

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 the quarterly period ended **June 30, 2018**

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER 1-33926



TRECORA RESOURCES

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of  
organization)

**75-1256622**

(I.R.S. employer incorporation or  
identification no.)

**1650 Hwy 6 South, Suite 190**

**Sugar Land, Texas**

(Address of principal executive offices)

**77478**

(Zip code)

Registrant's telephone number, including area code: **(281) 980-5522**

Former name, former address and former fiscal year, if  
changed since last report.

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Date File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer \_\_\_\_\_ Accelerated filer

Non-accelerated filer \_\_\_\_\_ (Do not check if a smaller reporting company) Smaller reporting company \_\_\_\_\_

Emerging growth company \_\_\_\_\_

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. \_\_\_\_\_

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes  No

Number of shares of the Registrant's Common Stock (par value \$0.10 per share), outstanding at August 2, 2018: 24,486,654.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

TRECORA RESOURCES AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	June 30, 2018 (Unaudited)	December 31, 2017
<i>(thousands of dollars)</i>		
<b>ASSETS</b>		
<b>Current Assets</b>		
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	1,291	5,584
Total current assets	53,829	57,265
<b>Plant, pipeline and equipment, net</b>	192,084	181,742
<b>Goodwill</b>	21,798	21,798
<b>Intangible assets, net</b>	19,877	20,808
<b>Investment in AMAK</b>	45,452	45,125
<b>Mineral properties in the United States</b>	588	588
<b>TOTAL ASSETS</b>	\$ 333,628	\$ 327,326
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
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	916	870
Total current liabilities	26,570	31,544
<b>Long-term debt, net of current portion</b>	97,015	91,021
<b>Post-retirement benefit, net of current portion</b>	365	897
<b>Other liabilities, net of current portion</b>	1,297	1,611
<b>Deferred income taxes</b>	18,315	17,242
<b>Total liabilities</b>	143,562	142,315
<b>EQUITY</b>		
<b>Common stock</b> -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
<b>Additional paid-in capital</b>	56,365	56,012
<b>Common stock in treasury, at cost</b>	(61)	(196)
<b>Retained earnings</b>	131,022	126,455
Total Trecora Resources Stockholders' Equity	189,777	184,722
Noncontrolling Interest	289	289
<b>Total equity</b>	190,066	185,011
<b>TOTAL LIABILITIES AND EQUITY</b>	\$ 333,628	\$ 327,326

See notes to consolidated financial statements.

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

	<b>THREE MONTHS ENDED</b>		<b>SIX MONTHS ENDED JUNE</b>	
	<b>JUNE 30,</b>		<b>30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<i>(thousands of dollars)</i>		<i>(thousands of dollars)</i>	
<b>REVENUES</b>				
Petrochemical and Product Sales	\$ 63,569	\$ 57,016	\$ 130,268	\$ 107,915
Processing Fees	4,537	5,099	9,579	9,742
	<u>68,106</u>	<u>62,115</u>	<u>139,847</u>	<u>117,657</u>
<b>OPERATING COSTS AND EXPENSES</b>				
Cost of Sales and Processing (including depreciation and amortization of \$2,837, \$2,363, \$5,667, and \$4,746, respectively)	59,964	51,008	121,565	95,932
	<u>59,964</u>	<u>51,008</u>	<u>121,565</u>	<u>95,932</u>
<b>GROSS PROFIT</b>	8,142	11,107	18,282	21,725
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>				
General and Administrative	4,554	5,740	10,889	11,961
Depreciation	191	205	387	410
	<u>4,745</u>	<u>5,945</u>	<u>11,276</u>	<u>12,371</u>
<b>OPERATING INCOME</b>	3,397	5,162	7,006	9,354
<b>OTHER INCOME (EXPENSE)</b>				
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	(13)	(22)	(39)	(64)
	<u>(586)</u>	<u>(3,998)</u>	<u>(1,253)</u>	<u>(5,642)</u>
<b>INCOME BEFORE INCOME TAXES</b>	2,811	1,164	5,753	3,712
<b>INCOME TAXES</b>	596	332	1,186	1,393
<b>NET INCOME</b>	2,215	832	4,567	2,319
<b>NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST</b>	—	—	—	—
<b>NET INCOME ATTRIBUTABLE TO TRECORA RESOURCES</b>	<u>\$ 2,215</u>	<u>\$ 832</u>	<u>\$ 4,567</u>	<u>\$ 2,319</u>
<b>Basic Earnings per Common Share</b>				
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>
<b>Diluted Earnings per Common Share</b>				
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>

See notes to consolidated financial statements.

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**TRECORA RESOURCES AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)**

	TRECORA RESOURCES STOCKHOLDERS						NON- CONTROLLING INTEREST	TOTAL EQUITY
	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	TREASURY STOCK	RETAINED EARNINGS	TOTAL		
	SHARES <i>(thousands)</i>	AMOUNT						
<b>January 1, 2018</b>	24,311	\$ 2,451	\$ 56,012	\$ (196)	\$ 126,455	\$184,722	\$ 289	\$ 185,011
<b>Stock Options</b>								
Issued to Directors	—	—	(10)	—	—	(10)	—	(10)
Issued to Employees	—	—	154	—	—	154	—	154
Cancellations (see Note 13)	—	—	(680)	—	—	(680)	—	(680)
<b>Restricted Stock Units</b>								
Issued to Directors	—	—	175	—	—	175	—	175
Issued to Employees	—	—	734	—	—	734	—	734
<b>Common Stock</b>								
Issued to Directors	—	—	(78)	37	—	(41)	—	(41)
Issued to Employees	—	—	132	154	—	286	—	286
Stock Exchange (see Notes 8 & 17)	—	—	(65)	(65)	—	(130)	—	(130)
Warrants	—	—	(9)	9	—	—	—	—
Net Income	—	—	—	—	4,567	4,567	—	4,567
<b>June 30, 2018</b>	<b>24,311</b>	<b>\$ 2,451</b>	<b>\$ 56,365</b>	<b>\$ (61)</b>	<b>\$ 131,022</b>	<b>\$189,777</b>	<b>\$ 289</b>	<b>\$ 190,066</b>

See notes to consolidated financial statements.

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**TRECORA RESOURCES AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

	<b>SIX MONTHS ENDED</b>	
	<b>JUNE 30,</b>	
	<b>2018</b>	<b>2017</b>
	<i>(thousands of dollars)</i>	
<b>OPERATING ACTIVITIES</b>		
Net Income	\$ 4,567	\$ 2,319
Adjustments to Reconcile Net Income		
To Net Cash Provided by Operating Activities:		
Depreciation and Amortization	4,941	4,226
Amortization of Intangible Assets	931	931
Unrealized Gain on Derivative Instruments	—	(38)
Stock-based Compensation	372	1,289
Deferred Income Taxes	1,073	505
Postretirement Obligation	(809)	(5)
Equity in (Earnings) Losses of AMAK	(458)	4,264
Bad Debt Expense	128	—
Amortization of Loan Fees	161	61
Changes in Operating Assets and Liabilities:		
Increase in Trade Receivables	(817)	(2,839)
Increase in Insurance Receivables	(493)	—
Decrease in Taxes Receivable	4,293	783
Decrease in Inventories	1,448	2,752
(Increase) Decrease in Prepaid Expenses and Other Assets	(901)	36
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(4,742)	114
Increase in Other Liabilities	104	1,129
<b>Net Cash Provided by Operating Activities</b>	<b>9,798</b>	<b>15,527</b>
<b>INVESTING ACTIVITIES</b>		
Additions to Plant, Pipeline and Equipment	(15,434)	(27,833)
Advances to AMAK, net	(83)	(55)
<b>Cash Used in Investing Activities</b>	<b>(15,517)</b>	<b>(27,888)</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of Common Stock	—	25
Net Cash Received (Paid) Related to Stock-Based Compensation	245	(55)
Addition to Long-Term Debt	16,000	12,000
Repayment of Long-Term Debt	(10,167)	(6,250)
<b>Net Cash Provided by Financing Activities</b>	<b>6,078</b>	<b>5,720</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>359</b>	<b>(6,641)</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>3,028</b>	<b>8,389</b>
<b>CASH AT END OF PERIOD</b>	<b>\$ 3,387</b>	<b>\$ 1,748</b>
Supplemental disclosure of cash flow information:		
Cash payments for interest	\$ 2,394	\$ 2,721
Cash payments for taxes, net of refunds	\$ 92	\$ 220
Supplemental disclosure of non-cash items:		
Capital expansion amortized to depreciation expense	\$ 210	\$ 435
Stock exchange (Notes 8 & 17)	\$ 130	\$ —

See notes to consolidated financial statements.

## TRECORA RESOURCES AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

#### 1. GENERAL

##### *Organization*

Trecora Resources (the "Company") was incorporated in the State of Delaware in 1967. Our principal business activities are the manufacturing of various specialty hydrocarbons and synthetic waxes and the provision of custom processing services. Unless the context requires otherwise, references to "we," "us," "our," and the "Company" are intended to mean Trecora Resources and its subsidiaries.

This document includes the following abbreviations:

- (1) TREC – Trecora Resources
- (2) TOCCO – Texas Oil & Chemical Co. II, Inc. – Wholly owned subsidiary of TREC and parent of SHR and TC
- (3) SHR – South Hampton Resources, Inc. – Petrochemical segment and parent of GSPL
- (4) GSPL – Gulf State Pipe Line Co, Inc. – Pipeline support for the petrochemical segment
- (5) TC – Trecora Chemical, Inc. – Specialty wax segment
- (6) AMAK – Al Masane Al Kobra Mining Company – Mining equity investment – 33% ownership
- (7) PEVM – Pioche Ely Valley Mines, Inc. – Inactive mine - 55% ownership

##### *Basis of Presentation*

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial information and in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these unaudited financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and, therefore, should be read in conjunction with the financial statements and related notes contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

The unaudited condensed financial statements included in this document have been prepared on the same basis as the annual condensed financial statements and in management's opinion reflect all adjustments, including normal recurring adjustments, necessary to present fairly the Company's financial position, results of operations and cash flows for the interim periods presented. We have made estimates and judgments affecting the amounts reported in this document. The actual results that we experience may differ materially from our estimates. In the opinion of management, the disclosures included in these financial statements are adequate to make the information presented not misleading.

Operating results for the six months ended June 30, 2018 are not necessarily indicative of results for the year ending December 31, 2018.

We currently operate in two segments, specialty petrochemical products and specialty synthetic waxes. All revenue originates from United States' sources, and all long-lived assets owned are located in the United States.

In addition, we own a 33% interest in AMAK, a Saudi Arabian closed joint stock company, which owns, operates and is developing mining assets in Saudi Arabia. We account for our investment under the equity method of accounting. See Note 17.

##### *Revenue Recognition*

The Company adopted Financial Accounting Standards Board ("FASB") ASC Topic 606 ("ASC 606"), *Revenue from Contracts with Customers* and its amendments with a date of the initial application of January 1, 2018. As a result, the Company has changed its accounting policy for revenue recognition as detailed below. ASC 606 outlines a single comprehensive model for an entity to use in accounting for revenue arising from all contracts with customers except where revenues are in scope of another accounting standard. ASC 606 superseded the revenue recognition requirements in ASC Topic 605, "Revenue Recognition", and most industry specific guidance. ASC Topic 606 sets forth a five-step model for determining when and how revenue is recognized. Under the model, an entity is required to recognize revenue to depict the transfer of goods or services



to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods and services. ASC 606 also requires certain additional revenue-related disclosures.

The Company applied the modified retrospective approach under ASC 606 which allows for the cumulative effect of adopting the new guidance on the date of initial application. Use of the modified retrospective approach means the Company's comparative periods prior to initial application are not restated. The initial application was applied to all contracts at the date of the initial application. The Company has determined that the adjustments using the modified retrospective approach did not have a material impact on the date of the initial application along with the disclosure of the effect on prior periods.

#### *Accounting Policy*

Beginning on January 1, 2018, revenue is measured based on a consideration specified in a contract with a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. In evaluating when a customer has control of the asset we primarily consider whether the transfer of legal title and physical delivery has occurred, whether the customer has significant risks and rewards of ownership, and whether the customer has accepted delivery and a right to payment exists. Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of product sales and processing. The Company does not offer material rights of return or service-type warranties.

For the six months ended June 30, 2017 the Company recognized revenue according to FASB ASC Topic 605, " *Revenue Recognition*", ("ASC 605"), when (1) the customer accepted delivery of the product and title had been transferred or when the service was performed and the Company had no significant obligations remaining to be performed; (2) a final understanding as to specific nature and terms of the agreed upon transaction had occurred; (3) price was fixed and determinable; and (4) collection was assured. Product sales generally met these criteria, and revenue was recognized, when the product was delivered or title was transferred to the customer. Sales revenue was presented net of discounts, allowances, and sales taxes. Freight costs billed to customers were recorded as a component of revenue. Revenues received in advance of future sales of products or prior to the performance of services were presented as deferred revenues. Shipping and handling costs were classified as cost of product sales and processing and were expensed as incurred.

#### *Nature of goods and services*

The following is a description of principal activities – separated by reportable segments – from which the Company generates its revenue. For more detailed information about reportable segments, disaggregation of revenues, and contract balance disclosures, see Note 14.

#### Petrochemical segment

The petrochemical segment of the Company produces eight high purity hydrocarbons and other petroleum based products including isopentane, normal pentane, isohexane and hexane. These products are used in the production of polyethylene, packaging, polypropylene, expandable polystyrene, poly-iso/urethane foams, crude oil from the Canadian tar sands, and in the catalyst support industry. SHR's petrochemical products are typically transported to customers by rail car, tank truck, iso-container and ship.

**Product Sales** - The Company sells individual (distinct) products to its customers on a stand-alone basis (point-of-sale) without any further integration. There is no significant modification of any one or more products sold to fulfill another promised product or service within any of the Company's product sale transactions. The amount of consideration received for product sales is stated within the executed invoice with the customer. Payment is typically due and collected 30 to 60 days subsequent to point of sale.

**Processing Fees** - The Company's promised services consist of processing customer supplied feedstocks into custom products including, if requested, services for forming, packaging, and arranging shipping. Pursuant to Tolling Agreements the customer retains title to the feedstocks and processed products. The performance obligation in each Tolling Agreement transaction is the processing of customer provided feedstocks into custom products and is satisfied over time. The amount of consideration received for product sales is stated within the executed invoice with the customer. Payment is typically due and collected within 30 days subsequent to point of sale.

### Specialty Wax segment

The specialty wax segment of the Company manufactures and sells specialty polyethylene and poly alpha olefin waxes and also provides custom processing services for customers.

**Product Sales** - The Company sells individual (distinct) products to its customers on a stand-alone basis (point-of-sale) without any further integration. There is no significant modification of any one or more products sold to fulfill another promised product or service within any of the Company's product sale transactions. The amount of consideration received for product sales is stated within the executed invoice with the customer. Payment is typically due and collected within 30 days subsequent to point of sale.

**Processing Fees** - The Company's promised services consist of processing customer supplied feedstocks into custom products including, if requested, services for forming, packaging, and arranging shipping. Pursuant to Tolling Agreements and Purchase Order Arrangements, the customer typically retains title to the feedstocks and processed products. The performance obligation in each Tolling Agreement transaction and Purchase Order Arrangement is the processing of customer provided feedstocks into custom products and is satisfied over time. The amount of consideration received for product sales is stated within the executed invoice with the customer. Payment is typically due and collected within 30 days subsequent to point of sale.

## **2. RECENT ACCOUNTING PRONOUNCEMENTS**

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). ASU 2014-09 supersedes the revenue recognition requirements of FASB Accounting Standards Codification ("ASC") Topic 605, *Revenue Recognition* and most industry-specific guidance throughout the Accounting Standards Codification, resulting in the creation of FASB ASC Topic 606, *Revenue from Contracts with Customers*. ASU 2014-09 requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. This ASU provides alternative methods of retrospective adoption and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company completed its assessment of the impact of the adoption of ASU 2014-09 across all revenue streams. This included reviewing current accounting policies and practices to identify potential differences that would result from applying the requirements under the new standard. We completed contract reviews and validated results of applying the new revenue guidance (Note 1).

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, and has subsequently issued several supplemental and/or clarifying ASUs to increase transparency and comparability among organizations by recognizing all lease transactions (with terms in excess of 12 months) on the balance sheet as a lease liability and a right-of-use asset (as defined). The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with earlier application permitted. Upon adoption, the lessee will apply the new standard retrospectively to all periods presented or retrospectively using a cumulative effect adjustment in the year of adoption. The Company has several lease agreements for which the amendments will require the Company to recognize a lease liability to make lease payments and a right-of-use asset which will represent its right to use the underlying asset for the lease term. The Company is currently reviewing the amendments to ensure it is fully compliant by the adoption date and does not expect to early adopt. As permitted by the amendments, the Company is anticipating electing an accounting policy to not recognize lease assets and lease liabilities for leases with a term of twelve months or less. The Company is in the process of fully evaluating the amendments and will subsequently implement new processes. In addition, the Company will change its current accounting policies to comply with the amendments with such changes as mentioned above.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement — Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. ASU 2018-02 was issued to address the income tax accounting treatment of the stranded tax effects within other comprehensive income due to the prohibition of backward tracing due to an income tax rate change that was initially recorded in other comprehensive income due to the enactment of the Tax Cuts and Jobs Act ("TCJA") on December 22, 2017, which changed the Company's income tax rate from 35% to 21%. The amendments to the ASU changed US GAAP whereby an entity may elect to reclassify the stranded tax effect from accumulated other comprehensive income to retained earnings. The amendments of the ASU may be adopted in total or in part using a full retrospective or modified retrospective method. The amendments of the ASU are effective for periods beginning after December 15, 2018. Early adoption is permitted. The Company believes there will be no material impact to the consolidated financial statements as a result of this update.

In June 2018, the FASB issued ASU No. 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting*. ASU 2018-07 simplifies the accounting for share-based payments to nonemployees by aligning it with the accounting for share-based payments to employees, with certain exceptions. The amendments in this ASU are effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. The Company is assessing the effect of ASU 2018-02 on its consolidated financial statements.

### 3. TRADE RECEIVABLES

Trade receivables, net, consisted of the following:

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
	<i>(thousands of dollars)</i>	
Trade receivables	\$ 26,895	\$ 26,079
Less allowance for doubtful accounts	(428)	(300)
Trade receivables, net	<u>\$ 26,467</u>	<u>\$ 25,779</u>

Trade receivables serves as collateral for our amended and restated credit agreement. See Note 10.

### 4. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets consisted of the following:

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
	<i>(thousands of dollars)</i>	
Prepaid license	\$ 1,919	\$ 1,919
Prepaid catalyst	682	779
Prepaid insurance	115	—
Spare parts	1,349	954
Other prepaid expenses and assets	1,123	772
Total	<u>\$ 5,188</u>	<u>\$ 4,424</u>

### 5. INVENTORIES

Inventories included the following:

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
	<i>(thousands of dollars)</i>	
Raw material	\$ 3,147	\$ 3,703
Work in process	—	27
Finished products	13,856	14,720
Total inventory	<u>\$ 17,003</u>	<u>\$ 18,450</u>

Inventory serves as collateral for our amended and restated credit agreement. See Note 10.

Inventory included petrochemical products in transit valued at approximately \$3.9 million and \$3.7 million at June 30, 2018, and December 31, 2017, respectively.

## 6. PLANT, PIPELINE AND EQUIPMENT

Plant, pipeline and equipment consisted of the following:

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
	<i>(thousands of dollars)</i>	
Platinum catalyst metal	\$ 1,612	\$ 1,612
Land	5,428	5,428
Plant, pipeline and equipment	189,866	186,946
Construction in progress	63,510	50,996
Total plant, pipeline and equipment	260,416	244,982
Less accumulated depreciation	(68,332)	(63,240)
Net plant, pipeline and equipment	\$ 192,084	\$ 181,742

Plant, pipeline, and equipment serve as collateral for our amended and restated credit agreement. See Note 10.

Interest capitalized for construction was approximately \$427,000 and \$287,000 for the three and \$731,000 and \$660,000 for the six months ended June 30, 2018 and 2017, respectively.

Labor capitalized for construction was approximately \$0.9 million and \$0.9 million for the three and \$2.1 million and \$1.6 million for the six months ended June 30, 2018, and 2017, respectively.

Construction in progress during the first six months of 2018 included equipment purchased for various equipment updates at the TC facility; new reformer unit, tankage upgrades, and an addition to the rail spur at SHR.

Amortization relating to the platinum catalyst, which is included in cost of sales, was approximately \$0 and \$0 for the three and \$0 and \$25,000 for the six months ended June 30, 2018 and 2017, respectively.

## 7. GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill and intangible assets were recorded in relation to the acquisition of TC on October 1, 2014.

The following tables summarize the gross carrying amounts and accumulated amortization of intangible assets by major class (in thousands):

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	<b>June 30, 2018</b>		
	Gross	Accumulated Amortization	Net
<i>Intangible assets subject to amortization (Definite-lived)</i>			
Customer relationships	\$ 16,852	\$ (4,213)	\$ 12,639
Non-compete agreements	94	(71)	23
Licenses and permits	1,471	(443)	1,028
Developed technology	6,131	(2,299)	3,832
	<u>24,548</u>	<u>(7,026)</u>	<u>17,522</u>
<i>Intangible assets not subject to amortization (Indefinite-lived)</i>			
Emissions Allowance	197	—	197
Trade name	2,158	—	2,158
<b>Total</b>	<b>\$ 26,903</b>	<b>\$ (7,026)</b>	<b>\$ 19,877</b>

	<b>December 31, 2017</b>		
	Gross	Accumulated Amortization	Net
<i>Intangible assets subject to amortization (Definite-lived)</i>			
Customer relationships	\$ 16,852	\$ (3,651)	\$ 13,201
Non-compete agreements	94	(61)	33
Licenses and permits	1,471	(390)	1,081
Developed technology	6,131	(1,993)	4,138
	<u>24,548</u>	<u>(6,095)</u>	<u>18,453</u>
<i>Intangible assets not subject to amortization (Indefinite-lived)</i>			
Emissions Allowance	197	—	197
Trade name	2,158	—	2,158
<b>Total</b>	<b>\$ 26,903</b>	<b>\$ (6,095)</b>	<b>\$ 20,808</b>

Amortization expense for intangible assets included in cost of sales for the three months ended June 30, 2018, and 2017, was approximately \$465,000 and \$466,000, and for the six months ended June 30, 2018, and 2017, was approximately \$931,000 and \$931,000, respectively.

Based on identified intangible assets that are subject to amortization as of June 30, 2018, we expect future amortization expenses for each period to be as follows (in thousands):

	<b>Total</b>	<b>Remainder of 2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>Thereafter</b>
Customer relationships	\$ 12,639	\$ 562	\$ 1,123	\$ 1,123	1,123	1,123	1,123	\$ 6,462
Non-compete agreements	23	9	14	—	—	—	—	—
Licenses and permits	1,028	53	106	106	101	86	86	490
Developed technology	3,832	307	613	613	613	613	613	460
<b>Total future amortization expense</b>	<b>\$ 17,522</b>	<b>\$ 931</b>	<b>\$ 1,856</b>	<b>\$ 1,842</b>	<b>\$ 1,837</b>	<b>\$ 1,822</b>	<b>\$ 1,822</b>	<b>\$ 7,412</b>

## 8. NET INCOME PER COMMON SHARE ATTRIBUTABLE TO TRECORA RESOURCES

The following table (in thousands, except per share amounts) sets forth the computation of basic and diluted net income per share attributable to Trecora Resources for the three months ended June 30, 2018 and 2017, respectively.

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	Three Months Ended June 30, 2018			Three Months Ended June 30, 2017		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
<b>Basic Net Income per Share:</b>						
Net Income Attributable to Trecora Resources	\$ 2,215	24,370	\$ 0.09	\$ 832	24,256	\$ 0.03
Unvested restricted stock units		349			379	
Dilutive stock options outstanding		295			399	
<b>Diluted Net Income per Share:</b>						
Net Income Attributable to Trecora Resources	\$ 2,215	25,014	\$ 0.09	\$ 832	25,034	\$ 0.03

	Six Months Ended June 30, 2018			Six Months Ended June 30, 2017		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
<b>Basic Net Income per Share:</b>						
Net Income Attributable to Trecora Resources	\$ 4,567	24,354	\$ 0.19	\$ 2,319	24,248	\$ 0.10
Unvested restricted stock units		376			350	
Dilutive stock options outstanding		389			446	
<b>Diluted Net Income per Share:</b>						
Net Income Attributable to Trecora Resources	\$ 4,567	25,119	\$ 0.18	\$ 2,319	25,044	\$ 0.09

At June 30, 2018 and 2017, 924,860 and 1,334,087 shares of common stock, respectively, were issuable upon the exercise of options and warrants.

In first quarter 2018, we completed an exchange of shares with certain shareholders whereby such shareholders traded 65,000 common shares of TREC in exchange for 24,489 shares of our AMAK stock. The 65,000 shares were accounted for as treasury stock.

## 9. ACCRUED LIABILITIES

Accrued liabilities consisted of the following:

	June 30, 2018	December 31, 2017
	<i>(thousands of dollars)</i>	
Accrued state taxes	\$ 295	\$ 272
Accrued property taxes	900	—
Accrued payroll	910	1,407
Accrued interest	31	30
Accrued officer compensation	600	500
Other	2,902	1,752
Total	\$ 5,638	\$ 3,961

## 10. LIABILITIES AND LONG-TERM DEBT

On October 1, 2014, we entered into an Amended and Restated Credit Agreement ("ARC") with the lenders which from time to time are parties to the ARC and Bank of America, N.A., as Administrative Agent for the Lenders, and Merrill Lynch, Pierce, Fenner & Smith Incorporated as Lead Arranger. On March 28, 2017, we entered into a Second Amendment to the ARC with terms which increased the Maximum Consolidated Leverage Ratio financial covenant of 3.25x to 4.00x at March 31, 2017, and 4.25x at June 30, 2017, before stepping down to 3.75x at September 30, 2017, 3.50x at December 31, 2017, and reverting to the original financial covenant of 3.25x at March 31, 2018.

For Fiscal Quarter Ending	Maximum Consolidated Leverage Ratio
March 31, 2017	4.00 to 1.00
June 30, 2017	4.25 to 1.00
September 30, 2017	3.75 to 1.00
December 31, 2017	3.50 to 1.00
March 31, 2018 and each fiscal quarter thereafter	3.25 to 1.00

The Second Amendment also reduced the Minimum Consolidated Fixed Charge Coverage Ratio of 1.25x to 1.10x at March 31, 2017, 1.05x at June 30, 2017 and September 30, 2017, 1.10x at December 31, 2017, before reverting to the original financial covenant of 1.25x at March 31, 2018.

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<b>For Fiscal Quarter Ending</b>	<b>Minimum Consolidated Fixed Charge Coverage Ratio</b>
March 31, 2017	1.10 to 1.00
June 30, 2017	1.05 to 1.00
September 30, 2017	1.05 to 1.00
December 31, 2017	1.10 to 1.00
March 31, 2018 and each fiscal quarter thereafter	1.25 to 1.00

Also, under the terms of the Second Amendment, two additional levels of pricing were added – levels 4 and 5.

<b>Level</b>	<b>Consolidated Leverage Ratio</b>	<b>LIBOR Margin</b>	<b>Base Rate Margin</b>	<b>Commitment Fee</b>
1	Less than 1.50 to 1.00	2.00%	1.00%	0.25%
2	Greater than or equal to 1.50 to 1.00 but less than 2.00 to 1.00	2.25%	1.25%	0.25%
3	Greater than or equal to 2.00 to 1.00 but less than 3.00 to 1.00	2.50%	1.50%	0.375%
4	Greater than or equal to 3.00 to 1.00 but less than 3.50 to 1.00	2.75%	1.75%	0.375%
5	Greater than or equal to 3.50 to 1.00	3.00%	2.00%	0.375%

We were in compliance with all covenants at June 30, 2018.

On July 25, 2017, TOCCO, SHR, GSPL, and TC (SHR, GSPL and TC collectively, the "Guarantors") entered into a Third Amendment to Amended and Restated Credit Agreement ("3rd Amendment") with the lenders which from time to time are parties to the Amended and Restated Credit Agreement (collectively, the "Lenders") and Bank of America, N.A., a national banking association, as Administrative Agent for the Lenders. The 3rd Amendment increased the Revolving Facility from \$40.0 million to \$60.0 million. There were no other changes to the Revolving Facility. Following the effectiveness of the 3rd Amendment, we had a \$60.0 million revolving line of credit with a maturity date of October 1, 2019. As of June 30, 2018, and December 31, 2017, there was a long-term amount of \$45.0 million and \$35.0 million outstanding, respectively. The interest rate on the loan varies according to several options. Interest on the loan is paid monthly and a commitment fee of between 0.25% and 0.375% is due quarterly on the unused portion of the loan. At June 30, 2018, approximately \$14.9 million was available to be drawn; however, only \$10.0 million could be drawn while maintaining compliance with our covenants.

Under the ARC, we also borrowed \$70.0 million in a single advance term loan (the "Acquisition Loan") to partially finance the acquisition of TC. Interest on the Acquisition Loan was payable quarterly using a ten-year commercial style amortization. Principal was also payable on the last business day of each March, June, September and December in an amount equal to \$1.8 million, provided that the final installment would have occurred on the October 1, 2019 maturity date and would have been in an amount equal to the then outstanding unpaid principal balance of the Acquisition Loan. At June 30, 2018, there was a short-term amount of \$7.0 million and a long-term amount of \$36.8 million outstanding. At December 31, 2017, there was a short-term amount of \$7.0 million and a long-term amount of \$40.3 million outstanding.

Under the ARC, we also had the right to borrow \$25.0 million in a multiple advance loan ("Term Loans"). Borrowing availability under the Term Loans ended on December 31, 2015. The Term Loans converted from a multiple advance loan to a "mini-perm" loan once certain obligations were fulfilled such as certification that construction of D-Train was completed in a good and workmanlike manner, receipt of applicable permits and releases from governmental authorities, and receipt of releases of liens from the contractor and each subcontractor and supplier. Interest on the Term Loans was paid monthly. Principal was also payable on the last business day of each March, June, September and December in an amount equal to \$0.3 million, provided that the final installment would have occurred on the October 1, 2019 maturity date and would have been in an amount equal to the then outstanding unpaid principal balance of the Term Loans. At June 30, 2018, there was a short-term amount of \$1.3 million and a long-term amount of \$15.7 million outstanding. At December 31, 2017, there was a short-term amount of \$1.3 million and a long-term amount of \$16.0 million outstanding.

On July 31, 2018, TOCCO and the Guarantors entered into a Fourth Amendment to Amended and Restated Credit Agreement, which, among other things, increased the commitment under the Revolving Facility to \$75.0 million, increased term loan borrowings under the ARC to \$87.5 million in a single term loan facility (the "Term Loan Facility"), comprising new term loan borrowings and the previously outstanding borrowings under the Acquisition Loan and Term Loans, and extended the maturity date of the ARC to July 31, 2023. See Note 20.



Debt issuance costs of approximately \$0.3 million and \$0.5 million for the periods ended June 30, 2018 and December 31, 2017, have been netted against outstanding loan balances. The interest rate on all of the above loans varies according to several options as defined in the ARC. At June 30, 2018, and December 31, 2017, the rate was 4.38% and 4.07%, respectively.

The following table summarizes the carrying amounts and debt issuance costs of our long-term debt (in thousands):

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Acquisition loan	\$ 43,750	\$ 47,250
Term loan	16,666	17,333
Revolving facility	45,000	35,000
Total	105,416	99,583
Debt issuance costs	(340)	(501)
Total long-term debt	\$ 105,076	\$ 99,082
Less current portion including loan fees	8,061	8,061
Total long-term debt, less current portion including loan fees	\$ 97,015	\$ 91,021

## 11. FAIR VALUE MEASUREMENTS

The carrying value of cash, trade receivables, accounts payable, accrued liabilities, and other liabilities approximate fair value due to the immediate or short-term maturity of these financial instruments. The fair value of variable rate long term debt reflects recent market transactions and approximate carrying value. We used other observable inputs that would qualify as Level 2 inputs to make our assessment of the approximate fair value of our cash, trade receivables, accounts payable, accrued liabilities, other liabilities and variable rate long term debt. The fair value of the derivative instruments are described below.

### *Interest Rate Swap*

In March 2008 we entered into an interest rate swap agreement with Bank of America related to a \$10.0 million term loan secured by plant, pipeline and equipment. The interest rate swap was designed to minimize the effect of changes in the London InterBank Offered Rate ("LIBOR") rate. We had designated the interest rate swap as a cash flow hedge under ASC Topic 815, *Derivatives and Hedging*. However, due to the ARC, we felt that the hedge was no longer entirely effective. Due to the time required to make the determination and the immateriality of the hedge, we began treating it as ineffective as of October 1, 2014.

We assessed the fair value of the interest rate swap using a present value model that includes quoted LIBOR rates and the nonperformance risk of the Company and Bank of America based on the Credit Default Swap Market (Level 2 of fair value hierarchy).

We have consistently applied valuation techniques in all periods presented and believe we have obtained the most accurate information available for the types of derivative contracts we hold. The agreement terminated in December 2017; therefore, there was no outstanding liability at June 30, 2018, and December 31, 2017. See discussion of our derivative instruments in Note 12.

## 12. DERIVATIVE INSTRUMENTS

### *Interest Rate Swap*

On March 21, 2008, SHR entered into a pay-fixed, receive-variable interest rate swap agreement with Bank of America related to the \$10.0 million (later increased to \$14.0 million) term loan secured by plant, pipeline and equipment. The effective date of the interest rate swap agreement was August 15, 2008, and terminated on December 15, 2017. We received credit for payments of variable rate interest made on the term loan at the loan's variable rates, which are based upon the LIBOR, and paid Bank of America an interest rate of 5.83% less the credit on the interest rate swap. We originally designated the transaction as a cash flow hedge according to ASC Topic 815, *Derivatives and Hedging*. Beginning on August 15, 2008, the derivative instrument was reported at fair value with any changes in fair value reported within other comprehensive income (loss) in the Company's Statement of Stockholders' Equity. We entered into the interest rate swap to minimize the effect of changes in the LIBOR rate.

Due to the new debt agreements associated with the Acquisition, we believed that the hedge was no longer entirely effective. Due to the time required to make the determination and the immateriality of the hedge, we began treating the interest rate swap as ineffective as of October 1, 2014.

### 13. STOCK-BASED COMPENSATION

Stock-based compensation of approximately \$(219,000) and \$656,000 during the three months and \$372,000 and \$1,289,000 during the six months ended June 30, 2018, and 2017, respectively, was recognized.

#### *Restricted Stock Awards*

On January 17, 2018, we awarded 251 shares of restricted stock to an officer at a grant date price of \$13.85. The stock was immediately vested. Compensation expense recognized during the three months ended June 30, 2018, was \$0 and for the six months ended June 30, 2018, was \$5,000.

#### *Restricted Stock Unit Awards*

On February 20, 2018, we awarded approximately 102,000 shares of restricted stock units to officers at a grant date price of \$12.15. One-half of the restricted stock units vest ratably over three years. The other half vests at the end of three years based upon the performance metrics of return on invested capital and earnings per share growth. The number of shares actually granted will be adjusted based upon relative performance to our peers. Compensation expense recognized during the three months ended June 30, 2018, was approximately \$108,000 and for the six months ended June 30, 2018, was \$144,000.

Officer compensation of approximately \$95,000 and \$40,000 during the three months and \$207,000 and \$40,000 during the six months ended June 30, 2018, and 2017, respectively, was recognized related to restricted stock unit awards granted to officers vesting through 2020.

Director compensation of approximately \$81,000 and \$75,000 during the three months and \$165,000 and \$156,000 during the six months ended June 30, 2018, and 2017, respectively, was recognized related to restricted stock unit awards granted to directors vesting through 2020.

Officer compensation of approximately \$79,000 and \$106,000 was recognized during the three months and \$176,000 and \$211,000 during the six months ended June 30, 2018, and 2017, respectively, related to restricted stock unit awards granted to officers. One-half of the restricted stock units vest ratably over three years. The other half vests at the end of the three years based upon the performance metrics of return on invested capital and earnings per share growth. The number of shares actually granted will be adjusted based upon relative performance to our peers.

Employee compensation of approximately \$98,000 and \$108,000 during the three months and \$202,000 and \$215,000 during the six months ended June 30, 2018, and 2017, respectively, was recognized related to restricted stock units with a four years vesting period which was awarded to officers. This restricted stock vests through 2019.

Restricted stock units activity in the first half of 2018 was as follows:

	Shares of Restricted Stock Units	Weighted Average Grant Date Price per Share
Outstanding at January 1, 2018	387,702	\$ 11.39
Granted	102,317	\$ 12.15
Forfeited	(48,631)	\$ 10.88
Vested	(92,513)	\$ 11.79
Outstanding at June 30, 2018	<u>348,875</u>	<u>\$ 11.53</u>

### Stock Option and Warrant Awards

A summary of the status of our stock option awards and warrants is presented below:

	Number of Stock Options & Warrants	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life
Outstanding at January 1, 2018	1,323,587	\$ 7.82	
Granted	—	—	
Exercised	(198,727)	5.43	
Cancelled	(200,000)	3.40	
Forfeited	—	—	
Outstanding at June 30, 2018	924,860	\$ 9.29	4.7
Exercisable at June 30, 2018	924,860	\$ 9.29	4.7

The fair value of the options granted were calculated using the Black Scholes option valuation model with the assumptions as disclosed in prior quarterly and annual filings.

Directors' compensation of approximately \$0 and \$30,000 during the three months and \$0 and \$60,000 during the six months ended June 30, 2018, and 2017, respectively, was recognized related to options to purchase shares vesting through 2017.

Employee compensation of approximately \$0 and \$298,000 during the three months and \$154,000 and \$607,000 during the six months ended June 30, 2018, and 2017, respectively, was recognized related to options with a 4- year vesting period which were awarded to officers and key employees. These options vest through 2018.

Post-retirement compensation of approximately \$679,000 and \$0 during the three months and \$679,000 and \$0 during the six months ended June 30, 2018, and 2017, was reversed related to options awarded to Mr. Hatem El Khalidi in July 2009. On May 9, 2010, the Board of Directors determined that Mr. El Khalidi forfeited these options and other retirement benefits when he made various demands against the Company and other AMAK shareholders which would benefit him personally and were not in the best interests of the Company and its shareholders. The Company was successful in litigating its right to withdraw the options and benefits and as such, these options and benefits were reversed during the second quarter of 2018. See further discussion in Note 19.

See the Company's Annual Report on Form 10-K for the year ended December 31, 2017 for additional information.

## 14. SEGMENT INFORMATION

We operate through business segments according to the nature and economic characteristics of our products as well as the manner in which the information is used internally by our key decision maker, who is our Chief Executive Officer. Segment data may include rounding differences.

Our specialty petrochemical segment includes SHR and GSPL. Our specialty synthetic wax segment is TC. We also separately identify our corporate overhead which includes financing and administrative activities such as legal, accounting, consulting, investor relations, officer and director compensation, corporate insurance, and other administrative costs.

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**Three Months Ended June 30, 2018**

	Petrochemical	Specialty Wax	Corporate	Eliminations	Consolidated
	<i>(in thousands)</i>				
Product sales	\$ 56,135	\$ 7,434	\$ —	\$ —	\$ 63,569
Processing fees	1,685	2,852	—	—	4,537
Total revenues	57,820	10,286	—	—	68,106
Operating profit (loss) before depreciation and amortization	6,095	1,164	(834)	—	6,425
Operating profit (loss)	4,440	(201)	(842)	—	3,397
Profit (loss) before taxes	3,859	(506)	(542)	—	2,811
Depreciation and amortization	1,655	1,365	8	—	3,028
Capital expenditures	3,529	877	—	—	4,406

**Three Months Ended June 30, 2017**

	Petrochemical	Specialty Wax	Corporate	Eliminations	Consolidated
	<i>(in thousands)</i>				
Product sales	\$ 50,508	\$ 6,508	\$ —	\$ —	\$ 57,016
Processing fees	2,071	3,028	—	—	5,099
Total revenues	52,579	9,536	—	—	62,115
Operating profit (loss) before depreciation and amortization	8,761	810	(1,841)	—	7,730
Operating profit (loss)	7,217	(198)	(1,857)	—	5,162
Profit (loss) before taxes	6,598	(269)	(5,165)	—	1,164
Depreciation and amortization	1,544	1,008	16	—	2,568
Capital expenditures	9,021	4,931	—	—	13,952

**Six Months Ended June 30, 2018**

	Petrochemical	Specialty Wax	Corporate	Eliminations	Consolidated
	<i>(in thousands)</i>				
Product sales	\$ 116,420	\$ 13,817	\$ —	\$ 31	\$ 130,268
Processing fees	3,713	6,064	—	(198)	9,579
Total revenues	120,133	19,881	—	(167)	139,847
Operating profit (loss) before depreciation and amortization	14,488	1,554	(2,982)	—	13,060
Operating profit (loss)	11,119	(1,115)	(2,998)	—	7,006
Profit (loss) before taxes	9,913	(1,687)	(2,473)	—	5,753
Depreciation and amortization	3,369	2,669	16	—	6,054
Capital expenditures	13,812	1,622	—	—	15,434

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**Six Months Ended June 30, 2017**

	Petrochemical	Specialty Wax	Corporate	Eliminations	Consolidated
	<i>(in thousands)</i>				
Product sales	\$ 94,899	\$ 13,016	\$ —	—	\$ 107,915
Processing fees	3,559	6,183	—	—	9,742
Total revenues	98,458	19,199	—	—	117,657
Operating profit (loss) before depreciation and amortization	16,975	1,555	(4,020)	—	14,510
Operating profit (loss)	13,875	(469)	(4,052)	—	9,354
Profit (loss) before taxes	12,601	(559)	(8,330)	—	3,712
Depreciation and amortization	3,100	2,024	32	—	5,156
Capital expenditures	17,777	10,056	—	—	27,833

**June 30, 2018**

	Petrochemical	Specialty Wax	Corporate	Eliminations	Consolidated
	<i>(in thousands)</i>				
Trade receivables, product sales	\$ 20,377	\$ 3,639	\$ —	\$ —	\$ 24,016
Trade receivables, processing fees	671	1,780	—	—	2,451
Goodwill and intangible assets, net	—	41,675	—	—	41,675
Total assets	279,161	115,696	92,857	(154,086)	333,628

**December 31, 2017**

	Petrochemical	Specialty Wax	Corporate	Eliminations	Consolidated
	<i>(in thousands)</i>				
Trade receivables, product sales	\$ 20,211	\$ 2,671	\$ —	\$ —	\$ 22,882
Trade receivables, processing fees	983	1,914	—	—	2,897
Goodwill and intangible assets, net	—	42,606	—	—	42,606
Total assets	265,213	117,579	97,880	(153,346)	327,326

**15. INCOME TAXES**

We file an income tax return in the U.S. federal jurisdiction and a margin tax return in Texas. We received notification from the Internal Revenue Service ("IRS") in November 2016 that the December 31, 2014, tax return was selected for audit. In April 2017 the audit was expanded to include the year ended December 31, 2015, to review the refund claim related to research and development activities. We received notification from the IRS in March 2018 that audit was complete and acceptance of the refund claims resulting from the R&D credit for approximately \$350,000, which has now been received. We also received notification that Texas will audit our R&D credit calculations for 2014 and 2015. We are in the process of submitting additional documentation to Texas. We do not expect any changes related to the Texas audit. Tax returns for various jurisdictions remain open for examination for the years 2014 through 2017. As of June 30, 2018 and December 31, 2017, respectively, we recognized no adjustment for uncertain tax positions or related interest and penalties.

The effective tax rate varies from the federal statutory rate of 21% primarily as a result of state tax expense and stock based compensation for the three and six months ended June 30, 2018. The effective tax rate varies from the federal statutory rate of 35% primarily as a result of state tax expense and stock option based compensation offset by the manufacturing deduction for the three and six months ended June 30, 2017. We continue to maintain a valuation allowance against certain deferred tax assets where realization is not certain.

On December 22, 2017, Public Law No. 115-97 known as the TCJA was enacted. The TCJA includes a number of changes to existing U.S. tax laws that impact the Company, most notably a reduction of the U.S. federal corporate income tax rate from a maximum of 35% to a flat 21% for tax years effective January 1, 2018. The TCJA also implements a territorial tax system, provides for a one-time deemed repatriation tax on unrepatriated foreign earnings, eliminates the alternative minimum tax (AMT), makes AMT credit carryforwards refundable, and permits the acceleration of depreciation for certain assets placed into service after September 27, 2017. In addition, the TJCA creates prospective changes beginning in 2018, including repeal of the domestic

manufacturing deduction, acceleration of tax revenue recognition, capitalization of research and development expenditures, additional limitations on executive compensation and limitations on the deductibility of interest.

We have elected to recognize the income tax effects of the TCJA in our financial statements in accordance with Staff Accounting Bulletin 118 (SAB 118), which provides guidance for the application of ASC Topic 740 *Income Taxes*, in the reporting period in which the TCJA was signed into law. Under SAB 118 when a Company does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the TCJA, it will recognize provisional amounts if a reasonable estimate can be made. If a reasonable estimate cannot be made, then no impact is recognized for the effect of the TCJA. SAB 118 permits an up to one year measurement period to finalize the measurement of the impact of the TCJA.

We have recognized the provisional tax impacts related to the acceleration of depreciation and included these amounts in our consolidated financial statements for the three and six months ended June 30, 2018. The ultimate impact may differ from these provisional amounts, possibly materially, due to, among other things, additional analysis, changes in interpretations and assumptions the we have made, additional regulatory guidance that may be issued, and actions we may take as a result of the TCJA . We did not identify items for which the income tax effects of the TCJA have not been completed, and a reasonable estimate could not be determined as of June 30, 2018, and December 31, 2017, except for changes in estimates that can result from finalizing the filing of the 2017 U.S. income tax return, which are not anticipated to be material.

## 16. POST-RETIREMENT OBLIGATIONS

In January 2008 an amended retirement agreement was entered into with Mr. Hatem El Khalidi; however, on May 9, 2010, the Board of Directors terminated the agreement due to actions of Mr. El Khalidi. See Notes 13 and 19. All amounts which had not met termination dates remained recorded until a resolution was achieved. The matter was resolved on May 25, 2018 and as of June 30, 2018, post-retirement obligations of approximately \$1.0 million for Mr. El Khalidi have been reversed. As of December 31, 2017, approximately 1.0 million remained outstanding and was included in post-retirement benefits.

In July 2015 we entered into a retirement agreement with former CEO, Nicholas Carter. As of June 30, 2018 and December 31, 2017, approximately \$0.2 million and \$0.3 million, respectively, remained outstanding and was included in post-retirement obligations.

In June 2018 we entered into a retirement agreement with former VP, Accounting & Compliance, Connie Cook. As of June 30, 2018, approximately \$0.2 million remained outstanding and was included in post-retirement obligations.

See the Company's Annual Report on Form 10-K for the year ended December 31, 2017 for additional information.

## 17. INVESTMENT IN AMAK

In first quarter 2018, we completed an exchange of shares with certain shareholders whereby such shareholders traded 65,000 common shares of TREC in exchange for 24,489 shares of our AMAK stock. The 65,000 shares were accounted for as treasury stock. This transaction reduced our ownership percentage from 33.44% to 33.41%.

As of June 30, 2018, and December 31, 2017, the Company had a non-controlling equity interest of 33.4% in AMAK of approximately \$45.5 million and \$45.1 million, respectively. This investment is accounted for under the equity method. There were no events or changes in circumstances that may have an adverse effect on the fair value of our investment in AMAK at June 30, 2018.

AMAK's financial statements were prepared in the functional currency of AMAK which is the Saudi Riyal ("SR"). In June 1986 the SR was officially pegged to the U. S. Dollar ("USD") at a fixed exchange rate of 1 USD to 3.75 SR.

The summarized results of operation and financial position for AMAK are as follows:

## Results of Operations

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	2018	2017	2018	2017
	<i>(thousands of dollars)</i>		<i>(thousands of dollars)</i>	
Sales	\$ 19,494	\$ —	\$ 33,581	\$ 2,256
Cost of sales	16,555	8,901	29,061	12,463
Gross profit (loss)	\$ 2,939	\$ (8,901)	\$ 4,520	\$ (10,207)
General, administrative and other expenses	3,265	1,971	5,166	4,559
Net Loss	\$ (326)	\$ (10,872)	\$ (646)	\$ (14,766)
Depreciation and amortization	8,281	7,609	15,982	10,664
Net income (loss) before depreciation and amortization	\$ 7,955	\$ (3,263)	\$ 15,336	\$ (4,102)

## Financial Position

	<b>June 30,</b>	<b>December 31,</b>
	2018	2017
	<i>(thousands of dollars)</i>	
Current assets	\$ 33,273	\$ 23,333
Noncurrent assets	228,733	237,875
Total assets	\$ 262,006	\$ 261,208
Current liabilities	\$ 22,873	\$ 24,439
Long term liabilities	71,520	68,837
Shareholders' equity	167,613	167,932
	\$ 262,006	\$ 261,208

The equity in the income or loss of AMAK reflected on the consolidated statements of income for the three months and six months ended June 30, 2018, and 2017, is comprised of the following:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	2018	2017	2018	2017
	<i>(thousands of dollars)</i>		<i>(thousands of dollars)</i>	
AMAK Net Loss	\$ (326)	\$ (10,872)	\$ (646)	\$ (14,766)
Company's share of loss reported by AMAK	\$ (109)	\$ (3,635)	\$ (216)	\$ (4,938)
Amortization of difference between Company's investment in AMAK and Company's share of net assets of AMAK	337	337	674	674
Equity in earnings (loss) of AMAK	\$ 228	\$ (3,298)	\$ 458	\$ (4,264)

See our Annual Report on Form 10-K for the year ended December 31, 2017 for additional information.

At June 30, 2018, and December 31, 2017, we had a receivable from AMAK of approximately \$204,000 and \$121,000, respectively, relating to unreimbursed travel and Board expenses which are included in prepaid and other assets. We did not advance any cash to AMAK during 2018.

## 18. RELATED PARTY TRANSACTIONS

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Consulting fees of approximately \$0 were incurred during the three months and \$27,000 during the six months ended June 30, 2017, from IHS Global FZ LLC of which Company director Gary K Adams held the position of Chief Advisor – Chemicals until April 1, 2017.

Consulting fees of approximately \$19,000 and \$18,000 were incurred during the three months and \$50,000 and \$37,000 during the six months ended June 30, 2018, and 2017, respectively, from our Executive Chairman, Nicholas Carter. Due to his history and experience with the Company and to provide continuity after his retirement, a three year consulting agreement was entered into with Mr. Carter in July 2015. In March 2018, a new consulting agreement was entered into with Mr. Carter effective through December 31, 2018, unless otherwise agreed by the Company and Mr. Carter.

## **19. COMMITMENTS AND CONTINGENCIES**

### **Guarantees**

On October 24, 2010, we executed a limited Guarantee in favor of the Saudi Industrial Development Fund ("SIDF") whereby we agreed to guaranty up to 41% of the SIDF loan to AMAK in the principal amount of 330.0 million Saudi Riyals (US\$88.0 million) (the "Loan"). The term of the loan was originally through June 2019. As a condition of the Loan, SIDF required all shareholders of AMAK to execute personal or corporate Guarantees; as a result, our guarantee is for approximately 135.3 million Saudi Riyals (US\$36.1 million). The loan was necessary to continue construction of the AMAK facilities and provide working capital needs. We received no consideration in connection with extending the guarantee and did so to maintain and enhance the value of its investment. On July 8, 2018, the SIDF loan was amended to adjust the repayment schedule and extend the repayment terms through April 2024. Under the new payment terms the current amount due to SIDF in 2019 is \$8,000,000. The total amount outstanding to the SIDF at June 30, 2018, was 305.0 million Saudi Riyals (US\$81.3 million).

### **Operating Lease Commitments**

We have operating leases for the rental of railcars, office space, and equipment with expiration dates through 2026. Rental expense for these operating leases for the three months ended June 30, 2018, and 2017, was \$1.0 million and \$0.8 million, respectively, and for the six months ended June 30, 2018, and 2017, was \$2.1 million and \$1.6 million, respectively.

### **Litigation**

On March 21, 2011, Mr. El Khalidi filed suit against the Company in Texas alleging breach of contract and other claims. The 88th Judicial District Court of Hardin County, Texas dismissed all claims and counterclaims for want of prosecution in this matter on July 24, 2013. The Ninth Court of Appeals subsequently affirmed the dismissal for want of prosecution and the Supreme Court of Texas denied Mr. El Khalidi's petition for review. On May 1, 2014, Mr. El Khalidi refiled his lawsuit against the Company for breach of contract and defamation in the 356th Judicial District Court of Hardin County, Texas. The case was transferred to the 88th Judicial District Court of Hardin County, Texas. The Trial Court dismissed all of Mr. El Khalidi's claims and causes of action with prejudice and the Ninth Court of Appeals affirmed. Mr. El Khalidi filed a petition for review with the Supreme Court of Texas, which was denied April 6, 2018. Mr. El Khalidi filed a motion for rehearing of his petition for review with the Supreme Court of Texas on April 23, 2018. On May 25, 2018, the Supreme Court of Texas denied the motion for rehearing and the matter is considered closed.

The Company is periodically named in legal actions arising from normal business activities. We evaluate the merits of these actions and, if we determine that an unfavorable outcome is probable and can be reasonably estimated, we will establish the necessary reserves. We are not currently involved in legal proceedings that could reasonably be expected to have a material adverse effect on our business, prospects, financial condition or results of operations. We may become involved in material legal proceedings in the future.

### **Supplier Agreements**

From time to time, we may incur shortfall fees due to feedstock purchases being below the minimum amounts prescribed by our agreements with our suppliers. Shortfall fee expenses for the three months ended June 30, 2018, and 2017, were \$0.4 million and \$0.9 million, respectively, and for the six months ended June 30, 2018, and 2017, were \$0.5 million and \$1.8 million, respectively.

### **Environmental Remediation**



Amounts charged to expense for various activities related to environmental monitoring, compliance, and improvements were approximately \$154,000 and \$160,000 for the three months ended and \$303,000 and \$325,000 for the six months ended June 30, 2018, and 2017, respectively.

## 20. SUBSEQUENT EVENTS

On July 31, 2018, TOCCO and the Guarantors entered into a Fourth Amendment to Amended and Restated Credit Agreement (“4th Amendment”) with the lenders party thereto, Bank of America, N.A., as Administrative Agent, Swingline Lender and L/C Issuer, and Citibank, N.A., as an L/C Issuer. Pursuant to 4th Amendment, the commitment under the Revolving Facility of the ARC was increased from \$60.0 million to \$75.0 million. TOCCO also increased total term loan borrowings under the ARC to \$87.5 million in the Term Loan Facility, comprising new term loan borrowings and the previously outstanding borrowings under the Acquisition Loan and Term Loans. Proceeds of the new borrowings under the Term Loan Facility were used to repay a portion of the outstanding borrowings under the Revolving Facility and pay fees and expenses of the transaction. The 4th Amendment also increased the size of the accordion feature allowing TOCCO to request an increase in the commitment under the Revolving Facility and/or the Term Loan Facility by an additional amount of up to \$50.0 million in the aggregate, subject to the lenders acceptance of any increased commitment and certain other conditions. As of the date of this Quarterly Report on Form 10-Q, there was approximately \$19.0 million in borrowings outstanding under the Revolving Facility and \$87.5 million in borrowings under the Term Loan Facility. The Fourth Amendment to the Amended and Restated Credit Agreement increased our available revolving borrowing capacity to approximately \$55.9 million.

Pursuant to the 4th Amendment, the maturity date for borrowings under the ARC was extended from October 1, 2019 to July 31, 2023. The interest rates margins applicable to borrowings under the ARC were also reduced to LIBOR plus an applicable margin ranging from 1.25% to 2.25% or, at the option of TOCCO, the base rate plus an applicable margin ranging from 0.25% to 1.25%, in each case, with the applicable margin being determined based on the Consolidated Leverage Ratio (as defined in the ARC) of TOCCO. A commitment fee between 0.20% and 0.30% is also payable quarterly on the unused portion of the Revolving Facility. Borrowings under the Term Loan Facility continue to be subject to quarterly amortization payments based on a commercial style amortization method over a twenty year period; *provided* that the final principal installment will be paid on the maturity date and will be in an amount equal to the outstanding borrowings under the Term Loan Facility on such date.

The Fourth Amendment also modified certain covenants and other provisions of the ARC to provide us with additional flexibility, including (i) increasing the maximum Consolidated Leverage Ratio that must be maintained by TOCCO to 3.50 to 1.00 (subject to temporary increase following certain acquisitions), with compliance to begin with the quarter ended December 31, 2018, (ii) decreasing the minimum Consolidated Fixed Charge Coverage Ratio (as defined in the ARC) that must be maintained by TOCCO to 1.15 to 1.00 and (iii) eliminating the requirement that TOCCO maintain a minimum asset coverage ratio.

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

### FORWARD LOOKING AND CAUTIONARY STATEMENTS

Some of the statements and information contained in this Quarterly Report on Form 10-Q may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, including the following: a downturn in the economic environment; the Company's failure to meet growth and productivity objectives; fluctuations in revenues and purchases; impact of local legal, economic, political and health conditions; adverse effects from environmental matters, tax matters and the Company's pension plans; ineffective internal controls; the Company's use of accounting estimates; competitive conditions; the Company's ability to attract and retain key personnel and its reliance on critical skills; impact of relationships with critical suppliers; currency fluctuations; impact of changes in market liquidity conditions and customer credit risk on receivables; the Company's ability to successfully manage acquisitions and alliances; general economic conditions domestically and internationally; insufficient cash flows from operating activities; difficulties in obtaining financing; outstanding debt and other financial and legal obligations; industry cycles; specialty petrochemical product and mineral prices; feedstock availability; technological developments; regulatory changes; 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 report, all of which are difficult to predict and many of which are beyond the Company's control.

### Overview

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The following discussion and analysis of our financial results, as well as the accompanying unaudited consolidated financial statements and related notes to consolidated financial statements to which they refer, are the responsibility of our management. Our accounting and financial reporting fairly reflect our business model which is based on the safe manufacturing and marketing of petrochemical products and synthetic waxes. Our business model involves the manufacture and sale of tangible products and the provision of custom processing services. Our consistent approach to providing high purity products and quality services to our customers has helped to maintain our current position as a preferred supplier of various petrochemical products.

The discussion and analysis of financial condition and the results of operations which appears below should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements which appear in our Annual Report on Form 10-K for the year ended December 31, 2017.

We believe we are well-positioned to benefit from capital investments that we have recently completed. As a result of the D-Train expansion which was completed in 2014, we now have sufficient pentane capacity to readily maintain our share of market growth for the foreseeable future. Both the advanced reformer unit and the hydrogenation/distillation project will contribute to increased revenue and gross margin over time. While petrochemical prices are volatile on a short-term basis and volumes depend on the demand of our customers' products and overall customer efficiency, our investment decisions are based on our long-term business outlook.

In February 2018, while attempting to commission the advanced reformer, the unit overheated and ignited a fire. There was damage to all six heaters in the unit, and the damaged equipment had to be replaced. The total repair cost was approximately \$3.5 million. Our insurers agreed to cover costs over our \$1 million deductible. In the second quarter we received an initial advance payment of approximately \$2 million, and we expect to receive the balance in the third quarter.

On July 9, 2018, we announced the safe and successful start up of our advanced reformer unit at our Silsbee facility.

We continue to emphasize operational excellence and our competitive advantages achieved through our high quality products and outstanding customer service and responsiveness. Consistent with these objectives, we strengthened our management team with the recent appointments of Chief Manufacturing Officer and Executive Vice President, Commercial.

## **Review of Second Quarter 2018 Results**

We reported second quarter 2018 earnings of \$2.2 million up from \$0.8 million from second quarter 2017. Diluted earnings per share of \$0.09 were reported for 2018, up from \$0.03 in 2017. Sales volume of our petrochemical products decreased 5.3%, and sales revenue from our petrochemical products increased 10.8% as compared to second quarter 2017. Prime product petrochemical sales volumes (which exclude by-product sales) were down 1.2% over second quarter 2017. Wax sales revenue was up 15.3% compared to second quarter 2017. Treco Resources gross profit margin decreased to 12.0% of sales in second quarter 2018 from 17.9% in second quarter 2017.

## **Non-GAAP Financial Measures**

We include in this Quarterly Report on Form 10-Q the non-GAAP financial measures of EBITDA, Adjusted EBITDA and Adjusted Net Income and provide reconciliations from our most directly comparable GAAP financial measures to those measures.

We define EBITDA as net income plus interest expense including derivative gains and losses, income taxes, depreciation and amortization. We define Adjusted EBITDA as EBITDA plus share-based compensation, plus or minus equity in AMAK's earnings and losses or gains from equity issuances and plus or minus gains or losses on acquisitions. We define Adjusted Net Income as net income plus or minus tax effected equity in AMAK's earnings and losses and plus or minus tax effected gains or losses on acquisitions. These measures are not measures of financial performance or liquidity under GAAP and should be considered in addition to, not as a substitute for, net income (loss), nor as an indicator of cash flows reported in accordance with GAAP. These measures are used as supplemental financial measures by management and external users of our financial statements such as investors, banks, research analysts and others. We believe that these non-GAAP measures are useful as they exclude transactions not related to our core cash operating activities.

The following table presents a reconciliation of net income, our most directly comparable GAAP financial performance measure for each of the periods presented, to EBITDA, Adjusted EBITDA, and Adjusted Net Income.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<i>(Thousands of Dollars)</i>				
Net Income	\$ 2,215	\$ 832	\$ 4,567	\$ 2,319
Interest expense	815	678	1,693	1,314
Depreciation and amortization	3,028	2,568	6,054	5,156
Income tax expense	596	332	1,186	1,393
EBITDA	\$ 6,654	\$ 4,410	\$ 13,500	\$ 10,182
Share-based compensation	(220)	656	372	1,289
Equity in (earnings) losses of AMAK	(228)	3,298	(458)	4,264
Adjusted EBITDA	\$ 6,206	\$ 8,364	\$ 13,414	\$ 15,735
Net Income	\$ 2,215	\$ 832	\$ 4,567	\$ 2,319
Equity in (earnings) losses of AMAK	\$ (228)	\$ 3,298	\$ (458)	\$ 4,264
Taxes at statutory rate of 21% for 2018 and 35% for 2017	48	(1,154)	96	(1,492)
Tax effected equity in (earnings) losses	(180)	2,144	(362)	2,772
Adjusted Net Income	\$ 2,035	\$ 2,976	\$ 4,205	\$ 5,091

## Liquidity and Capital Resources

### Working Capital

Our approximate working capital days are summarized as follows:

	June 30, 2018	December 31, 2017	June 30, 2017
Days sales outstanding in accounts receivable	34.3	38.4	38.5
Days sales outstanding in inventory	22.0	27.5	25.4
Days sales outstanding in accounts payable	15.4	27.3	16.7
Days of working capital	40.8	38.5	45.1

Our days sales outstanding in accounts receivable decreased due to an increase in sales volume during January which were paid before quarter end and are, therefore, not reflected in accounts receivable. Our days sales outstanding in inventory decreased also due to the increase in sales volume which reduced inventory on hand. Our days sales outstanding in accounts payable decreased due to construction expenses for the new advanced reformer unit nearing completion. Since days of working capital is calculated using the above three metrics, it increased for the reasons discussed.

Cash increased \$0.4 million during the six months ended June 30, 2018, as compared to a decrease of \$6.6 million for the six months ended June 30, 2017. Our total available liquidity, which includes cash and available revolving borrowing capacity under the ARC, was approximately \$18.4 million and \$37.9 million at June 30, 2018, and December 31, 2017, respectively. The Fourth Amendment to the Amended and Restated Credit Agreement, entered into as of July 31, 2018 as discussed in Note 20, increased our available revolving borrowing capacity to approximately \$55.9 million.

The change in cash is summarized as follows:

	2018	2017
Net cash provided by (used in)	<i>(thousands of dollars)</i>	
Operating activities	\$ 9,798	\$ 15,527
Investing activities	(15,517)	(27,888)
Financing activities	6,078	5,720
Increase (decrease) in cash	\$ 359	\$ (6,641)
Cash	\$ 3,387	\$ 1,748

## **Operating Activities**

Cash provided by operating activities totaled \$9.8 million for the first six months of 2018, \$5.7 million lower than 2017. For the first six months of 2018 net income increased by approximately \$2.25 million as compared to 2017. Major non-cash items affecting 2018 income included increases in deferred taxes of \$1.1 million, depreciation of \$4.9 million and equity in earnings of AMAK of \$0.5 million. Major non-cash items affecting 2017 income included increases in deferred taxes of \$0.5 million, depreciation of \$4.2 million, and equity in losses of AMAK of approximately \$4.3 million.

Factors leading to a decrease in cash provided by operating activities included:

- Insurance receivable increased approximately \$0.5 million (due to a claim filed for the new advanced reformer fire) as compared to no receivable in 2017;
- Prepaid and other assets increased approximately \$0.9 million (primarily due to the inventorying of spare parts) as compared to a decrease of approximately \$36,000 in 2017 (primarily due to a reduction in prepaid insurance); and
- Accounts payable and accrued liabilities decreased \$4.7 million (due to decreased construction expenditures) as compared to an increase of approximately \$0.1 million in 2017 (due to increased construction expenditures).

## **Investing Activities**

Cash used by investing activities during the first six months of 2018 was approximately \$15.5 million, representing a decrease of approximately \$12.4 million over the corresponding period of 2017. During the first six months of 2018, the primary use of capital expenditures was for the the new advanced reformer unit and the addition of a rail spur at the SHR loading facility. During the first six months of 2017, we continued to purchase equipment for the hydrogenation/distillation unit and the new advanced reformer unit along with some tankage and various other facility improvements.

## **Financing Activities**

Cash provided by financing activities during the first six months of 2018 was approximately \$6.1 million versus cash provided of \$5.7 million during the corresponding period of 2017. During 2018, we made principal payments on our acquisition loan of \$3.5 million, our term debt of \$0.7 million, and our line of credit facility of \$6.0 million. We drew \$16.0 million on our line of credit to fund ongoing capital projects. During 2017, we made principal payments on our acquisition loan of \$3.5 million, our term debt of \$0.7 million, and our line of credit facility of \$2.0 million. We drew \$12.0 million on our line of credit to fund ongoing capital projects.

## **Anticipated Cash Needs**

We believe that the Company is capable of supporting its operating requirements and capital expenditures through internally generated funds supplemented with borrowings under our ARC.

## **Results of Operations**

### **Comparison of Three Months Ended June 30, 2018 and 2017**

#### **Specialty Petrochemical Segment**

	2018	2017	Change	% Change
	<i>(thousands of dollars)</i>			
Petrochemical Product Sales	\$ 56,135	\$ 50,508	\$ 5,627	11.1 %
Processing	1,685	2,071	(386)	(18.6)%
Gross Revenue	\$ 57,820	\$ 52,579	\$ 5,241	10.0 %
<b>Volume of Sales (gallons)</b>				
Petrochemical Products	19,733	20,835	(1,102)	(5.3)%
Prime Product Sales	16,092	16,294	(202)	(1.2)%
Cost of Sales	\$ 50,738	\$ 42,571	\$ 8,167	19.2 %
Gross Margin	12.2%	19.0%		(6.8)%
Total Operating Expense**	17,081	15,152	1,929	12.7 %
Natural Gas Expense**	1,328	1,355	(27)	(2.0)%
Operating Labor Costs**	4,755	4,033	722	17.9 %
Transportation Costs**	7,082	6,567	515	7.8 %
General & Administrative Expense	2,480	2,623	(143)	(5.5)%
Depreciation and Amortization*	1,655	1,544	111	7.2 %
Capital Expenditures	\$ 3,529	\$ 9,021	\$ (5,492)	(60.9)%

\*Includes \$1,494 and \$1,376 for 2018 and 2017, respectively, which is included in operating expense

\*\* Included in cost of sales

### Gross Revenue

Gross Revenue for our Specialty Petrochemical segment increased during second quarter 2018 from second quarter 2017 by 10.0% primarily due to an increase in the average selling price of 17.0%, partially offset by a 18.6% decrease in processing revenue.

### Petrochemical Product Sales

Petrochemical product sales increased by 11.1% during second quarter 2018 from second quarter 2017 due to an increase in the the average selling price of 17.0%, which was partially offset by 5.3% decline in petrochemical sales volume due to lower sales of by-products. Prime product sales volume were flat as compared to second quarter 2017. Prime product sales in the second quarter were negatively affected by operating issues at some customers. Average selling price increased as prices for both prime products and by-products increased to offset higher feedstock cost which were up 34% from the second quarter of 2017. It should be noted that by-product are produced as result of prime product production and their margins are significantly lower than margins for our prime products. Our average selling price increased for two reasons. First, by-product selling prices were significantly higher in second quarter 2018 compared to second quarter 2017; and second, a large portion of our prime product sales are contracted with pricing formulas which are tied to prior month Natural Gas Liquid (NGL) prices which is our primary feedstock. Foreign sales volume decreased to 21.5% of total petrochemical volume from 22.1% in second quarter 2017.

### Processing

Processing revenues declined 18.6% in second quarter 2018 from second quarter 2017 primarily due to reduced production for a specific customer as a result of unit downtime for inspection work and related repairs.

### Cost of Sales

Cost of Sales increased 19.2% during second quarter 2018 from 2017 primarily due to the increase in feedstock cost and higher operating expenses at our Silsbee plant. Our average feedstock cost per gallon increased 34% over second quarter 2017 primarily due to an approximately 44% increase in the benchmark price of Mont Belvieu natural gasoline. Our average feedstock cost per gallon for the second quarter 2018 increased 9.4% from the first quarter of 2018. Furthermore during the second quarter feedstock cost per gallon continued to steadily increase month to month. The increase in feedstock costs compressed margins for prime products. We sell our prime products under both formula-based pricing where feedstock costs are passed through to

the customer and spot or non-formula-based pricing which do not have pricing formulas tied to feedstock costs. Formula-based pricing is used to sell the majority of our prime products and typically has a 30 day trailing feed cost basis. This has an unfavorable impact on margins when feedstock prices are rising as we experienced in the quarter. The increase in feedstock costs also compressed margins for the spot, or non-formula, portion of prime product sales. We saw sequential improvement in prime product margins compared to first quarter 2018 as a result of increased prices and better sales mix.

We use natural gasoline as feedstock which is the heavier liquid remaining after ethane, propane and butanes are removed from liquids produced by natural gas wells. The material is a commodity product in the oil/petrochemical markets and generally is readily available. The price of natural gasoline normally correlates approximately 90% with the price of crude oil. We expect our advanced reformer unit to enable us to convert the less valuable components in our feed into higher value products, thereby allowing us to sell our by-products at higher prices.

The decrease in gross margin percentage from 19.0% to 12.2% was due to higher feedstock costs resulting in margin compression for our prime products as well as higher plant operating expenses.

### Total Operating Expense

Total Operating Expense increased 12.7% during second quarter 2018 from 2017. Natural gas, labor, and transportation are the largest individual expenses in this category. The main drivers for the increase in operating expenses were labor costs and transportation costs. Labor costs were up 17.9% in second quarter 2018 from 2017 primarily due to overtime, training and contract labor associated with the start-up of the Advanced Reformer unit. We estimate the additional non-recurring cost associated with the start-up of the Advanced Reformer to be approximately \$1 million. Transportation costs were higher by 7.8% primarily due to an increase in third party freight costs associated with governmental mandates which took effect in the first quarter of 2018, and an increase in the cost of rail freight due to higher shipment volume, higher rail car storage cost at a third-party rail yard as well as higher freight rates.

### Capital Expenditures

Capital Expenditures in the second quarter 2018 were approximately \$3.5 million compared to \$9.0 million in the second quarter 2017 reflecting the completion of the advanced reformer unit project.

### Specialty Wax Segment

	2018	2017	Change	% Change
	<i>(thousands of dollars)</i>			
Product Sales	\$ 7,434	\$ 6,508	\$ 926	14.2 %
Processing	2,852	3,028	(176)	(5.8)%
Gross Revenue	\$ 10,286	\$ 9,536	\$ 750	7.9 %
Volume of wax sales (thousand pounds)	10,544	9,581	963	10.1 %
Cost of Sales	\$ 9,225	\$ 8,437	\$ 788	9.3 %
Gross Margin	10.3%	11.5%		(1.2)%
General & Administrative Expense	1,239	1,275	(36)	(2.8)%
Depreciation and Amortization*	1,365	1,008	357	35.4 %
Capital Expenditures	\$ 877	\$ 4,931	\$ (4,054)	(82.2)%

\*Includes \$1,343 and \$987 for 2018 and 2017, respectively, which is included in cost of sales

### Product Sales

Product sales revenue increased 14.2% during second quarter 2018 from second quarter 2017 as wax sales volume increased 10.1%. Wax sales were constrained by supply issues for our wax feed as well as supply of third party waxes that we distribute in Latin America. Wax sales continue to be limited by supply constraints as opposed to market demand. Our average wax selling price increased 4.4% reflecting our marketing strategy to enhance pricing and improve sales mix. Customer demand continues

to be strong for our higher value waxes including our products for the Hot Melt Adhesives ("HMA") and PVC Lubricant markets. These products are characterized by generally higher margins and growth rates.

### Processing

Processing revenues declined 5.8% during second quarter 2018 from second quarter 2017 as we weren't able to fully meet customer needs due to plant operating issues. B Plant revenues in second quarter 2018 were about \$0.8 million. We believe there are significant opportunities for improving our operational efficiency and customer demand for our custom processing capabilities continues to be strong.

### Cost of Sales

Cost of Sales increased 9.3% during second quarter 2018 from second quarter 2017 primarily due to higher plant operating expenses including higher costs for labor, maintenance, storage and utilities.

### Depreciation

Depreciation increased 35.4% during second quarter 2018 from 2017 primarily due to the hydrogenation/distillation unit coming online in the second and third quarters of 2017.

### Capital Expenditures

Capital Expenditures decreased 82.2% during second quarter 2018 from second quarter 2017 primarily due to a decrease in expenditures for construction in progress including the hydrogenation/distillation project. The project came online in second and third quarters 2017.

### Corporate Segment

	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>% Change</u>
	<i>(in thousands)</i>			
General & Administrative Expense	\$ 834	\$ 1,842	\$ (1,008)	(54.7)%
Equity in earnings (losses) of AMAK	228	(3,298)	3,526	106.9 %

### General and Administrative Expenses

General corporate expenses decreased during second quarter 2018 from second quarter 2017. The decrease is primarily attributable to the cancellation and reversal of stock compensation expense and other post retirement benefits awarded to Mr. Hatem El Khalidi. See further discussion in Note 13 and 19.

### Equity in Earnings (Losses) of AMAK

Equity in earnings (losses) of AMAK increased during second quarter 2018 from second quarter 2017.



## AMAK Summarized Income Statement

	Three Months Ended	
	June 30,	
	2018	2017
	<i>(thousands of dollars)</i>	
Sales	\$ 19,494	\$ —
Cost of sales	16,555	8,901
Gross income (loss)	\$ 2,939	\$ (8,901)
General, administrative and other expenses	3,265	(1,971)
Net income (loss)	\$ (326)	\$ (10,872)
Depreciation and amortization	8,281	7,609
Net income (loss) before depreciation and amortization	\$ 7,955	\$ (3,263)

AMAK continued to make progress in throughput rates, concentrate quality and recoveries. Approximately 14,000 dry metric tons (dmt) of copper and zinc concentrate were shipped in second quarter 2018 as compared to no shipments of copper and zinc concentrate in second quarter 2017. This is an approximately 40% increase in shipments compared to first quarter 2018.

### Comparison of Six Months Ended June 30, 2018 and 2017

#### Specialty Petrochemical Segment

	2018	2017	Change	% Change
	<i>(thousands of dollars)</i>			
Petrochemical Product Sales	116,420	94,899	21,521	22.7 %
Processing	3,713	3,559	154	4.3 %
Gross Revenue	120,133	98,458	21,675	22.0 %
Volume of Sales (gallons)				
Petrochemical Products	43,022	38,159	4,863	12.7 %
Prime Product Sales	33,742	30,186	3,556	11.8 %
Cost of Sales	103,387	78,929	24,458	31.0 %
Gross Margin	13.9%	19.8%		(5.9)%
Total Operating Expense**	32,924	28,121	4,803	17.1 %
Natural Gas Expense**	2,576	2,439	137	5.6 %
Operating Labor Costs**	8,514	7,276	1,238	17.0 %
Transportation Costs**	14,402	12,263	2,139	17.4 %
General & Administrative Expense	5,300	5,319	(19)	(0.4)%
Depreciation and Amortization*	3,369	3,100	269	8.7 %
Capital Expenditures	13,812	17,777	(3,965)	(22.3)%

\*Includes \$3,042 and \$2,452 for 2018 and 2017, respectively, which is included in operating expense

\*\* Included in cost of sales

#### Gross Revenue

Gross Revenue for our Specialty Petrochemical segment increased during the first half of 2018 from the first half of 2017 by 22.0% primarily due to an increase in the volume of 12.7%, an increase in the average selling price of 8.7% and an increase in processing revenue of 4.3%.

#### Petrochemical Product Sales

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Petrochemical product sales increased by 22.7% during the first half of 2018 from the first half of 2017 due to an increase in the volume sold of 12.7% and an increase in the average selling price of 8.7%. Prime product volume increased 11.8% in the first half of 2018 as compared to the first half of 2017. Prime products sales volume in 2018 benefited from strong sales in the first quarter of 2018 while second quarter 2018 prime product sales were flat from second quarter 2017. Due to the need to produce additional prime products to support the increase in sales volume, our by-product volume increased 16% from 2017. By-product margins in 2018 were about flat compared with 2017. It should be noted that by-product margins are significantly lower than margins for our prime products. Our average selling price increased for two reasons. First, by-product selling prices were significantly higher in the first half of 2018 compared to the first half of 2017; and second, a large portion of our prime product sales are contracted with pricing formulas which are tied to prior month Natural Gas Liquid (NGL) prices which is our primary feedstock. Feedstock prices were about 23% higher in the first half of 2018 as compared to the first half of 2017. Foreign sales volume increased to 23% of total petrochemical volume from 21% in the first half of 2017.

### **Processing**

Processing revenues increased 4.3% during the first half of 2018 from 2017 due to some improvement in volumes processed and first step processing for a project that was completed at TC.

### **Cost of Sales**

Our Cost of Sales increased 31.0% during the first half of 2018 from 2017 primarily due to the increase in feedstock cost and volume as well as higher operating expenses. Our average feedstock cost per gallon increased 23% compared to the first half of 2017 primarily due to an approximately 35% increase in the benchmark price of Mont Belvieu natural gasoline, which was partially offset by lower shortfall fees and other delivery costs.

During the first half of 2018, feedstock cost per gallon increased steadily month to month whereas in the first half of 2017 feedstock costs were declining. The increase in feedstock costs compressed margins for prime products. We sell our prime products under both formula-based pricing where feedstock costs are passed through to the customer and spot or non-formula-based pricing which do not have pricing formulas tied to feedstock costs. Formula-based pricing is used to sell the majority of our prime products and typically has a 30 day trailing feed cost basis. This has an unfavorable impact on margins when feedstock prices are rising as we experienced in the first half of 2018. The increase in feedstock costs compressed margins for the spot or non-formula portion of prime product sales.

We use natural gasoline as feedstock which is the heavier liquid remaining after ethane, propane and butanes are removed from liquids produced by natural gas wells. The material is a commodity product in the oil/petrochemical markets and generally is readily available. The price of natural gasoline normally correlates approximately 90% with the price of crude oil. We expect our advanced reformer unit to enable us to convert the less valuable components in our feed into higher value products, thereby allowing us to sell our by-products at higher prices.

The decrease in gross margin from 19.8% to 13.9% was due to higher feedstock costs resulting in margin compression for our prime products as well as higher plant operating expenses.

### **Total Operating Expense**

Total Operating Expense increased 17.1% during the first half of 2018 from 2017. Labor, transportation and natural gas are the largest individual expenses in this category. Labor costs were higher by 17.0% in the first half of 2018 from 2017. Labor costs were higher primarily due to overtime, training and contract labor associated with the start-up of the Advanced Reformer unit. We estimate the additional non-recurring cost associated with the start-up of the Advanced Reformer to be approximately \$1 million. Transportation costs were higher by 17.4% primarily due to an increase in third party freight costs associated with governmental mandates which took effect in the first quarter of 2018, and an increase in the cost of rail freight due to higher shipment volume, higher rail car storage cost at a third-party rail yard as well as higher freight rates.

### **Depreciation**

Depreciation increased 8.7% during the first half of 2018 from 2017.

### **Capital Expenditures**

Capital Expenditures decreased 22.3% during the first half of 2018 from 2017 primarily due to the decline in capital spending for the new advanced reformer unit project which was recently completed. See additional detail above under "Investing Activities".

### **Specialty Wax Segment**

	<b>2018</b>	<b>2017</b>	<b>Change</b>	<b>% Change</b>
	<i>(thousands of dollars)</i>			
Product Sales	\$ 13,817	\$ 13,016	\$ 801	6.2 %
Processing	6,064	6,183	(119)	(1.9)%
Gross Revenue	19,881	19,199	682	3.6 %
Volume of wax sales (thousand pounds)	20,085	20,245	(160)	(0.8)%
Cost of Sales	\$ 18,344	\$ 17,003	\$ 1,341	7.9 %
Gross Margin	7.7%	11.4%		(3.7)%
General & Administrative Expense	2,607	2,622	(15)	(0.6)%
Depreciation and Amortization*	2,669	2,024	645	31.9 %
Capital Expenditures	\$ 1,622	\$ 10,056	\$ (8,434)	(83.9)%

\*Includes \$2,625 and \$1,795 for 2018 and 2017, respectively, which is included in cost of sales

### **Product Sales**

Product sales revenue increased 6.2% during the first half of 2018 from the first half of 2017 as average wax sales price increased approximately 8% while sales volumes were essentially flat. In 2018, wax sales continued to be constrained by supply issues on third party waxes that we distribute in Latin America and also by limited wax feed supply to our plant. Selling prices for wax benefited from our marketing strategy to enhance pricing and improve sales mix. Responding to customer demand, we sold record volumes of our higher value waxes including our products for the Hot Melt Adhesives ("HMA") and PVC Lubricant markets. These products are characterized by generally higher margins and growth rates.

### **Processing**

Processing revenues decreased 1.9% during the first half of 2018 from the first half of 2017. In the first half of 2018, we made progress in correcting operational issues however the plant continued to struggle with consistently and reliably operating the hydrogenation and distillation unit. B Plant revenues in the first half of 2018 were about \$2.14 million, a record level since we acquired it in mid-2016. We believe significant opportunities for improving our operational efficiencies remain.

### **Cost of Sales**

Cost of Sales increased 7.9% during the first half of 2018 from the first half of 2017 primarily due to increases in operations labor, freight, equipment maintenance, storage and utilities.

### **General and Administrative Expense**

General and Administrative costs decreased 0.6% during the first half of 2018 from 2017.

### **Depreciation**

Depreciation increased 31.9% during the first half of 2018 from 2017 primarily due to the hydrogenation/distillation unit coming online.

### **Capital Expenditures**

Capital Expenditures decreased 83.9% during the first half of 2018 from the first half of 2017 primarily due to the completion of the hydrogenation/distillation project which came online in the second and third quarters of 2017.

## Corporate Segment

	2018	2017	Change	% Change
	<i>(in thousands)</i>			
General & Administrative Expense	\$ 2,982	\$ 4,020	\$ (1,038)	(25.8)%
Equity in earnings (losses) of AMAK	458	(4,264)	4,722	110.7 %

### **General and Administrative Expenses**

General corporate expenses decreased during the first half of 2018 from the first half of 2017. The decrease is primarily attributable to the cancellation and reversal of stock compensation expense and other post retirement benefits awarded to Mr. Hatem El Khalidi. See further discussion in Note 13 and 19.

### **Equity in Earnings (Losses) of AMAK**

Equity in earnings (losses) of AMAK increased during the first half of 2018 from the first half of 2017.

### **AMAK Summarized Income Statement**

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	2018	2017
	<i>(thousands of dollars)</i>	
Sales	\$ 33,581	\$ 2,256
Cost of sales	29,061	12,463
Gross income (loss)	\$ 4,520	\$ (10,207)
General, administrative and other expenses	5,166	4,559
Net loss	\$ (646)	\$ (14,766)
Depreciation and amortization	15,982	10,664
Net income (loss) before depreciation and amortization	\$ 15,336	\$ (4,102)

AMAK made significant progress in 2018 in terms of throughput rates, concentrate quality and recoveries. Approximately 24,000 dry metric tons (dmt) of copper and zinc concentrate were shipped in the first half of 2018 as compared to no shipments of copper and zinc concentrate in the first half of 2017.

### **Guarantee of Saudi Industrial Development Fund ("SIDF") Loan to AMAK**

As discussed in Note 19 to the consolidated financial statements, as a condition of the Loan from the SIDF in the principal amount of 330.0 million SR (US\$88.0 million) to AMAK, we were required to execute a Guarantee of up to 41% of the Loan. The decision to provide a limited corporate guarantee in favor of AMAK was difficult as we considered numerous facts and circumstances. One of the factors considered was that without the US\$88.0 million from the SIDF, construction activity on the project would likely have ceased. Another factor considered was that prior to making a firm commitment regarding funding, the SIDF performed its own exhaustive due diligence of the project and obviously reached the conclusion that the project is viable and capable of servicing the debt. Yet another factor considered was our ability to reach agreement with various AMAK Saudi shareholders whereby they agreed to use best efforts to have their personal guarantees stand ahead of and pay required payments to SIDF before our corporate guarantee. Finally, we researched numerous loans made by the SIDF to others and were unable to find a single instance where the SIDF actually called a guarantee or foreclosed on a project. Based on the above, we determined that it was in the best interest of the Company and its shareholders to provide the limited corporate guarantee to facilitate completion of the mining project in a timely manner. We believe, based on our analysis, the actual value of plant and equipment on the ground exceeds any exposure related to the corporate guarantee.

On July 8, 2018, the SIDF loan was amended to adjust the repayment schedule and extend the repayment terms through April 2024. Under the new payment terms the current amount due to SIDF in 2019 is \$8,000,000. The total amount outstanding to the SIDF at June 30, 2018, was 305.0 million Saudi Riyals (US\$81.3 million).

## **Contractual Obligations**

On October 1, 2014, we entered into an Amended and Restated Credit Agreement with the lenders which from time to time are parties to the Amended and Restated Credit Agreement (collectively, the "Lenders") and Bank of America, N.A., a national banking association, as Administrative Agent for the Lenders, and Merrill Lynch, Pierce, Fenner & Smith Incorporated as Lead Arranger. A second amendment was entered into on March 28, 2017 and a third amendment on July 25, 2017. Refer to Note 10 on page 11 of this Form 10-Q for a detailed discussion.

Our contractual obligations are summarized in *Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations,"* in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. Other than our obligations under the Amended and Restated Credit Agreement, there have been no material changes to the contractual obligation amounts disclosed in our annual report on Form 10-K for the fiscal year ended December 31, 2017.

On July 31, 2018, TOCCO and the Guarantors entered into a Fourth Amendment to the Amended and Restated Credit Agreement. See Note 20 of the Form 10-Q for a detailed discussion.

## **Critical Accounting Policies and Estimates**

**Inventories** - Finished products and feedstock are recorded at the lower of cost, determined on the first-in, first-out method (FIFO); or net realizable value for SHR. For TC, inventory is recorded at the lower of cost or net realizable value as follows: (1) raw material cost is calculated using the weighted-average cost method and (2) product inventory cost is calculated using the specific cost method.

Other critical accounting policies are more fully described in Note 2 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2017. The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the period reported. By their nature, these estimates, assumptions and judgments are subject to an inherent degree of uncertainty. We base our estimates, assumptions and judgments on historical experience, market trends and other factors that are believed to be reasonable under the circumstances. Estimates, assumptions and judgments are reviewed on an ongoing basis and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Actual results may differ from these estimates under different assumptions or conditions. Our critical accounting policies have been discussed with the Audit Committee of the Board of Directors. We believe there have been no material changes to our critical accounting policies and estimates compared to those discussed in our Annual Report on Form 10-K for the year ended December 31, 2017.

## **Recent and New Accounting Standards**

See Note 1 and 2 to the Consolidated Financial Statements for a summary of recent accounting guidance.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

### *Derivative Instrument Risk*

See Note 12 to the Consolidated Financial Statements.

### *Interest Rate Risk*

See Note 12 to the Consolidated Financial Statements.

There have been no material changes in the Company's exposure to market risk from the disclosure included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

## **ITEM 4. CONTROLS AND PROCEDURES.**

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- (a) Evaluation of disclosure controls and procedures. Our Chief Executive Officer and Chief Financial Officer, with the participation of management, have evaluated the effectiveness of our "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934) and determined that our disclosure controls and procedures were effective as of the end of the period covered by this report.
- (b) Changes in internal control. There were no significant changes in our internal control over financial reporting that occurred during the six months ended June 30, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS.**

The Company is periodically named in legal actions arising from normal business activities. The Company evaluates the merits of these actions and, if it determines that an unfavorable outcome is probable and can be reasonably estimated, the Company will establish the necessary reserves. We are not currently involved in legal proceedings that could reasonably be expected to have a material adverse effect on our business, prospects, financial condition or results of operations. We may become involved in material legal proceedings in the future.

### **ITEM 1A. RISK FACTORS.**

There have been no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

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## ITEM 6. EXHIBITS.

The following documents are filed or incorporated by reference as exhibits to this Report. Exhibits marked with an asterisk (\*) are filed herewith and exhibits marked with a double asterisk (\*\*) are furnished herewith. Exhibits marked with a plus sign (+) are compensatory plans.

<b>Exhibit Number</b>	<b>Description</b>
3.1	<a href="#">Amended and Restated Certificate of Incorporation of Trecora Resources</a>
3.2	<a href="#">Amended and Restated Bylaws of Trecora Resources</a>
10.1	<a href="#">Fourth Amendment to Amended and Restated Credit Agreement, dated as of July 31, 2018, among Texas Oil &amp; Chemical Co. II, Inc., as Borrower, certain subsidiaries of the Borrower, as Guarantors, the Lenders from time to time party thereto, Citibank, N.A., as an L/C Issuer, and Bank of America, N.A., as Administrative Agent, Swingline Lender and L/C Issuer</a>
10.2*+	<a href="#">Retirement Agreement, dated as of June 7, 2018, between Trecora Resources and Connie J. Cook</a>
10.3*+	<a href="#">Consulting Agreement, dated as of July 1, 2018, between Trecora Resources and Connie J. Cook</a>
31.1**	<a href="#">Certification of Chief Executive Officer pursuant to Rule 13A-14(A) of the Securities Exchange Act of 1934</a>
31.2**	<a href="#">Certification of Chief Financial Officer pursuant to Rule 13A-14(A) of the Securities Exchange Act of 1934</a>
32.1**	<a href="#">Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
32.2**	<a href="#">Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Schema Document
101.CAL*	XBRL Taxonomy Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

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## 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: August 6, 2018 TRECORA RESOURCES

By: /s/Sami Ahmad  
Sami Ahmad  
Principal Financial Officer and Duly Authorized Officer

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May 29, 2018

Connie Cook  
247 PR 8894  
Fred, TX 77616

Re: Trecora Resources Retirement Agreement

Dear Ms. Cook:

This letter agreement (this “**Agreement**”) confirms the arrangements relating to your retirement from Trecora Resources, a Delaware corporation (“**Trecora**” and, together with its subsidiaries, divisions, affiliates, predecessors and successors, the “**Company**”). The material terms and conditions of this Agreement have been approved by the Compensation Committee of the Board of Directors of Trecora.

After June 8, 2018, (your “**Retirement Date**”), you will not be entitled to receive any further payments or benefits from the Company, except as specifically set forth in this Agreement, the Consulting Agreement attached hereto as **Exhibit A**, or except as provided under the indemnity provisions of Trecora’s By-Laws and director and officer and professional liability insurance policies and compensation policies.

**1. Status and Responsibilities.**

(a) Status. Your employment with the Company will continue through, and will cease on the Retirement Date. Effective as of your Retirement Date, you will relinquish your position as Vice President of Accounting and Compliance of Trecora and all other appointments and offices you hold with the Company. Contingent upon your timely signing and not revoking this Agreement, you will be eligible for the payments and benefits continuation described in Section 2. Your employment with the Company will terminate on your Retirement Date.

(b) Responsibilities. Through your Retirement Date, you must remain available to perform services for the Company as Vice President of Accounting and Compliance and must do so in a diligent and professional manner.

**2. Payments and Benefits.**

(a) Base Salary. Your base salary will continue at the current rate, and be paid according to normal payroll procedures, through your Retirement Date.

(b) Annual Bonus. Pursuant to the terms of the Trecora Annual Cash Incentive Plan, you will be eligible for a 2018 annual bonus, calculated pro rata based upon your time of employment during 2018 and paid in the normal course based on Trecora’s actual performance over the entirety of 2018 determined under the same process that applies to other senior executives. The amount of your 2018 annual bonus is subject to approval by the Compensation Committee. You will not be eligible for an annual bonus for 2019 or thereafter.

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(c) Continued Welfare Benefits. You and your spouse will continue to be covered under the Company's following group benefit plans applicable to active employees through your Retirement Date and subject to your benefit elections: medical, dental and life insurance. Beginning on your Retirement Date and until you and your spouse are eligible for Medicare, you and your spouse, Bryan K. Cook, will be provided medical insurance equal to that afforded to active employees on an 80%/20% cost sharing basis. If the Company is unable to provide benefits under the same plan as active employees due to your retiree status, the Company will reimburse you for coverage outside the plan with benefits equivalent to the employee plan. Dental insurance will be provided on the same cost sharing basis as active employees. The coverage benefits will continue on the same basis of those provided to the employees, unless otherwise agreed by both parties. In the event coverage is cancelled for the employees, this coverage will continue on the same cost sharing basis as noted above.

(d) Equity Awards. The Company has provided you with a schedule of your outstanding awards under the 2008 Stock Option Plan of Arabian American Development Company for Key Employees (the "**2008 Plan**") and the 2012 Arabian American Development Company Stock and Incentive Plan (the "**2012 Plan**"), and you and the Company have confirmed the accuracy of that schedule (**Exhibit B**). In accordance with the original terms and conditions of the 2008 and 2012 Plans:

(i) your options to purchase Trecora common stock ("**Options**") awarded under the 2008 Plan that are vested as of your Retirement Date may be exercised at a future date, per agreement of the Board of Directors and will expire upon the applicable expiration date as stated upon issuance;

(ii) your Options to purchase Trecora common stock awarded under the 2012 Plan that are vested as of your Retirement Date and will continue to be exercisable until, and will expire upon, the applicable expiration date, contingent upon your compliance with this Agreement as determined by the Compensation Committee of the Board of Directors of Trecora in their sole discretion; and

(iii) your grant of Trecora restricted common stock units awarded under the 2012 Plan will continue to vest after your Retirement Date through 12/31/2019, contingent upon your compliance with this Agreement as determined by the Compensation Committee of the Board of Directors of Trecora in their sole discretion.

You will not receive a similar equity award in 2019 or thereafter.

(e) Retirement Bonus. On your Retirement Date and in accordance with the Company's policy, Trecora will pay you a retirement bonus in an amount equal to (i) \$1,000.00 for each year you were employed by the Company, plus (ii) \$50,000, to be paid according to normal payroll procedures.

(f) Vacation and Other Benefits. On your Retirement Date and in accordance with the Company's personnel manual, Trecora will address your other benefits such as outstanding vacation.

### **3. Non-Disclosure.**

In the course of your employment with the Company, you have been provided access to and have received and developed Confidential Information. "**Confidential Information**" consists of information relating to the Company's business that derives economic value, actual or potential, from not being generally known to others, including, but not limited to, technical or non-technical data, a formula (including cost and/or pricing formula), pattern (including pricing and discount history), compilation, program, device, method (including cost and/or pricing methods, marketing programs and operating methods), technique, drawing,

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process, financial data, or a list of actual or potential customers or suppliers. You agree that, unless such information has become generally known to others without your assistance or has been independently developed by others without your assistance, you will not use Confidential Information for, or disclose any Confidential Information to, any third party except (i) with the prior written consent of the Company, or (ii) as legally required after notice by you to the Company of such legally required disclosure. You further agree to return all Confidential Information to the Company upon termination of your employment for any reason or upon earlier request of the Company. To the extent that Confidential Information resides on non-Company computers, personal digital assistants, or other digital storage media that you use or to which you have access or in non-Company e-mail accounts, you will so advise the Company upon the termination of your employment for any reason and will follow and cooperate with all instructions provided by the Company with respect to transferring, preserving or eradicating such Confidential Information. You understand that violating any of the above subject you to legal penalties.

**4. Non-Competition and Non-Solicitation.**

(a) You agree that, up through 12 months following your Retirement Date, you will not, without the prior written consent of the Company, either directly or indirectly:

(i) participate or have any interest in, own, manage, operate, control, be connected with as a stockholder, director, officer, employee, partner or consultant, or otherwise engage, invest or participate (collectively, "**Participate**") in any Competing Entity;

(ii) engage in any act injurious to the reputation of the Company or that diverts, or is intended to divert, customers or suppliers from the Company; and

(iii) engage in any act that diverts, or is intended to divert, employees from the Company.

(b) For purposes of this Section 4, in addition to the other terms defined under this Agreement, the following capitalized terms have the following meaning:

(i) "**Competing Entity**" means any firm, corporation or other entity that markets, sells, distributes, develops or produces Covered Products and that competes, anywhere in the United States or in any other country, with any business of the Company.

(ii) "**Covered Products**" means any product that was produced, marketed, sold, licensed or, to your knowledge, under development by a business of the Company.

(c) The provisions of this Section 4 shall not apply to prevent you and your immediate family from collectively being holders of up to 5% in the aggregate of any class of securities of any corporation engaged in the prohibited activities described above, provided that such securities are listed on a national securities exchange or registered under securities laws of Canada or the United States.

**5. Non-Disparagement.**

You agree not to make any derogatory or disparaging remarks, written or verbal, regarding the Company or any of its officers, directors, employees, stockholders, representatives, vendors, suppliers, customers, clients products, services to any third person or otherwise make any comment or communication for the purpose of causing, or reasonably expected to cause, any material harm to the Company's business, business relationships, operations, goodwill, or reputation; provided, however that nothing in this paragraph

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is intended to bar you from giving testimony pursuant to a compulsory legal process or as otherwise required by law.

The Company agrees to advise those individuals who serve as its executive officers as of the Retirement Date not to make any derogatory or disparaging remarks, written or verbal, regarding you to any third person, or otherwise make any comment or communication for the purpose of causing, or reasonably expected to cause, any material harm to you; provided, however that nothing in this paragraph is intended to bar any such person, or the Company, from giving testimony pursuant to a compulsory legal process or as otherwise required by law.

**6. Irreparable Harm, Reasonableness, Other Agreements.**

You acknowledge that a breach or threatened breach by you of the terms of Sections 3, 4 or 5 of this Agreement would result in material and irreparable injury to the Company, and that it would be difficult or impossible to establish the full monetary value of such damage. Therefore, the Company shall be entitled to injunctive relief in the event of any such breach or threatened breach. The undertakings and obligations contained in Sections 3, 4, 5 and 6 shall survive the termination of this Agreement.

You agree that the covenants you have made in Sections 3, 4 and 5 are reasonable with respect to their duration and description.

You acknowledge that Sections 3, 4 and 5 are not intended to supersede or limit your obligations under other agreements, which may be different from those contained in such sections. Other such agreements may include confidentiality, non-disclosure, trade secret or assignment-of-invention agreements previously executed by you in favor of the Company. Any such agreement(s) shall remain in full force and effect.

**7. Future Cooperation.**

You agree that you will provide accurate information or testimony or both in connection with any legal matters, if so requested by the Company. You further agree to make yourself available upon request to provide information and/or testimony, in a formal and/or informal setting in accordance with the Company's request, subject to reasonable accommodation of your schedule and reimbursement of reasonable documented expenses incurred by you, including reasonable and necessary attorney fees (if independent legal counsel is reasonably necessary). Notwithstanding the foregoing, the Company's agreement and obligations pursuant to the foregoing sentence shall be subject to the provisions and limitations set forth in Section 10 of this Agreement.

**8. Releases.**

(a) You agree to release and discharge the Company, and all of its respective past, present and future officers, directors, employees, agents, plans, trusts, administrators, stockholders and trustees (collectively, the "**Released Parties**") from any and all claims, losses or expenses you may have or have had or may later claim to have had against them, whether known or unknown, arising out of anything that has occurred up through the date you sign this Agreement (both initially and on the Retirement Date), including without limitation, any claims, losses or expenses arising out of your employment with or separation from the Company; provided, however, that you expressly do not release or discharge the Company from any claims, losses or expenses you may have for (i) workers' compensation benefits, (ii) all amounts or payments owed to you as contemplated by Section 2 of this Agreement, (iii) the indemnification or insurance described in Section 9 below or (iv) all of your accrued and vested pension benefits, health care, life insurance,

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or disability benefits as determined through the Retirement Date under the Company's applicable and governing plans and programs.

(b) You understand and agree that, except for the claims expressly excluded from this release, you will not be entitled hereafter to pursue any claims arising out of any alleged violation of your rights while employed by the Company, including, but not limited to, claims for reinstatement, back pay, losses or other damages to you or your property resulting from any alleged violations of state or federal law, such as (but not limited to) claims arising under Title VII of the Civil Rights Act of 1964, 42 U.S.C. § 2000e et seq., as amended; (prohibiting discrimination on account of race, sex, national origin or religion); the Worker Adjustment and Retraining Notification Act (requiring that advance notice be given for certain workforce reductions); the Americans With Disabilities Act of 1990, 42 U.S.C. §12101 et seq. (prohibiting discrimination on account of disability); the Family and Medical Leave Act, 29 U.S.C. § 2601 et seq.; the Equal Pay Act, 29 U.S.C. § 206(d); the Employee Retirement Income Security Act of 1974, 29 U.S.C. § 1001 et seq. (protecting employee benefits); as these laws may be amended from time to time; and any other federal, state or local law, rule, regulation, administrative guidance or common law doctrine claim relating to your employment.

(c) Also included among the claims knowingly and voluntarily waived and released by you pursuant to this Agreement are any and all age discrimination, retaliation, harassment, or related claims under the Age Discrimination in Employment Act, 29 U.S.C. § 621, et seq. ("ADEA"), the Texas Commission on Human Rights Act, the Older Workers Benefit Protection Act ("OWBPA"), or any other federal, state, or local law. You and the Company acknowledge and agree that nothing in this Agreement shall apply to any claims under the ADEA or OWBPA that may arise after the date that you sign this Agreement. You acknowledge that the Company provided you with a copy of the Agreement in advance of your execution of the Agreement and advised you by means of this written Agreement as follows:

- i. that you are advised to consult with an attorney of your choosing prior to executing the Agreement;
  - ii. that you have a period of 21 calendar days to review and consider the Agreement before executing it, and that if you sign this Agreement in less than 21 calendar days, then by doing so you voluntarily agreed to waive your right to the full 21-day review period;
  - iii. that changes to this Agreement, whether material or immaterial, will not restart the running of the 21-day review period;
  - iv. that for a period of seven days following your execution of this Agreement, you may revoke the Agreement, and the Agreement shall not become effective or enforceable until this seven-day revocation period expires without you revocation;
  - v. that during the seven-day revocation period, you may revoke the Agreement by providing written notice of revocation sent by personal or courier delivery to the office of the Company's Chief Executive Officer, so that it is received before the seven-day revocation period expires; and
  - vi. that if you fail to sign the Agreement on or before the date that the 21-day review period expires, or if you revoke the Agreement before the expiration of seven-day revocation period, this Agreement shall not become effective or enforceable and you will not be entitled to receive the payments and benefits continuation described in Section 2.
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(d) By signing this Agreement and accepting the benefits provided, you agree that, except for any claims expressly excluded from this release and except as provided in Section 8(f) below, you will not hereafter pursue any claims against the Released Parties for or on account of anything, whether known or unknown, foreseen or unforeseen, which has occurred up to the date you sign this Agreement (both initially and on the Retirement Date) and which relates to your employment with the Company. You understand no section in this Agreement is intended to or shall limit, prevent, impede or interfere with your non-waivable right, without prior notice to the Company, to provide information to the government, participate in investigations, testify in proceedings regarding the Company's past or future conduct, or engage in any activities protected under whistleblower statutes, or to receive and fully retain a monetary award from a government-administered whistleblower award program for providing information directly to a government agency. Notwithstanding the above, unless otherwise prohibited by law, by signing this Agreement, you release and waive your right to claim or recover monetary damages directly from the Company in any charge, complaint, or lawsuit filed by you or by anyone else on your behalf, for any released claims. This release does not include any claims for breach of this Agreement or any claims that may arise after the date you sign this Agreement (both initially and on the Retirement Date). You further represent and warrant that you are not aware of any facts or circumstances which might constitute either a violation of law or a violation of Trecora's Code of Conduct, its corporate policies or justify a claim against the Company for a violation of the Sarbanes-Oxley Act of 2002 and/or the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, and/or any rules, regulations or binding guidance thereunder.

(e) You agree that you and/or your dependents (as applicable) shall no longer be eligible for the continued welfare benefits coverage referenced in Section 2(c) and any and all unexercised stock options and unvested restricted stock grants referenced in Section 2(d) shall be forfeited in the event: (i) the Company terminates your employment for Cause (as defined in Section 8(g) below) prior to your Retirement Date, (ii) you materially breach the terms of this Agreement and fail to cure said breach within sixty (60) days after receipt of written notice from the Company, or (iii) you file or assert any claim related to your employment with, or separation from, the Company against the Released Parties for any reason other than claims for workers compensation benefits, or accrued and vested retirement benefits, health care benefits, life, or disability benefits as determined through the Retirement Date under the Company's applicable and governing plans and programs or for violation of the terms of this Agreement. In addition, you agree to indemnify and hold harmless the Released Parties from any claim, loss or expense (including attorneys' fees) incurred by them arising out of your breach of any portion of this Agreement.

(f) Nothing contained in this Section 8 or in Section 7 is intended to restrict you in any way from (i) making any disclosure of information required by law; (ii) providing information to, or testifying or otherwise assisting in any investigation or proceeding brought by any federal regulatory or law enforcement agency or legislative body, any self-regulatory organization, or the Company's legal, compliance or human resources officers; (iii) filing, testifying or participating in or otherwise assisting in a proceeding relating to an alleged violation of any federal, state or municipal law relating to fraud or any rule or regulation of the Securities and Exchange Commission or any self-regulatory organization; or (iv) filing any claims that are not permitted to be waived or released under the Fair Labor Standards Act or other applicable law.

(g) For purposes of this Agreement, "**Cause**" means any of the following: (i) breaching any obligation to the Company or violating the Company's Code of Conduct, Insider Trading Policy or any other written policies of the Company; (ii) unlawfully trading in the securities of Trecora or of any other company based on information gained as a result of your employment with the Company; (iii) committing a felony or other serious crime; (iv) engaging in any activity that constitutes gross misconduct in the performance of your employment duties; or (v) engaging in any action that constitutes gross negligence or misconduct and that causes or contributes to the need for an accounting adjustment to Trecora's financial results.

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(h) In exchange for the releases in Subsections 8(a) - (f) above, the Company for itself, and on behalf of its affiliates, present and former officers, directors, managers, representatives, employees, predecessors, successors, parent, subsidiaries and sibling corporations and entities, if any, legal representatives, attorneys, agents, and assigns, and any and all persons and/or entities who may purport to claim by or through them, if any, does hereby completely and generally release, remise, acquit, and forever discharge you, your heirs, successors, legal representatives, attorneys, agents, and assigns, and any and all persons and/or entities who purport to claim by or through them, if any, of and from any and all claims, demands, obligations, actions, causes of action, rights, damages, expenses, and requests for compensation, payment or relief the Company may have or has had or may later claim to have had against you, whether known or unknown, arising out of anything that has occurred up through the date you sign this Agreement, including, without limitation, any claims, losses or expenses arising out of your employment with or separation from the Company; provided, however, that the Company expressly does not release or discharge you from any claims, losses or expenses it may have arising from your bad faith, willful misconduct, or commission of a felony or crime of moral turpitude. For purposes of this Agreement, “**bad faith**” means the willful failure to respond to plain, well understood statutory or contractual obligations that has or will result in material damages to the Company; and “**willful misconduct**” means a knowing violation of a reasonable and uniformly enforced rule or policy.

**9. Indemnification and Insurance.**

The Company shall indemnify you and provide for the advance of expenses in connection therewith, subject to and in accordance with Trecora’s By-Laws.

**10. Miscellaneous.**

(a) Anything to the contrary herein notwithstanding, the Company shall, and is hereby authorized to, withhold or deduct from any amounts payable by the Company to you, your beneficiary or your legal representative under this Agreement, any federal, state or municipal taxes, social security contributions or other amounts required to be withheld by law, and to remit such amounts to the proper authorities. The Company is also hereby authorized to withhold or deduct appropriate amounts with respect to any benefit plans or programs or other elections made by you.

(b) This Agreement contains all of the undertakings and agreements between the Company and you pertaining to your retirement from the Company and supersedes all previous undertakings and agreements, whether oral or in writing, between the Company and you on the same subject. No provision of this Agreement may be changed or waived unless such change or waiver is agreed to in writing, signed by you and a duly authorized employee of the Company. Except as otherwise specifically provided in this Agreement, no waiver by either the Company or you of any breach by the other of any condition or provision shall be deemed a waiver of a similar or dissimilar provision or condition at the same time or any prior or subsequent time.

(c) No rights or obligations under this Agreement can be assigned or transferred by you, except as they may be transferred by will or by operation of law. This Agreement shall be binding upon and shall be for the benefit of the Company, its successors and assigns and you and, in the event of your death, your estate or legal representative.

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(d) In the event that any portion of this Agreement shall be determined to be invalid or unenforceable for any reason, the remaining portions of this Agreement will be unaffected thereby and will remain in full force and effect to the fullest extent permitted by law.

(e) You acknowledge and agree that the Company does not guarantee any particular tax treatment and that you are solely responsible for any taxes that you owe as a result of this Agreement.

(f) This Agreement shall be deemed a contract made under, and for all purposes to be governed by and construed in accordance with, the laws of the State of Texas, without reference to principles of conflicts of laws, and any and all disputes arising under this Agreement are to be resolved exclusively by courts sitting in Harris County, Texas and none other. By signing this Agreement, you consent to the jurisdiction of such courts. The captions are utilized for convenience only, and do not operate to explain or limit the provisions of this Agreement.

By signing below, you acknowledge that you understand and voluntarily accept the arrangements described herein. You acknowledge and agree that you have had the opportunity to review this Agreement with an attorney, that you fully understand this Agreement, that you were not coerced into signing it, and that you signed it knowingly and voluntarily. You also acknowledge that you have not received any promise or inducement to sign this Agreement except as expressly set forth herein.

Very truly yours,

Trecora Resources

By: /s/ Simon Upfill-Brown  
Simon Upfill-Brown,  
Chief Executive Officer

Exhibit A Consulting Agreement  
Exhibit B Equity Awards

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The undersigned agrees to and accepts the terms and provisions of the foregoing Agreement:

/s/ Connie J. Cook  
Connie J. Cook

Date: June 7, 2018

## CONSULTING AGREEMENT

This Consulting Agreement (the "Agreement") is entered into this 1<sup>st</sup> day of July 2018 by and between **Trecora Resources** ("Trecora"), a Delaware corporation, and **Connie J. Cook** ("Cook"), a Texas resident, referred to collectively as the "Parties."

**1. Cook's Services.** Trecora retains Cook to provide professional consulting services as requested by the President or CFO of Trecora. Services may include consulting in the areas of SEC filings, NAV enhancements and other areas as may be mutually agreed upon ("Consulting Services").

**2. Consideration.** In consideration for the Consulting Services to be performed by Cook under this Agreement, Trecora agrees to pay to Cook a monthly fee of Five Thousand and No/100 Dollars (\$5,000.00) in return for Cook's provision of up to one hundred twenty (120) hours of Consulting Services per quarter. In addition, Trecora agrees to pay Cook \$125.00 for each hour of Consulting Services in excess of one hundred twenty (120) hours per quarter.

Trecora will reimburse Cook for all reasonable expenses incurred by Cook in performing the Consulting Services, provided, however, that any travel related expenses must be approved in advance by the President or CFO of Trecora. Cook shall submit written documentation and receipts to Trecora on a monthly basis, itemizing the charges and dates on which expenses were incurred. Cook will office from her home or another mutually agreed location and Trecora will provide Cook with a cellular telephone in accordance with Trecora's policies for executives.

Cook will submit a written invoice to Trecora on a monthly basis for her provision of the Consulting Services. Trecora shall pay Cook the amounts due pursuant to this Agreement within thirty (30) days of invoice receipt by Trecora. In the event Trecora disputes any portion of an invoice, Trecora shall submit payment for any undisputed balance due, pending resolution of any disputed amounts.

**3. Independent Contractor.** Nothing herein shall be construed to create an employer-employee relationship between Trecora and Cook. Cook is an independent contractor and not an employee of Trecora. The consideration set forth in Section 2 shall be the sole consideration due Cook for the Consulting Services rendered under this Agreement. Trecora will not withhold any amounts for payment of taxes from the compensation of Cook hereunder. Cook will not represent to be or hold herself out as an employee of Trecora.

**4. Term and Termination.** The term of this Agreement is for one (1) year from the date of execution, and may be extended by mutual agreement of the Parties. Either party may terminate this Agreement for any reason at any time during the term by written notice directed to the other party given thirty (30) days in advance of the termination date.

**5. Confidentiality.** Cook understands and acknowledges that Trecora will provide confidential information with regards to its business and Cook will keep all this information confidential and understands that disclosure can cause irreparable harm to Trecora.

**6. Notice.** Any notice or communication permitted or required by this Agreement shall be deemed effective when personally delivered or deposited, postage prepaid, in the first class mail of the United States properly, or sent via electronic means, addressed to the appropriate party at the address set forth below:

Notices to Cook:      Connie Cook

247 PR 8894  
Fred, Texas 77616  
Phone: (409) 782-3489  
Email: ccook@trecoresources.com

Notices to Trecoresources: Simon Upfill-Brown  
1650 Highway 6 South, Suite 190  
Sugar Land, Texas 77478  
Phone: (281) 980-5522  
Email: [supfillbrown@trecoresources.com](mailto:supfillbrown@trecoresources.com)

Trecoresources Resources

## 7. General Provisions.

*7.1 Entire Agreement and Amendments* . This Agreement (including the attachments hereto) contains the entire agreement between the parties and no oral statements or prior written matter not specifically incorporated herein shall be of any force and effect. No variation, modification or changes in the Agreement shall be binding on either party hereto unless set forth in a written document executed by all parties or a duly authorized agent, officer or representative thereof.

*7.2 Assignment*. Nothing in this Agreement shall be construed to permit the assignment by Cook of any of her rights or obligations hereunder, and such assignment is expressly prohibited without the prior written consent of Trecoresources.

*7.3 Governing Law, Severability* . This Agreement shall be governed by the laws of the State of Texas and venue shall be within the courts of competent jurisdiction in Harris County, Texas. The invalidity or unenforceability of any provision of the Agreement shall not affect the validity or enforceability of any other provision.

*7.4 Waiver*. The waiver by either party of a breach or violation of any provision of this Agreement shall not operate as or be construed to be a waiver of any subsequent breach hereof.

*7.5 Drafting*. The parties acknowledge that each party and its counsel have reviewed and revised this Agreement and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement or any amendments or exhibits hereto. **It is agreed that all parties have closely read this Agreement and that all requirements of conspicuousness are agreed satisfied or are waived.**

WHEREFORE, the parties have executed this Agreement as of the date first written above.

**Trecoresources:**

Trecoresources Resources

By: /s/ Simon Upfill-Brown  
Simon Upfill-Brown,  
its President

**Cook:**

/s/ Connie J. Cook  
Connie J. Cook

## CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a - 14(a)/15d-14(a)

I, Simon Upfill-Brown, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Trecora Resources;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's independent registered public accounting firm and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2018 /s/ Simon Upfill-Brown  
Simon Upfill-Brown  
President and Chief Executive Officer

## CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a - 14(a)/15d-14(a)

I, Sami Ahmad, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Trecora Resources;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's independent registered public accounting firm and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2018 /s/ Sami Ahmad  
Sami Ahmad  
Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Trecora Resources (the "Company") on Form 10-Q for the period ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Simon Upfill-Brown, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

- (1) The Report fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934;  
and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Simon Upfill-Brown  
Simon Upfill-Brown  
President and Chief Executive Officer

August 6, 2018

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Trecora Resources (the "Company") on Form 10-Q for the period ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sami Ahmad, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

- (1) The Report fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934;  
and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Sami Ahmad  
Sami Ahmad  
Chief Financial Officer

August 6, 2018