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Hi-Crush Partners LP

Form 10-Q

May 01, 2018

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**Form 10-Q**

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

**For the Quarterly Period Ended March 31, 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**

**90-0840530**

(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

**1330 Post Oak Blvd, Suite 600**

**Houston, Texas**

**77056**

(Address of Principal Executive Offices)

(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 (§ 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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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 April 25, 2018, there were 88,392,179 common units outstanding.

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Condensed Consolidated Balance Sheets

(In thousands, except unit amounts)

(Unaudited)

	<b>March 31, 2018</b>	<b>December 31, 2017</b>
Assets		
Current assets:		
Cash	\$ 10,113	\$ 5,662
Accounts receivable, net (Note 2)	134,982	139,448
Inventories (Note 4)	34,937	44,272
Prepaid expenses and other current assets	6,081	2,832
Total current assets	186,113	192,214
Property, plant and equipment, net (Note 5)	899,322	899,158
Intangible assets, net	7,995	8,416
Equity method investments (Note 2)	18,641	17,475
Other assets	5,435	5,877
Total assets	\$ 1,117,506	\$ 1,123,140
Liabilities and Partners' Capital		
Current liabilities:		
Accounts payable	\$ 43,096	\$ 46,794
Accrued and other current liabilities	37,200	29,931
Current portion of deferred revenues (Note 10)	4,399	4,399
Due to sponsor	8,821	12,399
Current portion of long-term debt (Note 6)	2,968	2,957
Total current liabilities	96,484	96,480
Deferred revenues (Note 10)	6,308	7,384
Long-term debt (Note 6)	193,174	194,462
Asset retirement obligations	10,305	10,179
Other liabilities (Note 7)	—	19,000
Total liabilities	306,271	327,505
Commitments and contingencies (Note 7)		

Partners' capital:			
General partner interest	—		—
Limited partners interest, 88,392,179 and 89,009,188 units outstanding, respectively	811,235		795,635
Total partners' capital	811,235		795,635
Total liabilities and partners' capital	\$ 1,117,506		\$ 1,123,140

See Notes to Unaudited Condensed Consolidated Financial Statements.

Table of Contents**HI-CRUSH PARTNERS LP**

Condensed Consolidated Statements of Operations

(In thousands, except unit and per unit amounts)

(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
Revenues (Note 10)	\$218,113	\$ 83,364
Cost of goods sold (excluding depreciation, depletion and amortization)	141,983	72,083
Depreciation, depletion and amortization	7,799	4,828
Gross profit	68,331	6,453
Operating costs and expenses:		
General and administrative expenses	10,940	9,677
Accretion of asset retirement obligations	126	114
Other operating expenses	1,021	—
Income (loss) from operations	56,244	(3,338 )
Other income (expense):		
Earnings (loss) from equity method investments (Note 2)	1,166	(566 )
Interest expense	(3,461 )	(2,927 )
Net income (loss)	\$53,949	\$ (6,831 )
<b>Earnings (loss) per limited partner unit:</b>		
Basic	\$0.60	\$ (0.07 )
Diluted	\$0.59	\$ (0.07 )
<b>Weighted average limited partner units outstanding:</b>		
Basic	88,870,379	73,586,987
Diluted	90,173,318	73,586,987
<b>Distributions declared per limited partner unit</b>	<b>\$0.225</b>	<b>\$ —</b>

See Notes to Unaudited Condensed Consolidated Financial Statements.

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## Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Operating activities:</b>		
Net income (loss)	\$53,949	\$(6,831 )
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and depletion	7,799	4,829
Amortization of intangible assets	421	420
Unit-based compensation to directors and employees	1,801	1,178
Amortization of loan origination costs into interest expense	194	373
Accretion of asset retirement obligations	126	114
Gain on disposal of property, plant and equipment	(24 )	—
(Earnings) loss from equity method investments	(1,166 )	566
Changes in operating assets and liabilities:		
Accounts receivable	4,466	(7,208 )
Inventories	7,279	1,866
Prepaid expenses and other current assets	(2,893 )	(168 )
Other assets	537	332
Accounts payable	(575 )	4,758
Accrued and other current liabilities	125	4,553
Deferred revenues	(1,076 )	—
Due to sponsor	(3,578 )	(1,076 )
Net cash provided by operating activities	67,385	3,706
<b>Investing activities:</b>		
Capital expenditures for property, plant and equipment	(11,873 )	(20,380 )
Proceeds from sale of property, plant and equipment	2,867	—
Cash paid for business acquisition	—	(140,000 )
Cash paid for asset acquisition	—	(200,067 )
Equity method investments	—	(4,168 )
Net cash used in investing activities	(9,006 )	(364,615 )
<b>Financing activities:</b>		
Proceeds from equity issuances, net	—	412,667
Repayment of long-term debt	(1,457 )	(1,462 )
Loan origination costs	(109 )	—
Affiliate financing, net	—	456
Payment of contingent consideration	(25,000 )	—
Proceeds from participants in unit purchase programs	—	225
Repurchase of common units	(9,426 )	—
Payment of accrued distribution equivalent rights	(127 )	—
Distributions paid	(17,809 )	—
Net cash (used in) provided by financing activities	(53,928 )	411,886
Net increase in cash	4,451	50,977
Cash at beginning of period	5,662	4,521
Cash at end of period	\$ 10,113	\$ 55,498
<b>Non-cash investing and financing activities:</b>		

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Increase (decrease) in accounts payable and accrued and other current liabilities for additions to property, plant and equipment	\$ (3,123 )	\$ 13,842
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	\$ 271	\$ (94 )
Due to sponsor balance converted into non-controlling interest	\$ —	\$ 116,417
<b>Cash paid for interest, net of capitalized interest</b>	<b>\$ 3,266</b>	<b>\$ 2,554</b>

See Notes to Unaudited Condensed Consolidated Financial Statements.

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## Condensed Consolidated Statement of Partners' Capital

(In thousands)

(Unaudited)

	<b>General Partner Capital</b>	<b>Limited Partner Capital</b>	<b>Total Partner Capital</b>
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	—	1,682	1,682
Distributions, including distribution equivalent rights	—	(18,092 )	(18,092 )
Forfeiture of distribution equivalent rights	—	13	13
Payment in excess of contingent consideration liability	—	(13,000 )	(13,000 )
Net income	—	53,949	53,949
Balance at March 31, 2018	\$	—\$811,235	\$811,235

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 March 31, 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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*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, which 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 March 31, 2018, the Partnership's carrying value in PropX was \$18,641, 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. During the three months ended March 31, 2018, the Partnership made no capital contributions to PropX and recognized earnings of \$1,166 from its proportionate share of PropX's operating results during the three month period. During the three months ended March 31, 2017, the Partnership made capital contributions of \$4,168 into PropX and incurred a loss of \$566 from its proportionate share of PropX's operating results during the three month period.

*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 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's 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 other current liabilities on our Condensed Consolidated Balance Sheet as of March 31, 2018. The excess amount of contingent consideration paid 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 (Topic 606), *Revenue from Contracts with Customers* and all the related amendments to all contracts using the full retrospective method. The adoption of ASU 2014-09 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.

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 market-based 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 customers as the product is delivered and title transfers to the customer, with standard collection terms of net 30 days.

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**HI-CRUSH PARTNERS LP**

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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 and 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 \$198,515 as of March 31, 2018, based on the market price quoted from external sources, compared with a carrying value of \$199,500. 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.

*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 March 31, 2018 and December 31, 2017, the Partnership did not have any liabilities for uncertain tax positions or gross unrecognized tax benefits.

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Notes to Unaudited Condensed Consolidated Financial Statements

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*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. During the first quarter of 2018, the Partnership paid \$20,000 of contingent consideration with respect to the 2017 measurement period. 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. Refer to Note 7 - Commitments and Contingencies for additional disclosure regarding the remaining contingent consideration obligations.



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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 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 loss, net loss attributable to Hi-Crush Partners LP and net loss per limited partner unit giving effect to the Whitehall Contribution, as reconciled to the revenues, net loss, net loss attributable to Hi-Crush Partners LP and net loss per limited partner unit of the Partnership.

	Three Months Ended March 31, 2017			Partnership Recast (Supplemental)
	Partnership Historical	Whitehall and Other Assets through March 15, 2017	Eliminations	
Revenues	\$ 83,364	\$ —	\$ —	\$ 83,364
Net loss	\$(5,386 )	\$(1,366 )	\$ (79 )	\$(6,831 )
Net loss attributable to Hi-Crush Partners LP	\$(5,360 )	\$(1,392 )	\$ (79 )	\$(6,831 )
Net loss per limited partner unit - basic	\$(0.07 )			\$(0.09 )



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**4. Inventories**

Inventories consisted of the following:

	<b>March 31, December 31,</b>	
	<b>2018</b>	<b>2017</b>
Raw material	\$ 767	\$ 498
Work-in-process	7,224	18,739
Finished goods	24,608	22,892
Spare parts	2,338	2,143
Inventories	\$ 34,937	\$ 44,272

**5. Property, Plant and Equipment**

Property, plant and equipment consisted of the following:

	<b>March 31, December 31,</b>	
	<b>2018</b>	<b>2017</b>
Buildings	\$21,579	\$ 21,532
Mining property and mine development	383,644	381,653
Plant and equipment	391,019	389,197
Rail and rail equipment	55,783	55,783
Transload facilities and equipment	122,041	121,522
Construction-in-progress	15,954	14,454
Property, plant and equipment	990,020	984,141
Less: Accumulated depreciation and depletion	(90,698 )	(84,983 )
Property, plant and equipment, net	\$899,322	\$ 899,158

Depreciation and depletion expense was \$7,799 and \$4,829 during the three months ended March 31, 2018 and 2017, respectively.

The Partnership recognized a gain on the disposal of fixed assets of \$24 during the three months ended March 31, 2018, which is included in general and administrative expenses on our Condensed Consolidated Statements of Operations. The Partnership did not dispose of any fixed assets during the three months ended March 31, 2017.

**6. Long-Term Debt**

Long-term debt consisted of the following:

	<b>March 31, December 31,</b>	
	<b>2018</b>	<b>2017</b>
Revolving Credit Agreement	\$—	\$ —
Term Loan Credit Facility	199,500	200,000
Less: Unamortized original issue discount	(1,922 )	(1,992 )
Less: Unamortized debt issuance costs	(3,533 )	(3,643 )
Other notes payable	2,097	3,054
Total debt	196,142	197,419
Less: current portion of long-term debt	(2,968 )	(2,957 )
Long-term debt	\$193,174	\$ 194,462



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**HI-CRUSH PARTNERS LP**

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*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 March 31, 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 March 31, 2018, we had \$103,847 of undrawn borrowing capacity (\$125,000, net of \$21,153 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 March 31, 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 public company family rating of B2 or better from Moody's Investors Service Inc. ("Moody's"). As of April 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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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 March 31, 2018, we were in compliance with the terms of the agreement.

As of March 31, 2018, we had \$194,045 indebtedness (\$199,500, net of \$1,922 of discounts and \$3,533 of debt issuance costs) under our Term Loan Credit Facility, which carried an interest rate of 6.31%.

*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 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 \$957 and \$962 during the three months ended March 31, 2018 and 2017, respectively, based on the accumulated volume of sand extracted, delivered, sold and paid for. In April 2018, the Partnership made a prepayment of \$968 based on the volume of sand extracted, delivered, sold and paid for through the first quarter of 2018. As of March 31, 2018, the Partnership had repaid in full the promissory notes due in October 2017 and December 2018 and had \$2,097 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 March 31, 2018, no payments for non-delivery of minimum annual sand volumes have been made by the Partnership to customers under these contracts.

*Supplier Contracts*

D & I Silica, LLC 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 \$3,540 and \$2,636 for the three months ended March 31, 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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(Dollars in thousands, except unit and per unit amounts, or where otherwise noted)

*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 March 31, 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 March 31, 2018, the Partnership has paid \$2,188 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 March 31, 2018, future minimum operating lease payments and minimum purchase commitments are as follows:

<b><u>Fiscal Year</u></b>	<b>Operating Leases</b>	<b>Minimum Purchase Commitments</b>
2018 (remaining months)	\$ 23,137	\$ 4,185
2019	33,711	2,616
2020	31,574	2,296
2021	24,812	2,296
2022	18,036	2,296
Thereafter	18,011	1,871
	\$ 149,281	\$ 15,560

In addition, the Partnership has placed orders for additional leased railcars. Such long-term operating leases commence upon the future delivery of 700 railcars, which are scheduled to be delivered beginning in the second quarter of 2018.

*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 levels above 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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## Notes to Unaudited Condensed Consolidated Financial Statements

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

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 March 31, 2018. Based on the significant estimates and assumptions included in the analysis, actual results could differ from these estimates.

Transaction	Carrying Value of Liability	Undiscounted Payments		Sensitivity Analysis		
		Minimum	Maximum	Current Estimated Fair Value	-10% Adjusted EBITDA	+10% Adjusted EBITDA
Blair Contribution	\$ 3,000	\$ —	\$ 5,000	\$ 2,282	\$ 2,282	\$ 2,282
Whitehall Contribution	\$ 4,000	\$ —	\$ 45,000	\$ 11,409	\$ —	\$ 11,409

*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 March 31, 2018, our management team, together with our general partner's board of directors have a 11% direct ownership interest in our limited partnership units. In addition, our sponsor is the owner of our general partner.

During the three months ended March 31, 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 \$412,667. 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 March 31, 2018		2017
Number of units purchased	753,090	—	—

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Average price paid per unit including commission	\$12.52	\$	—
Total cost	\$9,426	\$	—

As of March 31, 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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Notes to Unaudited Condensed Consolidated Financial Statements

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

*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 months ended March 31, 2018 and 2017, no income was allocated to our holders of 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 our holders of incentive distribution rights will receive.

Our most recent distributions have been as follows:

<b>Declaration Date</b>	<b>Amount Declared Per Unit</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Payment to Limited Partner Units</b>	<b>Payment to Holders of Incentive Distribution Rights</b>
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	\$ —

*Net Income per Limited Partner Unit*

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2018</b>	<b>2017</b>
Basic common units outstanding	88,870,379	73,586,987
Potentially dilutive common units	1,302,939	—
Diluted common units outstanding	90,173,318	73,586,987

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.

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 months ended March 31, 2018, includes the dilutive effect of all 1,302,939 phantom units granted and outstanding at the assumed number of units which would have vested if the

performance period had ended on March 31, 2018. During the three months ended March 31, 2017, the Partnership incurred a net loss and, as a result, all 566,539 phantom units of potentially dilutive awards granted and outstanding were excluded from the diluted earnings per unit calculation.

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.

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## Notes to Unaudited Condensed Consolidated Financial Statements

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

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 holders 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 (loss) and the assumed allocation of net income (loss) under the two-class method for purposes of computing net income (loss) per limited partner unit for the three months ended March 31, 2018 and 2017:

	<b>Three Months Ended March 31, 2018</b>			<b>Three Months Ended March 31, 2017</b>		
	<b>General Partner and IDRs</b>	<b>Limited Partner Units</b>	<b>Total</b>	<b>General Partner and IDRs</b>	<b>Limited Partner Units</b>	<b>Total</b>
Declared distribution	\$—	\$19,888	\$19,888	\$—	\$—	\$—
Assumed allocation of earnings in excess of distributions	854	33,207	34,061	(6,831 )	(6,831 )	(6,831 )
Assumed allocation of net income	\$854	\$53,095	\$53,949	—1,471	1,471	—1,471
				\$—(5,360 )	(5,360 )	\$—(5,360 )
Earnings per limited partner unit - basic		\$0.60			\$(0.07 )	
Earnings per limited partner unit - diluted		\$0.59			\$(0.07 )	
Declared distribution						
Assumed allocation of distributions in excess of loss						
Add back recast losses attributable to Whitehall and Other Assets through March 15, 2017						
Assumed allocation of net loss						
Loss per limited partner unit - basic						
Loss per limited partner unit - diluted						

**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.

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Notes to Unaudited Condensed Consolidated Financial Statements

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

*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.

	<b>Units</b>	<b>Grant Date Weighted-Average Fair Value per Unit</b>
Outstanding at December 31, 2017	346,141	\$ 14.56
Vested	(50,850 )	\$ 36.62
Forfeited	(5,650 )	\$ 36.62
Outstanding at March 31, 2018	289,641	\$ 10.18

As of March 31, 2018, total compensation expense not yet recognized related to unvested PPUs was \$1,631, with a weighted average remaining service period of 1.4 years.

*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.

	<b>Units</b>	<b>Grant Date Weighted-Average Fair Value per Unit</b>
Outstanding at December 31, 2017	1,036,592	\$ 10.97
Vested	(49,122 )	\$ 26.02
Granted	38,023	\$ 11.61
Forfeited	(12,195 )	\$ 9.70
Outstanding at March 31, 2018	1,013,298	\$ 10.28

As of March 31, 2018, total compensation expense not yet recognized related to unvested TPUs was \$6,723, with a weighted average remaining service period of 2.1 years.

*Director Unit Grants*

The Partnership issued 36,109 and 29,148 common units to certain of its directors during the three months ended March 31, 2018 and 2017, respectively.



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Notes to Unaudited Condensed Consolidated Financial Statements

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

*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 347,000 common units. As of March 31, 2018, total accumulated contributions of \$438 from directors under the Second 2017 UPP is maintained within accrued and other current liabilities on our Condensed Consolidated Balance Sheet.

*Compensation Expense*

The following table presents total unit-based compensation expense:

	<b>Three Months Ended March 31, 2018    2017</b>	
Performance Phantom Units	\$343	\$374
Time-Based Phantom Units	1,239	638
Director and other unit grants	119	127
Unit Purchase Programs	100	39
Total compensation expense	\$1,801	\$1,178

**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.

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Notes to Unaudited Condensed Consolidated Financial Statements

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

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:

	<b>Three Months Ended March 31, 2018      2017</b>	
Sales to contract customers	\$164,067	\$55,897
Spot sales	27,417	27,371
Frac sand sales revenues	191,484	83,268
Other revenues	26,629	96
Total revenues	\$218,113	\$83,364

*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.

*Deferred Revenues*

As of March 31, 2018, the Partnership has recorded a total liability of \$10,707 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 2.4 years.

Changes in deferred revenues consisted of the following:

Balance at December 31, 2017	\$11,783
Collection of prepayments	—
Revenues recognized	(1,076 )
Balance at March 31, 2018	\$10,707

**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 March 31, 2018 and 2017, the Partnership incurred \$1,875 and \$1,292, respectively, of management and administrative service expenses from Hi-Crush Services.

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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)

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 March 31, 2018, an outstanding balance of \$8,821 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 March 31, 2018 and December 31, 2017, the Partnership purchased \$7,537 and \$6,593, respectively, of equipment from PropX, which is reflected in property, plant and equipment. As of March 31, 2018 and December 31, 2017, the Partnership had accounts payable of \$325 and \$1,273, respectively, to PropX, which is reflected in accounts payable on our Condensed Consolidated Balance Sheet. In addition to equipment purchases, during the three months ended March 31, 2018 and 2017, we incurred \$360 and \$265, respectively, of lease expense for the use of PropX equipment, which is reflected in cost of goods sold. During the three months ended March 31, 2018, we made a lease prepayment of \$3,211 for the use of PropX equipment.

During the three months ended March 31, 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.

**13. Subsequent Events**

On April 18, 2018, our general partner's board of directors declared a cash distribution for the first quarter of 2018 totaling \$19,888, or \$0.225 per common unit. This distribution will be paid on May 15, 2018 to unitholders of record on May 1, 2018. No distributions were declared for our holders of incentive distribution rights.

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. We are in discussions with various existing and potential customers regarding new long-term contracts for varying terms and volume commitments. As of April 1, 2018, the average remaining contract terms from our long-term contracts was 2.5 years with remaining terms ranging from 9 to 81 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. Our Texas production facility has 15,000 tons of on-site silo storage capacity and has infrastructure capable of direct loading into trucks. 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.

As of March 31, 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 109,000 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 March 31, 2018, we leased or owned 4,238 railcars used to transport sand from origin to destination and managed a fleet of 2,422 additional railcars dedicated to our facilities by our customers or the Class I railroads. In addition, the Partnership has placed orders for an additional 700 leased railcars, which are scheduled to be delivered beginning in the second quarter of 2018.

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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 March 31, 2018, we owned 28 PropBeast conveyors and leased 1,753 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 based on market pricing. 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.

Some of our production facilities are located in regions 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 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 processing facility and move the sand from our wet plant to our dry plant. 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 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.

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 freight charges, fuel surcharges, railcar lease expense, trucking and switch fees. 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.

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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.

### ***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.

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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:

	<b>Three Months Ended March 31, 2018      2017</b>	
<i>(in thousands)</i>		
<b>Reconciliation of distributable cash flow to net income (loss):</b>		
Net income (loss)	\$53,949	\$(6,831)
Depreciation and depletion expense	7,799	4,829
Amortization expense	421	420
Interest expense	3,461	2,927
EBITDA	65,630	1,345
(Earnings) loss from equity method investments	(1,166 )	566
Adjusted EBITDA	64,464	1,911
Less: Cash interest paid	(3,266 )	(2,554 )
Less: Maintenance and replacement capital expenditures, including accrual for reserve replacement (a)	(4,675 )	(1,845 )
Add: Accretion of asset retirement obligations	126	114
Add: Unit-based compensation	1,801	1,178
Distributable cash flow	58,450	(1,196 )
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	58,450	51
Less: Distributable cash flow attributable to holders of incentive distribution rights	(2,047 )	—
Distributable cash flow attributable to limited partner unitholders	\$56,403	\$51

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.

**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 three months ended March 31, 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 three months

ended March 31, 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 three months ended March 31, 2018 as compared to the same period of 2017.

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**Market Conditions**

Exploration and production activity increased throughout 2017, 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 909 rigs as of December 31, 2017. While still well below the high average of 1,859 rigs in November 2014, drilling and completions efficiencies have continued to experience significant technological and operational improvements. As a result, it is estimated that approximately 900 rigs are capable of generating the same amount of completion and service intensity as 2,000 rigs did in 2014. The energy industry's outlook for 2018 activity levels includes oil and natural gas prices and drilling opportunities that would support an average of 1,000 rigs in 2018. As of March 29, 2018, the U.S. land rig count totaled 977 rigs, reflecting an increase of 7% since the end of 2017 and 22% since the same time in the prior year. Well completion activity would similarly be expected to increase over the next several quarters, which, when coupled with higher usage of frac sand per well, is forecasted to result in an increased strong positive influence on demand for raw frac sand. The industry 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.

We expect frac sand supply to lag ongoing growth in demand 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 12 to 18 months, particularly in the Permian Basin.

We do not expect the stated or completed amount of in-basin Permian supply to be available in the volumes, grades or timeframes needed to efficiently meet the rapid increase in demand. The advent of sand supply available closer to the wellsite in the Permian Basin 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 specific to finer mesh sizes of sand, particularly 100 mesh which is the principal grade produced in the Permian Basin. We believe coarser grades of sand, including 40/70, 30/50 and 20/40 mesh will continue to be supplied in the Permian Basin out of Northern White supply, while Northern White supply of 100 mesh is likely to shift to meet the demand for sand in 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 increasing demand.

Beginning in the fourth quarter of 2016 and continuing throughout 2017, rig count and well completion activity increased meaningfully over levels experienced in the middle of 2016. Demand for proppant 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 at several previously idled mines. This dynamic led to a dramatic improvement in frac sand pricing during the first quarter of 2017, which has continued to increase throughout 2017 and into 2018.

Given the industry's expectation of continued growth in frac sand demand, combined with our forecast for a slower pace of supply growth and other factors, we expect the preservation of a constructive environment for pricing stability or improvement. Since the beginning of 2018, several Permian Basin mines have started operations but are not believed to be near or at full nameplate capacity at this time. We estimate that approximately 2 million tons of in-basin Permian sand, including that from our Kermit facility, was delivered and sold in the first quarter of 2018.

In response to improving frac sand demand that began to emerge in 2017, we prepared our production idled facilities, Whitehall and the Augusta wet plant, to resume full operations. During the first quarter of 2017, we fully re-staffed our facilities and removed all railcars from long-term storage. In the third quarter of 2017, we commenced operations at our fifth plant, the Kermit facility in the Permian Basin. During the past two years, we continued to invest in our network of owned and operated terminals to reduce our cost of delivering sand in-basin, including the completion of our Pecos terminal in October 2017. Currently all five of our frac sand production facilities are in operation and operating at high levels of utilization.

As noted above, industry supply of frac sand was reduced in the first quarter of 2018 as a result of extreme weather and Class-1 rail service issues. These issues impacted our ability to ship as many unit trains of sand as planned, however, the investments made in our owned and operated terminals and forward-placing of sand in basin, combined

with full-utilization production from our Kermit facility, enhanced our ability to effectively meet the needs of our customers.

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The following table presents sales, volume and pricing comparisons for the first quarter of 2018, as compared to the fourth quarter of 2017:

	<b>Three Months Ended</b>			<b>Percentage</b>	
	<b>March 31, 2018</b>	<b>December 31, 2017</b>	<b>Change</b>	<b>Change</b>	
Revenues generated from the sale of frac sand ( <i>in thousands</i> )	\$ 191,484	\$ 212,432	\$(20,948)	(10)	%
Tons sold	2,617,627	2,985,115	(367,488)	(12)	%
Average price per ton sold	\$73	\$71	\$2	3	%

Revenues generated from the sale of frac sand decreased due to the sequential decrease in sales volumes, offset with the generally higher pricing during the first quarter of 2018. Our average sales price per ton sold increased to \$73 per ton in the first quarter of 2018 from \$71 per ton in the fourth quarter of 2017, due to continued strong demand for frac sand coupled with limited supply. Revenues decreased as a result of fewer tons sold, offset by increased pricing. Tons sold during the first quarter of 2018 were 12% lower than the fourth quarter of 2017 primarily due to service issues from the Class-1 railroads resulting in 28% fewer unit train shipments, partially offset by increased sales volumes from the Kermit facility which operated at higher utilization in the first quarter of 2018 as compared to the fourth quarter of 2018.

**Results of Operations**

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

	<b>Three Months Ended</b>	
	<b>March 31, 2018</b>	<b>2017</b>
Revenues	\$218,113	\$83,364
Costs of goods sold:		
Production costs	43,512	22,172
Logistics costs	98,471	49,911
Depreciation, depletion and amortization	7,799	4,828
Gross profit	68,331	6,453
Operating costs and expenses	12,087	9,791
Income (loss) from operations	56,244	(3,338 )
Other income (expense):		
Earnings (loss) from equity method investments	1,166	(566 )
Interest expense	(3,461 )	(2,927 )
Net income (loss)	\$53,949	\$(6,831 )

***Three Months Ended March 31, 2018 Compared to the Three Months Ended March 31, 2017******Revenues***

The following table presents sales, volume and pricing comparisons for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017:

	<b>Three Months Ended</b>			<b>Percentage</b>	
	<b>March 31, 2018</b>	<b>2017</b>	<b>Change</b>	<b>Change</b>	
Revenues generated from the sale of frac sand ( <i>in thousands</i> )	\$ 191,484	\$ 83,268	\$ 108,216	130	%
Tons sold	2,617,627	1,384,887	1,232,740	89	%
Average price per ton sold	\$73	\$ 60	\$ 13	22	%



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Revenues generated from the sale of frac sand were \$191,484 and \$83,268 for the three months ended March 31, 2018 and 2017, respectively, during which we sold 2,617,627 and 1,384,887 tons of frac sand, respectively. The volume increase is a result of dramatically improving market conditions year over year as well as increased production capacity availability following the resumption of operations at the Whitehall facility in March 2017 and the commencement of operations at the Kermit facility in July 2017. Average sales price per ton was \$73 and \$60 for the three months ended March 31, 2018 and 2017, respectively. The average sales price between the two periods differs due to changes in improving industry market conditions, including generally short supply of frac sand with increasing demand in 2017 and continuing into 2018, and the resulting sales price trends, as well as the impact of the mix in pricing of volumes sold FOB plant, in-basin via our terminal network or at the wellsite as volumes sold in-basin via our terminal network and at the wellsite increased by 81%. Pricing in the first three months of 2018 generally was significantly higher than the first three months 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 \$26,629 and \$96 for the three months ended March 31, 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 by our customers.

*Costs of Goods Sold – Production Costs*

We incurred production costs of \$43,512 and \$22,172 for the three months ended March 31, 2018 and 2017, respectively. The increase in production costs for the three months ended March 31, 2018 was primarily attributable to an increase in volumes being produced and delivered from our production facilities compared to the same period in 2017, coupled with having all five of our production facilities in operation during the majority of 2017. For the three months ended March 31, 2018 and 2017, we purchased \$6,115 and \$1,047, respectively, of sand from other suppliers.

*Costs of Goods Sold – Logistics Costs*

We incurred logistics costs of \$98,471 and \$49,911 for the three months ended March 31, 2018 and 2017, respectively, reflecting an 81% increase in volumes sold in-basin via our terminal network and at the wellsite, resulting in the nearly doubling of our logistics costs. During the three months ended March 31, 2017, we incurred \$794 of costs associated with the storage of idled railcars and one-time costs to remove our remaining railcars out of storage and back into service.

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

For the three months ended March 31, 2018 and 2017, we incurred \$7,799 and \$4,828, respectively, of depreciation, depletion and amortization expense, generally using the units-of-production method of depreciation. The increase was driven by an increase in mining activity at our Wisconsin production facilities, coupled with an increased asset base in 2017, including the construction and commencement of operations at the Kermit production facility.

*Gross Profit*

Gross profit was \$68,331 and \$6,453 for the three months ended March 31, 2018 and 2017, respectively. Gross profit percentage increased to 31.3% in the first three months of 2018 from 7.7% in the first three months of 2017. The increase was driven by increased prices and volumes in the first quarter of 2018 compared to 2017.

*Operating Costs and Expenses*

For the three months ended March 31, 2018, we incurred total operating costs and expenses of \$12,087 primarily attributable to general and administrative expenses of \$10,940. During the three months ended March 31, 2018, the Partnership incurred \$1,000 of other operating expenses related to the settlement of a contract dispute. The increase in general and administrative expenses during the three months ended March 31, 2018, was primarily 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 March 31, 2017, we incurred total operating costs and expenses of \$9,791, which included general and administrative expenses of \$9,677. General and administrative expenses for the three months ended March 31, 2017 also included \$516 in transaction costs associated with the Whitehall Contribution and \$325 of other business development costs.

*Earnings (Loss) from Equity Method Investments*

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During the three months ended March 31, 2018, the Partnership recognized earnings of \$1,166, compared to a loss of \$(566) for the three months ended March 31, 2017, 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 March 31, 2018 were driven by increased rentals of containers and sales of conveyors by PropX. The loss during the three months ended March 31, 2017 was driven by initial start-up and legal costs incurred since the formation of the joint venture in September 2016.

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### *Interest Expense*

Interest expense was \$3,461 and \$2,927 for the three months ended March 31, 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 due to our Term Loan being rated B3 by Moody's Investor Service Inc. ("Moody's").

### *Net Income (Loss)*

Net income was \$53,949 for the three months ended March 31, 2018, compared to a net loss of \$(6,831) for the three months ended March 31, 2017.

## **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 April 25, 2018, our sources of liquidity consisted of \$14,067 of available cash and \$103,847 pursuant to available borrowings under our Revolving Credit Agreement (\$125,000, net of \$21,153 letter of credit commitments) and had no indebtedness. 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 working capital, capital expenditures, funding debt service obligations, making distributions to our unitholders and any repurchases of common units.

### *Revolving Credit Agreement and Senior Secured Term Loan Facility*

As of April 25, 2018, we have a \$125,000 senior secured Revolving Credit Agreement, which matures in December 2022. As of April 25, 2018, we had \$103,847 of undrawn borrowing capacity (\$125,000, net of \$21,153 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.

As of March 31, 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 April 25, 2018, we have a \$200,000 Term Loan Credit Facility, which matures in December 2024. As of April 25, 2018, the Term Loan Credit Facility was fully drawn with a \$199,500 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 April 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.

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***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 April 25, 2018, the Partnership had not issued any common units under this equity distribution program.

***Distributions***

On April 18, 2018, our general partner's board of directors declared a cash distribution for the first quarter of 2018 of \$0.225 per common unit, or \$0.90 on an annualized basis, and no distribution was declared for our holders of incentive distribution rights. This distribution will be paid on May 15, 2018 to unitholders of record on May 1, 2018. This quarterly distribution equates to approximately \$19,888 per quarter, or \$79,552 per year, based on the number of common units currently outstanding. We intend to pay a quarterly distribution to the extent we have sufficient operating surplus, as defined in our partnership agreement, and cash generated from our operations after establishment of cash reserves and payment of fees and expenses, including payments to our general partner and its affiliates. We do 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 first quarter of 2018, the Partnership repurchased 753,090 common units for a cost of \$9,426. As of April 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.

***Capital Requirements***

Capital expenditures totaled \$11,873 during the three months ended March 31, 2018, primarily related to continued investment in equipment for PropStream and normal maintenance capital expenditures, including overburden removal, at our production facilities and terminals. We plan to spend \$35,000 to \$45,000 on capital expenditures during 2018.

***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, divestures or organic capital expenditures. As of March 31, 2018, we had a positive working capital balance of \$82,484 as compared to a balance of \$93,029 at December 31, 2017.

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

	<b>March 31, 2018</b>	<b>December 31, 2017</b>
<b>Current assets:</b>		
Accounts receivable, net	\$ 134,982	\$ 139,448
Inventories	34,937	44,272
Prepaid and other current assets	6,081	2,832
Total current assets	176,000	186,552
<b>Current liabilities:</b>		
Accounts payable	43,096	46,794
Accrued and other current liabilities	37,200	29,931
Current portion of deferred revenues	4,399	4,399
Due to sponsor	8,821	12,399
Total current liabilities	93,516	93,523
Working capital	\$82,484	\$93,029

Accounts receivable decreased \$4,466 during the three months ended March 31, 2018, reflecting decreased volumes sold as compared to the fourth quarter of 2017.

Our inventory consists primarily of sand that has been excavated and processed through the wet plant and finished goods. The decrease in our inventory of \$9,335 was primarily driven by wintertime depletion of the washed sand stockpiles at our Wisconsin production facilities offset by increased in-basin finished goods inventory at March 31, 2018 as compared to December 31, 2017, as we had more on-line production capacity available to forward place product.

Prepaid and other current assets increased \$3,249 during the three months ended March 31, 2018, primarily due to a prepayment of \$3,211 for the lease of PropX equipment.

Accounts payable and accrued liabilities increased by \$3,571 on a combined basis, primarily reflecting the remaining original fair value of contingent consideration recorded to other current liabilities in the first quarter of 2018, offset by decreased volumes sold as compared to the fourth quarter of 2017.

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 \$3,578 during the three months ended March 31, 2018, primarily due to timing of payments to our sponsor.

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

	<b>Three Months Ended March 31, 2018      2017</b>	
<b>Net cash provided by (used in):</b>		
Operating activities	\$67,385	\$3,706
Investing activities	(9,006 )	(364,615)
Financing activities	(53,928 )	411,886

**Cash Flows - Three Months Ended March 31, 2018 and 2017***Operating Activities*

Net cash provided by operating activities was \$67,385 for the three months ended March 31, 2018, compared to \$3,706 for the three months ended March 31, 2017. Operating cash flows include net income of \$53,949 and a net loss of \$6,831 during the three months ended March 31, 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 quarter of 2018 as compared to the first quarter of 2017.



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### *Investing Activities*

Net cash used in investing activities was \$9,006 for the three months ended March 31, 2018, and consisted of \$2,867 proceeds from the sale of property, plant and equipment and \$11,873 of capital expenditures primarily related to continued investment in equipment for PropStream and normal maintenance capital expenditures, including overburden removal, at our production facilities and terminals.

Net cash used in investing activities was \$364,615 for the three months ended March 31, 2017, and consisted of the \$140,000 cost of the Whitehall Contribution, \$200,067 cost of the Permian Basin Sand asset acquisition, \$4,168 of equity method investments and \$20,380 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 \$53,928 for the three months ended March 31, 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, \$17,809 distributions paid to our unitholders, \$127 of payments on accrued distribution equivalent rights, \$109 of loan origination costs and \$1,457 of repayments on long-term debt.

Net cash provided by financing activities was \$411,886 for the three months ended March 31, 2017, and was comprised of \$412,667 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 \$1,462 of repayments on long-term debt.

### **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;
- 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;

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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;  
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 March 31, 2018, we had \$199,500 of principal outstanding under our senior secured term loan facility, with an effective interest rate of 6.31%. 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 \$1,259 per year.

*Credit Risk – Customer Concentration*

During the three months ended March 31, 2018, approximately 54% 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.

Table of Contents**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.****Unit Buyback Program**

The following table presents information with respect to repurchases of common units made by the Partnership during the three months ended March 31, 2018 (*in thousands, except number of units and per unit amounts*):

	<b>Total Number of Units Purchased</b>	<b>Average Price Paid Per Unit Including Commission</b>	<b>Total Number of Units Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number (or approximate dollar value) of Units that May Yet be Purchased Under the Plans or Programs (a)</b>
January 1, 2018 to January 31, 2018	—	\$ —	—	\$ 80,000
February 1, 2018 to February 28, 2018	164,000	\$ 12.19	164,000	\$ 78,001
March 1, 2018 to March 31, 2018	589,090	\$ 12.61	589,090	\$ 70,574
	753,090		753,090	

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 (a) 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 first quarter of 2018, the Partnership repurchased 753,090 common units for a cost of \$9,426.

**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.

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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: May 1, 2018 /s/ Laura C. Fulton

Laura C. Fulton, Chief Financial Officer

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**HI-CRUSH PARTNERS LP  
EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
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>
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.