC)

TREC owns and operates a facility located in southeast Texas, just north of Beaumont, which specializes in high purity hydrocarbons and other petrochemical manufacturing. TREC also owns and operates a leading manufacturer of specialty polyethylene waxes and provider of custom processing services located in the heart of the Petrochemical complex in Pasadena, Texas. In addition, the Company is the original developer and a 33.4% owner of Al Masane Al Kobra Mining Co., a Saudi Arabian joint stock company.

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#### TRECORA RESOURCES AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

	JUNE 30, 2016 (unaudited)	DECEMBER 31, 2015 (thousands of dollars)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 9,346	\$ 18,623
Trade receivables, net	17,581	19,474
Inventories	20,064	15,804
Prepaid expenses and other assets	2,200	2,392
Taxes receivable	4,921	7,672
Deferred income taxes	<u>2,007</u>	<u>2,116</u>

Total current assets	56,119	66,081
<b>Plant, pipeline and equipment, net</b>	122,547	96,907
<b>Goodwill</b>	21,798	21,798
<b>Other intangible assets, net</b>	23,605	24,549
<b>Investment in AMAK</b>	54,865	47,697
<b>Mineral properties in the United States</b>	588	588
<b>Other assets</b>	<u>130</u>	<u>171</u>
<b>TOTAL ASSETS</b>	<u>\$ 279,652</u>	<u>\$ 257,791</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 6,284	\$ 8,090
Current portion of derivative instruments	97	118
Accrued liabilities	4,758	4,062
Current portion of post-retirement benefit	388	294
Current portion of long-term debt	8,061	8,061
Current portion of other liabilities	<u>904</u>	<u>2,050</u>
Total current liabilities	20,492	22,675
<b>Long-term debt, net of current portion</b>	69,138	73,169
<b>Post-retirement benefit, net of current portion</b>	649	649
<b>Derivative instruments, net of current portion</b>	25	59
<b>Other liabilities, net of current portion</b>	2,513	2,351
<b>Deferred income taxes</b>	<u>23,856</u>	<u>16,503</u>
<b>Total liabilities</b>	<u>116,673</u>	<u>115,406</u>
<b>EQUITY</b>		
<b>Common stock</b> -authorized 40 million shares of \$.10 par value; issued and outstanding 24.2 million and 24.1 million shares in 2016 and 2015, respectively	2,451	2,416
<b>Additional paid-in capital</b>	52,213	50,662
<b>Common stock in treasury, at cost 0.3 million shares</b>	(300)	-
<b>Retained earnings</b>	<u>108,326</u>	<u>89,018</u>
Total Trecora Resources Stockholders' Equity	162,690	142,096
Noncontrolling Interest	<u>289</u>	<u>289</u>
<b>Total equity</b>	<u>162,979</u>	<u>142,385</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>\$ 279,652</u>	<u>\$ 257,791</u>

**TRECORA RESOURCES AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

THREE MONTHS ENDED		SIX MONTHS ENDED	
<u>JUNE 30,</u>		<u>JUNE 30,</u>	
<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>

*(thousands of dollars)*

<b>REVENUES</b>				
Petrochemical and Product Sales	\$ 44,366	\$ 56,665	\$ 91,547	\$ 107,206
Processing Fees	<u>4,488</u>	<u>2,685</u>	<u>9,507</u>	<u>7,287</u>
	48,854	59,350	101,054	114,493
<b>OPERATING COSTS AND EXPENSES</b>				
Cost of Sales and Processing (including depreciation and amortization of \$2,028, \$1,939, \$4,247, and \$3,965, respectively)	<u>37,280</u>	<u>44,756</u>	<u>77,709</u>	<u>84,776</u>
<b>GROSS PROFIT</b>	11,574	14,594	23,345	29,717
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>				
General and Administrative	5,491	4,933	10,940	10,108
Depreciation	<u>187</u>	<u>170</u>	<u>364</u>	<u>385</u>
	<u>5,678</u>	<u>5,103</u>	<u>11,304</u>	<u>10,493</u>
<b>OPERATING INCOME</b>	5,896	9,491	12,041	19,224
<b>OTHER INCOME (EXPENSE)</b>				
Interest Expense	(607)	(570)	(1,235)	(1,183)
Bargain purchase gain from acquisition	11,549	-	11,549	-
Equity in Earnings (Losses) of AMAK	1,801	(369)	7,168	(310)
Miscellaneous Income (Expense)	<u>123</u>	<u>(33)</u>	<u>110</u>	<u>(1)</u>
	<u>12,866</u>	<u>(972)</u>	<u>17,592</u>	<u>(1,494)</u>
<b>INCOME BEFORE INCOME TAXES</b>	18,762	8,519	29,633	17,730
<b>INCOME TAXES</b>	<u>6,678</u>	<u>2,145</u>	<u>10,325</u>	<u>5,572</u>
<b>NET INCOME</b>	12,084	6,374	19,308	12,158
<b>NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST</b>	==	==	==	==
<b>NET INCOME ATTRIBUTABLE TO TRECORA RESOURCES</b>	<u>\$ 12,084</u>	<u>\$ 6,374</u>	<u>\$ 19,308</u>	<u>\$ 12,158</u>
<b>Basic Earnings per Common Share</b>				
Net Income Attributable to Trecora Resources (dollars)	\$ 0.49	\$ 0.26	\$ 0.79	\$ 0.50
Basic Weighted Average Number of Common Shares Outstanding	<u>24,504</u>	<u>24,354</u>	<u>24,494</u>	<u>24,331</u>
<b>Diluted Earnings per Common Share</b>				
Net Income Attributable to Trecora Resources (dollars)	\$ 0.48	\$ 0.25	\$ 0.77	\$ 0.48
Diluted Weighted Average Number of Common Shares Outstanding	<u>25,185</u>	<u>25,155</u>	<u>25,135</u>	<u>25,150</u>

**TRECORA RESOURCES AND SUBSIDIARIES**  
**RECONCILIATION OF SELECTED GAAP MEASURES TO NON-GAAP MEASURES(1)**

	Three months ended 06/30/16				Three months ended 06/30/15			
	<u>TC</u>	<u>SHR</u>	<u>CORP</u>	<u>TREC</u>	<u>TC</u>	<u>SHR</u>	<u>CORP</u>	<u>TREC</u>
<b>NET INCOME OR LOSS</b>	\$ 7,443	\$ 6,092	\$ (1,451)	\$ 12,084	\$ (493)	\$ 8,201	\$ (1,334)	\$ 6,374
Add back:								
Interest	-	606	1	607	-	569	1	570



Taxes	4,041	1,344	1,293	6,678	(266)	3,130	(719)	2,145
Depreciation and amortization	16	164	7	187	22	148	-	170
Depreciation and amortization in cost of sales	<u>764</u>	<u>1,264</u>	-	<u>2,028</u>	<u>1,137</u>	<u>802</u>	-	<u>1,939</u>
<b>EBITDA</b>	\$ 12,264	\$ 9,470	\$ (150)	\$ 21,584	\$ 400	\$ 12,850	\$ (2,052)	\$ 11,198
Share based compensation	-	-	627	627	-	-	764	764
Bargain purchase gain	(11,549)	-	-	(11,549)	-	-	-	-
Equity in (earnings) losses of AMAK	-	-	(1,801)	(1,801)	-	-	369	369
<b>Adjusted EBITDA</b>	<u>\$ 715</u>	<u>\$ 9,470</u>	<u>\$ (1,324)</u>	<u>\$ 8,861</u>	<u>\$ 400</u>	<u>\$ 12,850</u>	<u>\$ (919)</u>	<u>\$ 12,331</u>
<b>Revenue</b>	\$ 7,233	\$ 41,621	\$ -	\$ 48,854	\$ 5,487	\$ 53,863	\$ -	\$ 59,350
<b>Adjusted EBITDA Margin (adjusted EBITDA/revenue)</b>	9.9%	22.8%		18.1%	7.3%	23.9%		20.8%

	Six months ended 06/30/16				Six months ended 06/30/15			
	<u>TC</u>	<u>SHR</u>	<u>CORP</u>	<u>TREC</u>	<u>TC</u>	<u>SHR</u>	<u>CORP</u>	<u>TREC</u>
<b>NET INCOME OR LOSS</b>	\$ 8,449	\$ 8,893	\$ 1,966	\$ 19,308	\$ 107	\$ 14,530	\$ (2,479)	\$ 12,158
Add back:								
Interest	-	1,232	3	1,235	-	1,179	4	1,183
Taxes	4,041	4,991	1,293	10,325	57	6,850	(1,335)	5,572
Depreciation and amortization	36	312	16	364	42	343	-	385
Depreciation and amortization in cost of sales	<u>1,795</u>	<u>2,452</u>	-	<u>4,247</u>	<u>2,265</u>	<u>1,700</u>	-	<u>3,965</u>
<b>EBITDA</b>	\$ 14,321	\$ 17,880	\$ 3,278	\$ 35,479	\$ 2,471	\$ 24,602	\$ (3,810)	\$ 23,263
Share based compensation	-	-	1,274	1,274	-	-	1,289	1,289
Bargain purchase gain	(11,549)	-	-	(11,549)	-	-	-	-
Equity in (earnings) losses of AMAK	-	-	(7,168)	(7,168)	-	-	310	310
<b>Adjusted EBITDA</b>	<u>\$ 2,772</u>	<u>\$ 17,880</u>	<u>\$ (2,616)</u>	<u>\$ 18,036</u>	<u>\$ 2,471</u>	<u>\$ 24,602</u>	<u>\$ (2,211)</u>	<u>\$ 24,862</u>
<b>Revenue</b>	\$ 15,368	\$ 85,686	\$ -	\$ 101,054	\$ 11,923	\$ 102,570	\$ -	\$ 114,493
<b>Adjusted EBITDA Margin (adjusted EBITDA/revenue)</b>	18.0%	20.9%		17.8%	20.7%	24.0%		21.7%

(1) This press release includes non-GAAP measures. Our non-GAAP measures are not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP.

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