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Hi-Crush Partners LP

Form 10-Q

August 02, 2018

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iso4217:USD xbrli:shares

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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: 001-35630

Hi-Crush Partners LP

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

90-0840530

(I.R.S. Employer Identification No.)

1330 Post Oak Blvd, Suite 600

Houston, Texas

(Address of Principal Executive Offices)

77056

(Zip Code)

Registrant's telephone number, including area code (713) 980-6200

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 Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§

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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

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 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 Smaller reporting company

Emerging growth company

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 Exchange Act). Yes No

As of July 25, 2018, there were 88,392,179 common units outstanding.

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Condensed Consolidated Balance Sheets

(In thousands, except unit amounts)

(Unaudited)

	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash	\$ 25,433	\$ 5,662
Accounts receivable, net (Note 2)	145,627	139,448
Inventories (Note 4)	44,827	44,272
Prepaid expenses and other current assets	5,846	2,832
Total current assets	221,733	192,214
Property, plant and equipment, net (Note 5)	923,499	899,158
Intangible assets, net	7,575	8,416
Equity method investments (Note 2)	27,880	17,475
Other assets	7,902	5,877
Total assets	\$ 1,188,589	\$ 1,123,140
Liabilities and Partners' Capital		
Current liabilities:		
Accounts payable	\$ 64,382	\$ 46,794
Accrued and other current liabilities	38,912	29,931
Current portion of deferred revenues (Note 10)	5,399	4,399
Due to sponsor	8,677	12,399
Current portion of long-term debt (Note 6)	2,663	2,957
Total current liabilities	120,033	96,480
Deferred revenues (Note 10)	5,165	7,384
Long-term debt (Note 6)	192,207	194,462
Asset retirement obligations	10,428	10,179
Other liabilities (Note 7)	—	19,000
Total liabilities	327,833	327,505
Commitments and contingencies (Note 7)		

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Partners' capital:		
General partner interest	—	—
Limited partners interest, 88,392,179 and 89,009,188 units outstanding, respectively	860,756	795,635
Total partners' capital	860,756	795,635
Total liabilities and partners' capital	\$ 1,188,589	\$ 1,123,140

See Notes to Unaudited Condensed Consolidated Financial Statements.

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Condensed Consolidated Statements of Operations

(In thousands, except unit and per unit amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Revenues (Note 10)	\$248,520	\$135,220	\$466,633	\$218,584
Cost of goods sold (excluding depreciation, depletion and amortization)	154,531	99,882	296,514	171,965
Depreciation, depletion and amortization	10,482	7,596	18,281	12,424
Gross profit	83,507	27,742	151,838	34,195
Operating costs and expenses:				
General and administrative expenses	12,616	8,961	23,556	18,638
Accretion of asset retirement obligations	123	114	249	228
Other operating expenses	184	143	1,205	143
Income from operations	70,584	18,524	126,828	15,186
Other income (expense):				
Earnings (loss) from equity method investments (Note 2)	1,144	296	2,310	(270)
Interest expense	(3,720)	(2,440)	(7,181)	(5,367)
Net income	\$68,008	\$16,380	\$121,957	\$9,549
Earnings per limited partner unit:				
Basic	\$0.68	\$0.18	\$1.32	\$0.13
Diluted	\$0.67	\$0.18	\$1.30	\$0.13
Weighted average limited partner units outstanding:				
Basic	88,392,179	91,021,799	88,629,958	82,352,555
Diluted	89,729,428	91,580,888	89,967,207	82,911,644
Distributions declared per limited partner unit	\$0.750	\$—	\$0.975	\$—

See Notes to Unaudited Condensed Consolidated Financial Statements.

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Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six Months Ended	
	June 30,	
	2018	2017
Operating activities:		
Net income	\$ 121,957	\$ 9,549
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and depletion	18,281	12,428
Amortization of intangible assets	841	841
Unit-based compensation to directors and employees	3,611	2,397
Amortization of loan origination costs into interest expense	437	745
Accretion of asset retirement obligations	249	228
(Gain) loss on disposal of property, plant and equipment	3	(8)
(Earnings) loss from equity method investments	(2,310)	270
Changes in operating assets and liabilities:		
Accounts receivable	(6,179)	(36,031)
Inventories	(1,098)	(9,178)
Prepaid expenses and other current assets	(2,777)	(130)
Other assets	(1,971)	1,322
Accounts payable	9,250	15,180
Accrued and other current liabilities	1,340	11,240
Deferred revenues	(1,219)	11,043
Due to sponsor	(3,722)	4,649
Net cash provided by operating activities	136,693	24,545
Investing activities:		
Capital expenditures for property, plant and equipment	(36,628)	(67,930)
Proceeds from sale of property, plant and equipment	2,884	8
Cash paid for business acquisition	—	(140,000)
Cash paid for asset acquisition	—	(200,224)
Equity method investments	(8,095)	(4,168)
Net cash used in investing activities	(41,839)	(412,314)
Financing activities:		
Proceeds from equity issuances, net	—	412,577
Repayment of long-term debt	(2,925)	(2,482)
Loan origination costs	(115)	—
Affiliate financing, net	—	456
Payment of contingent consideration	(25,000)	—
Proceeds from participants in unit purchase programs	212	225
Repurchase of common units	(9,426)	—
Payment of accrued distribution equivalent rights	(132)	(38)
Distributions paid	(37,697)	—
Net cash (used in) provided by financing activities	(75,083)	410,738
Net increase in cash	19,771	22,969
Cash at beginning of period	5,662	4,521
Cash at end of period	\$ 25,433	\$ 27,490
Non-cash investing and financing activities:		

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Increase in accounts payable and accrued and other current liabilities for additions to property, plant and equipment	\$8,338	\$16,223
Estimated fair value of contingent consideration liability	\$—	\$14,000
Issuance of units for asset acquisition	\$—	\$62,242
Issuance of units under unit purchase programs	\$—	\$1,576
Increase (decrease) in accrued distribution equivalent rights	\$561	\$(101)
Due to sponsor balance converted into non-controlling interest	\$—	\$116,417
Cash paid for interest, net of capitalized interest	\$6,743	\$4,622

See Notes to Unaudited Condensed Consolidated Financial Statements.

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Condensed Consolidated Statement of Partners' Capital

(In thousands)

(Unaudited)

	General Partner Capital	Limited Partner Capital	Total Partner Capital
Balance at December 31, 2017	\$	—\$795,635	\$795,635
Issuance of common units to directors and employees	—	474	474
Repurchase of common units	—	(9,426)	(9,426)
Unit-based compensation expense	—	3,374	3,374
Distributions, including distribution equivalent rights	—	(38,258)	(38,258)
Payment in excess of contingent consideration liability	—	(13,000)	(13,000)
Net income	—	121,957	121,957
Balance at June 30, 2018	\$	—\$860,756	\$860,756

See Notes to Unaudited Condensed Consolidated Financial Statements.

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HI-CRUSH PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements

(Dollars in thousands, except unit and per unit amounts, or where otherwise noted)

1. Basis of Presentation and Use of Estimates

The accompanying unaudited interim Condensed Consolidated Financial Statements ("interim statements") of Hi-Crush Partners LP (together with its subsidiaries, the "Partnership", "we", "us" or "our") have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X issued by the U.S. Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all normal and recurring adjustments and disclosures necessary for a fair statement are reflected in the interim periods presented. The results reported in these interim statements are not necessarily indicative of the results that may be reported for the entire year. These interim statements should be read in conjunction with the Partnership's Consolidated Financial Statements for the year ended December 31, 2017, which are included in the Partnership's Annual Report on Form 10-K filed with the SEC on February 20, 2018. The year-end balance sheet data was derived from the audited financial statements.

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

These financial statements have been prepared assuming the Partnership will continue to operate as a going concern. On a quarterly basis, the Partnership assesses whether conditions have emerged which may cast substantial doubt about the Partnership's ability to continue as a going concern for the next twelve months following the issuance of the interim statements.

The Partnership is a Delaware limited partnership formed on May 8, 2012 to acquire selected sand reserves and related processing and transportation facilities of Hi-Crush Proppants LLC. The Partnership is a premier provider of proppant and logistics solutions to the North American energy industry. In connection with its formation, the Partnership issued a non-economic general partner interest to Hi-Crush GP LLC, our general partner (the "general partner" or "Hi-Crush GP"), and a 100% limited partner interest to Hi-Crush Proppants LLC (the "sponsor"), its organizational limited partner.

On February 23, 2017, the Partnership entered into a contribution agreement with our sponsor to acquire all of the outstanding membership interests in Hi-Crush Whitehall LLC ("Whitehall"), the entity that owned our sponsor's Whitehall facility, the remaining 2.0% equity interest in Hi-Crush Augusta LLC ("Augusta"), and all of the outstanding membership interests in PDQ Properties LLC (together, the "Other Assets"), for \$140,000 in cash and up to \$65,000 of contingent consideration over a two-year period (the "Whitehall Contribution"). The Partnership completed this acquisition on March 15, 2017.

The Whitehall Contribution was accounted for as a transaction between entities under common control whereby the net assets of Whitehall and Other Assets were recorded at their historical cost. Therefore, the Partnership's historical financial information was recast to combine Whitehall and Other Assets with the Partnership as if the combinations had been in effect since inception of the common control. Refer to Note 3 - Acquisitions for additional disclosure regarding the Whitehall Contribution.

2. Significant Accounting Policies

In addition to the significant accounting policies listed below, a comprehensive discussion of our critical accounting policies and estimates is included in our Annual Report on Form 10-K filed with the SEC on February 20, 2018.

Accounts Receivable

Trade receivables relate to sales of frac sand and related services for which credit is extended based on the customer's credit history and are recorded at the invoiced amount and do not bear interest. The Partnership regularly reviews the collectability of accounts receivable. When it is probable that all or part of an outstanding balance will not be

collected, the Partnership establishes or adjusts an allowance as necessary generally using the specific identification method. Account balances are charged against the allowance after all means of collection have been exhausted and potential recovery is considered remote. As of June 30, 2018 and December 31, 2017, the Partnership maintained an allowance for doubtful accounts of \$1,060.

Revenues recognized in advance of invoice issuance create assets referred to as "unbilled receivables." Any portion of our unbilled receivables for which our right to consideration is conditional on a factor other than the passage of time is considered a contract asset. These assets are presented on a combined basis with accounts receivable and are converted to trade receivables once billed.

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Notes to Unaudited Condensed Consolidated Financial Statements

(Dollars in thousands, except unit and per unit amounts, or where otherwise noted)

Deferred Charges

Certain direct costs incurred in connection with debt financing have been capitalized and are being amortized using the straight-line method, which approximates the effective interest method, over the life of the debt. Amortization expense is included in interest expense.

Equity Method Investments

The Partnership accounts for investments that, it does not control but has the ability to exercise significant influence, using the equity method of accounting. Under this method, the investment is carried originally at cost, increased by any allocated share of the Partnership's net income and contributions made, and decreased by any allocated share of the Partnership's net losses and distributions received. The Partnership's allocated share of income and losses are based on the rights and priorities outlined in the equity investment agreement.

On September 8, 2016, the Partnership entered into an agreement to become a member of Proppant Express Investments, LLC ("PropX"), which was established to develop critical last mile logistics equipment for the proppant industry. PropX is responsible for manufacturing containers and conveyor systems that allow for transportation of frac sand from in-basin terminals to the wellsite. As of June 30, 2018, the Partnership's carrying value in PropX was \$27,880, which is accounted for as an equity method investment as the Partnership has a non-controlling interest in PropX, but has the ability to exercise significant influence. The following table provides our capital contributions and proportionate share of PropX's operating results for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Capital contributions	\$8,095	\$—	\$8,095	\$4,168
Earnings (loss) from equity method investments	\$1,144	\$296	\$2,310	\$(270)

Contingent Consideration

Accounting standards require that contingent consideration be recorded at fair value at the date of acquisition and revalued during subsequent reporting dates under the acquisition method of accounting. In connection with its acquisitions of Hi-Crush Blair LLC ("Blair") and Whitehall and Other Assets, the Partnership entered into certain contingent consideration arrangements to pay up to \$10,000 and \$65,000, respectively, to its sponsor. The original estimated fair value of the contingent consideration liability recorded at the date of acquisitions was \$5,000 and \$14,000 for Blair and Whitehall, respectively. During the first quarter of 2018, the Partnership paid \$5,000 and \$20,000 of contingent consideration related to the Blair acquisition and Whitehall Contribution, respectively, to our sponsor with respect to the 2017 measurement period, which is reflected as financing activity in our Condensed Consolidated Statements of Cash Flows.

As such transactions are between entities under common control, any differences between the original estimated fair value, and the actual resulting payments in the future are reflected as an equity adjustment to the deemed distributions associated with the acquisitions. The remaining balances of the original estimated fair value of contingent consideration is \$3,000 and \$4,000 for Blair and Whitehall, respectively, as reflected in accrued and other current liabilities on our Condensed Consolidated Balance Sheet as of June 30, 2018. The excess amount of contingent consideration paid during the first quarter of 2018 over the originally estimated fair value was recorded as an equity adjustment of \$13,000 and is reflected in our Condensed Consolidated Statement of Partners' Capital. Refer to Note 7 - Commitments and Contingencies for additional disclosure regarding contingent consideration.

Revenue Recognition

On January 1, 2018, we adopted the new accounting standard ASU 2014-09 (ASC Topic 606), *Revenue from Contracts with Customers* and all the related amendments to all contracts using the full retrospective method. The

adoption of ASC Topic 606 had no impact on our revenue recognition practices or impact to our Consolidated Financial Statements but required additional disclosures. Refer to Note 10 - Revenues for additional disclosure regarding revenues.

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HI-CRUSH PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements

(Dollars in thousands, except unit and per unit amounts, or where otherwise noted)

We generate frac sand revenues from the sale of raw frac sand that our customers purchase for use in the oil and gas industry. A substantial portion of our frac sand is sold to customers with whom we have long-term supply agreements, the current terms of which expire between 2018 and 2024. The agreements define, among other commitments, the volume of product that the Partnership must provide and the volume that the customer must purchase by the end of the defined periods. Pricing structures under our agreements are in many cases subject to certain contractual adjustments and consist of a combination of negotiated pricing and fixed pricing. These arrangements may undergo negotiations regarding pricing and volume requirements, which may occur in volatile market conditions. We also sell sand through individual purchase orders executed on the spot market, at prices and other terms determined by the existing market conditions as well as the specific requirements of the customer. We typically invoice our frac sand customers as the product is delivered and title transfers to the customer, with standard collection terms of net 30 days.

Frac sand sales revenues are recognized at the point in time following the transfer of control to the customer when legal title passes, which may occur at the production facility, rail origin, terminal or wellsite. Revenue recognition is driven by the execution and delivery of frac sand by the Partnership to the customer, which is initiated by the customer placing an order for frac sand, the Partnership accepting and processing the order, and the physical delivery of sand at the location specified by the customer. At that point in time, delivery has occurred, evidence of a contractual arrangement exists and collectability is reasonably assured.

Revenue from make-whole provisions in our customer contracts is recognized as other revenue at the end of the defined period when collectability is certain. Customer prepayments in excess of customer obligations remaining on account upon the expiration or termination of a contract are recognized as other operating income during the period in which the expiration or termination occurs.

We generate other revenues primarily through the performance of our PropStream™ logistics service, which includes transportation, equipment rental, and labor services, as well as through activities performed at our in-basin terminals, including transloading sand for counterparties, and lease of storage space. Transportation services typically consist of transporting proppant from storage facilities to the wellsite and are contracted through work orders executed under established pricing agreements. The amount invoiced reflects the transportation services rendered. Equipment rental services provide customers with use of our PropStream fleet equipment for either contractual periods defined through formal agreements or for work orders under established pricing agreements. The amounts invoiced reflect either the contractual monthly minimum, or the length of time the equipment was utilized in the billing period. Labor services provide customers with supervisory, logistics, or field personnel through formal agreements or work orders executed under established pricing agreements. The amounts invoiced reflect either the contractual monthly minimum, or the amount of time our labor services were utilized in the billing period.

We typically invoice our customers as product is delivered and services are rendered, with standard collection terms of net 30 days. We recognize revenue for PropStream logistics services and other revenues as title of the product transfers and the services have been rendered and completed. At that point in time, delivery of service has occurred, evidence of a contractual arrangement exists and collectability is reasonably assured.

Deferred Revenues

We occasionally receive prepayments from customers for future deliveries of frac sand. These prepayments represent consideration that is unconditional for which we have yet to transfer the sand. Amounts received from customers in advance of sand deliveries are recorded as contract liabilities referred to as deferred revenues and recognized as revenue upon delivery of the sand.

Fair Value of Financial Instruments

The amounts reported in the balance sheet as current assets or liabilities, including cash, accounts receivable, accounts payable, accrued and other current liabilities approximate fair value due to the short-term maturities of these instruments. The fair value of the senior secured term loan approximated \$197,015 as of June 30, 2018, based on the market price quoted from external sources, compared with a carrying value of \$199,000. If the senior secured term loan was measured at fair value in the financial statements, it would be classified as Level 2 in the fair value

hierarchy.

Net Income per Limited Partner Unit

We have identified the sponsor's incentive distribution rights as participating securities and compute income per unit using the two-class method under which any excess of distributions declared over net income or loss shall be allocated to the partners based on their respective sharing of income specified in the partnership agreement. Net income or loss per unit applicable to limited partners is computed by dividing limited partners' interest in net income or loss, after deducting any sponsor incentive distributions, by the weighted-average number of outstanding limited partner units. As described in Note 1, the Partnership's historical financial information has been recast to combine Whitehall and Other Assets for all periods presented. The amounts of incremental income or losses recast to periods prior to the Whitehall Contribution are excluded from the calculation of net income per limited partner unit.

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Notes to Unaudited Condensed Consolidated Financial Statements

(Dollars in thousands, except unit and per unit amounts, or where otherwise noted)

Income Taxes

The Partnership is a pass-through entity and is not considered a taxable entity for federal tax purposes. Therefore, there is not a provision for income taxes in the accompanying Condensed Consolidated Financial Statements. The Partnership's net income or loss is allocated to its partners in accordance with the partnership agreement. The partners are taxed individually on their share of the Partnership's earnings. At June 30, 2018 and December 31, 2017, the Partnership did not have any liabilities for uncertain tax positions or gross unrecognized tax benefits.

Recent Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 ("ASU 2016-02"), *Leases (Topic 842)*. This update will impact all leases with durations greater than twelve months. In general, such arrangements will be recognized as assets and liabilities on the balance sheet of the lessee. Under the new accounting guidance a right-of-use asset and lease obligation will be recorded for all leases, whether operating or financing, while the statement of operations will reflect lease expense for operating leases and amortization/interest expense for financing leases. The balance sheet amount recorded for existing leases at the date of adoption will be calculated using the applicable incremental borrowing rate at the date of adoption. The new accounting guidance is effective for the Partnership beginning in the first quarter of 2019 and should be applied retrospectively. The FASB has also issued the following standards which clarify ASU 2016-02 and have the same effective date as the original standard: ASU 2017-13, *Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842)* and ASU 2018-01, *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842*. The Partnership is currently assessing the impact that adopting this new accounting guidance will have on its Consolidated Financial Statements and footnote disclosures.

3. Acquisitions*Asset Acquisition of Permian Basin Sand Reserves*

On March 3, 2017, the Partnership completed an acquisition of Permian Basin Sand Company, LLC ("Permian Basin Sand") for total consideration of \$200,000 in cash and 3,438,789 newly issued common units to the sellers, valued at \$62,242 based on the closing price as of March 3, 2017. Permian Basin Sand owns a 1,226-acre frac sand reserve strategically positioned in the Permian Basin, located within 75 miles of significant Delaware and Midland Basin activity.

The acquisition of Permian Basin Sand was accounted for as an asset acquisition as the acquired assets did not constitute a business. The total purchase consideration of \$263,072 is reflected as property, plant and equipment on the Condensed Consolidated Balance Sheet. The following table summarizes the total purchase consideration:

Cash paid to sellers	\$200,000
Issuance of common units to sellers	62,242
Transactions costs associated with the acquisition	830
Cost of Permian Basin Sand acquisition	\$263,072

Acquisition of Hi-Crush Whitehall LLC and Other Assets

On February 23, 2017, the Partnership entered into a contribution agreement with our sponsor to acquire all of the outstanding membership interests in Whitehall and Other Assets, for \$140,000 in cash and up to \$65,000 of contingent consideration over a two-year period. The Partnership completed this acquisition on March 15, 2017. In connection with this acquisition, the Partnership incurred \$588 of acquisition related costs during the year ended December 31, 2017, included in general and administrative expenses.

The contingent consideration is based on the Partnership's adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") exceeding certain thresholds for each of the fiscal years ending December 31, 2017 and 2018. If those annual thresholds are met, the Partnership will pay an additional \$20,000 for each threshold met or exceeded. If the Partnership exceeds a total threshold for the cumulative two-year period, then it will pay an

additional \$25,000, for an undiscounted total of up to \$65,000 to be paid in cash or common units at the Partnership's discretion. As of March 15, 2017, the estimated fair value of the contingent consideration liability based on available information was \$14,000. During the first quarter of 2018, the Partnership paid \$20,000 of contingent consideration with respect to the 2017 measurement period. Refer to Note 7 - Commitments and Contingencies for additional disclosure regarding the remaining contingent consideration obligations.

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Notes to Unaudited Condensed Consolidated Financial Statements

(Dollars in thousands, except unit and per unit amounts, or where otherwise noted)

As a result of this transaction, the Partnership's historical financial information has been recast to combine the Consolidated Statements of Operations and the Consolidated Balance Sheets of the Partnership with those of Whitehall and Other Assets as if the combination had been in effect since inception of common control on August 16, 2012. Any material transactions between the Partnership, Whitehall and Other Assets have been eliminated. The balance of non-controlling interest as of December 31, 2016 includes the sponsor's interest in Whitehall and Other Assets prior to the combination. Except for the combination of the Consolidated Statements of Operations and the respective allocation of recast net income (loss), capital transactions between the sponsor and Whitehall and Other Assets prior to March 15, 2017 have not been allocated on a recast basis to the Partnership's unitholders. Such transactions were presented within the non-controlling interest column in the Consolidated Statement of Partners' Capital as the Partnership and its unitholders would not have participated in these transactions.

The following table summarizes the carrying value of the Whitehall and Other Assets net assets as of March 15, 2017, and the allocation of the purchase price:

Net assets of Hi-Crush Whitehall LLC and Other Assets as of March 15, 2017:

Cash	\$ 198
Inventories	4,941
Prepaid expenses and other current assets	3
Property, plant and equipment	124,811
Accounts payable	(938)
Accrued liabilities and other current liabilities	(386)
Due to Hi-Crush Partners LP	(2,615)
Asset retirement obligation	(1,716)
Total carrying value of Whitehall and Other Assets net assets	\$ 124,298

Allocation of purchase price

Carrying value of sponsor's non-controlling interest prior to Whitehall Contribution	\$ 119,108
Excess purchase price over the acquired interest (a)	34,892
Cost of Whitehall and Other Assets acquisition	\$ 154,000

(a) The deemed distribution attributable to the purchase price was allocated to the common unitholders and excludes the \$14,000 estimated fair value as of March 15, 2017 of contingent consideration payable in the future. During the first quarter of 2018, the Partnership paid \$20,000 of contingent consideration related to the Whitehall Contribution.

Recast Financial Results

The following table presents, on a supplemental basis, our recast revenues, net income (loss), net income (loss) attributable to Hi-Crush Partners LP and net income per limited partner unit giving effect to the Whitehall Contribution, as reconciled to the revenues, net income, net income attributable to Hi-Crush Partners LP and net income per limited partner unit of the Partnership.

	Six Months Ended June 30, 2017			Partnership Recast (Supplemental)
	Partnership Historical	Whitehall and Other Assets through March 15, 2017	Eliminations	
Revenues	\$ 218,584	\$ —	\$ —	\$ 218,584
Net income (loss)	\$ 10,994	\$ (1,366)	\$ (79)	\$ 9,549
Net income (loss) attributable to Hi-Crush Partners LP	\$ 11,020	\$ (1,392)	\$ (79)	\$ 9,549
Net income per limited partner unit - basic	\$ 0.13			\$ 0.12

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Notes to Unaudited Condensed Consolidated Financial Statements

(Dollars in thousands, except unit and per unit amounts, or where otherwise noted)

4. Inventories

Inventories consisted of the following:

	June 30, December 31,	
	2018	2017
Raw material	\$577	\$ 498
Work-in-process	16,370	18,739
Finished goods	25,278	22,892
Spare parts	2,602	2,143
Inventories	\$44,827	\$ 44,272

5. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	June 30, December 31,	
	2018	2017
Buildings	\$21,785	\$ 21,532
Mining property and mine development	384,563	381,653
Plant and equipment	393,743	389,197
Rail and rail equipment	55,913	55,783
Transload facilities and equipment	125,096	121,522
Construction-in-progress	45,084	14,454
Property, plant and equipment	1,026,184	984,141
Less: Accumulated depreciation and depletion	(102,685)	(84,983)
Property, plant and equipment, net	\$923,499	\$ 899,158

Depreciation and depletion expense was \$10,482 and \$7,599 during the three months ended June 30, 2018 and 2017, respectively, and \$18,281 and \$12,428 during the six months ended June 30, 2018 and 2017, respectively.

The Partnership recognized a loss on the disposal of fixed assets of \$27 and \$3 during the three and six months ended June 30, 2018, respectively, and a gain of \$8 during the three and six months ended June 30, 2017, respectively, which is included in general and administrative expenses on our Condensed Consolidated Statements of Operations.

6. Long-Term Debt

Long-term debt consisted of the following:

	June 30, December 31,	
	2018	2017
Revolving Credit Agreement	\$—	\$ —
Term Loan Credit Facility	199,000	200,000
Less: Unamortized original issue discount	(1,850)	(1,992)
Less: Unamortized debt issuance costs	(3,409)	(3,643)
Other notes payable	1,129	3,054
Total debt	194,870	197,419
Less: current portion of long-term debt	(2,663)	(2,957)
Long-term debt	\$192,207	\$ 194,462

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HI-CRUSH PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements

(Dollars in thousands, except unit and per unit amounts, or where otherwise noted)

Revolving Credit Agreement

On December 22, 2017, the Partnership entered into a second amended and restated credit agreement (the "Revolving Credit Agreement"), which matures on December 22, 2022, replacing its prior revolving credit agreement. As of June 30, 2018, the Revolving Credit Agreement, as amended, is a senior secured revolving credit facility that permits aggregate borrowings of up to \$125,000, including a \$30,000 sublimit for letters of credit and a \$10,000 sublimit for swing line loans.

As of June 30, 2018, we had \$103,580 of undrawn borrowing capacity (\$125,000, net of \$21,420 letter of credit commitments) and no indebtedness under our Revolving Credit Agreement.

Borrowings under the Revolving Credit Agreement bear interest at a rate equal to, at the Partnership's option, either (1) a base rate plus an applicable margin ranging between 1.50% per annum and 2.25% per annum, based upon the Partnership's leverage ratio, or (2) a Eurodollar rate plus an applicable margin ranging between 2.50% per annum and 3.25% per annum, based upon the Partnership's leverage ratio.

The Revolving Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants, including limits or restrictions on the Partnership's ability to incur liens, incur indebtedness, make certain restricted payments, merge or consolidate, and dispose of assets. The Revolving Credit Agreement requires compliance with customary financial covenants, which are a maximum leverage ratio of 3.25x, a minimum interest coverage ratio of 2.5x and an asset coverage ratio of 1.5x. The Revolving Credit Agreement generally permits repurchases of common units.

As of June 30, 2018, we are in compliance with the covenants contained in the Revolving Credit Agreement. Our ability to comply with such covenants in the future, and access our undrawn borrowing capacity under our Revolving Credit Agreement, is dependent primarily on achieving certain levels of EBITDA, as defined. The Revolving Credit Agreement provides for an "equity cure" that can be applied to EBITDA covenant ratios. Refer to Note 8 - Equity for information regarding our equity distribution program.

The Revolving Credit Agreement contains customary events of default (some of which are subject to applicable grace or cure periods), including among other things, non-payment defaults, covenant defaults, cross-defaults to other material indebtedness, bankruptcy and insolvency defaults, and material judgment defaults. Such events of default could entitle the lenders to cause any or all of the Partnership's indebtedness under the Revolving Credit Agreement to become immediately due and payable. If such a default were to occur, and resulted in a cross default of the Term Loan Credit Agreement, as described below, all of our outstanding debt obligations could be accelerated which would have a material adverse impact on the Partnership.

The Revolving Credit Agreement is secured by substantially all assets of the Partnership. In addition, the Partnership's subsidiaries have guaranteed the Partnership's obligations under the Revolving Credit Agreement and have granted to the revolving lenders security interests in substantially all of their respective assets.

Term Loan Credit Facility

On December 22, 2017, the Partnership entered into an amended and restated credit agreement (the "Term Loan Credit Agreement") providing for a senior secured term loan credit facility (the "Term Loan Credit Facility") that permits aggregate borrowings of up to \$200,000, which was fully drawn on December 22, 2017, replacing its prior term loan credit agreement. The Term Loan Credit Agreement permits the Partnership, at its option, to add one or more incremental term loan facilities in an aggregate amount not to exceed \$100,000. Any incremental term loan facility would be on terms to be agreed among the Partnership, the administrative agent and the lenders who agree to participate in the incremental facility. The maturity date of the Term Loan Credit Facility is December 22, 2024. The Term Loan Credit Agreement is secured by substantially all assets of the Partnership. In addition, the Partnership's subsidiaries have guaranteed the Partnership's obligations under the Term Loan Credit Agreement and have granted to the lenders security interests in substantially all of their respective assets.

Borrowings under the Term Loan Credit Agreement bear interest at a rate equal to, at the Partnership's option, either (1) a base rate plus an applicable margin of 2.75% per annum or (2) a Eurodollar rate plus an applicable margin of

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3.75% per annum, subject to a LIBOR floor of 1.00%. Both base rate loans and Eurodollar loans are subject to a 0.25% rate increase during any period of time in which the Partnership does not have a corporate family rating of B2 or better from Moody's Investors Service Inc. ("Moody's"). As of July 25, 2018, the credit rating of the Partnership's senior secured term loan credit facility was B3 from Moody's and B from Standard and Poor's.

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HI-CRUSH PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements

(Dollars in thousands, except unit and per unit amounts, or where otherwise noted)

The Term Loan Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants, including limits or restrictions on the Partnership's ability to incur liens, incur indebtedness, make certain restricted payments, merge or consolidate and dispose of assets. In addition, it contains customary events of default that entitle the lenders to cause any or all of the Partnership's indebtedness under the Term Loan Credit Agreement to become immediately due and payable. The events of default (some of which are subject to applicable grace or cure periods), include, among other things, non-payment defaults, covenant defaults, cross-defaults to other material indebtedness, bankruptcy and insolvency defaults and material judgment defaults. As of June 30, 2018, we were in compliance with the terms of the Term Loan Credit Agreement.

As of June 30, 2018, we had \$193,741 indebtedness (\$199,000, net of \$1,850 of discounts and \$3,409 of debt issuance costs) under our Term Loan Credit Facility, which carried an interest rate of 6.10%.

Other Notes Payable

On October 24, 2014, the Partnership entered into a purchase and sales agreement to acquire land and underlying frac sand deposits. During each of the years ended December 31, 2016, 2015 and 2014, the Partnership paid cash consideration of \$2,500, and issued a three-year promissory note in the amount of \$3,676, respectively, in connection with this agreement. The promissory notes accrue interest at rates equal to the applicable short-term federal rates. All principal and accrued interest is due and payable at the end of the respective three-year promissory note terms in December 2019, December 2018 and October 2017. However, the promissory notes are prepaid on a quarterly basis during the three-year terms as sand is extracted, delivered, sold and paid for from the properties.

The Partnership made prepayments of \$968 and \$520 during the three months ended June 30, 2018 and 2017, respectively, and \$1,925 and \$1,482 during the six months ended June 30, 2018 and 2017, respectively, based on the accumulated volume of sand extracted, delivered, sold and paid for. In July 2018, the Partnership made a prepayment of \$663 based on the volume of sand extracted, delivered, sold and paid for through the second quarter of 2018. As of June 30, 2018, the Partnership had repaid in full the promissory notes due in October 2017 and December 2018 and had \$1,129 outstanding on its remaining promissory note, which carried an interest rate of 0.74%.

7. Commitments and Contingencies

Customer Contracts

The Partnership enters into sales contracts with customers. These contracts establish minimum annual sand volumes that the Partnership is required to make available to such customers under initial terms ranging from one to seven years. Through June 30, 2018, no payments for non-delivery of minimum annual sand volumes have been made by the Partnership to customers under these contracts.

Supplier Contracts

A subsidiary of the Partnership has entered into a long-term supply agreement with a supplier, which includes a requirement to purchase certain volumes and grades of sands at specified prices. The quantities set forth in such agreement are not in excess of our current requirements.

Royalty Agreements

The Partnership has entered into royalty agreements under which it is committed to pay royalties on sand sold from its production facilities for which the Partnership has received payment by the customer. Royalty expense is recorded as the sand is sold and is included in costs of goods sold. Royalty expense was \$5,078 and \$5,002 for the three months ended June 30, 2018 and 2017, respectively, and \$8,618 and \$7,638 for the six months ended June 30, 2018 and 2017, respectively.

Certain acreage is subject to a minimum annual royalty payment. If not paid within 30 days after the annual period, the original landowner has the right to purchase the property for one dollar, subject to certain terms. If we have not made the minimum required royalty payments, we may satisfy our obligation by making a lump-sum cash make-whole payment. Accordingly, we believe there is no material risk that we will be required to sell back the subject property pursuant to this agreement.

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Property Value Guarantees

The Partnership entered into mining agreements and land use agreements with the Wisconsin municipalities of Bridge Creek, Lincoln, Springfield and Preston that contain property value guarantees ("PVG") for certain property owners in proximity to each mine. The respective PVGs establish a process whereby we guaranty fair market value to the owners of residential property specifically identified within the body of the PVG document. According to the terms of the PVGs, the property owner must notify us in the event they wish to sell the subject residence and additional acreage in certain instances. Upon such notice, the PVGs establish a process by which an appraisal is conducted and the subject property is appraised to establish fair market value and is listed with a real estate broker. In the event the property is sold within 180 days of listing, we agree to pay the owner any shortfall between the sales price and the established fair market value. In the event the property is not sold within the 180 days time frame, we are obligated to purchase the property for fair market value.

As of June 30, 2018, we have not accrued a liability related to the PVGs because it is not possible to estimate how many of the owners will elect to avail themselves of the provisions of the PVGs and it cannot be determined if shortfalls will exist in the event of a sale nor can the value of the subject property be ascertained until appraised. As of June 30, 2018, the Partnership has paid \$2,338 under these guarantees since inception.

Lease Obligations

The Partnership has long-term leases for railcars, equipment and certain of its terminals. The Partnership also has long-term operating leases with PropX for use of equipment manufactured and owned by PropX.

We have entered into service agreements with certain transload service providers which requires us to purchase minimum amounts of services over specific periods of time at specific locations. Our failure to purchase the minimum level of services would require us to pay shortfall fees.

As of June 30, 2018, future minimum operating lease payments and minimum purchase commitments are as follows:

<u>Fiscal Year</u>	Operating Leases	Minimum Purchase Commitments
2018 (remaining months)	\$ 15,406	\$ 2,942
2019	35,284	3,130
2020	32,478	2,296
2021	25,443	2,344
2022	18,279	2,344
Thereafter	33,822	1,890
	\$ 160,712	\$ 14,946

Contingent Consideration

As described in Note 3 - Acquisitions, the Partnership may pay the sponsor up to \$65,000 of contingent consideration related to the Whitehall Contribution. Additionally, the Partnership acquired all of the outstanding membership interests in Blair (the "Blair Contribution") from our sponsor in 2016. The Partnership may pay the sponsor up to \$10,000 of contingent consideration over a two-year period in connection with the Blair Contribution. The payments of contingent consideration for the Whitehall Contribution and Blair Contribution are based on achievement of certain levels of Adjusted EBITDA in 2017 and 2018. Achievement of these threshold levels of Adjusted EBITDA, as defined in each of the contribution agreements, will be dependent on the quantity of volumes sold and related prices, which are forecasted at current market prices. The Partnership's ability to meet such thresholds will be affected by events and circumstances beyond its control. If market or other economic conditions remain the same or deteriorate, the thresholds may not be met. If the thresholds are not attained during each of the contingency periods, no payment will be owed to the sponsor. For the year ended December 31, 2017, the Partnership's Adjusted EBITDA exceeded the threshold levels, triggering a payment of \$5,000 and \$20,000 related to the Blair Contribution and Whitehall

Contribution, respectively, in March 2018 to our sponsor.

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A 10% increase or decrease in the achievement of Adjusted EBITDA versus current forecasts for the measurement periods could result in a range of potential payments under these arrangements which could differ from the current estimated fair value of the liabilities based on our current forecasts. The following table outlines the remaining original fair value reflected as the carrying value in the financial statements, the range of minimum and maximum undiscounted payments, and a sensitivity calculation of the current estimated fair value and sensitivities based on achieving Adjusted EBITDA levels 10% above or below the Partnership's current forecasted results as of June 30, 2018. Based on the significant estimates and assumptions included in the analysis, actual results could differ from these estimates.

Transaction	Carrying Value of Liability (a)	Undiscounted Payments		Sensitivity Analysis		
		Minimum	Maximum	Current Estimated Fair Value	-10% Adjusted EBITDA	+10% Adjusted EBITDA
Blair Contribution	\$ 3,000	\$ —	\$ 5,000	\$ 4,679	\$ —	\$ 4,679
Whitehall Contribution	\$ 4,000	\$ —	\$ 45,000	\$ —	\$ —	\$ —

(a) Reflected in accrued and other current liabilities on our Condensed Consolidated Balance Sheet as of June 30, 2018.

Litigation

From time to time the Partnership may be subject to various claims and legal proceedings which arise in the normal course of business. Management is not aware of any legal matters that are likely to have a material adverse effect on the Partnership's financial position, results of operations or cash flows.

8. Equity

During the second quarter of 2017, our sponsor distributed its 20,693,643 common units in the Partnership to its members. As of June 30, 2018, our management team, together with our general partner's board of directors have an 11% direct ownership interest in our limited partnership units. In addition, our sponsor is the owner of our general partner.

During the six months ended June 30, 2017, the Partnership completed a public offering for a total of 23,575,000 common units, representing limited partnership interests in the Partnership for aggregate net proceeds of approximately \$412,577. The net proceeds from these offerings were used to fund the cash portion of the Whitehall Contribution, the cash portion of the Permian Basin Sand asset acquisition and for general partnership purposes. In addition, the Partnership issued 3,438,789 common units as additional consideration for the Permian Basin Sand asset acquisition on March 3, 2017.

Unit Buyback Program

On October 17, 2017, the Partnership announced that the board of directors of our general partner approved a unit buyback program of up to \$100,000. The repurchase program does not obligate the Partnership to repurchase any specific dollar amount or number of units and may be suspended, modified or discontinued by the board of directors at any time, in its sole discretion and without notice.

The following table presents information with respect to repurchases of common units made by the Partnership during the periods presented, which were retired upon repurchase:

Three Months Ended June 30,	Six Months Ended June 30,
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	2018	2017	2018	2017
Number of units purchased	—	—	753,090	—
Average price paid per unit including commission	\$ —	\$ —	\$12.52	\$ —
Total cost	\$ —	\$ —	\$9,426	\$ —

As of June 30, 2018, the Partnership has repurchased a total of 2,783,253 common units for a total cost of \$29,426, with \$70,574 remaining under its approved unit buyback program.

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Equity Distribution Agreement

On January 4, 2017, the Partnership entered into an equity distribution program with certain financial institutions (each, a "Manager") under which we may sell, from time to time, through or to the Managers, common units representing limited partner interests in the Partnership up to an aggregate gross sales price of \$50,000. The Partnership has not issued any common units under this equity distribution program through the date of this filing.

Incentive Distribution Rights

Incentive distribution rights represent the right to receive increasing percentages (ranging from 15.0% to 50.0%) of quarterly distributions from operating surplus after minimum quarterly distribution and target distribution levels exceed \$0.54625 per unit per quarter. Our sponsor currently holds the incentive distribution rights, but it may transfer these rights at any time.

Allocations of Net Income

Our partnership agreement contains provisions for the allocation of net income and loss to the unitholders and our general partner. For purposes of maintaining partner capital accounts, the partnership agreement specifies that items of income and loss shall be allocated among the partners in accordance with their respective percentage ownership interest. Normal allocations according to percentage interests are made after giving effect, if any, to priority income allocations in an amount equal to incentive cash distributions allocated 100% to our sponsor.

During the three and six months ended June 30, 2018 and 2017, no income was allocated to the holder of our incentive distribution rights.

Distributions

Our partnership agreement sets forth the calculation to be used to determine the amount of cash distributions that our limited partner unitholders and the holder of our incentive distribution rights will receive.

Our most recent distributions have been as follows:

Declaration Date	Amount Declared Per Unit	Record Date	Payment Date	Payment to Limited Partner Units	Payment to the Holder of Incentive Distribution Rights
October 16, 2017	\$ 0.1500	October 31, 2017	November 14, 2017	\$ 13,656	\$ —
January 17, 2018	\$ 0.2000	February 1, 2018	February 13, 2018	\$ 17,809	\$ —
April 18, 2018	\$ 0.2250	May 1, 2018	May 15, 2018	\$ 19,888	\$ —
July 20, 2018	\$ 0.7500	August 3, 2018	August 14, 2018	\$ 66,294	\$ 7,554

Net Income per Limited Partner Unit

The following table outlines our basic and diluted, weighted average limited partner units outstanding during the relevant periods:

	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Basic common units outstanding	88,392,179	91,021,799	88,629,958	82,352,555
Potentially dilutive common units	1,337,249	559,089	1,337,249	559,089
Diluted common units outstanding	89,729,428	91,580,888	89,967,207	82,911,644

For purposes of calculating the Partnership's earnings per unit under the two-class method, common units are treated as participating preferred units. Incentive distribution rights are treated as participating securities.

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Notes to Unaudited Condensed Consolidated Financial Statements

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Diluted earnings per unit excludes any dilutive awards granted (see Note 9 - Unit-Based Compensation) if their effect is anti-dilutive. Diluted earnings per unit for the three and six months ended June 30, 2018 includes the dilutive effect of all 1,337,249 phantom units granted and outstanding at the assumed number of units which would have vested if the performance period had ended on June 30, 2018. Diluted earnings per unit for the three and six months ended June 30, 2017 includes the dilutive effect of all 559,089 phantom units, granted and outstanding at the assumed number of units which would have vested if the performance period had ended on June 30, 2017.

Distributions made in future periods based on the current period calculation of cash available for distribution are allocated to each class of equity that will receive such distributions.

Each period, the Partnership determines the amount of cash available for distributions in accordance with the partnership agreement. The amount to be distributed to limited partner unitholders and incentive distribution rights holder is subject to the distribution waterfall in the partnership agreement. Net earnings or loss for the period are allocated to each class of partnership interest based on the distributions to be made.

As described in Note 1, the Partnership's historical financial information has been recast to combine Whitehall and Other Assets for all periods presented. The amounts of incremental income or losses recast to periods prior to the Whitehall Contribution are excluded from the calculation of net income per limited partner unit.

The following tables provide a reconciliation of net income and the assumed allocation of net income under the two-class method for purposes of computing net income per limited partner unit for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30, 2018		
	General Partner and IDRs	Limited Partner Units	Total
Declared distribution	\$7,554	\$66,294	\$73,848
Assumed allocation of distribution in excess of earnings	—	(5,840)	(5,840)
Assumed allocation of net income	\$7,554	\$60,454	\$68,008
Earnings per limited partner unit - basic		\$0.68	
Earnings per limited partner unit - diluted		\$0.67	
	Three Months Ended June 30, 2017		
	General Partner and IDRs	Limited Partner Units	Total
Declared distribution	\$—	\$—	\$—
Assumed allocation of earnings in excess of distribution	—16,380	16,380	
Assumed allocation of net income	\$—16,380	\$16,380	
Earnings per limited partner unit - basic		\$0.18	
Earnings per limited partner unit - diluted		\$0.18	
	Six Months Ended June 30, 2018		
	Total		

	General Limited Partner Partner and Units IDRs		
Declared distribution	\$7,554	\$86,182	\$93,736
Assumed allocation of earnings in excess of distributions	(2,262)	30,483	28,221
Assumed allocation of net income	\$5,292	\$116,665	\$121,957
Earnings per limited partner unit - basic		\$1.32	
Earnings per limited partner unit - diluted		\$1.30	

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(Dollars in thousands, except unit and per unit amounts, or where otherwise noted)

	Six Months Ended June 30, 2017	
	General Limited Partner and Units IDRs	Total
Declared distribution	\$—	\$—
Assumed allocation of earnings in excess of distributions	—9,549	9,549
Add back recast losses attributable to Whitehall and Other Assets through March 15, 2017	—1,471	1,471
Assumed allocation of net income	\$—11,020	\$11,020
Earnings per limited partner unit - basic	\$0.13	
Earnings per limited partner unit - diluted	\$0.13	

9. Unit-Based Compensation*Long-Term Incentive Plan*

On August 21, 2012, Hi-Crush GP adopted the Hi-Crush Partners LP Long-Term Incentive Plan, which was superseded on September 21, 2016 by the First Amended and Restated Long-Term Incentive Plan (the "Plan") for employees, consultants and directors of Hi-Crush GP and those of its affiliates, including our sponsor, who perform services for the Partnership. The Plan consists of restricted units, unit options, phantom units, unit payments, unit appreciation rights, other equity-based awards, distribution equivalent rights and performance awards. The Plan limited the number of common units that may be issued pursuant to awards under the Plan to 4,064,035 units. After giving effect to the Plan, to the extent that an award is forfeited, cancelled, exercised, settled in cash, or otherwise terminates or expires without the actual delivery of common units pursuant to such awards, the common units subject to the award will again be available for new awards granted under the Plan; provided, however, that any common units withheld to cover a tax withholding obligation will not again be available for new awards under the Plan. The Plan is administered by Hi-Crush GP's board of directors or a committee thereof.

The cost of services received in exchange for an award of equity instruments is measured based on the grant-date fair value of the award and that cost is generally recognized over the vesting period of the award.

Performance Phantom Units - Equity Settled

The Partnership has awarded Performance Phantom Units ("PPUs") pursuant to the Plan to certain employees. The number of PPUs that will vest will range from 0% to 200% of the number of initially granted PPUs and is dependent on the Partnership's total unitholder return over a three-year performance period compared to the total unitholder return of a designated peer group. Each PPU represents the right to receive, upon vesting, one common unit representing limited partner interests in the Partnership. The PPUs are also entitled to forfeitable distribution equivalent rights ("DERs"), which accumulate during the performance period and are paid in cash on the date of settlement. The fair value of each PPU is estimated using a fair value approach and is amortized into compensation expense, reduced for an estimate of expected forfeitures, over the period of service corresponding with the vesting period. Expected volatility is based on the historical market performance of our peer group. The following table presents information relative to our PPUs.

	Units	Grant Date Weighted-Average Fair Value per Unit
Outstanding at December 31, 2017	346,141	\$ 14.56

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Vested	(50,850)	\$	36.62
Forfeited	(5,650)	\$	36.62
Outstanding at June 30, 2018	289,641	\$	10.18

As of June 30, 2018, total compensation expense not yet recognized related to unvested PPU's was \$1,289, with a weighted average remaining service period of 1.1 years.

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(Dollars in thousands, except unit and per unit amounts, or where otherwise noted)

Time-Based Phantom Units - Equity Settled

The Partnership has awarded Time-Based Phantom Units ("TPUs") pursuant to the Plan to certain employees which automatically vest if the employee remains employed at the end of the vesting period. The vesting period is a cliff or graded vesting, generally ranging over a three-year period. Each TPU represents the right to receive, upon vesting, one common unit representing limited partner interests in the Partnership. The TPUs are also entitled to forfeitable DERs, which accumulate during the vesting period and are paid in cash on the date of settlement. The fair value of each TPU is calculated based on the grant-date unit price and is amortized into compensation expense, reduced for an estimate of expected forfeitures, over the period of service corresponding with the vesting period. The following table presents information relative to our TPUs.

	Units	Grant Date Weighted-Average Fair Value per Unit
Outstanding at December 31, 2017	1,036,592	\$ 10.97
Vested	(49,122)	\$ 26.02
Granted	78,583	\$ 12.24
Forfeited	(18,445)	\$ 9.60
Outstanding at June 30, 2018	1,047,608	\$ 10.39

As of June 30, 2018, total compensation expense not yet recognized related to unvested TPUs was \$5,994, with a weighted average remaining service period of 1.8 years.

Director Unit Grants

The Partnership issued 36,109 and 29,148 common units to certain of its directors during the six months ended June 30, 2018 and 2017, respectively.

Unit Purchase Programs

The Partnership has unit purchase programs ("UPP") offered under the Plan. The UPPs provide participating employees and members of our general partner's board of directors the opportunity to purchase common units representing limited partner interests of the Partnership at a discount. Non-director employees contribute through payroll deductions of the employee's eligible compensation during the applicable offering period. Directors contribute through cash contributions. If the closing price of the Partnership's common units on the purchase date is greater than or equal to the discount applied to the closing market price of our common units on a participant's applicable election date (the "Election Price"), then the participant will receive a number of common units equal to the amount of accumulated payroll deductions or cash contributions, as applicable (the "Contribution"), divided by the Election Price, capped at a specified number of common units. If the purchase date price is less than the Election Price, then the participant's Contribution will be returned to the participant. On the date of election, the Partnership calculates the fair value of the discount, which is recognized as unit compensation expense on a straight-line basis during the period from election date through the date of purchase.

The offering period under the Partnership's UPP adopted in 2015 (the "2015 UPP") ended on February 28, 2017 with a 10% discount of the fair value of our common units on the applicable election date. The participants under the 2015 UPP purchased 300,090 common units at an average price of \$5.49 on February 28, 2017.

On September 14, 2017, the board of directors of our general partner approved the termination of the Partnership's UPP that was adopted in March of 2017 (the "2017 UPP") and approved the adoption of the Second 2017 Unit Purchase Program (the "Second 2017 UPP"). On September 14, 2017, the offering period under the Second 2017 UPP commenced, with a 15% discount of the fair value of our common units on the applicable election date and a purchase date of November 15, 2018. With respect to any eligible individuals electing to participate in the Second 2017 UPP who were also participating in the 2017 UPP, any contributions that were made to the 2017 UPP and not withdrawn

by a participant before September 14, 2017 were applied to the Second 2017 UPP.

Based on the current elected contributions, the participants will have the right to purchase an aggregate of approximately 342,000 common units. As of June 30, 2018, total accumulated contributions of \$650 from directors under the Second 2017 UPP is maintained within accrued and other current liabilities on our Condensed Consolidated Balance Sheet.

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Compensation Expense

The following table presents total unit-based compensation expense:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Performance Phantom Units	\$342	\$374	\$685	\$748
Time-Based Phantom Units	1,250	641	2,489	1,279
Director and other unit grants	118	124	237	251
Unit Purchase Programs	100	80	200	119
Total compensation expense	\$1,810	\$1,219	\$3,611	\$2,397

10. Revenues

As described in Note 2, on January 1, 2018, we adopted ASC Topic 606, *Revenue from Contracts with Customers*, using the full retrospective method. In accordance with ASC Topic 606, the Partnership recognizes revenue at the point in time control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in ASC Topic 606. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied.

The majority of our contracts are frac sand contracts that have a single performance obligation as the promise to transfer individual goods or services is not separately identifiable from other promises in the contracts and, therefore, not distinct. For the portion of our contracts that contain multiple performance obligations, such as work orders containing a combination of product, transportation, equipment rentals, and labor services, we allocate the transaction price to each performance obligation identified in the contract based on relative standalone selling prices, or estimates of such prices, and recognize the related revenue as control of each individual product or service is transferred to the customer, in satisfaction of the corresponding performance obligations.

Disaggregation of Revenues

The following table presents our revenues disaggregated by contractual relationships:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Sales to contract customers	\$186,946	\$92,261	\$351,013	\$148,158
Spot sales	25,757	42,921	53,174	70,292
Frac sand sales revenues	212,703	135,182	404,187	218,450
Other revenues	35,817	38	62,446	134
Total revenues	\$248,520	\$135,220	\$466,633	\$218,584

Practical Expedients and Exemptions

We have elected to use the practical expedients allowed under ASC 606-10-50-14, pursuant to which we have excluded disclosures of transaction prices allocated to remaining performance obligations and when we expect to recognize such revenue. We have various long-term contracts with minimum purchase and supply requirements with terms expiring between 2018 and 2024. The remaining performance obligations are primarily comprised of unfulfilled product, transportation service, and labor service orders, some of which hold a remaining duration of less than one

year. Our transaction price for volumes and services under these contracts is based on timing of customer orders, points of sale, mix of products sold, impact of market conditions and potential contract negotiations, which have not yet been determined and therefore the price is variable in nature. The long term portion of deferred revenue represents customer prepayments for which related current performance obligations do not yet exist, but are expected to arise, before the expiration of the term.

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Deferred Revenues

As of June 30, 2018, the Partnership has recorded a total liability of \$10,564 for prepayments of future deliveries of frac sand. These prepayments are refundable in the event that the Partnership is unable to meet the minimum sand volumes required under the contract. We expect to recognize these revenues over the next 2.2 years.

Changes in deferred revenues consisted of the following:

Balance at December 31, 2017	\$ 11,783
Collection of prepayments	1,325
Revenues recognized	(2,544)
Balance at June 30, 2018	\$ 10,564

11. Related Party Transactions

Effective August 16, 2012, our sponsor entered into a services agreement (the "Services Agreement") with our general partner, Hi-Crush Services LLC ("Hi-Crush Services") and the Partnership, pursuant to which Hi-Crush Services provides certain management and administrative services to the Partnership to assist in operating the Partnership's business. Under the Services Agreement, the Partnership reimburses Hi-Crush Services and its affiliates, on a monthly basis, for the allocable expenses it incurs in its performance under the Services Agreement. These expenses include, among other things, administrative, rent and other expenses for individuals and entities that perform services for the Partnership. Hi-Crush Services and its affiliates will not be liable to the Partnership for its performance of services under the Services Agreement, except for liabilities resulting from gross negligence. During the three months ended June 30, 2018 and 2017, the Partnership incurred \$2,631 and \$1,301, respectively, of management and administrative service expenses from Hi-Crush Services. During the six months ended June 30, 2018 and 2017, the Partnership incurred \$4,506 and \$2,593, respectively, of management and administrative service expenses from Hi-Crush Services.

In the normal course of business, our sponsor and its affiliates, including Hi-Crush Services, and the Partnership may from time to time make payments on behalf of each other.

As of June 30, 2018, an outstanding balance of \$8,677 payable to our sponsor is maintained as a current liability under the caption "Due to sponsor".

On September 8, 2016, the Partnership entered into an agreement to become a member of PropX, which is accounted for as an equity method investment. As of June 30, 2018 and December 31, 2017, the Partnership purchased \$9,194 and \$6,593, respectively, of equipment from PropX, which is reflected in property, plant and equipment. As of June 30, 2018 and December 31, 2017, the Partnership had accounts payable and accrued expenses of \$696 and \$1,273, respectively, to PropX, which is reflected in accounts payable and accrued and other current liabilities on our Condensed Consolidated Balance Sheet. In addition to equipment purchases, during the three months ended June 30, 2018 and 2017, we incurred \$1,163 and \$401, respectively, of lease expense for the use of PropX equipment, which is reflected in cost of goods sold. During the six months ended June 30, 2018 and 2017, we incurred \$2,089 and \$666, respectively, of lease expense for the use of PropX equipment, which is reflected in cost of goods sold. During the first quarter of 2018, we made a lease prepayment of \$3,211 for the use of PropX equipment.

During the three and six months ended June 30, 2018 and 2017, the Partnership engaged in multiple construction projects and purchased equipment, machinery and component parts from various vendors that were represented by Alston Environmental Company, Inc. or Alston Equipment Company ("Alston Companies"), which regularly represent vendors in such transactions. The vendors in question paid a commission to the Alston Companies in an amount that is unknown to the Partnership. The sister of Mr. Alston, who is a director of our general partner, has an ownership interest in the Alston Companies. The Partnership has not paid any sum directly to the Alston Companies and Mr. Alston has represented to the Partnership that he received no compensation from the Alston Companies related to these transactions.

12. Segment Reporting

The Partnership manages, operates and owns assets utilized to supply frac sand to its customers. It conducts operations through its one operating segment titled "Frac Sand Sales". This reporting segment of the Partnership is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

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HI-CRUSH PARTNERS LP

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13. Subsequent Events

Distributions

On July 20, 2018, our general partner's board of directors declared a cash distribution for the second quarter of 2018 totaling \$66,294, or \$0.75 per common unit. This distribution will be paid on August 14, 2018 to unitholders of record on August 3, 2018. A distribution of \$7,554 was declared for the holder of our incentive distribution rights.

FB Acquisition

On July 19, 2018, the Partnership entered into a purchase agreement to acquire FB Industries Inc. ("FB Industries"), a manufacturer and marketer of silo-based frac sand management systems. Under the terms of the transaction, the Partnership, through two of its wholly-owned subsidiaries, paid cash consideration of approximately \$45,000 and issued approximately \$15,000 of new common units to the sellers, for total consideration of approximately \$60,000. The terms also include the potential for additional future consideration payments based on the achievement of established performance benchmarks through 2021. The Partnership completed this acquisition on August 1, 2018.

Debt-related Transactions

On August 1, 2018, the Partnership entered into a \$200,000 senior secured revolving credit facility ("ABL Facility") among us, as borrower, the lenders party thereto from time to time, and JPMorgan Chase Bank, N.A., as administrative agent and an issuing lender, and each other issuing lender party thereto. We terminated our existing Revolving Credit Agreement in connection with the closing of the ABL Facility.

On August 1, 2018, the Partnership completed its private placement of \$450,000 aggregate principal amount of 9.50% senior unsecured notes due 2026 (the "Senior Notes") at par. We used the net proceeds from the offering to repay our Term Loan Credit Facility, to fund the cash purchase price of the FB Industries acquisition and intend to use the remainder for general partnership purposes.

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

You should read the following discussion of our historical performance, financial condition and future prospects in conjunction with our unaudited condensed financial statements and accompanying notes in "Item 1. Financial Statements" contained herein and our audited financial statements as of December 31, 2017, included in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on February 20, 2018. The information provided below supplements, but does not form part of, our unaudited condensed financial statements. This discussion contains forward-looking statements that are based on the views and beliefs of our management, as well as assumptions and estimates made by our management. Actual results could differ materially from such forward-looking statements as a result of various risk factors, including those that may not be in the control of management. See "Forward-Looking Statements" in this Quarterly Report on Form 10-Q. All amounts are presented in thousands except tonnage, acreage or per unit data, or where otherwise noted.

Overview

We are a premier provider of proppant and logistics solutions to the North American energy industry. Our portfolio of production facilities is capable of producing 13,430,000 tons per year of high-quality monocrystalline sand, a specialized mineral used as a proppant during the well completion process, necessary to facilitate the recovery of hydrocarbons from oil and natural gas wells. Our Wisconsin production facilities' direct access to major U.S. railroads and our strategically located owned and operated in-basin terminals as well as our Texas production facility positions us within close proximity to significant activity in all major oil and gas basins. Our integrated distribution system, including our PropStream™ logistics service, delivers proppant the "last mile" into the blender.

We sell a substantial portion of the frac sand we produce to customers with whom we have long-term contracts. As of July 1, 2018, the average remaining contract terms of our long-term contracts was 2.0 years with remaining terms ranging from 6 to 78 months.

Our Assets and Operations

We own and operate five production facilities located in Wisconsin and Texas. Our Wisconsin production facilities are equipped with on-site transportation infrastructure capable of accommodating unit trains connected to the Union Pacific Railroad mainline or the Canadian National Railroad mainline. As of June 30, 2018 our Texas production facility had 15,000 tons of on-site silo storage capacity and has infrastructure capable of direct loading into trucks. In July 2018, we completed construction of the sixth silo at our Texas production facility increasing the on-site silo storage capacity to 18,000 tons.

The following table provides a summary of our production facilities as of December 31, 2017:

Mine/Plant Name	Mine/Plant Location	In-Service Date	Area (in acres)	Annual Capacity	Proven Reserves (in thousands of tons)
Wyeville facility	Wyeville, WI	June 2011	971	1,850,000	74,072
Augusta facility	Augusta, WI	June 2012	1,187	2,860,000	38,582
Blair facility	Blair, WI	March 2016	1,285	2,860,000	114,922
Whitehall facility	Whitehall, WI	Sept 2014	1,447	2,860,000	78,157
Kermit facility	Kermit, TX	July 2017	1,226	3,000,000	103,580

According to John T. Boyd Company ("John T. Boyd"), our proven reserves at our facilities consist of frac sand exceeding American Petroleum Institute ("API") specifications. Analysis of sand at our facilities by independent third-party testing companies indicates that they demonstrate characteristics exceeding of API specifications with regard to crush strength, turbidity and roundness and sphericity. Based on third-party reserve reports by John T. Boyd, as of December 31, 2017, we have an implied average reserve life of 30 years, assuming production at the rated capacity of 13,430,000 tons of frac sand per year.

In July 2018, the Partnership announced its plans to expand the production capacity at its Wyeville facility by an additional 850,000 tons per year. Following the expansion, the Wyeville facility's annual processing capacity will

increase to 2,700,000 tons of frac sand per year. The expansion at the Wyeville facility is expected to be complete early in the first quarter of 2019.

Additionally, in July 2018, the Partnership announced it plans to construct a second production facility, located on our reserves near Kermit, Texas (the "Kermit 2 facility"). Kermit 2 will add 3,000,000 tons per year of processing capacity, and will operate independently of the existing Kermit facility. The new facility will be located west of the existing Kermit facility with sufficient and separate road access to enable efficient entrance and egress. Both Kermit facilities will independently mine reserves which produce 100 mesh Permian Pearl™ frac sand. The Kermit 2 facility is expected to be in-service in late December 2018.

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As of June 30, 2018, we own or operate 12 terminal locations throughout Colorado, Pennsylvania, Ohio, New York and Texas, of which two are idled and seven are capable of accommodating unit trains. Our terminals include approximately 110,000 tons of rail storage capacity and approximately 140,000 tons of silo storage capacity. We are continuously looking to increase the number of terminals we operate and expand our geographic footprint, allowing us to further enhance our customer service and putting us in a stronger position to take advantage of opportunistic short term pricing agreements.

Our terminals are strategically located to provide access to Class I railroads, which enables us to cost effectively ship product from our production facilities in Wisconsin. As of June 30, 2018, we leased or owned 4,884 railcars used to transport sand from origin to destination and managed a fleet of 2,418 additional railcars dedicated to our facilities by our customers or the Class I railroads.

In September 2016, the Partnership entered into an agreement to become a member of Proppant Express Investments, LLC ("PropX"), which was established to develop critical last mile logistics equipment for the proppant industry. In October 2016, the Partnership began providing to customers its PropStream integrated logistics service, which involves loading frac sand at in-basin terminals into PropX containers before being transported by truck to the wellsite. At the wellsite, we believe the PropX proprietary conveyor system, PropBeast[®], significantly reduces noise and dust emissions due to its fully enclosed environment. As of June 30, 2018, we owned 30 PropBeast conveyors and leased 1,803 containers from PropX.

How We Generate Revenue

We generate revenue by excavating, processing and delivering frac sand and providing related services. A substantial portion of our frac sand is sold to customers with whom we have long-term contracts which have current terms expiring between 2018 and 2024. Each contract defines the minimum volume of frac sand that the customer is required to purchase, the volume that we are required to make available, the technical specifications of the product and the price per ton. In 2017, we began to revise the pricing structure in our contracts for sand sourced from our Wisconsin facilities to be periodically negotiated pricing generally reflective of market conditions and prices. Our contracts for sand sourced from our Kermit facility are generally fixed price for the life of the contract. We also sell our frac sand on the spot market at prices and other terms determined by the existing market conditions as well as the specific requirements of the customer. Delivery of sand to our customers may occur at the production facility, rail origin, terminal or wellsite.

We generate other revenues through the performance of our PropStream logistics service, which includes transportation, equipment rental, and labor services, and through activities performed at our in-basin terminals, including transloading sand for counterparties, and lease of storage space and other services performed on behalf of our customers.

Our Wisconsin production facilities are located in a region with sustained freezing temperatures during the winter months. As such, it is industry practice to halt excavation activities and operation of the wet plant during those months and therefore, we excavate and wash sand in excess of current delivery requirements during the months when our Wisconsin facilities are operational. This excess washed sand is placed in stockpiles that feed the dry plant and fill customer orders throughout the year.

Costs of Conducting Our Business

Production Costs

The principal expenses involved in production of raw frac sand are excavation costs, plant operating costs, labor, utilities, maintenance and royalties. We have a contract with a third party to excavate raw frac sand, deliver the raw frac sand to our wet processing facilities and move the sand from our washed sand stockpiles to our dry plants. We pay a fixed price per ton excavated and delivered without regard to the amount of sand excavated that meets API specifications. Accordingly, we incur excavation costs with respect to the excavation of sand and other materials from which we ultimately do not derive revenue (rejected materials), and for sand which is still to be processed through the dry plant and not yet sold. However, the ratio of rejected materials to total amounts excavated has been, and we believe will continue to be, in line with our expectations, given the extensive core sampling and other testing we undertook at our facilities.

Labor costs associated with employees at our processing facilities represent the most significant cost of converting raw frac sand to finished product. We incur utility costs in connection with the operation of our processing facilities, primarily electricity and natural gas, which are both susceptible to price fluctuations. Our facilities require periodic scheduled maintenance to ensure efficient operation and to minimize downtime. Excavation, labor, utilities and other costs of production are capitalized as a component of inventory and are reflected in cost of goods sold when inventory is sold.

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We pay royalties to third parties at our Wisconsin facilities at various rates, as defined in the individual royalty agreements. During the third quarter of 2016, the Partnership entered into an agreement to terminate certain existing royalty agreements for \$6,750, of which \$3,375 was paid during each of September 2017 and 2016. As a result of this agreement, the Partnership reduced its ongoing future royalty payments to the applicable counterparties for each ton of frac sand that is excavated, processed and sold to the Partnership's customers. We currently pay an aggregate rate up to \$5.15 per ton of sand excavated from our Wisconsin facilities, delivered to and paid for by our customers. No royalties are due on the sand extracted, processed and sold from our Kermit facility.

We may, from time to time, purchase sand and other proppant through a long-term supply agreement with a third party at a specified price per ton and also through the spot market.

Logistics Costs

The principal expenses involved in distribution of processed sand are rail freight and fuel surcharges, railcar lease expense, and trucking charges. These logistics costs are capitalized as a component of finished goods inventory held in-basin and are reflected in cost of goods sold when the inventory is eventually sold in-basin or at the wellsite. Other logistics cost components, including transload fees, storage fees, and terminal operational costs, such as labor and facility rent, are charged to costs of goods sold in the period in which they are incurred. We utilize multiple railroads to transport our sand and such transportation costs are typically negotiated through long-term working relationships. The principal expenses involved in delivering sand to the wellsite are costs associated with third party trucking vendors, container rent, labor and other operating expenses associated with handling the product at the wellsite. These logistics costs are charged to costs of goods sold in the period in which they are incurred.

General and Administrative Costs

We incur general and administrative costs related to our corporate operations. Under our partnership agreement and the services agreement with our sponsor and our general partner, our sponsor has discretion to determine, in good faith, the proper allocation of costs and expenses to us for its services, including expenses incurred by our general partner and its affiliates on our behalf. The allocation of such costs is based on management's best estimate of time and effort spent on the respective operations and facilities. Under these agreements, we reimburse our sponsor for all direct and indirect costs incurred on our behalf.

How We Evaluate Our Operations

We utilize various financial and operational measures to evaluate our operations. Management measures the performance of the Partnership through performance indicators, including gross profit, contribution margin, earnings before interest, taxes, depreciation and amortization ("EBITDA"), Adjusted EBITDA and distributable cash flow.

Gross Profit and Contribution Margin

We use contribution margin, which we define as total revenues less costs of goods sold excluding depreciation, depletion and amortization, to measure our financial and operating performance. Contribution margin excludes other operating expenses and income, including costs not directly associated with the operations of our business such as accounting, human resources, information technology, legal, sales and other administrative activities. We believe contribution margin is a meaningful measure because it provides an operating and financial measure of our ability to generate margin in excess of our operating cost base.

We use gross profit, which we define as revenues less costs of goods sold and depreciation, depletion and amortization, to measure our financial performance. We believe gross profit is a meaningful measure because it provides a measure of profitability and operating performance based on the historical cost basis of our assets.

As a result, contribution margin, contribution margin per ton sold, sales volumes, sales price per ton sold and gross profit are key metrics used by management to evaluate our results of operations.

EBITDA, Adjusted EBITDA and Distributable Cash Flow

We view EBITDA and Adjusted EBITDA as important indicators of performance. We define EBITDA as net income plus depreciation, depletion and amortization and interest expense, net of interest income. We define Adjusted EBITDA as EBITDA, adjusted for any non-cash impairments of long-lived assets and goodwill, earnings (loss) from equity method investments and loss on extinguishment of debt. We define distributable cash flow as Adjusted EBITDA less cash paid for interest expense and maintenance and replacement capital expenditures, including accrual for reserve replacement, plus accretion of asset retirement obligations and non-cash unit-based compensation. We use

distributable cash flow as a performance metric to compare cash performance of the Partnership from period to period and to compare the cash generating performance for specific periods to the cash distributions (if any) that are expected to be paid to our unitholders. Distributable cash flow will not reflect changes in working capital balances. EBITDA and Adjusted EBITDA are supplemental measures utilized by our management and other users of our financial statements, such as investors, commercial banks, research analysts and others, to assess the financial performance of our assets without regard to financing methods, capital structure or historical cost basis.

Table of Contents**Note Regarding Non-GAAP Financial Measures**

EBITDA, Adjusted EBITDA and distributable cash flow are not financial measures presented in accordance with GAAP. We believe that the presentation of these non-GAAP financial measures will provide useful information to investors in assessing our financial condition and results of operations. Our non-GAAP financial measures should not be considered as alternatives to the most directly comparable GAAP financial measure. Each of these non-GAAP financial measures has important limitations as analytical tools because they exclude some but not all items that affect the most directly comparable GAAP financial measures. You should not consider EBITDA, Adjusted EBITDA or distributable cash flow in isolation or as substitutes for analysis of our results as reported under GAAP. Because EBITDA, Adjusted EBITDA and distributable cash flow may be defined differently by other companies in our industry, our definitions of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

The following table presents a reconciliation of EBITDA, Adjusted EBITDA and distributable cash flow to the most directly comparable GAAP financial measure, as applicable, for each of the periods indicated:

	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
<i>(in thousands)</i>				
Reconciliation of distributable cash flow to net income:				
Net income	\$68,008	\$16,380	\$121,957	\$9,549
Depreciation and depletion expense	10,482	7,599	18,281	12,428
Amortization expense	420	421	841	841
Interest expense	3,720	2,440	7,181	5,367
EBITDA	82,630	26,840	148,260	28,185
(Earnings) loss from equity method investments	(1,144)	(296)	(2,310)	270
Adjusted EBITDA	81,486	26,544	145,950	28,455
Less: Cash interest paid	(3,477)	(2,068)	(6,743)	(4,622)
Less: Maintenance and replacement capital expenditures, including accrual for reserve replacement (a)	(5,561)	(2,945)	(10,236)	(4,790)
Add: Accretion of asset retirement obligations	123	114	249	228
Add: Unit-based compensation	1,810	1,219	3,611	2,397
Distributable cash flow	74,381	22,864	132,831	21,668
Adjusted for: Distributable cash flow attributable to assets contributed by the sponsor, prior to the period in which the contribution occurred (b)	—	—	—	1,247
Distributable cash flow attributable to Hi-Crush Partners LP	74,381	22,864	132,831	22,915
Less: Distributable cash flow attributable to the holder of incentive distribution rights	(7,821)	—	(8,078)	—
Distributable cash flow attributable to limited partner unitholders	\$66,560	\$22,864	\$124,753	\$22,915

Maintenance and replacement capital expenditures, including accrual for reserve replacement, were determined based on an estimated reserve replacement cost of \$1.35 per ton produced and delivered through September 30, 2017. Effective October 1, 2017, we increased the estimated reserve replacement cost to \$1.85 per ton produced (a) and delivered, due to the addition of our Kermit facility. Such expenditures include those associated with the replacement of equipment and sand reserves, to the extent that such expenditures are made to maintain our long-term operating capacity. The amount presented does not represent an actual reserve account or requirement to spend the capital.

The Partnership's historical financial information has been recast to consolidate Hi-Crush Whitehall LLC, 2.0% equity interest in Hi-Crush Augusta LLC and PDQ Properties LLC for the periods leading up to their contribution (b) into the Partnership. For purposes of calculating distributable cash flow attributable to Hi-Crush Partners LP, the Partnership excludes the incremental amount of recast distributable cash flow earned during the periods prior to the contributions.

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Basis of Presentation

The following discussion of our historical performance and financial condition is derived from the historical financial statements.

Factors Impacting Comparability of Our Financial Results

Our historical results of operations and cash flows are not indicative of results of operations and cash flows to be expected in the future principally for the following reasons:

We commenced operations at our Kermit production facility on July 31, 2017. The Kermit facility commenced operations and sales of frac sand during the third quarter of 2017, resulting in an increase in volumes produced and delivered during the six months ended June 30, 2018 as compared to the same period of 2017.

Our Whitehall production facility was temporarily idled from the second quarter of 2016 through March 2017. The Whitehall facility was temporarily idled during the second quarter of 2016. The Partnership resumed production at the Whitehall facility in March 2017, resulting in an increase in volumes produced and delivered during the six months ended June 30, 2018 as compared to the same period of 2017.

Our Augusta production facility was temporarily idled from October 2015 through September 2016. In October 2015, we temporarily idled our Augusta facility until production resumed at reduced capacity levels in September 2016. We did not resume production at rates near full capacity until April 2017, resulting in an increase in volumes produced and delivered during the six months ended June 30, 2018 as compared to the same period of 2017.

During the fourth quarter of 2016, we launched PropStream, our integrated logistics service, which delivers proppant into the blender at the wellsite. Accordingly, our financial statements reflect an increase in frac sand sales, other service revenues and logistics costs during the six months ended June 30, 2018 as compared to the same period of 2017 as more equipment and labor was utilized in the operations of PropStream.

Market Conditions

Exploration and production activity increased throughout 2017 and continued in the first half of 2018, as demonstrated by the growth in the reported Baker Hughes U.S. land rig count from a low average of 380 rigs in May 2016 to 1,024 rigs as of June 29, 2018, reflecting an increase of 13% since the end of 2017 and 12% since the same time in the prior year. Well completion activity has similarly increased over the past several quarters, and, when coupled with continued growth in frac sand usage per well, is forecasted to result in an increased strong positive influence on demand for raw frac sand. The industry currently expects the U.S. frac sand market to demand approximately 110 million tons of frac sand in 2018, up significantly from 2017 and historical levels, with even greater demand forecasted in 2019.

We expect frac sand supply to generally lag the pace of demand growth over the coming months and quarters. While stated frac sand capacity may exceed the expectations for near-term demand, available industry capacity is constrained due to several factors, including availability of the grades of frac sand that are currently in demand, general operating conditions and normal downtime, and logistics constraints. In response to growing demand for U.S. frac sand, the industry is developing additional capacity over the next several months and into 2019, with the majority of this development in the Permian Basin.

The advent of sand supply available closer to the wellsite in the Permian Basin as well as the Mid-Continent and Eagle Ford shale plays, albeit to a much lesser extent, may cause a shift in consumption over time from Northern White sand to in-basin Permian sand supply. However, we believe this shift will be limited to finer mesh sizes of sand, particularly 100 mesh which is the principal grade produced in the Permian Basin. We believe demand for coarser grades of sand in the Permian Basin, including 40/70, 30/50 and 20/40 mesh will continue to be supplied from Northern White supply, while 100 mesh Northern White frac sand is likely to shift to meet demand for other major basins not efficiently serviced with any other sources of supply. While these shifts may cause periodic mismatches of supply and demand in particular basins and for certain grades, we do not believe there will be a long-term oversupply of sand given the projections of significantly increasing demand.

Demand for proppant in 2017 and 2018 has been increasing with meaningfully higher levels of well completion activity, and has also increased at a higher rate than well completion activity due to continued increases in frac sand intensity per well. During the same time frame, frac sand supply increased at a slower rate, despite resumption of operations in early 2017 at several previously idled mines. Through the second quarter of 2018, the successful

development and availability of in-basin Permian supply has generally lagged expectations due to start-up issues, contracting delays, and other factors. As a result, in-basin Permian supply was not available in the volumes, grades or timeframes needed to efficiently meet the rapid increase in demand experienced in the first half of 2018. This dynamic, combined with logistics challenges experienced in the first quarter of 2018 and continuing into the early part of the second quarter of 2018, led to an improvement in frac sand pricing during the first half of 2018. With the completion of construction and start-up of operations at several in-basin Permian mines in the first half of 2018, supply is becoming more available and may slow the increase in pricing or result in some declines in pricing in the second half of 2018.

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The following table presents sales, volume and pricing comparisons for the second quarter of 2018, as compared to the first quarter of 2018:

	Three Months Ended		Change	Percentage Change	
	June 30, 2018	March 31, 2018			
Revenues generated from the sale of frac sand (<i>in thousands</i>)	\$212,703	\$191,484	\$21,219	11	%
Tons sold	3,037,504	2,617,627	419,877	16	%
Average price per ton sold	\$70	\$73	\$(3)	(4)	%

Revenues generated from the sale of frac sand increased due to the sequential increase in sales volumes as well as pricing increases. Our average sales price per ton decreased sequentially due to an increased percentage of sales occurring at the mine, however, comparable pricing by mesh size, delivery point and location increased by \$1 to \$3 per ton. Tons sold during the second quarter of 2018 were 16% higher than the first quarter of 2018 primarily due to strong demand from continued tight supply coupled with improved service from Class-1 railroads.

Results of Operations

The following table presents revenues and expenses for the periods indicated:

	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Revenues	\$248,520	\$135,220	\$466,633	\$218,584
Costs of goods sold:				
Production costs	42,086	30,378	85,598	52,550
Logistics costs	112,445	69,504	210,916	119,415
Depreciation, depletion and amortization	10,482	7,596	18,281	12,424
Gross profit	83,507	27,742	151,838	34,195
Operating costs and expenses	12,923	9,218	25,010	19,009
Income from operations	70,584	18,524	126,828	15,186
Other income (expense):				
Earnings (loss) from equity method investments	1,144	296	2,310	(270)
Interest expense	(3,720)	(2,440)	(7,181)	(5,367)
Net income	\$68,008	\$16,380	\$121,957	\$9,549

Three Months Ended June 30, 2018 Compared to the Three Months Ended June 30, 2017*Revenues*

The following table presents sales, volume and pricing comparisons for the three months ended June 30, 2018, as compared to the three months ended June 30, 2017:

	Three Months Ended		Change	Percentage Change	
	June 30, 2018	2017			
Revenues generated from the sale of frac sand (<i>in thousands</i>)	\$212,703	\$135,182	\$77,521	57	%
Tons sold	3,037,504	2,112,516	924,988	44	%
Average price per ton sold	\$70	\$64	\$6	9	%

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Revenues generated from the sale of frac sand were \$212,703 and \$135,182 for the three months ended June 30, 2018 and 2017, respectively, during which we sold 3,037,504 and 2,112,516 tons of frac sand, respectively. The volume increase is primarily the result of improved year over year market conditions, as well as increased production capacity following the commencement of operations at the Kermit facility in July 2017. Average sales price per ton was \$70 and \$64 for the three months ended June 30, 2018 and 2017, respectively. The average sales price between the two periods differs due to the improved industry market conditions, which drove increased demand throughout 2017 and into 2018 along with supply shortages which were experienced in early 2018. Also impacting average sales price is the mix of delivery points to our customers in the comparable periods. Pricing in the second quarter of 2018 generally was significantly higher than the second quarter of 2017.

Other revenues related to PropStream integrated logistics services and activities performed at our in-basin terminals, including transloading, railcar storage, silo storage and other services was \$35,817 and \$38 for the three months ended June 30, 2018 and 2017, respectively. The increase in other revenues is a direct result of increased activity levels and increased use of our PropStream integrated logistics services.

Costs of Goods Sold – Production Costs

We incurred production costs of \$42,086 and \$30,378 for the three months ended June 30, 2018 and 2017, respectively. The increase in production costs for the three months ended June 30, 2018 was attributable to increased volumes produced and delivered from our Wisconsin production facilities compared to the same period in 2017, as well as the commencement of operations at our Kermit production facility in the third quarter of 2017. For the three months ended June 30, 2018 and 2017, we purchased \$5,698 and \$2,743, respectively, of sand and other proppants from third party suppliers.

Costs of Goods Sold – Logistics Costs

We incurred logistics costs, including rail freight and trucking costs, of \$112,445 and \$69,504 for the three months ended June 30, 2018 and 2017, respectively, reflecting an 33% increase in volumes sold in-basin via our terminal network and at the wellsite, resulting in the nearly doubling of our logistics costs.

Costs of Goods Sold – Depreciation, Depletion and Amortization of Intangible Assets

For the three months ended June 30, 2018 and 2017, we incurred \$10,482 and \$7,596, respectively, of depreciation, depletion and amortization expense, generally using the units-of-production method of depreciation. The increase was primarily attributable to an increased asset base in 2018, including our Kermit production facility and our Pecos terminal, both of which were completed in the second half of 2017.

Gross Profit

Gross profit was \$83,507 and \$27,742 for the three months ended June 30, 2018 and 2017, respectively. Gross profit percentage increased to 33.6% in the second quarter of 2018 from 20.5% in the second quarter of 2017. The increase was driven by increased prices and volumes in the second quarter of 2018 compared to 2017.

Operating Costs and Expenses

For the three months ended June 30, 2018, we incurred total operating costs and expenses of \$12,923 primarily attributable to general and administrative expenses of \$12,616. General and administrative expenses for the three months ended June 30, 2018 included \$1,084 of non-recurring business development and legal costs and lease termination costs associated with the relocation of our corporate offices. The increase in general and administrative expenses was also due to increased headcount as a result of the growth of the business, particularly by our logistics related functions, as compared to the same period in 2017.

For the three months ended June 30, 2017, we incurred total operating costs and expenses of \$9,218, which included general and administrative expenses of \$8,961. General and administrative expenses for the three months ended June 30, 2017 included \$879 of non-recurring legal, professional, marketing and other business development costs associated with the Whitehall Contribution, and the development of our Kermit facility and Pecos terminal.

Earnings from Equity Method Investments

During the three months ended June 30, 2018 and 2017, the Partnership recognized earnings of \$1,144 and \$296, respectively, from its equity method investment in PropX representing its proportionate share of PropX's operating results during the periods. The earnings during the three months ended June 30, 2018 were driven by increased rentals of containers and sales of conveyors by PropX.

Interest Expense

Interest expense was \$3,720 and \$2,440 for the three months ended June 30, 2018 and 2017, respectively, principally associated with the interest on our term loan. The increase in interest expense during the 2018 period was primarily driven by the refinancing of our Term Loan Credit Facility during the fourth quarter of 2017 and a temporary rate increase of 0.25% to our Eurodollar rate in effect until our Term Loan receives a corporate family rating of B2 or better from Moody's.

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Table of Contents*Net Income*

Net income was \$68,008 and \$16,380 for the three months ended June 30, 2018 and 2017, respectively.

Six Months Ended June 30, 2018 Compared to the Six Months Ended June 30, 2017*Revenues*

The following table presents sales, volume and pricing comparisons for the six months ended June 30, 2018, as compared to the six months ended June 30, 2017:

	Six Months Ended			Percentage	
	June 30, 2018	2017	Change	Change	
Revenues generated from the sale of frac sand (<i>in thousands</i>)	\$404,187	\$218,450	\$185,737	85	%
Tons sold	5,655,131	3,497,403	2,157,728	62	%
Average price per ton sold	\$71	\$62	\$9	15	%

Revenues generated from the sale of frac sand were \$404,187 and \$218,450 for the six months ended June 30, 2018 and 2017, respectively, during which we sold 5,655,131 and 3,497,403 tons of frac sand, respectively. The volume increase is primarily the result of dramatically improved market conditions year over year, as well as increased production capacity following the resumption of operations at the Whitehall facility in March 2017, the increase in sales volumes from our Augusta facility period over period as wet plant operations resumed in April 2017 and the commencement of operations at the Kermit facility in July 2017. Average sales price per ton was \$71 and \$62 for the six months ended June 30, 2018 and 2017, respectively. The average sales price between the two periods differs due to improved industry market conditions, which drove increased demand throughout 2017 and into 2018 along with supply shortages which were experienced in early 2018. Also impacting the sales price is the mix of volumes sold FOB mine, in-basin via our terminal network. Pricing in the first half of 2018 generally was significantly higher than the first half of 2017.

Other revenues related to PropStream integrated logistics services and activities performed at our in-basin terminals, including transloading, railcar storage, silo storage and other services was \$62,446 and \$134 for the six months ended June 30, 2018 and 2017, respectively. The increase in other revenues is a direct result of increased activity levels at our terminals and year over year growth of our PropStream integrated logistics services.

Costs of Goods Sold – Production Costs

We incurred production costs of \$85,598 and \$52,550 for the six months ended June 30, 2018 and 2017, respectively. The increase in production costs for the six months ended June 30, 2018 was primarily attributable to an increase in volumes produced and delivered from our Wisconsin production facilities compared to the same period in 2017, as well as the commencement of operations at our Kermit production facility in the third quarter of 2017. For the six months ended June 30, 2018 and 2017, we purchased \$11,813 and \$3,790, respectively, of sand and other proppants from third party suppliers.

Costs of Goods Sold – Logistics Costs

We incurred logistics costs of \$210,916 and \$119,415 for the six months ended June 30, 2018 and 2017, respectively, reflecting a 53% increase in volumes sold in-basin via our terminal network and at the wellsite, as well as growth in our PropStream logistics services.

Costs of Goods Sold – Depreciation, Depletion and Amortization of Intangible Assets

For the six months ended June 30, 2018 and 2017, we incurred \$18,281 and \$12,424, respectively, of depreciation, depletion and amortization expense, generally using the units-of-production method of depreciation. The increase was primarily attributable to an increased asset base in 2018, including our Kermit production facility and our Pecos terminal, both of which were completed in the second half of 2017.

Gross Profit

Gross profit was \$151,838 and \$34,195 for the six months ended June 30, 2018 and 2017, respectively. Gross profit percentage increased to 32.5% in the first six months of 2018 from 15.6% in the first six months of 2017. The increase was driven by increased prices and volumes during the first half of 2018 compared to 2017.

Table of Contents*Operating Costs and Expenses*

For the six months ended June 30, 2018, we incurred total operating costs and expenses of \$25,010 primarily attributable to general and administrative expenses of \$23,556. General and administrative expenses for the six months ended June 30, 2018 included \$1,084 of non-recurring business development and legal costs and lease termination costs associated with the relocation of our corporate offices. The increase in general and administrative expenses was also due to increased headcount as a result of the growth of the business, particularly by our logistics related functions, as compared to the same period in 2017. In addition, during the six months ended June 30, 2018, the Partnership incurred \$1,000 of other operating expenses related to the settlement of a contract dispute.

For the six months ended June 30, 2017, we incurred total operating costs and expenses of \$19,009, which included general and administrative expenses of \$18,638. General and administrative expenses for the six months ended June 30, 2017 included \$1,720 of non-recurring legal, professional, marketing and other business development costs associated with the Whitehall Contribution, and the development of our Kermit facility and Pecos terminal.

Earnings (Loss) from Equity Method Investments

During the six months ended June 30, 2018, the Partnership recognized earnings of \$2,310, compared to a loss of \$(270) for the six months ended June 30, 2017, from its equity method investment in PropX representing its proportionate share of PropX's operating results during the periods. The earnings during the six months ended June 30, 2018 were driven by increased rentals of containers and sales of conveyors by PropX. The loss during the six months ended June 30, 2017 was driven by initial start-up and legal costs incurred since the formation of the joint venture in September 2016.

Interest Expense

Interest expense was \$7,181 and \$5,367 for the six months ended June 30, 2018 and 2017, respectively, principally associated with the interest on our term loan. The increase in interest expense during the 2018 period was primarily driven by the refinancing of our Term Loan Credit Facility during the fourth quarter of 2017 and a temporary rate increase of 0.25% to our Eurodollar rate in effect until our Term Loan receives a corporate family rating of B2 or better from Moody's.

Net Income

Net income was \$121,957 and \$9,549 for the six months ended June 30, 2018, and 2017, respectively.

Liquidity and Capital Resources*Overview*

We expect our principal sources of liquidity will be cash generated by our operations, supplemented by borrowings under our Revolving Credit Agreement, as available. We believe that cash from these sources will be sufficient to meet our short-term working capital requirements and long-term capital expenditure requirements. As of July 25, 2018, our sources of liquidity consisted of \$19,977 of available cash and \$103,580 pursuant to available borrowings under our Revolving Credit Agreement (\$125,000, net of \$21,420 letter of credit commitments) and had no indebtedness. On August 1, 2018, the Partnership entered into a \$200,000 senior secured revolving credit facility ("ABL Facility") and issued a private placement offering for \$450,000 aggregate principal amount of 9.50% senior unsecured notes due 2026 (the "Senior Notes") at par. We terminated the Revolving Credit Agreement in connection with the closing of the ABL Facility. We repaid the balance outstanding and terminated the Term Loan Credit Facility in connection with the closing of the Senior Notes. For additional information regarding our ABL Facility and Senior Notes, see Note 13 of the Notes to Unaudited Condensed Consolidated Financial Statements included under Part I, Item 1 of this Quarterly Report on Form 10-Q.

We may also sell, from time to time, common units representing limited partner interests in the Partnership up to an aggregate gross sales price of \$50,000 under an equity distribution program. Our general partner is also authorized to issue an unlimited number of units without the approval of existing limited partner unitholders.

We expect that our future principal uses of cash will be for making distributions to our unitholders, capital expenditures, working capital, funding debt service obligations and any repurchases of common units.

Revolving Credit Agreement and Term Loan Credit Facility

As of July 25, 2018, we have a \$125,000 senior secured Revolving Credit Agreement, which matures in December 2022. As of July 25, 2018, we had \$103,580 of undrawn borrowing capacity (\$125,000, net of \$21,420 letter of credit

commitments) and had no indebtedness under our Revolving Credit Agreement. The Revolving Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants, including limits or restrictions on the Partnership's ability to incur liens, incur indebtedness, make certain restricted payments, merge or consolidate, and dispose of assets. The Revolving Credit Agreement requires compliance with customary financial covenants, which are a maximum leverage ratio of 3.25x, a minimum interest coverage ratio of 2.5x and an asset coverage ratio of 1.5x. The Revolving Credit Agreement generally permits repurchases of common units.

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As of June 30, 2018, we are in compliance with the covenants contained in the Revolving Credit Agreement. Our ability to comply with such covenants in the future, and access our undrawn borrowing capacity under our Revolving Credit Agreement, is dependent primarily on achieving certain levels of EBITDA, as defined.

As of July 25, 2018, we have a \$200,000 Term Loan Credit Facility, which matures in December 2024. As of July 25, 2018, the Term Loan Credit Facility was fully drawn with a \$199,000 balance outstanding. The Term Loan Credit Facility permits us to add one or more incremental term loan facilities in an aggregate amount not to exceed \$100,000. Any incremental Term Loan Credit Facility would be on terms to be agreed among us, the administrative agent under the Term Loan Credit Facility and the lenders who agree to participate in the incremental facility.

Borrowings under our Revolving Credit Agreement and Term Loan Credit Facility are secured by substantially all of our assets. In addition, our subsidiaries have guaranteed our obligations under both credit agreements and have granted the lenders security interests in substantially all our their respective assets. For additional information regarding our Revolving Credit Agreement and our Term Loan Credit Facility, see Note 6 of the Notes to Unaudited Condensed Consolidated Financial Statements included under Part I, Item 1 of this Quarterly Report on Form 10-Q.

Credit Ratings

As of July 25, 2018, the credit rating of the Partnership's Term Loan Credit Facility was B3 from Moody's and B from Standard and Poor's.

The credit ratings of the Partnership's Term Loan Credit Facility reflect only the view of a rating agency and should not be interpreted as a recommendation to buy, sell or hold any of our securities. A credit rating can be revised upward or downward or withdrawn at any time by a rating agency, if it determines that circumstances warrant such a change. A credit rating from one rating agency should be evaluated independently of credit ratings from other rating agencies.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a material effect on our current or future financial condition, changes in financial condition, sales, expenses, results of operations, liquidity, capital expenditures or capital resources.

The Partnership has long-term operating leases for railcars and equipment used at its terminal sites, some of which are also under long-term lease agreements with various railroads.

Equity Distribution Agreement

On January 4, 2017, the Partnership entered into an equity distribution program with certain financial institutions (each, a "Manager") under which we may sell, from time to time, through or to the Managers, common units representing limited partner interests in the Partnership up to an aggregate gross sales price of \$50,000. As of July 25, 2018, the Partnership had not issued any common units under this equity distribution program.

Distributions

On July 20, 2018, our general partner's board of directors declared a cash distribution for the second quarter of 2018 of \$0.75 per common unit, or \$3.00 on an annualized basis, and a distribution of \$7,554 was declared for the holder of our incentive distribution rights. This distribution will be paid on August 14, 2018 to unitholders of record on August 3, 2018. This quarterly distribution equates to approximately \$66,294 per quarter, or \$265,176 per year, based on the number of common units currently outstanding. If such distribution is paid, we would be obligated to pay a quarterly distribution to the holder of our incentive distribution rights of \$7,554 per quarter, or \$30,216 per year. The board of directors intends to pay a quarterly distribution to the extent the Partnership has sufficient operating surplus, as defined in the partnership agreement, and cash generated from operations after establishment of cash reserves and payment of fees and expenses, including payments to our general partner and its affiliates. Any decision with respect to distribution amounts will be made by the general partner's board of directors on a quarterly basis, subject to company performance and market conditions. The Partnership does not have a legal or contractual obligation to pay distributions.

Unit Buyback Program

On October 17, 2017, the Partnership announced that the board of directors of our general partner approved a unit buyback program of up to \$100,000. The repurchase program does not obligate the Partnership to repurchase any specific dollar amount or number of units and may be suspended, modified or discontinued by the board of directors at

any time, in its sole discretion and without notice. During the second quarter of 2018, the Partnership did not repurchase any common units. As of July 25, 2018, the Partnership has repurchased a total of 2,783,253 common units for a total cost of \$29,426, with \$70,574 remaining under its approved unit buyback program.

Table of Contents**Capital Requirements**

Capital expenditures totaled \$36,628 during the six months ended June 30, 2018, primarily associated with the development of our Kermit 2 facility, various projects at our production facilities and terminals, and equipment purchases for PropStream. On July 23, 2018, we announced updated capital expenditure guidance and currently plan to spend \$180,000 to \$210,000 during 2018. The increase from our previous guidance range of \$35,000 to \$45,000 is driven by the development and construction of the Kermit 2 facility, equipment builds to further expand market penetration of the FB Industries silo solution, the expansion of the Wyeville facility, and further growth in PropStream and other logistics initiatives.

Working Capital

Working capital is the amount by which current assets, excluding cash, exceed current liabilities and is a measure of our ability to pay our liabilities as they become due. At the end of any given period, accounts receivable and payable tied to sales and purchases are relatively balanced to the volume of tons sold during the period. The factors that typically cause variability in the Partnership's working capital are (1) changes in receivables due to fluctuations in volumes sold, pricing and timing of collection, (2) inventory levels, which the Partnership closely manages, or (3) major structural changes in the Partnership's asset base or business operations, such as any acquisition, divestitures or organic capital expenditures. As of June 30, 2018, we had a positive working capital balance of \$78,930 as compared to a balance of \$93,029 at December 31, 2017.

The following table summarizes our working capital as of the dates indicated.

	June 30, 2018	December 31, 2017
Current assets:		
Accounts receivable, net	\$ 145,627	\$ 139,448
Inventories	44,827	44,272
Prepaid expenses and other current assets	5,846	2,832
Total current assets	196,300	186,552
Current liabilities:		
Accounts payable	64,382	46,794
Accrued and other current liabilities	38,912	29,931
Current portion of deferred revenues	5,399	4,399
Due to sponsor	8,677	12,399
Total current liabilities	117,370	93,523
Working capital	\$78,930	\$93,029

Accounts receivable increased \$6,179 during the six months ended June 30, 2018, reflecting an increased percentage of volumes sold via our in-basin terminal network in the second quarter of 2018 as compared to the fourth quarter of 2017 as well as the impact of higher sales volumes and generally higher pricing.

Our inventory consists primarily of sand that has been excavated and processed through the wet plant and finished goods. The increase in our inventory of \$555 was primarily driven by increased in-basin finished goods inventory at June 30, 2018 as compared to December 31, 2017 offset by wintertime depletion of the washed sand stockpiles at our Wisconsin production facilities.

Prepaid and other current assets increased \$3,014 during the six months ended June 30, 2018, primarily due to a prepayment of \$3,211 for the lease of PropX equipment.

Accounts payable and accrued liabilities increased by \$26,569 on a combined basis, primarily reflecting the remaining original fair value of contingent consideration reclassification to other current liabilities in the first quarter of 2018, costs due on work related to our Kermit 2 facility, as well as an increased percentage of volumes sold via our in-basin terminal network in the second quarter of 2018 as compared to the fourth quarter of 2017, resulting in higher liabilities related to logistics costs at the end of the second quarter of 2018.

Current portion of deferred revenues represent prepayments from customers for future deliveries of frac sand to be made within the next twelve months.

Our balance due to our sponsor decreased \$3,722 during the six months ended June 30, 2018, primarily due to timing of payments made.

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The following table provides a summary of our cash flows for the periods indicated.

	Six Months Ended	
	June 30,	
	2018	2017
Net cash provided by (used in):		
Operating activities	\$ 136,693	\$ 24,545
Investing activities	(41,839)	(412,314)
Financing activities	(75,083)	410,738

Cash Flows - Six Months Ended June 30, 2018 and 2017*Operating Activities*

Net cash provided by operating activities was \$136,693 for the six months ended June 30, 2018, compared to \$24,545 for the six months ended June 30, 2017. Operating cash flows include net income of \$121,957 and \$9,549 during the six months ended June 30, 2018 and 2017, respectively, adjusted for non-cash operating expenses and the changes in operating assets and liabilities described above. The increase in cash flows from operations was primarily attributable to increased sales and gross profit margins in the first half of 2018 as compared to the first half of 2017.

Investing Activities

Net cash used in investing activities was \$41,839 for the six months ended June 30, 2018, and consisted of \$2,884 proceeds from the sale of property, plant and equipment, \$8,095 of equity method investments and \$36,628 of capital expenditures primarily associated with the development of our Kermit 2 facility, various projects at our production facilities and terminals, and equipment purchases for PropStream.

Net cash used in investing activities was \$412,314 for the six months ended June 30, 2017, and consisted of the \$140,000 cost of the Whitehall Contribution, \$200,224 cost of the Permian Basin Sand asset acquisition, \$4,168 of equity method investments and \$67,930 of capital expenditures related to the construction of our Kermit facility and our new terminal facility in Pecos, Texas.

Financing Activities

Net cash used in financing activities was \$75,083 for the six months ended June 30, 2018, and was comprised of \$25,000 payment of contingent consideration to our sponsor, \$9,426 of repurchases of common units under the unit buyback program, \$37,697 distributions paid to our unitholders, \$132 of payments on accrued distribution equivalent rights, \$115 of loan origination costs, \$2,925 of repayments on long-term debt, offset by \$212 of proceeds from participants in our unit purchase program.

Net cash provided by financing activities was \$410,738 for the six months ended June 30, 2017, and was comprised of \$412,577 net proceeds from the issuance of 23,575,000 common units, \$456 of advances received from our sponsor, \$225 of proceeds from participants in our unit purchase program, offset by \$2,482 of repayments on long-term debt and \$38 of payments on accrued distribution equivalent rights.

Forward-Looking Statements

Some of the information in this Quarterly Report on Form 10-Q may contain forward-looking statements.

Forward-looking statements give our current expectations, contain projections of results of operations or of financial condition, or forecasts of future events. Words such as "may," "should," "assume," "forecast," "position," "predict," "strategy," "expect," "intend," "hope," "plan," "estimate," "anticipate," "could," "believe," "project," "budget," "potential," "likely," or "continue," and similar expressions are used to identify forward-looking statements. They can be affected by assumptions used or by known or unknown risks or uncertainties. Consequently, no forward-looking statements can be guaranteed. When considering these forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the Securities and Exchange Commission on February 20, 2018. Actual results may vary materially. You are cautioned not to place undue reliance on any forward-looking statements. You should also understand that it is not possible to predict or identify all such factors and as such should not consider the following to be a complete list of all potential risks and uncertainties. Factors that could cause our actual results to differ materially from the results contemplated by such forward-looking statements include:

• the volume of frac sand we are able to buy and sell;

the price at which we are able to buy and sell frac sand;
demand and pricing for our integrated logistics solutions;
the pace of adoption of our integrated logistics solutions;

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the amount of frac sand we are able to timely deliver at the wellsite, which could be adversely affected by, among other things, logistics constraints, weather, or other delays at the wellsite or transloading facility;

changes in prevailing economic conditions, including the extent of changes in crude oil, natural gas and other commodity prices;

the amount of frac sand we are able to excavate and process, which could be adversely affected by, among other things, operating difficulties, cave-ins, pit wall failures, rock falls and unusual or unfavorable geologic conditions;

changes in the price and availability of natural gas or electricity;

inability to obtain necessary equipment or replacement parts;

changes in the railroad infrastructure, price, capacity and availability, including the potential for rail line disruptions;

changes in the price and availability of transportation;

availability of or failure of our contractors, partners and service providers to provide services at the agreed-upon levels or times;

failure to maintain safe work sites at our facilities or by third parties at their work sites;

inclement or hazardous weather conditions, including flooding, and the physical impacts of climate change;

environmental hazards;

industrial and transportation related accidents;

fires, explosions or other accidents;

difficulty collecting receivables;

- inability of our customers to take delivery;

difficulties in obtaining and renewing environmental permits;

- facility shutdowns or restrictions in operations in response to environmental regulatory actions including but not limited to actions related to endangered species;

changes in laws and regulations (or the interpretation thereof) related to the mining and hydraulic fracturing industries, silica dust exposure or the environment;

the outcome of litigation, claims or assessments, including unasserted claims;

inability to acquire or maintain necessary permits, licenses or other approvals, including mining or water rights;

labor disputes and disputes with our third-party contractors;

inability to attract and retain key personnel;

cyber security breaches of our systems and information technology;

the success or failure of pending acquisitions or financings, and the positive or negative impact of such transactions;

our ability to borrow funds and access capital markets; and

changes in the political environment of the geographical areas in which we and our customers operate.

All forward-looking statements are expressly qualified in their entirety by the foregoing cautionary statements.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

(Dollars in thousands)

Quantitative and Qualitative Disclosure of Market Risks

Market risk is the risk of loss arising from adverse changes in market rates and prices. Historically, our risks have been predominantly related to potential changes in the fair value of our long-term debt due to fluctuations in applicable market interest rates and those risks that arise in the normal course of business, as we do not engage in speculative, non-operating transactions, nor do we utilize financial instruments or derivative instruments for trading purposes.

The market for frac sand is indirectly exposed to fluctuations in the prices of crude oil and natural gas to the extent such fluctuations impact drilling and completion activity levels and thus impact the activity levels of our customers in the pressure pumping industry. We do not intend to hedge our indirect exposure to commodity risk.

Interest Rate Risk

As of June 30, 2018, we had \$199,000 of principal outstanding under our senior secured term loan facility, with an effective interest rate of 6.10%. Assuming no change in the amounts outstanding, the impact on interest expense of a 10% increase or decrease in the average interest rate would be approximately \$1,214 per year.

Credit Risk – Customer Concentration

During the six months ended June 30, 2018, approximately 56% of our revenues were earned from our four largest customers. Our customers are generally pressure pumping service providers and oil and gas exploration and production companies. This concentration of counterparties operating in a single industry may increase our overall exposure to credit risk in that the counterparties may be similarly affected by changes in economic, regulatory or other conditions. If a customer defaults or we are unable to renew or replace these customer relationships, our gross profit and cash flows may be adversely affected.

Recent Accounting Pronouncements

Refer to Note 2 - Significant Accounting Policies of the Notes to Unaudited Condensed Consolidated Financial Statements included under Part I, Item 1. "Financial Statements" of this Quarterly Report for a description of recent accounting pronouncements.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally acceptable in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported revenues and expenses during the reporting periods. We evaluate these estimates and assumptions on an ongoing basis and base our estimates on historical experience, current conditions and various other assumptions that we believe to be reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Our actual results may materially differ from these estimates.

Contingent Consideration

Accounting standards require that contingent consideration be recorded at fair value at the date of acquisition and revalued during subsequent reporting dates under the acquisition method of accounting. In connection with its recent acquisitions of Blair and Whitehall and Other Assets from its sponsor, the Partnership has entered into certain contingent consideration arrangements. As such transactions are between entities under common control, any differences between the calculated fair value, and the actual resulting payments in the future will be reflected as an equity adjustment to the deemed distributions associated with the acquisitions.

A discussion of our significant accounting policies is included in Note 2 - Significant Accounting Policies of the Notes to Unaudited Condensed Consolidated Financial Statements included under Part I, Item 1 of this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K, as filed with the SEC on February 20, 2018. Significant estimates include, but are not limited to, purchase accounting allocations and valuations, asset retirement obligations, depletion of mineral rights, inventory valuation, valuation of unit-based compensation, estimated fair value of

contingent consideration in the future and impairment of long-lived and intangible assets.

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ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15 and 15d-15 of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II

ITEM 1. LEGAL PROCEEDINGS.

Legal Proceedings

From time to time the Partnership may be subject to various claims and legal proceedings which arise in the normal course of business. Management is not aware of any legal matters that are likely to have a material adverse effect on the Partnership's financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS.

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors discussed under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC on February 20, 2018. There have been no material changes to the risk factors previously disclosed under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

We adhere to a strict occupational health program aimed at controlling exposure to silica dust, which includes dust sampling, a respiratory protection program, medical surveillance, training and other components. Our safety program is designed to ensure compliance with the standards of our Occupational Health and Safety Manual and U.S. Federal Mine Safety and Health Administration ("MSHA") regulations. For both health and safety issues, extensive training is provided to employees. We have safety committees at our plants made up of salaried and hourly employees. We perform annual internal health and safety audits and conduct semi-annual crisis management drills to test our abilities to respond to various situations. Health and safety programs are administered by our corporate health and safety department with the assistance of plant environmental, health and safety coordinators.

All of our production facilities are classified as mines and are subject to regulation by MSHA under the Federal Mine Safety and Health Act of 1977 (the "Mine Act"). MSHA inspects our mines on a regular basis and issues various citations and orders when it believes a violation has occurred under the Mine Act. Information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 CFR 229.104) is included in Exhibit 95.1 to this Quarterly Report on Form 10-Q.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

The exhibits to this report are listed in the Exhibit Index.

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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.

Hi-Crush Partners LP

(Registrant)

By: Hi-Crush GP LLC, its general partner

Date: August 2, 2018 /s/ Laura C. Fulton

Laura C. Fulton, Chief Financial Officer

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**HI-CRUSH PARTNERS LP
EXHIBIT INDEX**

Exhibit Number	Description
3.1	<u>Certificate of Limited Partnership of Hi-Crush Partners LP (incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1, Registration No. 333-182574, filed with the SEC on July 9, 2012).</u>
3.2	<u>Second Amended and Restated Agreement of Limited Partnership of Hi-Crush Partners LP, dated January 31, 2013 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed with the SEC on February 5, 2013).</u>
10.1	<u>Employment Agreement, dated April 2, 2018, by and between Hi-Crush Services LLC, Hi-Crush Partners LP, Hi-Crush Proppants LLC, and Scott J. Preston (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, filed with the SEC on April 2, 2018).</u>
23.1	<u>Consent of John T. Boyd Company (incorporated by reference to Exhibit 23.3 to the Registrant's Annual Report on Form 10-K, filed with the SEC on February 20, 2018).</u>
31.1	<u>Certification pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 signed by the Principal Executive Officer, filed herewith.</u>
31.2	<u>Certification pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 signed by the Principal Financial Officer, filed herewith.</u>
32.1	<u>Statement required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 signed by Principal Executive Officer, filed herewith. (1)</u>
32.2	<u>Statement required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 signed by Principal Financial Officer, filed herewith. (1)</u>
95.1	<u>Mine Safety Disclosure Exhibit</u>
101	Interactive Data Files- XBRL

(1) This document is being furnished in accordance with SEC Release Nos. 33-8212 and 34-47551.