

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2017

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: 001-36168**

**ARC LOGISTICS PARTNERS LP**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**725 Fifth Avenue, 19<sup>th</sup> Floor  
New York, New York**

(Address of principal executive offices)

**36-4767846**

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

**10022**

(Zip Code)

Registrant's telephone number, including area code: (212) 993-1290

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

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

Smaller reporting company

Emerging growth company

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 7(a)(2)(B) of the Securities 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 May 2, 2017, there were 19,518,577 common units.

**ARC LOGISTICS PARTNERS LP**  
**TABLE OF CONTENTS**

	<u>Page</u>
<u>GLOSSARY OF TERMS</u>	3
PART I. <u>FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets as of March 31, 2017 and December 31, 2016</u>	4
<u>Condensed Consolidated Statements of Operations and Comprehensive Income for the Three Months Ended March 31, 2017 and 2016</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2017 and 2016</u>	6
<u>Condensed Consolidated Statements of Partners' Capital for the Three Months Ended March 31, 2017</u>	7
<u>Notes to Condensed Consolidated Financial Statements</u>	8
<u>Cautionary Statement Regarding Forward-Looking Statements</u>	27
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	40
Item 4. <u>Controls and Procedures</u>	40
PART II. <u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	41
Item 1A. <u>Risk Factors</u>	41
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	41
Item 6. <u>Exhibits</u>	42
<u>SIGNATURES</u>	43
<u>EXHIBIT INDEX</u>	44

---

## GLOSSARY OF TERMS

**Adjusted EBITDA:** Represents net income before interest expense, income taxes and depreciation and amortization expense, as further adjusted for other non-cash charges and other charges that are not reflective of our ongoing operations. Adjusted EBITDA is not a presentation made in accordance with GAAP. Please see the reconciliation of Adjusted EBITDA to net income in Part I, Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Overview of Our Results of Operations—Adjusted EBITDA.”

**ancillary services fees:** Fees associated with ancillary services, such as heating, blending and mixing our customers’ products that are stored in our tanks.

**asphalts and industrial products:** Category of petroleum products and liquids that includes various grades of asphalts, methanol, crude tall oil, black liquor soap and other related products.

**barrel or bbl:** One barrel of petroleum products equals 42 U.S. gallons.

**bcfd:** One billion cubic feet per day (generally used as a measure of natural gas quantities).

**bpd:** Barrels per day.

**crude tall oil:** A by-product of paper pulp processing and derived from coniferous wood used for a component of adhesives, rubbers and inks, and as an emulsifier.

**distillate:** A liquid petroleum product used as an energy source which includes distillate fuel oil (No.1, No.2, No. 3 and No. 4).

**Distributable Cash Flow:** Represents Adjusted EBITDA less (i) cash interest expense paid; (ii) cash income taxes paid; (iii) maintenance capital expenditures paid; and (iv) equity earnings from the LNG Interest; plus (v) cash distributions from the LNG Interest. Distributable Cash Flow is not a presentation made in accordance with GAAP. Please see the reconciliation of Distributable Cash Flow to net income in Part I, Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Overview of Our Results of Operations—Distributable Cash Flow.”

**expansion capital expenditures:** Capital expenditures that we expect will increase our operating capacity or operating income over the long term. Examples of expansion capital expenditures include the acquisition of equipment or the construction, development or acquisition of additional storage, terminalling or pipeline capacity to the extent such capital expenditures are expected to increase our long-term operating capacity or operating income.

**GAAP:** Generally accepted accounting principles in the United States.

**LNG:** Liquefied natural gas.

**maintenance capital expenditures:** Capital expenditures made to maintain our long-term operating capacity or operating income. Examples of maintenance capital expenditures include expenditures to repair, refurbish and replace storage, terminalling and pipeline infrastructure, to maintain equipment reliability, integrity and safety and to comply with environmental laws and regulations to the extent such expenditures are made to maintain our long-term operating capacity or operating income.

**mbpd:** One thousand barrels per day.

**M<sup>3</sup>:** Cubic meters (generally used as a measure of liquefied natural gas quantities).

**methanol:** A light, volatile, colorless liquid used as, among other things, a solvent, a feedstock for derivative chemicals, fuel and antifreeze.

**SEC:** U.S. Securities and Exchange Commission.

**storage and throughput services fees:** Fees paid by our customers to reserve tank storage, throughput and transloading capacity at our facilities and to compensate us for the receipt, storage, throughput and transloading of crude oil, petroleum products and other liquids.

**transloading:** The transfer of goods or products from one mode of transportation to another (e.g., from railcar to truck).

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

**ARC LOGISTICS PARTNERS LP**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands, except unit amounts)  
(Unaudited)

	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 1,762	\$ 4,584
Trade accounts receivable	9,216	8,257
Due from related parties	549	1,321
Inventories	369	397
Other current assets	2,341	2,060
Total current assets	<u>14,237</u>	<u>16,619</u>
Property, plant and equipment, net	395,006	395,511
Investment in unconsolidated affiliate	76,807	75,716
Intangible assets, net	114,121	117,716
Goodwill	39,871	39,871
Other assets	2,599	2,980
Total assets	<u>\$ 642,641</u>	<u>\$ 648,413</u>
<b>Liabilities and partners' capital:</b>		
Current liabilities:		
Accounts payable	\$ 4,609	\$ 2,455
Accrued expenses	4,741	5,684
Due to general partner	1,557	2,082
Other liabilities	2,855	2,961
Total current liabilities	<u>13,762</u>	<u>13,182</u>
Credit facility	249,500	249,000
Other non-current liabilities	19,391	19,805
Total liabilities	<u>282,653</u>	<u>281,987</u>
Commitments and contingencies		
Partners' capital:		
General partner interest	-	-
Limited partners' interest		
Common units – (19,515,678 and 19,477,021 units issued and outstanding at March 31, 2017 and December 31, 2016, respectively)	276,614	282,228
Non-controlling interests	80,269	81,541
Accumulated other comprehensive (loss) income	3,105	2,657
Total partners' capital	<u>359,988</u>	<u>366,426</u>
Total liabilities and partners' capital	<u>\$ 642,641</u>	<u>\$ 648,413</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**ARC LOGISTICS PARTNERS LP**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**  
(In thousands, except per unit amounts)  
(Unaudited)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Revenues:</b>		
Third-party customers	\$ 24,448	\$ 22,584
Related parties	1,477	3,483
	<u>25,925</u>	<u>26,067</u>
<b>Expenses:</b>		
Operating expenses	8,873	8,687
Selling, general and administrative	3,239	3,924
Selling, general and administrative – affiliate	1,262	1,322
Depreciation	4,456	3,652
Amortization	3,672	3,697
(Gain) Loss on revaluation of contingent consideration, net	318	(189)
Total expenses	<u>21,820</u>	<u>21,093</u>
Operating income (loss)	4,105	4,974
<b>Other income (expense):</b>		
Equity earnings from unconsolidated affiliate	2,371	2,461
Interest expense	(2,654)	(2,367)
Total other income (loss), net	<u>(283)</u>	<u>94</u>
Income before income taxes	3,822	5,068
Income taxes	31	28
<b>Net income</b>	<u>3,791</u>	<u>5,040</u>
Net income attributable to non-controlling interests	<u>(1,328)</u>	<u>(1,811)</u>
<b>Net income attributable to partners' capital</b>	2,463	3,229
Other comprehensive (loss) income	448	(896)
<b>Comprehensive income (loss) attributable to partners' capital</b>	<u>\$ 2,911</u>	<u>\$ 2,333</u>
<b>Earnings (loss) per limited partner unit:</b>		
Common units (basic and diluted)	\$ 0.12	\$ 0.15
Subordinated units (basic and diluted)	\$ -	\$ 0.15

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**ARC LOGISTICS PARTNERS LP**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(Unaudited)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash flow from operating activities:</b>		
Net income	\$ 3,791	\$ 5,040
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	4,456	3,652
Amortization	3,672	3,697
Equity earnings from unconsolidated affiliate, net of distributions	(719)	(282)
Amortization of deferred financing costs	406	359
Unit-based compensation	839	1,095
Net loss (gain) on revaluation of contingent consideration	318	(189)
Changes in operating assets and liabilities:		
Trade accounts receivable	(960)	(219)
Due from related parties	772	195
Inventories	27	(101)
Other current assets	(281)	56
Accounts payable	415	(792)
Accrued expenses	(448)	(1,447)
Due to general partner	(525)	383
Other liabilities	(220)	1,073
Net cash provided by operating activities	<u>11,543</u>	<u>12,520</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(2,557)	(5,715)
Net cash paid for acquisitions	-	(8,000)
Net cash used in investing activities	<u>(2,557)</u>	<u>(13,715)</u>
<b>Cash flows from financing activities:</b>		
Distributions	(8,570)	(8,473)
Deferred financing costs	(25)	(192)
Repayments to credit facility	(5,000)	-
Proceeds from credit facility	5,500	14,250
Payments of earn-out liability	(951)	(341)
Distributions paid to non-controlling interests	(2,600)	(2,800)
Distribution equivalent rights paid on unissued units	(162)	(231)
Net cash provided by (used in) financing activities	<u>(11,808)</u>	<u>2,213</u>
Net increase (decrease) in cash and cash equivalents	(2,822)	1,018
Cash and cash equivalents, beginning of period	4,584	5,870
Cash and cash equivalents, end of period	<u>\$ 1,762</u>	<u>\$ 6,888</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 2,273	\$ 2,138
Cash paid for income taxes	31	27
<b>Non-cash investing and financing activities:</b>		
Decrease (increase) in earn-out liability in accounts payable and accrued expenses	(333)	-
Increase (decrease) in purchases of property plant and equipment in accounts payable and accrued expenses	1,393	438

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**ARC LOGISTICS PARTNERS LP**  
**CONDENSED CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL**  
(In thousands)  
(Unaudited)

	Partners' Capital			
	Limited Partner Common Interest	Non-Controlling Interests	Accumulated Other Comprehensive Income	Total Partners' Capital
<b>Partners' capital at December 31, 2016</b>	\$ 282,228	\$ 81,541	\$ 2,657	\$ 366,426
Net income	2,463	1,328	-	3,791
Other comprehensive income (loss)	-	-	448	448
Unit-based compensation	839	-	-	839
Net settlement of withholding taxes related to unit-based compensation	(184)	-	-	(184)
Distribution equivalent rights paid on unissued units	(162)	-	-	(162)
Distributions	(8,570)	(2,600)	-	(11,170)
<b>Partners' capital at March 31, 2017</b>	<u>\$ 276,614</u>	<u>\$ 80,269</u>	<u>\$ 3,105</u>	<u>\$ 359,988</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**ARC LOGISTICS PARTNERS LP**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**Note 1—Organization and Presentation**

***Defined Terms***

Unless the context clearly indicates otherwise, references in these unaudited condensed consolidated financial statements (“interim statements”) to “Arc Logistics” or the “Partnership” refer to Arc Logistics Partners LP and its subsidiaries. Unless the context clearly indicates otherwise, references to our “General Partner” refer to Arc Logistics GP LLC, the general partner of Arc Logistics. References to “Sponsor” or “Lightfoot” refer to Lightfoot Capital Partners, LP and its general partner, Lightfoot Capital Partners GP LLC. References to “Center Oil” refer to GP&W, Inc., d.b.a. Center Oil, and affiliates, including Center Terminal Company-Cleveland, which contributed its limited partner interests in Arc Terminals LP, predecessor to Arc Logistics, to the Partnership upon the consummation of the Partnership’s initial public offering in November 2013 (“IPO”). References to “Gulf LNG Holdings” refer to Gulf LNG Holdings Group, LLC and its subsidiaries, which own a liquefied natural gas regasification and storage facility in Pascagoula, MS, which is referred to herein as the “LNG Facility.” The Partnership owns a 10.3% limited liability company interest in Gulf LNG Holdings, which is referred to herein as the “LNG Interest.”

***Organization and Description of Business***

The Partnership is a fee-based, growth-oriented Delaware limited partnership formed by Lightfoot in 2007 to own, operate, develop and acquire a diversified portfolio of complementary energy logistics assets. The Partnership is principally engaged in the terminalling, storage, throughput and transloading of crude oil, petroleum products and other liquids. The Partnership is focused on growing its business through the optimization, organic development and acquisition of terminalling, storage, rail, pipeline and other energy logistics assets that generate stable cash flows.

In November 2013, the Partnership completed its IPO by selling 6,786,869 common units (which includes 786,869 common units issued pursuant to the exercise of the underwriters’ over-allotment option) representing limited partner interests in the Partnership at a price to the public of \$19.00 per common unit. In connection with the IPO, the Partnership amended and restated its \$40.0 million revolving credit facility.

The Partnership’s energy logistics assets are strategically located in the East Coast, Gulf Coast, Midwest, Rocky Mountains and West Coast regions of the United States and supply a diverse group of third-party customers, including major oil companies, independent refiners, petroleum product and other liquid marketers, distributors and various industrial manufacturers. Depending upon the location, the Partnership’s facilities possess pipeline, rail, marine and truck loading and unloading capabilities allowing customers to receive and deliver product throughout North America. The Partnership’s asset platform allows customers to meet the specialized handling requirements that may be required by particular products. The Partnership’s combination of diverse geographic locations and logistics platforms gives it the flexibility to meet the evolving demands of existing customers and address those of prospective customers.

As of March 31, 2017, the Partnership’s assets consisted of:

- 21 terminals in twelve states located in the East Coast, Gulf Coast, Midwest, Rocky Mountains and West Coast regions of the United States with approximately 7.8 million barrels of crude oil, petroleum product and other liquids storage capacity;
- four rail transloading facilities with approximately 126,000 bpd of throughput capacity; and
- the LNG Interest in connection with the LNG Facility, which has 320,000 M<sup>3</sup> of LNG storage, 1.5 bcf/d natural gas sendout capacity and interconnects to major natural gas pipeline networks.

The Partnership interests included the following as of March 31, 2017:

19,515,678 common units representing limited partner interests (of which 5,242,775 common units are held by Lightfoot);

- a non-economic general partner interest (which is held by our General Partner, which is owned by Lightfoot); and
- incentive distribution rights (which are held by our General Partner, which is owned by Lightfoot).

**Note 2—Summary of Significant Accounting Policies**

The Partnership has provided a discussion of significant accounting policies in its Annual Report on Form 10-K for the year ended December 31, 2016 (the “2016 Partnership 10-K”). Certain items from that discussion are repeated or updated below as necessary to assist in the understanding of these interim statements.

***Basis of Presentation***

The accompanying interim statements of the Partnership have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X issued by the 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 adjustments, consisting only of normal recurring adjustments and disclosures necessary for a fair statement of these interim statements have been included. The results reported in these interim statements are not necessarily indicative of the results that may be reported for the entire year or for any other period. These interim statements should be read in conjunction with the Partnership's consolidated financial statements for the year ended December 31, 2016, which are included in the 2016 Partnership 10-K, as filed with the SEC. The year-end balance sheet data was derived from the audited financial statements, but does not include all disclosures required by GAAP.

#### **Revision of Financial Statements**

During the fourth quarter of 2016, the Partnership identified errors in the determination of the fair value of the earn-out liability related to the Joliet terminal acquisition for the first, second and third quarters of 2016. Such liabilities should have been revalued at each reporting period to estimated fair value with the offset to current earnings. The Partnership evaluated the materiality of the errors from qualitative and quantitative perspectives and concluded that the errors were not material, either individually or in the aggregate, to our previously issued interim financial statements. The Partnership has, however, revised its interim statements for the affected periods.

The following table details the impact of these revisions for the three months ended March 31, 2016, on the Condensed Consolidated Statement of Operations:

	<b>Quarter to date March 31, 2016</b>		
	As previously reported	Adjustments	As revised
Gain (loss) on revaluation of contingent consideration (a)	\$ -	\$ 189	\$ 189
Operating income	4,785	189	4,974
Income before income taxes	4,879	189	5,068
Net income (a)	4,851	189	5,040
Net income attributable to non-controlling interest	(1,735)	(76)	(1,811)
Net income attributable to partners' capital	3,116	113	3,229
Comprehensive (loss) income attributable to partners' capital	2,220	113	2,333
Basic and diluted earnings per unit - common	\$ 0.15	\$ -	\$ 0.15
Basic and diluted earnings per unit - subordinated	\$ 0.15	\$ -	\$ 0.15

(a) The corresponding amounts have been revised within the statement of cash flows for the three months ended March 31, 2016, with no net impact to operating cash flow.

#### **Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. The most significant estimates relate to the valuation of acquired businesses, goodwill and intangible assets, assessment for impairment of long-lived assets and the useful lives of intangible assets and property, plant and equipment. Actual results could differ from those estimates.

#### **Impairment of Long-Lived Assets**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell and are no longer depreciated.

No impairment charges were recorded during the three months ended March 31, 2017 and 2016.

#### **Goodwill**

Goodwill represents the excess of consideration paid over the fair value of net assets acquired in a business combination. Goodwill is not amortized but instead is assessed for impairment at least annually or when facts and circumstances warrant. Goodwill

impairment is determined using a two-step process. The first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed. The second step compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. The Partnership determines the fair value of its single reporting unit by blending two valuation approaches: the income approach and a market value approach. The inputs included assumptions related to the future performance of the Partnership and assumptions related to discount rates, long-term growth rates and control premiums. Based on the results of the first step of the quantitative impairment assessment of its goodwill as of December 31, 2016, the fair value of the Partnership's reporting unit exceeded its carrying value by approximately 11% and management concluded that no impairment was necessary. In the event that market conditions were to remain weak for an extended period of time, the Partnership may be required to record an impairment of goodwill in the future, and such impairment could be material.

A summary of the changes in the carrying amount of goodwill is as follows (in thousands):

	<b>As of</b>	
	<b>March 31, 2017</b>	<b>December 31, 2016</b>
<b>Beginning Balance</b>	\$ 39,871	\$ 39,871
Goodwill acquired	-	-
<b>Ending Balance</b>	<u>\$ 39,871</u>	<u>\$ 39,871</u>

#### ***Deferred Rent***

The Portland Lease Agreement (as defined in "Note 11—Related Party Transactions—Other Transactions with Related Persons—Operating Lease Agreement" below) contains certain rent escalation clauses, contingent rent provisions and lease termination payments. The Partnership recognizes rent expense for operating leases on a straight-line basis over the term of the lease, taking into consideration the items noted above. Contingent rental payments are generally recognized as rent expense as incurred. The deferred rent resulting from the recognition of rent expense on a straight-line basis related to the Portland Lease Agreement is included within "Other non-current liabilities" in the accompanying unaudited condensed consolidated balance sheets at March 31, 2017 and December 31, 2016.

#### ***Contingent Consideration***

The Partnership records an estimate of the fair value of contingent consideration related to the earn-out obligations to CenterPoint Properties Trust ("CenterPoint") as a part of the Joliet terminal acquisition, within "Other Liabilities" and "Other non-current liabilities" in the accompanying consolidated balance sheets at March 31, 2017 and December 31, 2016. On a quarterly basis, the Partnership revalues the liability and records increases or decreases in the fair value of the recorded liability as an adjustment to earnings. Changes to the contingent consideration liability can result from adjustments to the discount rate or the estimated amount and timing of the future throughput activity at the Joliet terminal. The assumptions used to estimate fair value require significant judgment. The use of different assumptions and judgments could result in a materially different estimate of fair value. The key inputs in determining fair value of the Partnership's contingent consideration obligations of \$17.7 million and \$18.0 million at March 31, 2017 and December 31, 2016, respectively, include discount rates ranging from 7.2% to 7.7% and changes in the assumed amount and timing of the future throughput activity which affects the amount and timing of payments on the earn-out obligation. For further information, see Note 2, "Summary of Significant Accounting Policies – Fair Value of Financial Instruments," to the unaudited condensed consolidated financial statements included in this report for additional information about the Partnership's contingent consideration obligations.

#### ***Contingencies***

In the normal course of business, the Partnership may be subject to loss contingencies, such as legal proceedings and claims arising out of its business that cover a wide range of matters. An accrual for a loss contingency is recognized when it is probable that an asset had been impaired or a liability had been incurred and the amount of loss can be reasonably estimated. If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Partnership's financial statements. If the assessment indicates that a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, and an estimate of the range of possible losses, if determinable and material, would be disclosed. If the estimate of a probable loss is a range and no amount within the range is more likely, the Partnership will accrue the minimum amount of the range.

There are many uncertainties associated with any legal proceeding and these actions or other third-party claims against us may cause us to incur costly litigation and/or substantial settlement charges. As a result, our business, financial condition, results of operations and cash flows could be adversely affected. The actual liability in any such matters may be materially different from our estimates, if any.

#### **Revenue Recognition**

Revenues from leased tank storage and delivery services are recognized as the services are performed, evidence of a contractual arrangement exists and collectability is reasonably assured. Revenues also include the sale of excess products and additives which are mixed with customer-owned liquid products. Revenues for the sale of excess products and additives are recognized when title and risk of loss pass to the customer.

#### **Fair Value of Financial Instruments**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a specified measurement date. Fair value measurements are derived using inputs and assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. GAAP establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This three-tier hierarchy classifies fair value amounts recognized or disclosed in the condensed consolidated financial statements based on the observability of inputs used to estimate such fair values. The classification within the hierarchy of a financial asset or liability is determined based on the lowest level input that is significant to the fair value measurement. The hierarchy considers fair value amounts based on observable inputs (Levels 1 and 2) to be more reliable and predictable than those based primarily on unobservable inputs (Level 3). At each balance sheet reporting date, the Partnership categorizes its financial assets and liabilities using this hierarchy.

The amounts reported in the balance sheet for cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair value because of the short-term maturities of these instruments (Level 1). Because the Credit Facility (as defined in “Note 7 – Debt – Credit Facility” below) has a market rate of interest, its carrying amount approximated fair value (Level 2).

In connection with the Partnership’s acquisition, through a joint venture company formed with an affiliate of GE Energy Financial Services (“GE EFS”), of all of the memberships interests of Joliet Bulk, Barge & Rail LLC (“JBBR”) from CenterPoint for \$216.0 million (the “JBBR Acquisition”), Arc Terminals Joliet Holdings LLC (“Joliet Holdings”) has an earn-out obligation to CenterPoint which was valued at the time of the JBRR Acquisition at \$19.7 million. Joliet Holdings’ earn-out obligations to CenterPoint will terminate upon the payment, in the aggregate, of \$27.0 million. The balance of the earn-out liability is included within “Other non-current liabilities” in the accompanying consolidated balance sheets at March 31, 2017 and December 31, 2016. Since the fair value of the contingent consideration obligation is based primarily upon unobservable inputs, it is classified as Level 3 in the fair value hierarchy. The contingent consideration obligation will be revalued at each reporting period and changes to the fair value will be recorded as a component of operating income. Increases or decreases in the fair value of the contingent consideration obligations can result from changes in the assumed throughput (contracted or uncontracted) and the long-term interest rates. Significant judgment is employed in determining the appropriateness of these assumptions as of the acquisition date and for each subsequent reporting period. Accordingly, future business and economic conditions can materially impact the amount of contingent consideration expense the Partnership records in any given period. The key inputs in determining fair value of the Partnership’s contingent consideration obligations of \$17.7 million and \$18.0 million at March 31, 2017 and December 31, 2016, respectively, include discount rates ranging from 7.2% to 7.7% and changes in the estimated amount and timing of the future throughput activity which affects the timing of payments on the earn-out obligation. The Partnership recorded a \$0.3 million non-cash loss and a \$0.2 million non-cash gain on the revaluation of the earn-out liability during the three months ended March 31, 2017 and 2016, respectively. For the three months ended March 31, 2017 and 2016, Joliet Holdings paid \$0.6 million and \$0.3 million, respectively, related to the earn-out obligation. Since the closing of the JBRR Acquisition in May 2015 through March 31, 2017, Joliet Holdings has paid \$3.4 million of the earn-out to CenterPoint. The following is a reconciliation of the beginning and ending amounts of the contingent consideration obligation related to the JBRR Acquisition (in thousands):

	<b>Balance at December 31 2016</b>	<b>Revaluation Adjustments</b>	<b>Earn-out payments paid</b>	<b>Balance at March 31, 2017</b>
<b>Liabilities at fair value:</b>				
JBBR contingent consideration	\$ 18,000	\$ 318	\$ (618)	\$ 17,700
<b>Total liabilities at fair value</b>	<b>\$ 18,000</b>	<b>\$ 318</b>	<b>\$ (618)</b>	<b>\$ 17,700</b>

The Partnership believes that its valuation methods are appropriate and consistent with the values that would be determined by other market participants. However, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

### ***Unit-Based Compensation***

The Partnership recognizes all unit-based compensation to directors, officers, employees and other service providers in the consolidated financial statements based on the fair value of the awards. Fair value for unit-based awards classified as equity awards is determined on the grant date of the award, and this value is recognized as compensation expense ratably over the requisite service or performance period of the equity award. Fair value for equity awards is calculated at the closing price of the common units on the grant date. Fair value for unit-based awards classified as liability awards is calculated at the closing price of the common units on the grant date and is remeasured at each reporting period until the award is settled. Compensation expense related to unit-based awards is included in the "Selling, general and administrative" line item in the accompanying unaudited condensed consolidated statements of operations and comprehensive income.

For awards with performance conditions, the expense is accrued over the service period only if the performance condition is considered to be probable of occurring. When awards with performance conditions that were previously considered improbable become probable, the Partnership incurs additional expense in the period that the probability assessment changes (see "Note 9—Equity Plans").

### ***Net Income Per Unit***

The Partnership uses the two-class method in the computation of earnings per unit since there is more than one participating class of securities. Earnings per common and subordinated unit are determined by dividing net income allocated to the common units and subordinated units, respectively, after deducting the amount allocated to the phantom units, if any, by the weighted average number of outstanding common and subordinated units, respectively, during the period. Following payment of the cash distribution for the third quarter of 2016, the requirements for the conversion of all subordinated units were satisfied under the partnership agreement. As a result, effective November 16, 2016, the 6,081,081 subordinated units, of which 5,146,264 were owned by Lightfoot, converted on a one-for-one basis into common units and thereafter participate on terms equal with all other common units in distributions of available cash. The overall computation, presentation and disclosure of the Partnership's limited partners' net income per unit are made in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 260 "Earnings per Share."

### ***Segment Reporting***

The Partnership derives revenue from operating its terminal and transloading facilities. These facilities have been aggregated into one reportable segment because the facilities have similar long-term economic characteristics, products and types of customers.

### ***Non-Controlling Interests***

The Partnership applies the provisions of ASC 810 *Consolidations*, which were amended on January 1, 2009 by ASC 810-10-65 and ASC 810-10-45 ("ASC 810"). As required by ASC 810, our non-controlling ownership interests in consolidated subsidiaries are presented in the consolidated balance sheet within capital as a separate component from partners' capital. In addition, consolidated net income includes earnings attributable to both the partners and the non-controlling interests. For the three months ended March 31, 2017 and 2016, \$2.6 million and \$2.8 million, respectively, of distributions have been made to non-controlling interest holders of consolidated subsidiaries.

### ***Recently Issued Accounting Pronouncements***

In May 2014, the FASB issued updated guidance on the reporting and disclosure of revenue recognition. The update requires that an entity recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update also requires new qualitative and quantitative disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, information about contract balances and performance obligations, and assets recognized from costs incurred to obtain or fulfill a contract. In April 2015, the FASB proposed a one-year deferral of the effective date, and therefore, this guidance will be effective for the Partnership beginning in the first quarter of 2018, with early adoption optional but not before the original effective date of December 15, 2016. In May and December 2016, the FASB issued certain narrow-scope improvements and practical expedients to the guidance. The Partnership is currently evaluating the potential impact of this authoritative guidance on its financial condition, results of operations, cash flows and related disclosures.

In February 2016, the FASB issued new guidance which amends various aspects of existing guidance for leases. The new guidance requires an entity to recognize assets and liabilities arising from a lease for both financing and operating leases, along with additional qualitative and quantitative disclosures. The main difference between previous GAAP and the amended standard is the recognition of lease assets and lease liabilities by lessees on the balance sheet for those leases classified as operating leases under previous GAAP. As a result, the Partnership will have to recognize a liability representing its lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term on the balance sheet. The new guidance is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Partnership is currently evaluating the effect this standard will have on its consolidated financial position or results of operations.

In August 2016, the FASB issued new guidance which makes eight targeted changes to how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The update provides specific guidance on cash flow classification issues that are not currently addressed by GAAP and thereby reduces the current diversity in practice. The standard is effective for our financial statements issued for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption is permitted. The Partnership does not expect this requirement to have a significant impact on its financial condition, results of operations, cash flows and related disclosures.

In January 2017, the FASB issued new guidance which provides clarifications to evaluating when a set of transferred assets and activities (collectively, the "set") is a business and provides a screen to determine when a set is not a business. Under the new guidance, when substantially all of the fair value of gross assets acquired (or disposed of) is concentrated in a single identifiable asset, or group of similar assets, the assets acquired would not represent a business. Also, to be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to produce outputs. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, and should be applied on a prospective basis to any transactions occurring within the period of adoption. Early adoption is permitted for interim or annual periods in which the financial statements have not been issued. The Partnership does not expect this requirement to have a significant impact on its financial condition, results of operations, cash flows and related disclosures.

In January 2017, the FASB issued new guidance which eliminates the requirement to determine the fair value of individual assets and liabilities of a reporting unit to measure goodwill impairment. Under the amendment, goodwill impairment testing will be performed by comparing the fair value of the reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The new standard is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and should be applied on a prospective basis. Early adoption is permitted for annual or interim goodwill impairment testing performed after January 1, 2017. The Partnership does not expect this requirement to have a significant impact on its financial condition, results of operations, cash flows and related disclosures.

### **Note 3 – Acquisitions**

#### ***Acquisitions***

The following acquisition was accounted for under the acquisition method of accounting whereby management utilized the services of third-party valuation consultants, along with estimates and assumptions provided by management, to estimate the fair value of the net assets acquired. The third-party valuation consultant utilized several appraisal methodologies including income, market and cost approaches to estimate the fair value of the identifiable assets acquired.

#### ***Gulf Oil Terminals Acquisition***

In January 2016, the Partnership, through its wholly owned subsidiary Arc Terminals Holdings LLC ("Arc Terminals Holdings"), acquired four petroleum products terminals (the "Pennsylvania Terminals") located in Altoona, Mechanicsburg, Pittston and South Williamsport, Pennsylvania from Gulf Oil Limited Partnership ("Gulf Oil") for \$8.0 million (the "Gulf Oil Terminals Acquisition"). In connection with this acquisition, the Partnership also acquired an option to purchase from Gulf Oil at an agreed upon purchase price additional land with storage tanks located adjacent to one of the Pennsylvania Terminals. At closing, the Partnership entered into a take-or-pay terminal services agreement with Gulf Oil with an initial term of two years. The throughput and related services provided by the Partnership to Gulf Oil under the terminal services agreement are provided at the Pennsylvania Terminals, as well as several of the Partnership's other petroleum products terminals. The acquisition was financed with a combination of available cash and borrowings under the Credit Facility.

The Gulf Oil Terminals Acquisition was accounted for as a business combination in accordance with ASC Topic 805, "Business Combinations" ("ASC 805"). The Gulf Oil Terminals Acquisition purchase price equaled the approximately \$8.0 million fair value of the identifiable assets acquired and, accordingly the Partnership did not recognize any goodwill as a part of the Gulf Oil Terminals Acquisition. Transaction costs incurred by the Partnership in connection with the acquisition, consisting primarily of legal and other professional fees, totaled approximately \$0.6 million and were expensed as incurred in accordance with ASC 805. Management has finalized the valuation of the net assets acquired in connection with the Gulf Oil Terminals Acquisition and the final purchase price allocation has been determined.

The total purchase price of \$8.0 million was preliminarily allocated to the net assets acquired as follows (in thousands):

<b>Consideration:</b>	
Cash paid to seller	\$ 8,000
Total consideration	<u>\$ 8,000</u>
<b>Allocation of purchase price:</b>	
Inventories	\$ 163
Property and equipment	7,837
Net assets acquired	<u>\$ 8,000</u>

#### Note 4—Investment in Unconsolidated Affiliate

The Partnership accounts for investments in limited liability companies under the equity method of accounting unless the Partnership's interest is deemed to be so minor that it may have virtually no influence over operating and financial policies. "Investment in unconsolidated affiliate" consisted of the LNG Interest, and its balances as of March 31, 2017 and December 31, 2016 are represented below (in thousands):

Balance at December 31, 2016	\$ 75,716
Equity earnings	2,371
Contributions	-
Distributions	(1,652)
Amortization of premium	(76)
Other comprehensive income (loss)	448
Balance at March 31, 2017	<u>\$ 76,807</u>

#### Investment in Gulf LNG Holdings

In November 2013, the Partnership purchased the LNG Interest from an affiliate of GE EFS for \$72.7 million. The carrying value of the LNG Interest on the date of acquisition was \$64.1 million and therefore the excess amount paid, by the Partnership, over the carrying value was \$8.6 million. This excess can be attributed to the underlying long lived assets of Gulf LNG Holdings and is therefore being amortized using the straight-line method over the remaining useful lives of the respective assets, which is 28 years. The estimated aggregate amortization of this premium for its remaining useful life from March 31, 2017 is as follows (in thousands):

	<b>Total</b>
2017	\$ 232
2018	309
2019	309
2020	309
2021	309
Thereafter	6,136
	<u>\$ 7,604</u>

Summarized financial information for Gulf LNG Holdings is reported below (in thousands):

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
<b>Balance sheets</b>		
Current assets	\$ 6,486	\$ 7,474
Noncurrent assets	847,159	855,703
Total assets	<u>\$ 853,645</u>	<u>\$ 863,177</u>
Current liabilities	\$ 77,523	\$ 83,825
Long-term liabilities	607,250	621,802
Member's equity	168,872	157,550
Total liabilities and member's equity	<u>\$ 853,645</u>	<u>\$ 863,177</u>
	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Income statements</b>		
Revenues	\$ 46,497	\$ 46,484
Total operating costs and expenses	15,026	13,855
Operating income	31,471	32,629
Net income	<u>\$ 22,977</u>	<u>\$ 23,845</u>

### LNG Facility Arbitration

On March 1, 2016, an affiliate of Gulf LNG Holdings received a Notice of Disagreement and Disputed Statements and a Notice of Arbitration from Eni USA Gas Marketing L.L.C. (“Eni USA”), one of the two companies that had entered into a terminal use agreement for capacity of the LNG Facility. Eni USA is an indirect subsidiary of Eni S.p.A., a multi-national integrated energy company headquartered in Milan, Italy. Pursuant to the Notice of Arbitration, Eni USA seeks declaratory and monetary relief in respect of its terminal use agreement, asserting that (i) the terminal use agreement should be terminated because changes in the U.S. natural gas market since the execution of the agreement in December 2007 have “frustrated the essential purpose” of the agreement and (ii) the activities undertaken by affiliates of Gulf LNG Holdings “in connection with a plan to convert the LNG Facility into a liquefaction/export facility have given rise to a contractual right on the part of Eni USA to terminate” the terminal use agreement.

Affiliates of Kinder Morgan, Inc., which control Gulf LNG Holdings and operate the LNG Facility, have expressed to us that they view the assertions by Eni USA to be without merit and that they will continue to vigorously contest the assertions set forth by Eni USA. Although we do not control Gulf LNG Holdings, we also are of the view that the assertions made by Eni USA are without merit. As contemplated by the terminal use agreement, disputes are meant to be resolved by final and binding arbitration. A three-member arbitration panel conducted an arbitration hearing in January, 2017. We expect the arbitration panel will issue its decision within approximately four months. Eni USA has advised Gulf LNG Holdings’ affiliates that it will continue to pay the amounts claimed to be due under the terminal use agreement pending resolution of the dispute.

If the assertions by Eni USA to terminate or amend its payment obligations under the terminal use agreement prior to the expiration of its initial term are ultimately successful, our business, financial conditions and results of operations and our ability to make cash distributions to our unitholders would be (or in the event Eni USA’s payment obligations are amended, could be) materially adversely affected.

### Note 5—Property, Plant and Equipment

The Partnership’s property, plant and equipment consisted of (in thousands):

	As of	
	March 31, 2017	December 31, 2016
Land	\$ 78,455	\$ 78,455
Buildings and site improvements	85,336	84,976
Tanks and trim	127,470	124,438
Pipelines	20,507	20,507
Machinery and equipment	122,022	121,278
Office furniture and equipment	1,225	1,152
Construction in progress	14,659	14,917
	449,674	445,723
Less: Accumulated depreciation	(54,668)	(50,212)
Property, plant and equipment, net	<u>\$ 395,006</u>	<u>\$ 395,511</u>

### Note 6—Intangible Assets

The Partnership’s intangible assets consisted of (in thousands):

	Estimated Useful Lives in Years	As of	
		March 31, 2017	December 31, 2016
Customer relationships	21	\$ 4,785	\$ 4,785
Acquired contracts	2-12	149,342	149,342
Non-compete agreements	2-3	741	741
		154,868	154,868
Less: Accumulated amortization		(40,747)	(37,152)
Intangible assets, net		<u>\$ 114,121</u>	<u>\$ 117,716</u>

The Partnership’s intangible assets are amortized on a straight-line basis over the expected life of each intangible asset. The estimated future amortization expense is approximately \$10.5 million for the remainder of 2017, \$12.8 million in 2018, \$12.2 million in 2019, \$12.2 million in 2020, \$12.2 million in 2021 and \$54.3 million thereafter.

## Note 7—Debt

### *Credit Facility*

Concurrent with the closing of the IPO, the Partnership entered into the Second Amended and Restated Revolving Credit Agreement (the “Credit Facility”) with a syndicate of lenders, under which Arc Terminals Holdings is the borrower. The Credit Facility matures in November 2018 and has up to \$300.0 million of borrowing capacity. As of March 31, 2017, the Partnership had borrowings of \$249.5 million under the Credit Facility at an interest rate of 3.99%. Based on the restrictions under the total leverage ratio covenant, as of March 31, 2017, the Partnership had \$29.0 million of available capacity under the Credit Facility.

The Credit Facility is available to fund working capital and to finance capital expenditures and other permitted payments and allows the Partnership to request that the maximum amount of the Credit Facility be increased by up to an aggregate principal amount of \$100.0 million, subject to receiving increased commitments from lenders or commitments from other financial institutions. The Credit Facility is available for revolving loans, including a sublimit of \$5.0 million for swing line loans and a sublimit of \$20.0 million for letters of credit. The Partnership’s obligations under the Credit Facility are secured by a first priority lien on substantially all of the Partnership’s material assets other than the LNG Interest and the assets of the Partnership’s Joliet terminal (which is owned indirectly by Joliet Holdings, 40% of which is owned by an affiliate of GE EFS). The Partnership and each of the Partnership’s existing restricted subsidiaries (other than the borrower) guarantee, and each of the Partnership’s future restricted subsidiaries will also guarantee, the Credit Facility.

Loans under the Credit Facility bear interest at a floating rate, based upon the Partnership’s total leverage ratio, equal to, at the Partnership’s option, either (a) a base rate plus a range from 100 to 225 basis points per annum or (b) a LIBOR rate, plus a range of 200 to 325 basis points. The base rate is established as the highest of (i) the rate which SunTrust Bank announces, from time to time, as its prime lending rate, (ii) the daily one-month LIBOR rate plus 100 basis points per annum and (iii) the federal funds rate plus 50 basis points per annum. The unused portion of the Credit Facility is subject to a commitment fee calculated based upon the Partnership’s total leverage ratio ranging from 0.375% to 0.50% per annum. Upon any event of default, the interest rate will, upon the request of the lenders holding a majority of the commitments, be increased by 2.0% on overdue amounts per annum for the period during which the event of default exists.

The Credit Facility contains certain customary representations and warranties, affirmative covenants, negative covenants and events of default. As of March 31, 2017, the Partnership was in compliance with such covenants. The negative covenants include restrictions on the Partnership’s ability to incur additional indebtedness, acquire and sell assets, create liens, enter into certain lease agreements, make investments and make distributions.

The Credit Facility requires the Partnership to maintain a total leverage ratio of not more than 4.50 to 1.00, which may increase to up to 5.00 to 1.00 during specified periods following a material permitted acquisition or issuance of over \$200.0 million of senior notes, and a minimum interest coverage ratio of not less than 2.50 to 1.00. If the Partnership issues over \$200.0 million of senior notes, the Partnership will be subject to an additional financial covenant pursuant to which the Partnership’s secured leverage ratio must not be more than 3.50 to 1.00. The Credit Facility places certain restrictions on the issuance of senior notes.

If an event of default occurs, the agent would be entitled to take various actions, including the acceleration of amounts due under the Credit Facility, termination of the commitments under the Credit Facility and all remedial actions available to a secured creditor. The events of default include customary events for a financing agreement of this type, including, without limitation, payment defaults, material inaccuracies of representations and warranties, defaults in the performance of affirmative or negative covenants (including financial covenants), bankruptcy or related defaults, defaults relating to judgments, nonpayment of other material indebtedness and the occurrence of a change in control. In connection with the Credit Facility, the Partnership and the Partnership’s subsidiaries have entered into certain customary ancillary agreements and arrangements, which, among other things, provide that the indebtedness, obligations and liabilities arising under or in connection with the Credit Facility are unconditionally guaranteed by the Partnership and each of the Partnership’s existing subsidiaries (other than the borrower and Joliet Holdings and the subsidiaries thereof) and each of the Partnership’s future restricted subsidiaries.

#### *First Amendment*

In January 2014, in connection with the lease agreement entered into at the Partnership’s Portland terminal, Arc Terminals Holdings, as borrower, together with the Partnership and certain of its other subsidiaries, as guarantors, entered into the first amendment to the Credit Facility (the “First Amendment”). The First Amendment principally modified certain provisions of the Credit Facility to allow Arc Terminals Holdings to enter into the Portland Lease Agreement relating to the use of petroleum products terminals and pipeline infrastructure located in Portland, Oregon (the “Portland Terminal”).

#### *Second Amendment*

In May 2015, Arc Terminals Holdings, as borrower, together with the Partnership and certain of its other subsidiaries, as guarantors, entered into the second amendment to the Credit Facility as part of its financing for the JBBR Acquisition. Upon the closing of the JBBR Acquisition in May 2015, the aggregate commitments under the Credit Facility increased from \$175 million to \$275 million. In addition, the sublimit for letters of credit was increased from \$10 million to \$20 million.

### Third Amendment

In July 2015, Arc Terminals Holdings, as borrower, together with the Partnership and certain of its other subsidiaries, as guarantors, entered into the third amendment to the Credit Facility as part of the financing for the Partnership's purchase in July 2015 of all of the membership interests in UET Midstream, LLC from United Energy Trading, LLC ("UET") and Hawkeye Midstream, LLC (together with UET, the "Pawnee Sellers") for a purchase price, net of certain adjustments, of \$76.6 million (the "Pawnee Terminal Acquisition"). Upon the consummation of the Pawnee Terminal Acquisition in July 2015, the aggregate commitments under the Credit Facility increased from \$275 million to \$300 million.

### Fourth Amendment

In June 2016, Arc Terminals Holdings, as borrower, together with the Partnership and certain of its other subsidiaries, as guarantors, entered into the fourth amendment to the Credit Facility (the "Fourth Amendment"). The Fourth Amendment principally modifies certain provisions of the Credit Facility including (i) the circumstances whereby the Partnership may increase up to or maintain a total leverage ratio of 5.00 to 1.00 and (ii) the interest rate pricing grid to include an additional pricing tier if the total leverage ratio is greater than or equal to 4.50 to 1.00.

## Note 8—Partners' Capital and Distributions

### Units Outstanding

As of March 31, 2017, the Partnership had 19,515,678 common units outstanding. Of that number, 5,242,775 were owned by Lightfoot. In addition, our General Partner, which is owned by Lightfoot, has a non-economic general partner interest in the Partnership along with incentive distribution rights.

Following payment of the cash distribution for the third quarter of 2016, the requirements for the conversion of all subordinated units were satisfied under the partnership agreement. As a result, effective November 16, 2016, the 6,081,081 subordinated units, of which 5,146,264 were owned by Lightfoot, converted on a one-for-one basis into common units and thereafter participate on terms equal with all other common units in distributions of available cash. The conversion did not impact the amount of cash distributions paid by the Partnership or the total units outstanding.

The table below summarizes the changes in the number of common units outstanding at December 31, 2016 through March 31, 2017:

	<b>Limited Partner Common Units</b>
<b>Units outstanding at December 31, 2016</b>	19,477,021
Vesting of equity-based compensation awards	38,657
<b>Units outstanding at March 31, 2017</b>	<b>19,515,678</b>

### Cash Distributions

The table below summarizes the quarterly distributions related to the Partnership's quarterly financial results (in thousands, except per unit data):

<u>Quarter Ended</u>	<u>Total Quarterly Distribution Per Unit</u>	<u>Total Cash Distribution</u>	<u>Date of Distribution</u>	<u>Unitholders Record Date</u>
March 31, 2017	\$ 0.4400	\$ 8,588	May 15, 2017	May 8, 2017
December 31, 2016	\$ 0.4400	\$ 8,570	February 15, 2017	February 8, 2017
September 30, 2016	\$ 0.4400	\$ 8,493	November 15, 2016	November 7, 2016
June 30, 2016	\$ 0.4400	\$ 8,490	August 12, 2016	August 8, 2016
March 31, 2016	\$ 0.4400	\$ 8,475	May 13, 2016	May 9, 2016

### Cash Distribution Policy

The Partnership's partnership agreement provides that the General Partner will make a determination no less frequently than each quarter as to whether to make a distribution, but the partnership agreement does not require the Partnership to pay distributions at any time or in any amount. Instead, the board of directors of the General Partner (the "Board") has adopted a cash distribution policy that sets forth the General Partner's intention with respect to the distributions to be made to unitholders. Pursuant to the cash distribution policy, within 60 days after the end of each quarter, the Partnership expects to distribute to the holders of common units on a quarterly basis at least the minimum quarterly distribution of \$0.3875 per unit, or \$1.55 per unit on an annualized basis, to the extent the Partnership has sufficient cash after establishment of cash reserves and payment of fees and expenses, including payments to the General Partner and its affiliates.

The board of directors of the General Partner may change the foregoing distribution policy at any time and from time to time, and even if the cash distribution policy is not modified or revoked, the amount of distributions paid under the policy and the decision to make any distribution is determined solely by the General Partner. As a result, there is no guarantee that the Partnership will pay the minimum quarterly distribution, or any distribution, on the units in any quarter. However, the partnership agreement contains provisions intended to motivate the General Partner to make steady, increasing and sustainable distributions over time.

The partnership agreement generally provides that the Partnership will distribute cash each quarter to all unitholders pro rata, until each has received a distribution of \$0.4456.

If cash distributions to the Partnership's unitholders exceed \$0.4456 per unit in any quarter, the Partnership's unitholders and the General Partner, as the initial holder of the incentive distribution rights, will receive distributions according to the following percentage allocations:

Total Quarterly Distribution Per Unit Target Amount	Marginal Percentage Interest in Distributions	
	Unitholders	General Partner
above \$0.3875 up to \$0.4456	100.0%	0.0%
above \$0.4456 up to \$0.4844	85.0%	15.0%
above \$0.4844 up to \$0.5813	75.0%	25.0%
above \$0.5813	50.0%	50.0%

The Partnership refers to additional increasing distributions to the General Partner as "incentive distributions."

## Note 9—Equity Plans

### 2013 Long-Term Incentive Plan

The Board approved and adopted the Arc Logistics Long-Term Incentive Plan (as amended from time to time, the "2013 Plan") in November 2013. In July 2014, the Board formed a Compensation Committee (the "Compensation Committee") to administer the 2013 Plan. Effective as of March 2015, the Board dissolved the Compensation Committee and, on and after such date, the Board serves as the administrative committee (the "Committee") under the 2013 Plan. The Board amended and restated the 2013 Plan in March 2016. Employees (including officers), consultants and directors of the General Partner, the Partnership and its affiliates (the "Partnership Entities") are eligible to receive awards under the 2013 Plan. The 2013 Plan authorizes up to an aggregate of 2.0 million common units to be available for awards under the 2013 Plan, subject to adjustment as provided in the 2013 Plan. Awards available for grant under the 2013 Plan include, but are not limited to, restricted units, phantom units, unit options and unit appreciation rights, but only phantom units have been granted under the 2013 Plan to date. Distribution equivalent rights ("DER") are also available for grant under the 2013 Plan, either alone or in tandem with other specific awards, which entitle the recipient to receive an amount equal to distributions paid on an outstanding common unit. Upon the occurrence of a "change of control" or an award recipient's termination of service due to death or "disability" (each quoted term, as defined in the 2013 Plan), any outstanding unvested award will vest in full, except that, with respect to awards issued on or after March 9, 2016, the Committee may condition the automatic vesting of any such awards then outstanding upon a separation of employment for certain reasons (as established in an individual award agreement) following the occurrence of a "change of control".

In July 2014, the Compensation Committee authorized the grant of an aggregate of 939,500 phantom units pursuant to the 2013 Plan to certain employees, consultants and non-employee directors of the Partnership Entities. Awards of phantom units are settled in common units, except that an award of less than 1,000 phantom units is settled in cash. If a phantom unit award recipient experiences a termination of service with the Partnership Entities other than (i) as a result of death or "disability" or (ii) due to certain circumstances in connection with a "change of control," the Committee, at its sole discretion, may decide to vest all or any portion of the recipient's unvested phantom units as of the date of such termination or may allow the unvested phantom units to remain outstanding and vest pursuant to the vesting schedule set forth in the applicable award agreement.

Of the July 2014 awards, a total of 100,000 phantom units were granted to certain non-employee directors of the Board and are classified as equity awards for accounting purposes (the "Director Grants"). Each Director Grant will be settled in common units and includes a DER. The Director Grants have an aggregate grant date fair value of \$2.5 million and vest in equal annual installments over a three-year period starting from the date of grant. For the three months ended March 31, 2017 and 2016, the Partnership recorded approximately \$0.2 million during each period, of unit-based compensation expense with respect to the Director Grants. As of March 31, 2017, the unrecognized unit-based compensation expense for the Director Grants is approximately \$0.3 million, which will be recognized ratably over the remaining term of the awards. Through March 31, 2017, two-thirds of the phantom units granted under the Director Grants have vested.

Of the July 2014 awards, a total of 832,000 phantom units were granted to employees and certain consultants of the Partnership Entities and are classified as equity awards for accounting purposes (the "Employee Equity Grants"). Each Employee Equity Grant will be settled in common units and includes a DER. The Employee Equity Grants have an aggregate grant date fair value of \$21.2 million and vest as follows: (i) 25% of the Employee Equity Grants vested on the day after the end of the Subordination Period (as

defined in the partnership agreement); and (ii) the three remaining 25% installments of the Employee Equity Grants will vest based on the date on which the Partnership has paid, for three consecutive quarters, distributions to its common unitholders at or above a stated level, with (A) 25% of the award vesting after distributions are paid at or above \$0.4457 per unit for the required period, (B) 25% of the award vesting after distributions are paid at or above \$0.4845 per unit for the required period, and (C) the last 25% of the award vesting after distributions are paid at or above \$0.5814 per unit for the required period. To the extent not previously vested, the Employee Equity Grants expire on the fifth anniversary of the date of grant, provided that the expiration date can be extended to the eighth anniversary of the date of grant or longer upon the satisfaction of certain conditions specified in the award agreement. For the three months ended March 31, 2017 and 2016, the Partnership recorded approximately \$0.2 million and \$0.8 million, respectively, of unit-based compensation expense with respect to the Employee Equity Grants. As of March 31, 2017, the unrecognized unit-based compensation expense for the Employee Equity Grants was approximately \$11.0 million, which may be recognized variably over the remaining term of the awards based on the probability of the achievement of the performance vesting requirements. Through March 31, 2017, one-fourth of the phantom units granted under the Employee Equity Grants have vested.

Of the July 2014 awards, a total of 7,500 phantom units were granted to certain employees of the Partnership Entities and are classified as liability awards for accounting purposes (the "Employee Liability Grants"). Each Employee Liability Grant will be settled in cash (as such award consists of less than 1,000 phantom units) and includes a DER. The Employee Liability Grants have an aggregate grant date fair value of \$0.2 million and have the same term and vesting requirements as the Employee Equity Grants described in the preceding paragraph. For the three ended March 31, 2017 and 2016, the Partnership recorded less than \$0.1 million of unit-based compensation expense during each period, with respect to the Employee Liability Grants. As of March 31, 2017, the unrecognized unit based compensation expense for the Employee Liability Grants was less than approximately \$0.1 million, which may be recognized variably over the remaining term of the awards based on the probability of the achievement of the performance vesting requirements and is subject to remeasurement each reporting period until the awards settle. Through March 31, 2017, one-fourth of the phantom units granted under the Employee Liability Grants have vested.

In March 2015, the Board authorized the grant of an aggregate of 45,668 phantom units pursuant to the 2013 Plan to certain employees, consultants and non-employee directors of the Partnership Entities ("2015 Equity Grants"). Each 2015 Equity Grant will be settled in common units and includes a DER. The 2015 Equity Grants are classified as equity awards for accounting purposes and have an aggregate grant date fair value of \$0.9 million and vest in equal annual installments over a three-year period starting from the date of grant. For the three months ended March 31, 2017 and 2016, the Partnership recorded \$0.1 million and \$0.1 million, respectively, of unit-based compensation expense with respect to the 2015 Equity Grants. As of March 31, 2017, the unrecognized unit-based compensation expense for the 2015 Equity Grants is approximately \$0.2 million, which will be recognized ratably over the remaining term of the awards. Through March 31, 2017, two-thirds of the phantom units granted under the 2015 Equity Grants have vested.

During the year ended December 31, 2015, the Board and Chief Executive Officer authorized the grant of an aggregate of 57,100 phantom units (in addition to the 45,668 phantom units granted in March 2015) pursuant to the 2013 Plan to certain employees of the Partnership Entities ("2015 Performance Grants"). Each 2015 Performance Grant will be settled in common units and includes a DER. The 2015 Performance Grants are classified as equity awards for accounting purposes and have an aggregate grant date fair value of \$1.0 million and have the same term and vesting requirements as the Employee Equity Grants described above. For the three months ended March 31, 2017 and 2016, the Partnership recorded less than \$0.1 million and \$0.1 million, respectively, of unit-based compensation expense with respect to the 2015 Performance Grants. As of March 31, 2017, the unrecognized unit-based compensation expense for the 2015 Performance Grants is approximately \$0.6 million, which may be recognized variably over the remaining term of the awards based on the probability of the achievement of the performance vesting requirements. Through March 31, 2017, one-fourth of the phantom units granted under the 2015 Performance Grants have vested.

During the year ended December 31, 2016, the Board authorized the grant of an aggregate of 94,000 phantom units pursuant to the 2013 Plan to certain employees and consultants of the Partnership Entities ("2016 Equity Grants"). Each 2016 Equity Grant will be settled in common units and includes a DER. The 2016 Equity Grants are classified as equity awards for accounting purposes and have an aggregate grant date fair value of \$1.1 million and vest in three equal annual installments over a three-year period starting from the date of grant. For the three months ended March 31, 2017 and 2016, the Partnership recorded \$0.1 million and less than \$0.1 million, respectively, of unit-based compensation expense with respect to the 2016 Equity Grants. As of March 31, 2017, the unrecognized unit-based compensation expense for the 2016 Equity Grants is approximately \$0.7 million, which will be recognized ratably over the remaining term of the awards. Through March 31, 2017, one-third of the phantom units granted under the 2016 Equity Grants have vested.

During the three months ended March 31, 2017, the Board authorized the grant of an aggregate of 125,561 phantom units pursuant to the 2013 Plan to certain employees and consultants of the Partnership Entities ("2017 Equity Grants"). Each 2017 Equity Grant will be settled in common units and includes a DER. The 2017 Equity Grants are classified as equity awards for accounting purposes and have an aggregate grant date fair value of \$1.8 million, 109,111 of the 2017 Equity Grants vest in three equal annual installments over a three-year period starting from the date of grant, and 16,450 of the 2017 Equity Grants vested immediately on the date of grant. For the three months ended March 31, 2017, the Partnership recorded \$0.3 million of unit based compensation expense with respect to the 2017 Equity Grants. As of March 31, 2017, the unrecognized unit-based compensation expense for the 2017 Equity Grants is approximately \$1.5 million, which will be recognized ratably over the remaining term of the awards.

During the three months ended March 31, 2017, the Board authorized the grant of an aggregate of 26,250 phantom units pursuant to the 2013 Plan to an employee of the Partnership Entities ("2017 Performance Grant"). The 2017 Performance Grant will

be settled in common units and includes a DER. The 2017 Performance Grant is classified as an equity award for accounting purposes, has an aggregate grant date fair value of \$0.4 million and will vest in three equal installments based on the date on which the Partnership has paid, for three consecutive quarters, distributions to its common unitholders at or above a stated level, with (A) one-third of the award vesting after distributions are paid at or above \$0.4457 per unit for the required period, (B) one-third of the award vesting after distributions are paid at or above \$0.4845 per unit for the required period, and (C) the last one-third of the award vesting after distributions are paid at or above \$0.5814 per unit for the required period. To the extent not previously vested, the 2017 Performance Grant expires on the fifth anniversary of the date of grant, provided that the expiration date can be extended to the eighth anniversary of the date of grant or longer upon the satisfaction of certain conditions specified in the award agreement. For the three months ended March 31, 2017, the Partnership recorded less than \$0.1 million of unit-based compensation expense with respect to the 2017 Performance Grant. As of March 31, 2017, the unrecognized unit-based compensation expense for the 2017 Performance Grant is approximately \$0.4 million which may be recognized variably over the remaining term of the award based on the probability of the achievement of the performance vesting requirements.

During the three months ended March 31, 2017, the Board authorized the grant of an aggregate of 10,475 phantom units pursuant to the 2013 Plan to employees of the Partnership Entities ("2017 Employee Liability Grants"). Each 2017 Employee Liability Grant will be settled in cash (as such award consists of less than 1,000 phantom units) and includes a DER. The 2017 Employee Liability Grants are classified as liability awards for accounting purposes, have an aggregate grant date fair value of \$0.1 million and will vest in three equal installments over a three-year period starting from the date of grant. For the three months ended March 31, 2017, the Partnership recorded less than \$0.1 million of unit-based compensation expense with respect to the 2017 Employee Liability Grants. As of March 31, 2017, the unrecognized unit-based compensation expense for the 2017 Employee Liability Grants is approximately \$0.1 million, which will be recognized ratably over the remaining term of the awards.

Subject to applicable earning criteria, the DER included in each phantom unit award described above entitles the award recipient to a cash payment (or, if applicable, payment of other property) equal to the cash distribution (or, if applicable, distribution of other property) paid on an outstanding common unit to unitholders generally based on the number of common units related to the portion of the award recipient's phantom units that have not vested and been settled as of the record date for such distribution. Cash distributions paid during the vesting period on phantom units that are classified as equity awards for accounting purposes are reflected initially as a reduction of partners' capital. Cash distributions paid on such equity awards that are not initially expected to vest or ultimately do not vest are classified as compensation expense. As the probability of vesting changes, these initial categorizations could change. Cash distributions paid during the vesting period on phantom units that are classified as liability awards for accounting purposes are reflected as compensation expense and included in the "Selling, general and administrative" line item in the accompanying unaudited condensed consolidated statements of operations and comprehensive income. During the three months ended March 31, 2017, the Partnership paid approximately \$0.4 million in DERs to phantom unit-holders. For the three months ended March 31, 2017, \$0.2 million was reflected as a reduction of partners' capital, and the other \$0.2 million was reflected as compensation expense and included in the "Selling, general and administrative" line item in the accompanying unaudited condensed consolidated statements of operations and comprehensive income. For the three months ended March 31, 2016, the Partnership paid approximately \$0.4 million in DERs to phantom unit-holders. For the three months ended March 31, 2016, \$0.2 million was reflected as a reduction of partners' capital, and the other \$0.2 million was reflected as compensation expense and included in the "Selling, general and administrative" line item in the accompanying unaudited condensed consolidated statements of operations and comprehensive income.

The total compensation expense related to the 2013 Plan for the three months ended March 31, 2017 and 2016 was \$0.8 million and \$1.1 million, respectively, which was included in the "Selling, general and administrative" line item in the accompanying unaudited condensed consolidated statements of operations and comprehensive income. The amount recorded as liabilities in "Other non-current liabilities" in the accompanying unaudited condensed consolidated balance sheet as of March 31, 2017 was less than \$0.1 million.

The following table presents phantom units granted pursuant to the 2013 Plan:

	<b>Equity Awards</b>		<b>Liability Awards</b>		
	<b>Three Months Ended</b>		<b>Three Months Ended</b>		
	<b>March 31, 2017</b>		<b>March 31, 2017</b>		
	Number	Weighted Avg.	Number	Weighted Avg.	Fair Value at
	of Phantom	Grant Date	of Phantom	Grant Date	3/31/2017
	Units	Fair Value	Units	Fair Value	
Balance at December 31, 2016	804,818	\$ 23.29	4,125	\$ 25.46	\$ 14.25
Granted	151,811	\$ 14.30	10,475	\$ 14.01	\$ -
Vested	(51,837)	\$ 13.79	-	\$ -	\$ -
Forfeited	-	\$ -	(225)	\$ 25.46	\$ -
Balance at March 31, 2017	<u>904,792</u>	<u>\$ 22.33</u>	<u>14,375</u>	<u>\$ 17.12</u>	<u>\$ 14.25</u>

## Note 10—Earnings Per Unit

The Partnership uses the two-class method when calculating the net income per unit applicable to limited partners. The two-class method is based on the weighted-average number of common and subordinated units outstanding during the period. Basic net income per unit applicable to limited partners (including subordinated unitholders) is computed by dividing limited partners' interest in net income, after deducting distributions, if any, by the weighted-average number of outstanding common and subordinated units. Payments made to the Partnership's unitholders are determined in relation to actual distributions paid and are not based on the net income allocations used in the calculation of net income per unit.

Following payment of the cash distribution for the third quarter of 2016, the requirements for the conversion of all subordinated units were satisfied under the partnership agreement. As a result, effective November 16, 2016, the 6,081,081 subordinated units, of which 5,146,264 were owned by Lightfoot, converted on a one-for-one basis into common units and thereafter participate on terms equal with all other common units in distributions of available cash. The conversion did not impact the amount of cash distributions paid by the Partnership or the total units outstanding. Following the conversion, the Partnership is no longer utilizing the two-class method when calculating the net income per unit applicable to limited partners.

Diluted net income per unit applicable to limited partners includes the effects of potentially dilutive units on the Partnership's units. For the three months ended March 31, 2017 and 2016, the only potentially dilutive units outstanding consisted of the phantom units (see "Note 9—Equity Plans") as they are considered to be participating securities. For the three months ended March 31, 2017 and 2016, none of the phantom units are included in the calculation of diluted earnings per share due to the Partnership having declared distributions in excess of reported net income attributable to partners' capital.

The following table sets forth the calculation of basic and diluted earnings per limited partner unit for the periods indicated (in thousands, except per unit data):

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Net Income attributable to partners' capital</b>	\$ 2,463	\$ 3,229
Less:		
Distribution equivalent rights for unissued units	198	274
<b>Net income available to limited partners</b>	<u>\$ 2,265</u>	<u>\$ 2,955</u>
<b>Numerator for basic and diluted earnings per limited partner unit:</b>		
<b>Allocation of net income among limited partner interests:</b>		
Net income allocated to common unitholders	\$ 2,265	\$ 2,022
Net income (loss) allocated to subordinated unitholders	\$ -	\$ 933
<b>Net income allocated to limited partners:</b>	<u>\$ 2,265</u>	<u>\$ 2,955</u>
<b>Denominator for basic and diluted earnings per limited partner unit:</b>		
Common units - (basic and diluted)	19,487	13,176
Subordinated units - (basic and diluted)	-	6,081
<b>Earnings (loss) per limited partner unit:</b>		
Common - (basic and diluted)	\$ 0.12	\$ 0.15
Subordinated - (basic and diluted)	\$ -	\$ 0.15

## **Note 11—Related Party Transactions**

### **Agreements with Affiliates**

#### ***Payments to the General Partner and its Affiliates***

The General Partner conducts, directs and manages all activities of the Partnership. The General Partner is reimbursed on a monthly basis, or such other basis as may be determined, for: (i) all direct and indirect expenses it incurs or payments it makes on behalf of the Partnership and its subsidiaries; and (ii) all other expenses allocable to the Partnership and its subsidiaries or otherwise incurred by the General Partner in connection with operating the Partnership and its subsidiaries' businesses (including expenses allocated to the General Partner by its affiliates).

For the three months ended March 31, 2017 and 2016, the General Partner incurred expenses of \$1.3 million and \$1.3 million, respectively. Such expenses are reimbursable from the Partnership and are reflected in the "Selling, general and administrative – affiliate" line on the accompanying unaudited condensed consolidated statements of operations and comprehensive income. As of March 31, 2017 and December 31, 2016, the Partnership had a payable of approximately \$1.6 million and \$2.1 million, respectively, to the General Partner, which is reflected as "Due to general partner" in the accompanying unaudited condensed consolidated balance sheets.

#### ***Registration Rights Agreement***

In connection with the IPO, the Partnership entered into a registration rights agreement with the Sponsor. Pursuant to the registration rights agreement, the Partnership is required to file, upon request of the Sponsor, a registration statement to register the common units issued to the Sponsor and the common units issuable upon the conversion of the subordinated units held by the Sponsor. In addition, the registration rights agreement gives the Sponsor piggyback registration rights under certain circumstances. The registration rights agreement also includes provisions dealing with holdback agreements, indemnification and contribution and allocation of expenses. These registration rights are transferable to affiliates and, in certain circumstances, to third parties.

### **Other Transactions with Related Persons**

#### ***Storage and Throughput Agreements with Center Oil***

During 2007, the Partnership acquired seven terminals from Center Oil for \$35.0 million in cash and 750,000 subordinated units in the Partnership. In connection with this purchase, the Partnership entered into a storage and throughput agreement with Center Oil whereby the Partnership provides storage and throughput services for various petroleum products to Center Oil at the terminals acquired by the Partnership in return for a fixed per barrel fee for each outbound barrel of Center Oil product shipped or committed to be shipped. The throughput fee is calculated and due monthly based on the terms and conditions as set forth in the storage and throughput agreement. In addition to the monthly throughput fee, Center Oil is required to pay the Partnership a fixed per barrel fee for any additives added into Center Oil's product.

In December 2015, the Partnership extended the term of the storage and throughput agreement with Center Oil to June 2020. The agreement will automatically renew for a period of three years at the expiration of the current term at an inflation adjusted rate (subject to a cap), as determined in accordance with the agreement, unless a party delivers a written notice of its election to terminate the storage and throughput agreement at least eighteen months prior to the expiration of the current term.

In February 2010, the Partnership acquired a 50% undivided interest in the Baltimore, MD terminal. In connection with the acquisition, the Partnership acquired an existing agreement with Center Oil whereby the Partnership provides ethanol storage and throughput services to Center Oil. The Partnership charges Center Oil a fixed fee for storage and a fee based upon ethanol throughput at the Baltimore, MD terminal. The storage and throughput fees are calculated monthly based on the terms and conditions of the storage and throughput agreement. This agreement was renewed under the one-year evergreen provision and has been extended to May 2018.

In May 2013, the Partnership entered into an agreement to provide gasoline storage and throughput services to Center Oil at the Brooklyn terminal. The Partnership charges Center Oil a fixed per barrel fee for each inbound delivery of ethanol and every outbound barrel of product shipped and a fee for any ethanol blending and additives added to Center Oil's product. The storage and throughput fees are calculated monthly based on the terms and conditions of the storage and throughput agreement. This agreement was renewed under the one-year evergreen provision and has been extended to May 2018.

#### ***Throughput Agreements with UET***

During July 2015, the Partnership acquired UET Midstream and its Pawnee terminal from the Pawnee Sellers for \$44.3 million in cash and 1,745,669 in unregistered common units in the Partnership. In connection with such acquisition, the Partnership acquired two terminalling services agreements with UET (each, a "UET Throughput Agreement"). Each UET Throughput Agreement requires UET Midstream to make available to UET a minimum volume of throughput capacity on a monthly basis at the Pawnee Terminal in exchange for payment by UET of a fixed, per barrel monthly fee for such capacity regardless of whether UET utilizes any or all such throughput capacity, in each case subject to certain exceptions. The minimum monthly contract throughput capacity increases each

year during the initial five-year term under one of the UET Throughput Agreements. The initial term of each UET Throughput Agreement (which expire in May 2020) will automatically extend under certain circumstances. Each UET Throughput Agreement requires UET to deliver crude that meets certain specifications and to pay certain other fees, including fees for the use of excess throughput capacity and certain other ancillary services. The UET Throughput Agreements contain certain other customary insurance, indemnification, default and termination provisions, including the right of a party to terminate the applicable UET Throughput Agreement following an event of default and the expiration of all applicable cure periods.

#### **Revenues – Related Parties**

The total revenues associated with the storage and throughput agreements for Center Oil, UET and Gulf Coast Asphalt Company (“GCAC”) reflected in the “Revenues – Related parties” line on the accompanying unaudited condensed consolidated statements of operations and comprehensive income are as follows (in thousands):

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2017</b>	<b>2016</b>
Center Oil	\$ 1,477	\$ 1,460
UET (a)	N/A	1,575
GCAC (a)	N/A	448
Total	<u>\$ 1,477</u>	<u>\$ 3,483</u>

(a) GCAC and UET are no longer considered related parties of the Partnership

The total receivables associated with the storage and throughput agreements for Center Oil, UET and GCAC reflected in the “Due from related parties” line on the accompanying unaudited condensed consolidated balance sheets are as follows (in thousands):

	<b>As of</b>	
	<b>March 31,</b>	<b>December 31,</b>
	<b>2017</b>	<b>2016</b>
Center Oil	\$ 549	\$ 676
UET (a)	N/A	645
GCAC (a)	N/A	N/A
Total	<u>\$ 549</u>	<u>\$ 1,321</u>

(a) GCAC and UET are no longer considered related parties of the Partnership

#### **Natural Gas Supply Agreement**

In March 2016, the Partnership, through its wholly owned subsidiary, Arc Terminals Holdings, entered into a natural gas supply agreement with UET to supply the Portland Terminal with natural gas. UET charges the Partnership for the actual amount of natural gas supplied on a monthly basis plus a transportation fee. The agreement expires on March 31, 2018, unless mutually extended for an additional year by both UET and the Partnership.

#### **Joliet LLC Agreement**

In connection with the JBRR Acquisition in May 2015, the Partnership and an affiliate of GE EFS entered into an amended and restated limited liability company agreement of Joliet Holdings governing their respective interests in Joliet Holdings (the “Joliet LLC Agreement”). An affiliate of GE EFS owns 40% of Joliet Holdings, while the remaining 60% is owned by the Partnership. GE EFS indirectly owns interests in Lightfoot. Lightfoot has a significant interest in the Partnership through its ownership of a 27% limited partner interest in the Partnership, 100% of the limited liability company interests in the General Partner and all of the Partnership’s incentive distribution rights. As of April 2017, John Pugh serves on the board of managers of Lightfoot Capital Partners GP LLC and on the Board of the General Partner and is a Managing Director at GE EFS, which is an affiliate of General Electric Capital Corporation. In addition, Arc Terminals Holdings entered into a Management Services Agreement (the “MSA”) with Joliet Holdings to manage and operate the Joliet Terminal. Arc Terminals Holdings receives a fixed monthly management fee and reimbursements for out-of-pocket expenses. In addition, Arc Terminals Holdings may receive additional monthly management fees based upon the throughput activity at the Joliet Terminal. During the three months ended March 31, 2017 and 2016, the Partnership was paid \$0.4 million and \$0.3 million, respectively, in fees and reimbursements by Joliet Holdings under the MSA.

#### **PIPE Transaction**

##### *Registration Rights Agreement with PIPE Investors*

Pursuant to a Unit Purchase Agreement dated as of February 19, 2015 (the “PIPE Purchase Agreement”) among the Partnership and the purchasers named therein (the “PIPE Purchasers”), the Partnership sold 4,520,795 common units at a price of \$16.59 per common unit in a private placement (the “PIPE Transaction”) on May 14, 2015 for proceeds totaling \$72.7 million after placement

agent commissions and expenses, which were used to partially finance the Partnership's portion of the purchase price of the JBRR Acquisition. As a part of the PIPE Transaction, the Partnership entered into a registration rights agreement (the "PIPE Registration Rights Agreement"), dated May 14, 2015, with the PIPE Purchasers. The issuance of the common units pursuant to the PIPE Purchase Agreement was made in reliance upon an exemption from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") pursuant to Section 4(a)(2) thereof.

Pursuant to the PIPE Registration Rights Agreement, the Partnership filed, and the SEC declared effective, a shelf registration statement registering the common units of the PIPE Purchasers. In addition, the PIPE Registration Rights Agreement gives the PIPE Purchasers piggyback registration rights under certain circumstances. These registration rights are transferable to affiliates of the PIPE Purchasers.

*Material Relationships Relating to PIPE Transaction*

MTP Energy Master Fund Ltd. ("Magnetar PIPE Investor"), one of the PIPE Purchasers, purchased 572,635 common units for approximately \$9.5 million in the PIPE Transaction. Magnetar Financial LLC controls the investment manager of the Magnetar PIPE Investor, and an affiliate of Magnetar Financial LLC also owns interests in Lightfoot, which is the sole owner of the General Partner. Eric Scheyer, the Head of the Energy Group of Magnetar Financial LLC, also serves on the Board.

*UET Contribution Agreement*

In July 2015, the Partnership, through its subsidiary Arc Terminals Holdings, entered into a contribution agreement (the "Contribution Agreement") with the Pawnee Sellers, pursuant to which it acquired all of the limited liability company interests of UET Midstream from the Pawnee Sellers for total consideration, net of certain adjustments, of \$76.6 million, consisting of \$44.3 million in cash and \$32.3 million of common units of the Partnership. The number of common units issued to the Pawnee Sellers at the closing of the Pawnee Terminal Acquisition was based upon an issuance price of \$18.50 per unit, which resulted in the issuance of 1,745,669 of the Partnership's common units.

*Registration Rights Agreement with Pawnee Sellers*

In connection with the issuance of the Pawnee Transaction Units to the Pawnee Sellers (the "Initial Pawnee Holders") pursuant to the Contribution Agreement as partial consideration for the Pawnee Terminal Acquisition, the Partnership entered into a Registration Rights Agreement (the "Pawnee Registration Rights Agreement"), dated as of July 14, 2015, with the Initial Pawnee Holders. The issuance of the Pawnee Transaction Units pursuant to the Contribution Agreement was made in reliance upon an exemption from the registration requirements of the Securities Act pursuant to Section 4(a)(2) thereof.

Pursuant to the Pawnee Registration Rights Agreement, the Partnership filed, and the SEC declared effective, a shelf registration statement registering the common units of the Pawnee Sellers. In July 2016, the Partnership deregistered the common units of the Pawnee Sellers that remained unsold under the shelf registration statement because it no longer had an obligation to keep the shelf registration statement effective pursuant to the terms of the Pawnee Registration Rights Agreement.

**Note 12—Major Customers**

The following table presents the percentage of revenues and receivables associated with the Partnership's significant customers (those that have accounted for 10% or more of the Partnership's revenues in a given period) for the periods indicated:

	% of Revenues		% of Receivables	
	Three Months Ended		March 31,	December 31,
	2017	2016	2017	2016
Customer A	33%	33%	31%	32%
Customer B	11%	13%	11%	11%
Total	44%	46%	42%	43%

**Note 13—Commitments and Contingencies**

*Environmental Matters*

The Partnership may experience releases of crude oil, petroleum products and fuels or other contaminants into the environment or discover past releases that were previously unidentified. Although the Partnership maintains preventative maintenance and compliance programs designed to prevent and, as applicable, to detect and address such releases promptly, damages and liabilities incurred due to any such environmental releases from the Partnership's assets may affect its business. As a result, the Partnership may accrue for losses associated with environmental remediation obligations, when such losses are probable and reasonably estimable. Estimated losses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study. Loss accruals are adjusted as further information becomes available or circumstances change. Costs of future expenditures for environmental remediation obligations are not discounted to their present value. The Partnership is not a party to any

material pending legal proceedings relating to environmental remediation or other environmental matters and is not aware of any claims or events relating to environmental remediation or other environmental matters that, either individually or in the aggregate, could have a material adverse effect on the Partnership's business, financial condition, results of operations and ability to make quarterly distributions to its unitholders. As of March 31, 2017 and December 31, 2016, the Partnership had not experienced any releases of crude oil, petroleum products and fuels or other contaminants into the environment or discovered past releases that were previously unidentified that would give rise to evaluating an estimate of possible losses or a range of losses. Accordingly, the Partnership had not accrued for any loss contingencies in 2017 and 2016.

### ***Commitments and Contractual Obligations***

Future non-cancelable commitments related to certain contractual obligations as of March 31, 2017 are presented below (in thousands):

	<b>Payments Due by Period</b>						
	<b>Total</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Thereafter</b>
Long-term debt obligations	\$ 249,500	\$ -	\$ 249,500	\$ -	\$ -	\$ -	\$ -
Operating lease obligations	15,873	4,864	6,346	4,663	-	-	-
Earn-out obligations	23,638	1,663	2,281	2,281	2,281	2,281	12,851
Settlement obligations	875	375	500	-	-	-	-
<b>Total</b>	<b>\$ 289,886</b>	<b>\$ 6,902</b>	<b>\$ 258,627</b>	<b>\$ 6,944</b>	<b>\$ 2,281</b>	<b>\$ 2,281</b>	<b>\$ 12,851</b>

### ***Operating Lease Agreement***

In January 2014, the Partnership, through its wholly owned subsidiary, Arc Terminals Holdings, entered into a triple net operating lease agreement relating to the Portland Terminal together with a supplemental co-terminus triple net operating lease agreement for the use of certain pipeline infrastructure at such terminal (such lease agreements, collectively, the "Portland Lease Agreement"), pursuant to which Arc Terminals Holdings leased the Portland Terminal from a wholly owned subsidiary of CorEnergy Infrastructure Trust, Inc. ("CorEnergy"). Arc Logistics guaranteed Arc Terminals Holdings' obligations under the Portland Lease Agreement. CorEnergy owns a 6.6% direct investment in Lightfoot Capital Partners, LP and a 1.5% direct investment in Lightfoot Capital Partners GP LLC, the general partner of Lightfoot Capital Partners, LP. The Portland Lease Agreement has a 15-year initial term and may be extended for additional five-year terms at the sole discretion of Arc Terminals Holdings, subject to renegotiated rental payment terms. During the term of the Portland Lease Agreement, Arc Terminals Holdings will make base monthly rental payments and variable rent payments based on the volume of liquid hydrocarbons that flowed through the Portland Terminal in the prior month. The base rent in the initial years of the Portland Lease Agreement was \$230,000 per month through July 2014 (prorated for the partial month of January 2014) and is \$417,522 for each month thereafter until the end of year five. The base rent also increased each month starting with the month of August 2014 by a factor of 0.00958 of the specified construction costs incurred by LCP Oregon Holdings LLC ("LCP Oregon") at the Portland Terminal. During 2015, spending on terminal-related projects by CorEnergy since the commencement of the Portland Lease Agreement totaled \$10.0 million and, as a result, the base rent has increased by approximately \$95,800 per month. Accordingly, any additional terminal-related projects will be funded by the Partnership. The base rent will be increased in February 2019 by the change in the consumer price index for the prior five years, and every year thereafter by the greater of two percent or the change in the consumer price index. The base rent is not influenced by the flow of hydrocarbons. Variable rent will result from the flow of hydrocarbons through the Portland Terminal in excess of a designated threshold of 12,500 barrels per day of oil equivalent. Variable rent is capped at 30% of base rent payments regardless of the level of hydrocarbon throughput. During the three months ended March 31, 2017 and 2016, the rent expense associated with the Portland Lease Agreement was \$1.6 million, during each period. During the three months ended March 31, 2017 and 2016, there was no variable rent associated with the Portland Lease Agreement. So long as Arc Terminals Holdings is not in default under the Portland Lease Agreement, it shall have the right to purchase the Portland Terminal at the end of any month thereafter by delivery of 90 days' notice ("Purchase Option"). The purchase price shall be the greater of (i) nine times the total of base rent and variable rent for the 12 months immediately preceding the notice and (ii) \$65.7 million. If the Purchase Option is not exercised, the Portland Lease Agreement shall remain in place and Arc Terminals Holdings shall continue to pay rent as provided above. Arc Terminals Holdings also has the option to terminate the Portland Lease Agreement on the fifth and tenth anniversaries, by providing written notice 12 months in advance, for a termination fee of \$4 million and \$6 million, respectively.

### ***CenterPoint Earnout***

In connection with the JBRR Acquisition, CenterPoint is entitled to receive up to an additional \$27.0 million in cash earn-out payments. As a part of the purchase price allocation related to the JBRR Acquisition, Joliet Holdings recorded a liability of \$19.7 million, as of the date of the JBRR Acquisition, in connection with this potential CenterPoint earn-out payment. From the date of acquisition through March 31, 2017, Joliet Holdings has paid \$3.4 million related to the earn-out payment. The Partnership will continue to evaluate this liability each quarter for any changes in the estimated fair value.

### ***Settlement Obligation***

In February 2016, Arc Terminals Holdings entered into a settlement agreement with its customer at the Blakeley, AL facility (the “Blakeley Customer”) pursuant to which the parties agreed to terminate the terminal services agreement entered into by the parties for the storage and throughputting of the Blakeley Customer’s sulfuric acid at the Blakeley, AL facility and to, among other things, release each party from all potential claims arising out of any non-performance of or non-compliance with the representations, warranties and covenants made thereunder. Pursuant to the settlement agreement, Arc Terminals Holdings agreed to pay to the Blakeley Customer an aggregate amount of \$2.0 million in certain increments over a three-year period commencing with the first quarter of 2016, except that Arc Terminals Holdings’ payment obligations thereunder shall be reduced by \$0.5 million in the event that Arc Terminals Holdings and the Blakeley Customer enter into a new terminal services agreement for the storage and throughputting of such customer’s sulfuric acid at the Blakeley, AL facility commencing no later than January 1, 2018. Neither Arc Terminals Holdings nor the Blakeley Customer has any obligation to enter into such new terminal services agreement. During the year ended December 31, 2015, the Partnership had established an accrual of \$2.0 million with respect to its obligations under such settlement agreement. Through March 31, 2017, the Partnership has paid \$1.1 million related to the settlement agreement.

**Note 14—Subsequent Events**

*Cash Distributions*

In April 2017, the Partnership declared a quarterly cash distribution of \$0.44 per unit (\$1.76 per unit on an annualized basis) totaling approximately \$8.6 million for all common units outstanding. The distribution is for the period from January 1, 2017 through March 31, 2017. The distribution is payable on May 15, 2017 to unitholders of record on May 8, 2017.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements and information in this Quarterly Report on Form 10-Q may constitute “forward-looking statements.” The words “believe,” “expect,” “anticipate,” “plan,” “intend,” “foresee,” “should,” “would,” “could” or other similar expressions are intended to identify forward-looking statements, which are generally not historical in nature. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effect on us. While management believes that these forward-looking statements are reasonable as and when made, there can be no assurance that future developments affecting us will be those that we anticipate. All comments concerning our expectations for future revenues and operating results are based on our forecasts for our existing operations and do not include the potential impact of any future acquisitions. Our forward-looking statements involve significant risks and uncertainties (some of which are beyond our control) and assumptions that could cause actual results to differ materially from our historical experience and our present expectations or projections. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, those summarized below:

- adverse regional, national or international economic conditions, adverse capital market conditions or adverse political developments;
- changes in the marketplace for our services, such as increased competition, better energy efficiency, or general reductions in demand;
- changes in the prices and long-term supply and demand of crude oil and petroleum products in the geographic regions in which we operate;
- actions taken by our customers, competitors and third party operators;
- nonrenewal, nonpayment or nonperformance by our customers and our ability to replace such contracts and/or customers;
- changes in the availability and cost of capital;
- unanticipated capital expenditures in connection with the construction, repair, or replacement of our assets;
- operating hazards, natural disasters, terrorism, weather-related delays, adverse weather conditions, including hurricanes, natural disasters, environmental releases, casualty losses and other matters beyond our control;
- inability to consummate acquisitions, pending or otherwise, on acceptable terms and successfully integrate such businesses into our operations;
- the effects of existing and future laws and governmental regulations to which we are subject, including those that permit the treatment of us as a partnership for federal income tax purposes; and
- the effects of pending and future litigation.

For additional information regarding known material factors that could cause our actual results to differ from our projected results, please see “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016.

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read together with our unaudited condensed consolidated financial statements ("interim statements"), including the notes thereto, set forth herein. The following information and such unaudited condensed consolidated financial statements should also be read in conjunction with the audited consolidated financial statements and related notes, together with our discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended December 31, 2016 ("2016 Partnership 10-K"), as filed with the SEC. This discussion may contain 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. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Quarterly Report on Form 10-Q, particularly under "Cautionary Statement Regarding Forward-Looking Statements."

Unless the context clearly indicates otherwise, references in this Quarterly Report on Form 10-Q to "Arc Logistics," the "Partnership," "we," "our," "us" or similar terms refer to Arc Logistics Partners LP and its subsidiaries. Unless the context clearly indicates otherwise, references to our "General Partner" refer to Arc Logistics GP LLC, the general partner of Arc Logistics. References to our "Sponsor" or "Lightfoot" refer to Lightfoot Capital Partners, LP and its general partner, Lightfoot Capital Partners GP LLC. References to "Center Oil" refer to GP&W, Inc., d.b.a. Center Oil, and affiliates, including Center Terminal Company-Cleveland, which contributed its limited partner interests in Arc Terminals, LP, predecessor to Arc Logistics, to the Partnership upon the consummation of the initial public offering ("IPO"). References to "Gulf LNG Holdings" refer to Gulf LNG Holdings Group, LLC and its subsidiaries, which own a liquefied natural gas regasification and storage facility in Pascagoula, MS, which is referred to herein as the "LNG Facility." The Partnership owns a 10.3% limited liability company interest in Gulf LNG Holdings, which is referred to herein as the "LNG Interest."

### Overview

We are a fee-based, growth-oriented Delaware limited partnership formed by Lightfoot to own, operate, develop and acquire a diversified portfolio of complementary energy logistics assets. We are principally engaged in the terminalling, storage, throughput and transloading of crude oil, petroleum products and other liquids. We are focused on growing our business through the optimization, organic development and acquisition of terminalling, storage, rail, pipeline and other energy logistics assets that generate stable cash flows.

Our primary business objective is to generate stable cash flows that enable us to pay quarterly cash distributions to unitholders and, over time, increase quarterly cash distributions. We intend to achieve this objective by evaluating long-term infrastructure needs in the areas we serve and by growing our network of energy logistics assets through expansion of existing facilities, constructing new facilities in existing or new markets and completing strategic acquisitions.

### Recent Developments

#### *Conversion of Subordinated Units*

Following payment of the cash distribution for the third quarter of 2016, the requirements for the conversion of all subordinated units were satisfied under our partnership agreement. As a result, on November 16, 2016, the 6,081,081 subordinated units, of which 5,146,264 were owned by our Sponsor, converted into common units on a one-for-one basis.

#### *LNG Facility Arbitration*

On March 1, 2016, an affiliate of Gulf LNG Holdings received a Notice of Disagreement and Disputed Statements and a Notice of Arbitration from Eni USA Gas Marketing L.L.C. ("Eni USA"), one of the two companies that had entered into a terminal use agreement for capacity of the LNG Facility. Eni USA is an indirect subsidiary of Eni S.p.A., a multi-national integrated energy company headquartered in Milan, Italy. Pursuant to the Notice of Arbitration, Eni USA seeks declaratory and monetary relief in respect of its terminal use agreement, asserting that (i) the terminal use agreement should be terminated because changes in the U.S. natural gas market since the execution of the agreement in December 2007 have "frustrated the essential purpose" of the agreement and (ii) the activities undertaken by affiliates of Gulf LNG Holdings "in connection with a plan to convert the LNG Facility into a liquefaction/export facility have given rise to a contractual right on the part of Eni USA to terminate" the terminal use agreement.

Affiliates of Kinder Morgan, Inc., which control Gulf LNG Holdings and operate the LNG Facility, have expressed to us that they view the assertions by Eni USA to be without merit, and that they will continue to vigorously contest the assertions set forth by Eni USA. As contemplated by the terminal use agreement, disputes are meant to be resolved by final and binding arbitration. Although we do not control Gulf LNG Holdings, we also are of the view that the assertions made by Eni USA are without merit. A three-member arbitration panel conducted an arbitration hearing in January, 2017. We expect the arbitration panel will issue its decision within approximately four months. Eni USA has advised Gulf LNG Holdings' affiliates that it will continue to pay the amounts claimed to be due under the terminal use agreement pending resolution of the dispute.

If the assertions by Eni USA to terminate or amend its payment obligations under the terminal use agreement prior to the expiration of its initial term are ultimately successful, our business, financial conditions and results of operations and our ability to make cash distributions to our unitholders would be (or in the event Eni USA's payment obligations are amended, could be) materially adversely affected. For the three months ended March 31, 2017, 18% and 18% of our Adjusted EBITDA and Distributable Cash Flow, respectively, were associated with our LNG Interest.

### **Factors That Impact Our Business**

The revenues generated by our logistics assets are generally driven by the storage, throughput and transloading capacity under contract. The regional demand for our customers' products being shipped through our facilities drives the physical utilization of facilities and ultimately the revenues we receive for our services. Though substantially all of our services agreements require customers to enter into take-or-pay arrangements for committed terminalling services, our revenues can be affected by: (1) the incremental fees that we charge customers to receive and deliver product; (2) the length of any underlying back-to-back supply agreements that our customers have with their respective customers; (3) commodity pricing fluctuations; (4) fluctuations in product volumes to the extent revenues under the contracts are a function of the amount of product transported; (5) inflation adjustments in services agreements; and (6) changes in the demand for ancillary services, such as heating, blending, and mixing our customers' products between our tanks, railcars and marine operations.

We believe key factors that influence our business are: (1) the short-term and long-term demand for and supply of crude oil and petroleum products; (2) the indirect impact of crude oil and petroleum product pricing including regional pricing differentials on the demand and supply of logistics assets; (3) the needs of our customers together with the competitiveness of our service offerings with respect to location, price, reliability and flexibility; (4) current and future economic conditions; (5) changes to local, state and federal laws and regulations and (6) our ability and the ability of our competitors to capitalize on growth opportunities and changing market dynamics.

#### ***Supply and Demand for Crude Oil and Petroleum Products***

Our results of operations are dependent upon the volumes of crude oil and petroleum products we have contracted to store, throughput and transload. An important factor in such contracting is the amount of supply and demand for crude oil and petroleum products. The supply of and demand for crude oil and petroleum products are driven by many factors, including technological innovations, capital investment, delivery costs, the price for crude oil and petroleum products, local and regional price differentials, refining and manufacturing processes, weather/seasonal changes and general economic conditions. A significant increase or decrease in the demand for crude oil and petroleum products, which can be the result of fluctuations in production, market prices or a combination of both, in the areas served by our facilities will have a corresponding effect on (1) the volumes we actually store, throughput and transload on behalf of our customers; (2) our customers' decision to renew existing services agreements; and (3) our ability to execute contracts with new customers.

#### ***Prices of Crude Oil and Petroleum Products***

Because we do not take title to any of the crude oil and petroleum products that we handle for our customers and do not engage in the marketing of crude oil and petroleum products, we have minimal direct exposure to risks associated with fluctuating commodity prices. However, extended periods of depressed or elevated crude oil and petroleum product prices or significant volatility in the pricing of crude oil or petroleum products in a short period of time can lead producers and refiners to increase or decrease production of crude oil and petroleum products, which can impact supply and demand dynamics resulting in changes in our customers' product movements and the associated use of our facilities.

If the future prices of crude oil and petroleum products are substantially higher than the then-current prices, also called market contango, our customers' demand for excess storage generally increases as they purchase products at today's prices to take advantage of potential increasing product margins. If the future prices of crude oil and petroleum products are lower than the then-current prices, also called market backwardation, our customers' demand for excess storage capacity generally decreases as they reduce their exposure to potential decreasing product margins. In general, demand for our throughput services increases and decreases as pricing differentials in favor of our customers' increases or decreases, respectively.

In most cases, as the market price of crude oil and petroleum products sold by our customers in local markets increases over the price charged by producers to supply our customers for such crude oil and petroleum products, our customers' demand for crude oil and/or petroleum products increases. As the market price for crude oil and petroleum products sold by our customers in local markets decreases as compared to the price charged by producers to supply our customers for such crude oil and petroleum products, our customers' demand for crude oil and petroleum products decreases. In general, demand for our throughput services increases and decreases as pricing differentials in favor of our customers' increase or decrease, respectively.

#### ***Diversity of Receipt and Delivery Modes***

Access to terminal facilities includes marine, rail, pipeline and truck. Depending on the type of commodity our customers are storing or throughputing, each product receipt/delivery mode may offer a significant advantage to that customer at any one time or under a certain situation. In order for our customers to optimize product pricing differentials, they generally prefer as many receipt/delivery modes as possible to access our facilities whether it be for crude oil, petroleum products, ethanol and/or biodiesel. An

important factor in potential customers deciding whether to execute a new contract with us is the availability of these receipt/delivery modes versus our competition. If we are not able to offer a customer their preferred receipt/delivery modes that a competitor is able to offer, we will most likely not be successful in executing an agreement with that customer.

If market conditions change and a current customer is able to receive/deliver product through a competitor's assets at a cost that is lower than our facility, we will generally see volumes decrease by that customer. If we are able to offer receipt/delivery modes and access to our assets that allows that customer to utilize our facility at a cost that it is less than our competitors, we would expect the utilization of our asset by that customer to increase.

### ***Customers and Competition***

We provide terminalling, storage, throughput and transloading services for a broad mix of third-party customers, including major oil companies, independent refiners, crude oil and petroleum product marketers, distributors, chemical companies and various manufacturers. In general, the mix of services we provide to our customers varies with the business strategies of our customers, regional economies, market conditions, expectations for future market conditions and the overall competitiveness of our service offerings.

The level of competition varies in the markets in which we operate. We compete with other terminal operators and logistics providers on the basis of rates, terms of service, types of service, supply and market access and flexibility and reliability of service. The competitiveness of our service offerings, including the rates we charge for new contracts or contract renewals, is affected by the availability of storage and rail capacity relative to the overall demand for storage or rail capacity in a given market area and could be significantly impacted by the entry of new competitors into a market in which one of our facilities operates. We believe that significant barriers to entry exist in the crude oil and petroleum products logistics business.

Our Joliet terminal is currently supported by a terminal services agreement and a pipeline throughput and deficiency agreement with ExxonMobil Oil Corporation ("Exxon"), each with an initial three-year term that is currently scheduled to expire in May 2018. While discussions with Exxon are ongoing, contract renewal decisions are not required until August 2017. If we are unable to renew our agreements with Exxon upon the expiration thereof, our business, financial conditions, results of operations and ability to make cash distributions to our unitholders would be materially adversely affected. If we renew the Exxon agreements on terms that are not similar to the current terms, our business, financial conditions, results of operations and ability to make cash distributions to our unitholders could be materially adversely affected. For the three months ended March 31, 2017, Exxon, our largest customer, accounted for 30% and 39% of our Adjusted EBITDA and Distributable Cash Flow, respectively, in each case after removing the non-controlling interest portion related to our co-investor's ownership interest in Arc Terminals Joliet Holdings LLC ("Joliet Holdings").

### ***Economic Conditions and Energy Industry***

In the recent past, world financial markets experienced a severe reduction in the availability of credit. The condition of credit markets may adversely affect our liquidity and the availability of credit. In addition, given the number of parties involved in the exploration, transportation, storage and throughput of crude oil and petroleum products, we could experience a tightening of trade credit as a result of our customers' inability to access their own credit.

Economic conditions worldwide periodically contribute to slowdowns in the energy industry, as well as in the specific segments and markets in which we operate, resulting in reduced production, reduced supply or demand and increased price competition for our services. In addition, economic conditions could result in a loss of customers because their access to the capital necessary to fund their supply and distribution business is limited. Our operating results may also be affected by uncertain or changing economic conditions in certain regions of the United States. If global economic and market conditions (including volatility or sustained weakness in commodity markets) or economic conditions in the United States remain uncertain or persist, spread or deteriorate further, we may experience material adverse effects on our business, financial condition, results of operations and ability to make distributions to our unitholders.

### ***Regulatory Environment***

The movement and storage of crude oil and petroleum products in the United States is highly regulated by local, state and federal governments and governmental agencies. As an energy logistics service provider, in order to remain in compliance with these laws, we could be required to spend incremental capital expenditures or incur additional operating expenses to service our customer commitments, which could impact our business.

### ***Organic Growth Opportunities***

Regional crude oil and petroleum products supply and demand dynamics shift over time, which can lead to rapid and significant changes in demand for logistics services. At such times, we believe the companies that have positioned themselves to provide a complementary suite of logistics assets with organic growth opportunities will have a competitive advantage in capitalizing on the shifting market dynamics. Where feasible, we have designed the infrastructure at our facilities to allow for future expansion. As of March 31, 2017, we had an aggregate of over 250 acres of available land, across our facilities, to increase our rail, marine, truck and/or terminal capacity should either the crude oil or petroleum products market warrant incremental growth opportunities.

## Overview of Our Results of Operations

Our management uses a variety of financial measurements to analyze our performance, including the following key measures: (1) revenues derived from (a) storage and throughput services fees and (b) ancillary services fees; (2) our operating and selling, general and administrative (“SG&A”) expenses; (3) Adjusted EBITDA; and (4) Distributable Cash Flow.

We do not utilize non-cash depreciation and amortization expense in our key measures because we focus our performance management on cash flow generation and our assets have long useful lives. In our period-to-period comparisons of our revenues and expenses set forth below, we analyze the following revenue and expense components:

### **Revenues**

Our cash flows are primarily generated by fee-based terminalling, storage, throughput and transloading services that we perform under multi-year contracts. A portion of our services agreements are operating under automatic renewal terms that began upon the expiration of the primary contract term. While a portion of our capacity is subject to a one-year commitment, historically these customers have continued to renew or expand their business. We generate revenues through the following fee-based services to our customers:

- *Storage and Throughput Services Fees.* We generate revenues from customers who reserve storage, throughput and transloading capacity at our facilities. Our service agreements typically allow us to charge customers a number of activity fees, including for the receipt, storage, throughput and transloading of crude oil, petroleum products and other liquids. Many of our service agreements contain take-or-pay provisions whereby we generate revenue regardless of customers’ use of the facility. We characterize our storage and throughput services fees into two categories:
  - *Minimum Storage and Throughput Services Fees:* Minimum monthly fees charged to our customers for the right to use dedicated storage, throughput, and transloading capacity. Our customers are required to pay these fees irrespective of the level of use of their contractual capacity. In the event a customer’s monthly activity exceeds its dedicated capacity, our service agreements include provisions to charge excess throughput fees. Any handling fees in excess of the minimum storage and throughput services fees are reflected in the excess throughput and handling fees.
  - *Excess Throughput and Handling Fees:* Fees charged to customers for the use of storage, throughput and transloading capacity used in excess of their minimum reserved storage, throughput and transloading capacity. These fees are charged to our customers based on their actual monthly activity levels. In addition, our service agreements typically include handling services fees which include additive injection fees, ethanol blending fees, biodiesel blending fees and fees for the receipt and delivery of product through rail, marine or truck infrastructure.
- *Ancillary Services Fees.* We generate revenues from ancillary services, such as heating, blending, lab inspection services, sampling and mixing associated with our customers’ activity. The revenues we generate from ancillary services vary based upon customers’ activity levels. In addition, our ancillary services fees also include real property rents (or lease revenue) for the use of dedicated property at various terminal locations.

We believe that the high percentage of take-or-pay storage and throughput services fees generated from a diverse portfolio of multi-year contracts, coupled with little exposure to commodity price fluctuations, creates stable cash flow and substantially mitigates our exposure to volatility in supply and demand and other market factors.

We also receive cash distributions from the LNG Interest we acquired in November 2013, which is accounted for using equity method accounting. These distributions are supported by two multi-year, firm reservation charge terminal use agreements for all of the capacity of the LNG Facility that went into commercial operation in October 2011 with several integrated, multi-national oil and gas companies. As of March 31, 2017, the remaining term of each terminal use agreement is approximately 15 years.

While our financial statements separately present revenue from third parties and related parties, we evaluate our business and characterize our revenues as derived from storage and throughput services fees and ancillary services fees.

### **Operating Expenses**

Our management seeks to maximize the profitability of our operations by effectively managing operating expenses. These expenses are comprised primarily of labor expenses, utility costs, additive expenses, insurance premiums, repair and maintenance expenses, health, safety and environmental compliance and property taxes. These expenses generally remain relatively stable across broad ranges of activity levels at our facilities but can fluctuate from period to period depending on the mix of activities performed during that period and the timing of these expenses. We incorporate preventative maintenance programs by scheduling maintenance over time to avoid significant variability in maintenance expenses and minimize their impact on our cash flow.

### **Selling, General and Administrative Expenses**

While our financial statements separately present SG&A expenses and SG&A–affiliate expenses, we evaluate our SG&A expenses as a whole, which primarily consist of compensation of non-operating personnel, employee benefits, transaction costs,

reimbursements to our General Partner and its affiliates of SG&A expenses incurred in connection with our operations and expenses of overall administration.

### **Adjusted EBITDA**

Adjusted EBITDA is a non-GAAP financial measure that management and external users of our consolidated financial statements, such as industry analysts, investors, lenders and rating agencies, may use to assess: (i) the performance of our assets without regard to the impact of financing methods, capital structure or historical cost basis of our assets; (ii) the viability of capital expenditure projects and the overall rates of return on alternative investment opportunities; (iii) our ability to make distributions; (iv) our ability to incur and service debt; (v) our ability to fund capital expenditures; and (vi) our ability to incur additional expenses. We define Adjusted EBITDA as net income before interest expense, income taxes and depreciation and amortization expense, as further adjusted for other non-cash charges and other charges that are not reflective of our ongoing operations.

We believe that the presentation of Adjusted EBITDA provides useful information to investors in assessing our financial condition and results of operations. The GAAP measure most directly comparable to Adjusted EBITDA is net income. Adjusted EBITDA should not be considered as an alternative to net income. Adjusted EBITDA has important limitations as an analytical tool because it excludes some but not all items that affect net income. You should not consider Adjusted EBITDA in isolation or as a substitute for analysis of our results as reported under GAAP. Additionally, because Adjusted EBITDA may be defined differently by other companies in our industry, our definition of Adjusted EBITDA may not be comparable to similarly titled measures of other companies, thereby diminishing its utility.

### **Distributable Cash Flow**

Distributable Cash Flow is a non-GAAP financial measure that management and external users of our consolidated financial statements may use to evaluate whether we are generating sufficient cash flow to support distributions to our unitholders as well as measure the ability of our assets to generate cash sufficient to support our indebtedness and maintain our operations. We define Distributable Cash Flow as Adjusted EBITDA less (i) cash interest expense paid; (ii) cash income taxes paid; (iii) maintenance capital expenditures paid; and (iv) equity earnings from the LNG Interest; plus (v) cash distributions from the LNG Interest.

The GAAP measures most directly comparable to Distributable Cash Flow is cash flows from operating activities. Distributable Cash Flow should not be considered as an alternative to cash flows from operating activities. You should not consider Distributable Cash Flow in isolation or as a substitute for analysis of our results as reported under GAAP. Additionally, because Distributable Cash Flow may be defined differently by other companies in our industry, our definition of Distributable Cash Flow may not be comparable to similarly titled measures of other companies, thereby diminishing its utility.

The following table presents a reconciliation of net income to Adjusted EBITDA and Distributable Cash Flow to cash flows from operating activities for each of the periods indicated (in thousands):

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Net income attributable to partners' capital</b>	\$ 2,463	\$ 3,229
Income taxes	31	28
Interest expense	2,654	2,367
Depreciation (a)	3,978	3,202
Amortization (a)	3,055	3,081
One-time non-recurring expenses (b)	-	559
Non-cash unit-based compensation	840	1,088
Non-cash loss (gain) on revaluation of contingent consideration, net (a)(c)	191	(113)
Non-cash deferred rent expense (d)	65	65
<b>Adjusted EBITDA</b>	<b>\$ 13,277</b>	<b>\$ 13,506</b>
Cash interest expense	(2,273)	(2,138)
Cash income taxes	(31)	(27)
Maintenance capital expenditures	(1,096)	(2,080)
Equity earnings from the LNG Interest	(2,371)	(2,461)
Cash distributions received from the LNG Interest	1,652	2,179
<b>Distributable Cash Flow</b>	<b>\$ 9,158</b>	<b>\$ 8,979</b>
Maintenance capital expenditures	1,096	2,080
Distributable cash flow attributable to non-controlling interests	2,423	2,803
Changes in operating assets and liabilities	(1,220)	(852)
One-time non-recurring expenses (b)	-	(559)
Other non-cash adjustments	86	69
<b>Net cash provided by operating activities</b>	<b>\$ 11,543</b>	<b>\$ 12,520</b>

- (a) The revaluation of contingent consideration, depreciation and amortization have been adjusted to remove the non-controlling interest portion related to the GE Energy Financial Services (“GE EFS”) affiliate’s ownership interest in Joliet Holdings.
- (b) The one-time non-recurring expenses relate to amounts incurred as due diligence expenses from acquisitions and other infrequent or unusual expenses incurred.
- (c) The non-cash loss on revaluation of contingent consideration is related to the earn-out obligations incurred as a part of the Joliet terminal acquisition.
- (d) The non-cash deferred rent expense relates to the accounting treatment for the Portland terminal lease transaction termination fees.

### Results of Operations

The following table and discussion is a summary of our results of operations for the three months ended March 31, 2017 and 2016 (in thousands, except operating data):

	Three Months Ended March 31,	
	2017	2016
<b>Revenues:</b>		
Third-party customers	\$ 24,448	\$ 22,584
Related parties	1,477	3,483
	<u>25,925</u>	<u>26,067</u>
<b>Expenses:</b>		
Operating expenses	8,873	8,687
Selling, general and administrative	3,239	3,924
Selling, general and administrative - affiliate	1,262	1,322
Depreciation	4,456	3,652
Amortization	3,672	3,697
(Gain) Loss on revaluation of contingent consideration, net	318	(189)
Total expenses	<u>21,820</u>	<u>21,093</u>
Operating (loss) income	4,105	4,974
<b>Other income (expense):</b>		
Equity earnings from unconsolidated affiliate	2,371	2,461
Interest expense	(2,654)	(2,367)
Total other income, net	<u>(283)</u>	<u>94</u>
Income before income taxes	3,822	5,068
Income taxes	31	28
<b>Net income</b>	<u>3,791</u>	<u>5,040</u>
Net income attributable to non-controlling interests	<u>(1,328)</u>	<u>(1,811)</u>
<b>Net income attributable to partners' capital</b>	<u>\$ 2,463</u>	<u>\$ 3,229</u>
<b>Other Financial Data:</b>		
Adjusted EBITDA	\$ 13,277	\$ 13,506
Distributable Cash Flow	\$ 9,158	\$ 8,979
<b>Operating Data:</b>		
Storage capacity (bbls)	7,842,600	7,741,100
Throughput (bpd)	159,476	144,980
% Take or pay revenue	82%	86%

### Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016

**Storage Capacity.** Storage capacity for the three months ended March 31, 2017 increased by 101,500 barrels, or 1%, compared to the three months ended March 31, 2016. The increase in storage capacity is related to the completion of the third 100,000 barrel tank at the Pawnee terminal and the completion of three new 500 barrel bio-diesel tanks at our Altoona, Dupont and Mechanicsburg terminals.

**Throughput Activity.** The following table details the types and amounts of throughput generated during the three months ended March 31, 2017 and 2016 (in thousands of barrels per day, except percentages):

	Three Months Ended March 31,		Change in bpd	% Change
	2017	2016		
Asphalts and industrial products	17,324	14,452	2,872	20%
Crude oil	69,714	70,195	(481)	-1%
Distillates	24,206	19,183	5,023	26%
Gasoline	48,232	41,150	7,082	17%
Total	159,476	144,980	14,496	10%

Throughput activity for the three months ended March 31, 2017 increased by 14.5 mbpd or 10% compared to the three months ended March 31, 2016. The 2.9 mbpd or 20% increase in asphalt and industrial products throughput is related to an increase in existing customer activity in the Gulf Coast. The 0.5 mbpd or 1% decrease in crude oil throughput is the result of a decrease of 23.4 mbpd of throughput at our Pawnee and Portland terminals offset by an increase of 23.0 mbpd of throughput at our Joliet terminal. The 5.0 mbpd or 26% increase in distillates throughput is the result of (i) 9.2 mbpd of throughput associated with recently executed agreements in the Baltimore, Cleveland and the Pennsylvania terminals and (ii) 1.7 mbpd related to an increase in existing customer activity in the Gulf Coast partially offset by (iii) 3.0 mbpd of reduced customer activity in our Madison, Mobile, Portland, Selma and Toledo terminals and (iv) 2.8 mbpd decrease related to a customer non-renewal of a short-term agreement in the Gulf Coast. The 7.1 mbpd or 17% increase in gasoline throughput is the result of 8.3 mbpd of throughput associated with recently executed agreements and increased commercial activity across the entire network providing gasoline service offset by 1.2 mbpd of reduced customer activity in our Dupont and Selma terminals.

**Revenues.** The following table details the types and amounts of revenues generated during the three months ended March 31, 2017 and 2016 (in thousands, except percentages).

	Three Months Ended March 31,		\$ Change	% Change
	2017	2016		
Minimum storage & throughput services fees	\$ 20,919	\$ 22,018	\$ (1,099)	-5%
Excess throughput & handling fees	3,316	2,656	660	25%
Total storage & throughput services fees	\$ 24,235	\$ 24,674	\$ (439)	-2%
Ancillary services fees	1,690	1,393	297	21%
Total revenues	\$ 25,925	\$ 26,067	\$ (142)	-1%

Revenues for the quarter ended March 31, 2017 decreased by \$0.1 million, or less than 1%, compared to the quarter ended March 31, 2016. Total storage and throughput services fees decreased by \$0.4 million, or 2%, compared to the three months March 31, 2016. Minimum storage and throughput services fees decreased by \$1.1 million, or 5%, as compared to the same period in 2016, due to the following:

- Increase of \$0.2 million related to the execution of new customer agreements at our Altoona, Baltimore, Chickasaw, Cleveland, Dupont, Mechanicsburg and Toledo terminals;
- Increase of \$0.8 million from customers who increased their long-term and short-term storage capacity requirements or whose contracts included automatic step-up provisions at our Blakeley, Brooklyn, Chickasaw, Pawnee and Toledo terminals;
- Decrease of \$0.9 million from customer non-renewals at our Blakeley and Chickasaw terminals; the Partnership then recontracted the majority of this capacity to new or existing customers under long-term agreements and the revenue will commence upon the completion of tank inspections and infrastructure upgrades; and
- Decrease of \$1.2 million from customers who reduced their short-term storage capacity needs and/or reduced their total minimum take-or-pay volume requirements or rates at our Altoona, Dupont, Mechanicsburg, Mobile, Portland and Williamsport terminals.

Excess throughput and handling fees increased by \$0.7 million, or 25%, as compared to the same period in 2016, due to the following:

- Increase of \$0.8 million from the execution of new customer agreements at our Altoona, Baltimore, Cleveland, Dupont, Mechanicsburg, Norfolk, Selma, Toledo and Williamsport terminals;
- Increase of \$0.2 million from incremental existing customer throughput and handling fees at our Baltimore, Chickasaw, Cleveland, Mobile, Norfolk and Pawnee terminals;

- Decrease of \$0.2 million from reduced existing customer throughput and handling fees in Blakeley, Dupont, Joliet, Mechanicsburg, Selma, Toledo and Williamsport;
- Decrease of less than \$0.1 million from customer non-renewals at our Baltimore and Blakeley terminals; and
- Decrease of less than \$0.1 million from inactive existing customer throughput at our Norfolk and Selma terminals.

Ancillary services fees increased by \$0.3 million, or 21%, as compared to the same period in 2016, due to the following:

- Increase of \$0.3 million from the services provided to our customers at our Baltimore, Brooklyn, Dupont, Mechanicsburg, Norfolk, Pawnee, Selma and Spartanburg terminals due to increased activity;
- Decrease of \$0.1 million from customer non-renewals of certain real property parking and equipment leases; and
- Increase of \$0.1 million from heat reimbursement fees, lab services, railcar storage fees, railcar sampling fees and truck sampling fees at our Blakeley, Chickasaw, Joliet, Mobile and Portland terminals.

**Operating Expenses.** Operating expenses for the three months ended March 31, 2017 increased by \$0.2 million, or 2%, compared to the three months ended March 31, 2016. The increase was related to (i) \$0.2 million attributable to expenses incurred as result of increased throughput activity including additive, utility and supply expenses, (ii) \$0.1 million related to an increase in repair and maintenance expense, (iii) \$0.2 million due to an increase in contract labor in support of customer activities at the Joliet terminal and (iv) an increase in compliance expense of \$0.1 million. The increase in operating expenses was offset by reduced payroll expenses of \$0.1 million due to a realignment and optimization of our workforce, \$0.1 million related to a reduction in office expenses, \$0.1 million related to prior period tank cleaning projects and \$0.1 million related to a reduction in estimated property taxes related to prior year acquisitions.

**Selling, General and Administrative Expenses.** SG&A expenses for the three months ended March 31, 2017 decreased by \$0.7 million, or 14%, compared to the three months ended March 31, 2016. The decrease in SG&A expenses was a result of a \$0.3 million decrease in due diligence expenses, a \$0.2 million decrease in professional fees, \$0.2 million related to a reduction in compensation expense under the Arc Logistics Long-Term Incentive Plan (as amended from time to time, our “2013 Plan”) and a less than \$0.1 million related to a reduction in allocation of expenses from our General Partner.

**Depreciation and Amortization Expense.** Depreciation expense for the three months ended March 31, 2017 increased by \$0.8 million, or 22%, compared to the three months ended March 31, 2016, primarily due to the impact of the expansion projects at our Gulf Oil terminals which were acquired in 2016, customer expansion activities and incremental maintenance projects. Amortization expense for the three months ended March 31, 2017 decreased by less than \$0.1 million, or 1%, compared to the three months ended March 31, 2016, primarily due to an intangible asset related to the Mobile terminal acquisition becoming fully amortized in the first quarter of 2016.

**Equity Earnings from Unconsolidated Affiliate.** Equity earnings from unconsolidated affiliate for the three months ended March 31, 2017 decreased by \$0.1 million compared to the three months ended March 31, 2016. This decrease is attributable to the increase in legal fees at Gulf LNG related to the ongoing Eni USA arbitration.

**Interest Expense.** Interest expense for the three months ended March 31, 2017 increased by \$0.3 million, or 12%, compared to the three months ended March 31, 2016. The increase in interest expense was the result of higher outstanding indebtedness during the three months ended March 31, 2017 compared to the three months ended March 31, 2016. The increase in indebtedness was primarily related to the amounts drawn from the Credit Facility to fund expansion capital projects.

**Net Income.** Net income for the three months ended March 31, 2017 decreased by \$1.2 million, or 25%, compared to the three months ended March 31, 2016. The decrease was primarily related to (i) \$0.1 million decreased revenue due to reductions in contracted minimum storage and throughput revenue and customer non-renewals partially offset by new customer agreements and increased throughput and ancillary service fees; (ii) \$0.2 million increase in operating expenses; (iii) \$0.8 million increase in depreciation expense related to the depreciation of our recent capital expenditures; (iv) \$0.5 million increase on the revaluation of the contingent consideration; and (v) \$0.3 million increase in interest expense due to higher outstanding indebtedness. These decreases to net income were partially offset by a decrease in SG&A expense principally attributable to a decrease in professional fees, due diligence expense and employee compensation expense of \$0.7 million.

**Adjusted EBITDA.** Adjusted EBITDA for the three months ended March 31, 2017 decreased by \$0.2 million, or 2%, compared to the three months ended March 31, 2016. The decrease in Adjusted EBITDA for the three months ended March 31, 2017 was primarily attributable to a reduction in revenues, an increase in operating expenses and a reduction in the income allocation from investment in Gulf LNG offset by reduced SG&A expense.

## **Liquidity and Capital Resources**

### **Liquidity**

Our principal liquidity requirements are to finance current operations, fund capital expenditures, including acquisitions from time to time, service our debt and pay distributions to our partners. Our sources of liquidity include cash generated by our operations, borrowings under our Credit Facility and issuances of equity and debt securities. We believe that cash generated from these sources

will be sufficient to meet our short-term working capital requirements and long-term capital expenditure requirements. Please read “—Cash Flows” and “—Capital Expenditures” for a further discussion of the impact on liquidity.

In April 2017, we declared a quarterly distribution of \$0.44 per common unit, which equates to approximately \$8.6 million per quarter, or \$34.4 million on an annualized basis, based on the number of common units outstanding as of May 2, 2017. The distribution is payable on May 15, 2017 to unitholders of record on May 8, 2017. Maintaining this level of distribution is dependent on our ability to generate sufficient cash 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 obligation to pay this distribution.

Our Joliet terminal is currently supported by a terminal services agreement and a pipeline throughput and deficiency agreement with Exxon, each with an initial three-year term that is currently scheduled to expire in May 2018. While discussions with Exxon are ongoing, contract renewal decisions are not required until August 2017. For more information, please see “—Factors that Impact Our Business—Customers and Competition” discussed above.

We have identified certain deficiencies with the steam and condensate system and the thermal fluid system at our Joliet terminal owned and operated by Joliet Bulk, Barge & Rail LLC (“JBRR”), which is a wholly-owned subsidiary of Joliet Holdings, 40% of which is owned by an affiliate of GE EFS. The steam and condensate system and the thermal fluid system are used by JBRR to unload railcars and maintain the petroleum products at a certain temperature, if necessary, during cold weather operating activities. We believe the identified deficiencies are attributable to the design, engineering and construction of the Joliet terminal. Pursuant to a contract between JBRR and Ragnar Benson LLC (“Ragnar Benson”), Ragnar Benson agreed to provide certain engineering, procurement and construction services in connection with the development and construction of our Joliet terminal (the “Ragnar Benson EPC Contract”). JBRR believes that Ragnar Benson has not reached final completion under the Ragnar Benson EPC Contract due to its failure to comply with its obligations thereunder, and JBRR is pursuing its rights and remedies against Ragnar Benson to remediate, or to reimburse JBRR for the costs of remediating, such deficiencies. We have also investigated the potential liability of Wilson & Company, Inc. Engineers & Architects (“Wilson”), the engineering firm that (along with Ragnar Benson) designed the Joliet terminal. Based on that investigation, we intend to pursue remedies against Wilson under the master services agreement between JBRR and Wilson. For more information, please see Part II, Item 1. “Legal Proceedings.”

The Joliet terminal remains operational and is currently unloading unit trains for our customer. We believe that we can implement remediation measures in sufficient time to meet certain performance requirements under our customer contract that are required to be met under certain circumstances during cold weather operations. The costs associated with any such remediation measures could be material. If the remediation measures that are implemented fail to successfully remediate the deficiencies, or if the remediation measures are not implemented in sufficient time for cold weather operations, we may not be able to meet our obligations under our customer contract at the Joliet terminal, and our business, financial condition, results of operations and ability to make distributions to our unitholders could be materially adversely affected.

#### ***Credit Facility***

Concurrent with the closing of the IPO, we entered into the Credit Facility with a syndicate of lenders, under which Arc Terminals Holdings LLC (“Arc Terminals Holdings”) is the borrower. The Credit Facility, as subsequently amended, matures in November 2018 and has up to \$300.0 million of borrowing capacity. As of March 31, 2017, we had borrowings of \$249.5 million under the Credit Facility at an interest rate of 3.99%. Based on the restrictions under our total leverage ratio covenant, as of March 31, 2017, we had \$29.0 million of available capacity under the Credit Facility.

The Credit Facility is available to fund working capital and to finance capital expenditures and other permitted payments and allows us to request that the maximum amount of the Credit Facility be increased by up to an aggregate principal amount of \$100.0 million, subject to receiving increased commitments from lenders or commitments from other financial institutions. The Credit Facility is available for revolving loans, including a sublimit of \$5.0 million for swing line loans and a sublimit of \$20.0 million for letters of credit. Our obligations under the Credit Facility are secured by a first priority lien on substantially all of our material assets other than the LNG Interest and the assets owned by Arc Terminals Joliet Holdings LLC and its subsidiaries. We and each of our existing restricted subsidiaries (other than the borrower) guarantee, and each of our future restricted subsidiaries will also guarantee, the Credit Facility.

Loans under the Credit Facility bear interest at a floating rate, based upon our total leverage ratio, equal to, at our option, either (a) a base rate plus a range from 100 to 225 basis points per annum or (b) a LIBOR rate, plus a range of 200 to 325 basis points. The base rate is established as the highest of (i) the rate which SunTrust Bank announces, from time to time, as its prime lending rate, (ii) the daily one-month LIBOR rate plus 100 basis points per annum and (iii) the federal funds rate plus 50 basis points per annum. The unused portion of the Credit Facility is subject to a commitment fee calculated based upon our total leverage ratio ranging from 0.375% to 0.50% per annum. Upon any event of default, the interest rate will, upon the request of the lenders holding a majority of the commitments, be increased by 2.0% on overdue amounts per annum for the period during which the event of default exists.

The Credit Facility contains certain customary representations and warranties, affirmative covenants, negative covenants and events of default. As of March 31, 2017, we were in compliance with such covenants. The negative covenants include restrictions on

our ability to incur additional indebtedness, acquire and sell assets, create liens, enter into certain lease agreements, make investments and make distributions.

The Credit Facility requires us to maintain a total leverage ratio of not more than 4.50 to 1.00, which may increase to up to 5.00 to 1.00 during specified periods following a material permitted acquisition or issuance of over \$200.0 million of senior notes, and a minimum interest coverage ratio of not less than 2.50 to 1.00. If we issue over \$200.0 million of senior notes, we will be subject to an additional financial covenant pursuant to which our secured leverage ratio must not be more than 3.50 to 1.00. The Credit Facility places certain restrictions on the issuance of senior notes.

If an event of default occurs, the agent would be entitled to take various actions, including the acceleration of amounts due under the Credit Facility, termination of the commitments under the Credit Facility and all remedial actions available to a secured creditor. The events of default include customary events for a financing agreement of this type, including, without limitation, payment defaults, material inaccuracies of representations and warranties, defaults in the performance of affirmative or negative covenants (including financial covenants), bankruptcy or related defaults, defaults relating to judgments, nonpayment of other material indebtedness and the occurrence of a change in control. In connection with the Credit Facility, we and our subsidiaries have entered into certain customary ancillary agreements and arrangements, which, among other things, provide that the indebtedness, obligations and liabilities arising under or in connection with the Credit Facility are unconditionally guaranteed by us and each of our existing subsidiaries (other than the borrower and Joliet Holdings and the subsidiaries thereof) and each of our future restricted subsidiaries.

#### ***First Amendment to Credit Agreement***

In January 2014, in connection with the lease agreement at our Portland terminal, Arc Terminals Holdings, as borrower, together with us and certain of our other subsidiaries, as guarantors, entered into the first amendment to the Credit Facility (the "First Amendment"). The First Amendment principally modified certain provisions of the Credit Facility to allow Arc Terminals Holdings to enter into the lease agreement relating to the use of the Portland terminal.

#### ***Second Amendment to Credit Agreement***

In May 2015, Arc Terminals Holdings, as borrower, together with us and certain of our other subsidiaries, as guarantors, entered into the second amendment to the Credit Facility as part of its financing for the acquisition of the Joliet terminal. Upon the closing of the acquisition of the Joliet terminal in May 2015, the aggregate commitments under the Credit Facility increased from \$175 million to \$275 million. In addition, the sublimit for letters of credit was increased from \$10 million to \$20 million.

#### ***Third Amendment to Credit Agreement***

In July 2015, Arc Terminals Holdings, as borrower, together with us and certain of our other subsidiaries, as guarantors, entered into the third amendment to the Credit Facility as part of its financing for the acquisition of the Pawnee terminal. Upon the consummation of the acquisition of the Pawnee terminal in July 2015, the aggregate commitments under the Credit Facility increased from \$275 million to \$300 million.

#### ***Fourth Amendment to Credit Agreement***

In June 2016, Arc Terminals Holdings, as borrower, together with us and certain of our other subsidiaries, as guarantors, entered into the fourth amendment to the Credit Facility (the "Fourth Amendment"). The Fourth Amendment principally modifies certain provisions of the Credit Facility including (i) the circumstances whereby the Partnership may increase up to or maintain a total leverage ratio of 5.00 to 1.00 and (ii) the interest rate pricing grid to include an additional pricing tier if the total leverage ratio is greater than or equal to 4.50 to 1.00.

#### ***CenterPoint Earn-Out Obligation***

In connection with our acquisition, through a joint venture company formed with an affiliate of GE EFS, of all the membership interests of JBBR from CenterPoint Properties Trust ("CenterPoint") for \$216.0 million, Joliet Holdings agreed to pay CenterPoint earn-out payments for each barrel of crude oil that is either delivered to or received by the Joliet terminal (without duplication) or for which JBBR receives payment under minimum volume commitments regardless of actual throughput activity. Joliet Holdings' earn-out obligations to CenterPoint will terminate upon the payment, in the aggregate, of \$27.0 million, \$3.4 million of which has been paid as of March 31, 2017.

#### ***Settlement***

In February 2016, Arc Terminals Holdings entered into a settlement agreement with the Blakeley Customer pursuant to which the parties agreed to terminate the terminal services agreement for the storage and throughputting of sulfuric acid at the Blakeley terminal and to, among other things, release each party from all potential claims arising out of any non-performance of or non-compliance with the representations, warranties and covenants made thereunder. Pursuant to the settlement agreement, Arc Terminals Holdings agreed to pay to the Blakeley Customer an aggregate of \$2.0 million in certain increments over a three-year period commencing with the first quarter of 2016, except that Arc Terminals Holdings' payment obligations thereunder shall be reduced by \$0.5 million in the event that Arc Terminals Holdings and the Blakeley Customer enter into a new terminal services agreement for the storage and throughputting of such customer's sulfuric acid at the Blakeley, AL facility commencing no later than January 1, 2018.

Neither Arc Terminals Holdings nor the Blakeley Customer has any obligation to enter into such new terminal services agreement. As of December 31, 2015, we had established an accrual of \$2.0 million with respect to our obligations under the settlement agreement. Through March 31, 2017, we have paid approximately \$1.1 million towards our obligations under the settlement agreement. The terminal services agreement that has been terminated provided for an amount of minimum take or pay revenue, on a quarterly basis over the remaining term of such terminal services agreement, that would have represented less than 1% of our total revenue for the year ended December 31, 2016.

### Cash Flows

#### Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016

A summary of the changes in cash flow data is provided as follows (in thousands, except percentages):

	Three Months Ended March 31,		\$ Change	% Change
	2017	2016		
Net cash flows provided by (used in):				
Operating activities	\$ 11,543	\$ 12,520	\$ (977)	-8%
Investing activities	(2,557)	(13,715)	11,158	N/M
Financing activities	(11,808)	2,213	(14,021)	N/M

**Cash Flow from Operating Activities.** Operating activities primarily consist of net income adjusted for non-cash items, including depreciation and amortization and the effect of working capital changes. Net cash provided by operating activities was \$11.5 million for the three months ended March 31, 2017 compared to \$12.5 million for the three months ended March 31, 2016. The decrease in net cash provided by operating activities was primarily the result of a decrease in net income of approximately \$1.2 million for the three months ended March 31, 2017 compared to the three months ended March 31, 2016. Our operating cash flows for the three months ended March 31, 2017 also included changes to certain non-cash charges such as an increase to depreciation of \$0.8 million offset by a decrease in unit-based compensation and equity earnings from unconsolidated affiliate, net of distributions of \$0.3 million and \$0.4 million, respectively. This net increase was offset by a decrease in working capital of \$0.3 million. The net changes in working capital were primarily driven by the timing of collection of accounts receivables and the timing of payments of accounts payables and accrued expenses.

**Cash Flow from Investing Activities.** Investing activities consist primarily of capital expenditures for expansion and maintenance as well as property and equipment divestitures. Net cash used in investing activities was \$2.6 million for the three months ended March 31, 2017, which was used for expansion and maintenance capital expenditures. Net cash used in investing activities was \$13.7 million for the three months ended March 31, 2016, of which \$8.0 million was used for the Gulf Oil Terminals Acquisition and \$5.7 million was used for expansion and maintenance capital expenditures.

**Cash Flow from Financing Activities.** Financing activities consist primarily of borrowings and repayments related to the Credit Facility, the related deferred financing costs and distributions to our investors. Net cash flows used in financing activities was \$11.8 million for the three months ended March 31, 2017, compared to net cash flows provided by financing activities of \$2.2 million for the three months ended March 31, 2016. This \$14.0 million decrease was primarily attributable to a decrease in proceeds from borrowings from our credit facility related to the Pennsylvania terminal acquisitions in 2016 of \$8.0 million and an increase in repayments to our credit facility in 2017 of \$5.0 million.

### Contractual Obligations

We have contractual obligations that are required to be settled in cash. Our contractual obligations as of March 31, 2017 were as follows (in thousands):

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations	\$ 249,500	\$ -	\$ 249,500	\$ -	\$ -
Operating lease obligations	15,873	6,453	9,420	-	-
Earn-out obligations	23,638	2,281	4,563	4,563	12,231
Settlement obligations	875	500	375	-	-
Total	\$ 289,886	\$ 9,234	\$ 263,858	\$ 4,563	\$ 12,231

The schedule above assumes we will either exercise our option to purchase the Portland terminal for a purchase price of \$65.7 million or exercise our right to terminate the lease agreement at the Portland terminal by notifying our lessor 12 months in advance of the expiration of the initial term, in which case we would be required to make a one-time payment to our lessor of \$4.0 million.

## Capital Expenditures

The terminalling and storage business is capital-intensive, requiring significant investment for the maintenance of existing assets and the acquisition or development of new facilities. We categorize our capital expenditures as either:

- maintenance capital expenditures, which are cash expenditures made to maintain our long-term operating capacity or operating income; or
- expansion capital expenditures, which are cash expenditures incurred for acquisitions or capital improvements that we expect will increase our operating capacity or operating income over the long term.

We incurred maintenance and expansion capital expenditures for the three months ended March 31, 2017 and 2016 as set forth in the following table (in thousands):

	Three Months Ended	
	March 31,	
	2017	2016
Maintenance capital expenditures	\$ 1,096	\$ 2,080
Expansion capital expenditures	2,854	4,177
Total capital expenditures	\$ 3,950	\$ 6,257

### *Maintenance Capital Expenditures*

Maintenance capital typically consists of capital invested to: (i) clean, inspect and repair storage tanks; (ii) clean and paint tank exteriors; (iii) inspect and upgrade vapor recovery/combustion units; (iv) maintain and/or upgrade fire protection systems; (v) invest capital to support various regulatory programs; (vi) inspect and repair cathodic protection systems; (vii) inspect and repair tank infrastructure; and (vi) make other general facility repairs as required. Due to the nature of these projects we will incur additional capital expenditures in some years as compared to others. The decrease of \$1.0 million for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016 was due to maintenance dredging at our Mobile and Blakeley terminals and major repairs on the Chickasaw terminal dock.

### *Expansion Capital Expenditures*

During the three months ended March 31, 2017, we invested capital to (i) upgrade our Blakeley and Mobile terminals to support two new, long-term customer agreements, (ii) upgrade our Blakeley and Toledo terminals to support amendments to existing customer agreements, (iii) upgrade our Chickasaw infrastructure to support new, long-term customer agreements, (iv) upgrade the Pennsylvania terminals to support increased customer demand, and (v) complete 2016 projects to upgrade infrastructure in Chickasaw, Joliet, Mobile, Pawnee and Portland.

During the three months ended March 31, 2016, we invested capital to (i) upgrade our Blakeley terminal in connection with a new long-term customer agreement, (ii) upgrade our Joliet and Portland terminals to support existing customer agreements, (iii) construct a new tank at our Pawnee terminal to support an existing customer contract and (iv) expand the marine infrastructure and capabilities of our Chickasaw terminal.

Following the closing of the Pawnee Terminal Acquisition, we expended approximately \$11.0 million to complete in 2016 the construction of the Pawnee terminal.

During 2017, as previously disclosed in our 2016 Partnership 10-K, we plan to deploy approximately \$10 million in support of certain identified growth projects, including the following: (i) to upgrade tanks and associated infrastructure at the Pennsylvania Terminals, (ii) to upgrade the Blakeley terminal to support a new, long-term asphalt customer, (iii) to upgrade the Mobile terminal to support a new, long-term fuel oil customer and (iv) to rehabilitate certain tanks for operational readiness for potential future customers. As of March 31, 2017, of the \$10 million described above, we deployed approximately \$2.4 million to such identified growth projects.

In addition to the projects identified above, we are also evaluating upwards of \$40.0 million of projects across a number of terminals. These potential projects include (i) the design, development and construction of a liquids dock at our Joliet terminal with associated pipeline infrastructure, (ii) the design, development and construction of storage tanks and associated truck rack infrastructure to support potential new customers at the Joliet terminal, (iii) new tankage to support storage and throughput opportunities in a number of terminalling markets, (iv) butane blending infrastructure at certain terminals, and (v) upgrades to existing rail infrastructure at certain terminals. The success and outcome of these projects will depend upon a variety of factors, including market conditions, regulatory limitations, customer demand, commercial contract terms and our access to available capital.

Our capital funding requirements were funded from borrowings under the Credit Facility and cash from operations. We anticipate that maintenance capital expenditures will be funded primarily with cash from operations or with borrowings under our

Credit Facility. We generally intend to fund the capital required for expansion capital expenditures through borrowings under our Credit Facility and the issuance of equity and debt securities.

#### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.

#### **Critical Accounting Policies and Estimates**

As of March 31, 2017, there have been no significant changes to our critical accounting policies and estimates disclosed in our 2016 Partnership 10-K, as filed with the SEC.

#### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The following market risk disclosures should be read in conjunction with the quantitative and qualitative disclosures about market risk contained in our 2016 Partnership 10-K, as filed with the SEC. Market risk is the risk of loss arising from adverse changes in market rates and prices. We do not take title to the crude oil, petroleum products and other liquids that we handle and store. We do not intend to hedge our indirect exposure to commodity risk.

##### ***Interest Rate Risk***

We have exposure to changes in interest rates on our indebtedness. As of March 31, 2017, we had \$249.5 million of outstanding borrowings under the Credit Facility, bearing interest at variable rates. The weighted average interest rate incurred on the indebtedness during the three months ended March 31, 2017 was approximately 4.2%. The impact of a 1% increase in the interest rate on this amount of debt would have resulted in an estimated \$0.6 million increase in interest expense for the three months ended March 31, 2017 assuming that our indebtedness remained constant throughout the year. We may use certain derivative instruments to hedge our exposure to variable interest rates in the future, but we do not currently have in place any hedges.

#### **Item 4. Controls and Procedures**

##### ***Evaluation of Disclosure Controls and Procedures***

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we have evaluated, under the supervision and with the participation of management of our General Partner, including our General Partner's principal executive officer and principal financial officer, the effectiveness of the design and operation 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. The Company had previously reported a material weakness in internal control over financial reporting related to the revaluation of the earn-out obligation associated with business combinations. Specifically, we did not properly design and maintain controls to revalue, either on a quarterly or annual basis, the fair value of such earn-out obligation and record the related gain or loss in the fair value as an adjustment to earnings, as applicable. This material weakness was described in Item 9A in the Management's Report on Internal Control Over Financial Reporting in our 2016 Partnership 10-K. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our General Partner's principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon that evaluation, our General Partner's principal executive officer and principal financial officer concluded that our disclosure controls and procedures were not effective as of March 31, 2017 because of the material weakness in internal control over financial reporting described in our 2016 Partnership 10-K.

##### ***Management's Remediation Activities***

We are committed to remediating the control deficiency that constitutes the material weakness described above by implementing changes to our internal control over financial reporting. Our Chief Financial Officer and Chief Accounting Officer are responsible for implementing changes and improvements in the internal control over financial reporting and for remediating the control deficiency that gave rise to the material weakness.

Actions to be taken or in process consist of testing our internal controls that have been implemented to revalue, on a quarterly and on an annual basis, the fair value of the earn-out obligations.

While significant progress has been made to enhance our internal control over financial reporting relating to the material weakness, additional time will be required to assess and ensure the sustainability of these processes and procedures. We expect to complete the planned remedial actions during 2017, however, we cannot make any assurances that such actions will be effective during 2017. Until the remediation steps set forth above are fully tested and concluded to be operating effectively, the material weakness described above will continue to exist.

### Changes in Internal Control over Financial Reporting

Except as otherwise discussed above under “Management’s Remediation Activities,” there were no changes in our internal control over financial reporting during the quarter ended March 31, 2017 that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings.

Although we are, from time to time, involved in various legal claims arising out of our operations in the normal course of business, we do not believe that the resolution of these matters, including the matters described below, will have a material adverse impact on our financial condition or results of operations. Additionally, due to the inherent uncertainty of litigation, there can be no assurance that the resolution of any claim or proceeding would not have a material adverse effect on our business, financial condition, results of operations and ability to make quarterly distributions to our unitholders.

On March 23, 2017, JBBR filed a counterclaim under seal against Ragnar Benson in the Circuit Court of the Twelfth Judicial Circuit, Will County, Illinois (the “Will County Circuit Court”) for breach of the Ragnar Benson EPC Contract between JBBR (which is a wholly-owned subsidiary of our joint venture company, Joliet Holdings, 40% of which is owned by an affiliate of GE EFS) and Ragnar Benson, pursuant to which Ragnar Benson agreed to provide certain engineering, procurement and construction services in connection with the development and construction of our Joliet terminal. JBBR is seeking an unspecified amount of damages, including attorneys’ fees and liquidated damages, in connection with JBBR’s claim that Ragnar Benson failed to achieve final completion of its work by the date required therefor under the Ragnar Benson EPC Contract and that certain deficiencies exist with respect to Ragnar Benson’s work in respect of the engineering and construction of a steam and condensate system and a thermal fluid system, which systems are used by JBBR under certain circumstances during cold weather operating activities. JBBR asserted its counterclaim in connection with litigation initiated by Ragnar Benson by the filing of a complaint (the “Ragnar Benson Complaint”) against JBBR on January 23, 2017 in the Will County Circuit Court, pursuant to which Ragnar Benson alleged that it has achieved final completion under the Ragnar Benson EPC Contract and, as a result, is owed \$992,000, which represents the remaining amounts claimed to be due to Ragnar Benson for its services thereunder, plus accrued interest. We believe that Ragnar Benson has not reached final completion under the Ragnar Benson EPC Contract due to its failure to comply with its obligations thereunder, and JBBR intends to vigorously defend the allegations made by Ragnar Benson in the Ragnar Benson Complaint and pursue its counterclaim against Ragnar Benson. In addition, the relief sought by JBBR in connection with its counterclaim is substantially in excess of the amount asserted by Ragnar Benson. We also believe that any amounts owed to Ragnar Benson under the Ragnar Benson EPC Contract for the purpose of achieving final completion thereunder are required to be paid by CenterPoint pursuant to the express terms of the Membership Interest Purchase Agreement entered into by CenterPoint and Joliet Holdings in May 2015 in connection with the acquisition of JBBR by Joliet Holdings. JBBR has engaged the services of an expert engineering firm and is in the preliminary stages of evaluating recommended measures to remediate the deficiencies with the steam and condensate system and the thermal fluid system as well as the costs thereof. We have also investigated the potential liability of Wilson, the engineering firm that (along with Ragnar Benson) designed the Joliet terminal. Based on that investigation, we intend to pursue remedies against Wilson under the master services agreement between JBBR and Wilson.

### 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 risks under the heading “Risk Factors” in our 2016 Partnership 10-K. There has been no material change in our risk factors from those described in the 2016 Partnership 10-K. These risks are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

#### Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table sets forth our purchases of our common units during the three months ended March 31, 2017.

Period	Purchases of Common Units		Total Number of Common Units Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Common Units That May Yet Be Purchased Under the Plans or Programs
	Total Number of Common Units Purchased (a)	Aggregate Price Paid Per Unit		
January 1 - January 31, 2017	—	—	—	—
February 1 - February 28, 2017	13,180	\$ 14.14	—	—
March 1 - March 31, 2017	—	—	—	—

- (a) Represents units withheld to satisfy tax withholding obligations upon settlement of phantom units subject to time-based vesting that were awarded under our 2013 Plan.

**Item 6. Exhibits**

The information required by this Item 6 is set forth in the Index to Exhibits accompanying this Quarterly Report on Form 10-Q and is incorporated herein by reference.

**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.

ARC LOGISTICS PARTNERS LP

By: ARC LOGISTICS GP LLC, its General Partner

Date: May 5, 2017

By: /s/ BRADLEY K. OSWALD

Bradley K. Oswald

Senior Vice President, Chief Financial Officer and Treasurer  
(Principal Financial Officer and Duly Authorized Officer)

## EXHIBIT INDEX

Exhibit No.	Description
3.1	Certificate of Limited Partnership of Arc Logistics Partners LP (incorporated herein by reference to Exhibit 3.1 to Amendment No. 1 to Arc Logistics Partners LP's Registration Statement on Form S-1 filed on October 21, 2013 (SEC File No. 333-191534)).
3.2	First Amended and Restated Agreement of Limited Partnership of Arc Logistics Partners LP, dated November 12, 2013, by and among Arc Logistics GP LLC, Lightfoot Capital Partners, LP and Lightfoot Capital Partners GP LLC. (incorporated herein by reference to Exhibit 3.1 of Arc Logistics Partners LP's Current Report on Form 8-K filed on November 12, 2013 (SEC File No. 001-36168)).
10.1*	Form of Phantom Unit Award Agreement (Employees – 2017 Performance Vesting) under the Arc Logistics Amended and Restated Long Term Incentive Plan.
10.2*	Form of Phantom Unit Award Agreement (Employees – 2017 Time Vesting) under the Arc Logistics Amended and Restated Long Term Incentive Plan.
10.3*	Form of Phantom Unit Award Agreement (Employees – 2017 Immediate Vesting) under the Arc Logistics Amended and Restated Long Term Incentive Plan.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

---

\* Filed herewith

\*\* Furnished herewith

ARC LOGISTICS  
AMENDED AND RESTATED LONG TERM INCENTIVE PLAN

### PHANTOM UNIT AGREEMENT

This Phantom Unit Agreement, dated [ ] (this “*Agreement*”) is made and entered into by and between Arc Logistics GP LLC, a Delaware limited liability company (the “*General Partner*”), and [ ] (the “*Awardee*”), and relates to Phantom Units awarded to the Awardee on [ ] (the “*Date of Grant*”). Capitalized terms used in this Agreement but not otherwise defined herein shall have the meanings ascribed to such terms in the Plan (as defined below), unless the context requires otherwise.

#### WITNESSETH:

**WHEREAS**, Arc Logistics Partners LP, a Delaware limited partnership (the “*Partnership*”), acting through the Board of Directors of the General Partner (the “*Board*”), has adopted the Arc Logistics Amended and Restated Long Term Incentive Plan (the “*Plan*”) to, among other things, attract, retain and motivate certain employees, consultants and directors of the Partnership, the General Partner and their respective Affiliates (collectively, the “*Partnership Entities*”); and

**WHEREAS**, the Committee has authorized the grant of Phantom Units of the Partnership to directors, employees, officers and consultants as part of their compensation for services provided to the Partnership Entities.

**NOW, THEREFORE**, in consideration of the Awardee’s agreement to provide or to continue providing services, the Awardee and the General Partner agree as follows:

- 1. Grant of Phantom Units.** The General Partner hereby grants to the Awardee [Number of Units] Phantom Units (the “*Award*”), subject to all of the terms and conditions set forth in the Plan and this Agreement, including without limitation, those restrictions described in Section 4, whereby each Phantom Unit represents the right to receive one Unit of the Partnership and/or cash in an amount equal to the Fair Market Value of one Unit (each, a “*Phantom Unit*”).
  - 2. Phantom Unit Account.** Phantom Units represent hypothetical Units and not actual Units. The General Partner shall establish and maintain a bookkeeping account on its records for the Awardee (a “*Phantom Unit Account*”) and shall record in such Phantom Unit Account: (a) the number of Phantom Units granted to the Awardee and (b) the amount deliverable to the Awardee at settlement on account of Phantom Units that have vested. The Awardee shall not have any interest in any fund or specific assets of the Partnership by reason of this Award or the Phantom Unit Account established for the Awardee.
  - 3. Rights of Awardee.** No Units shall be issued to the Awardee at the time the grant is made, and the Awardee shall not be, nor have any of the rights and privileges of, a unitholder or limited partner of the Partnership with respect to any Phantom Units recorded in the Phantom Unit Account. The Awardee shall have no voting rights with respect to the Phantom Units. In the event the Partnership pays any distributions in respect of its outstanding Units and, on the record date
-

for such distribution, the Awardee holds Phantom Units granted pursuant to this Agreement that have not vested and been settled, the Partnership shall deliver to the Awardee an amount in cash or property in the same form the distribution was delivered to unitholders generally based on the number of Units related to the portion of the Awardee's Phantom Units that have not been settled as of the record date for the distribution (the "**DER**"), such distribution equivalents to be delivered to the Awardee on or promptly following the date that the Partnership pays such cash distribution (however, in no event shall the DER payment be made later than 30 days following the date on which the Partnership pays such distribution to unitholders generally). Notwithstanding the date of payment, the Awardee will vest in such DER as of the record date for such distribution. No interest will accrue on any such right between the issuance of the distribution to unitholders generally and the settlement of the DER.

**4. Vesting of Phantom Units.**

(a) The Phantom Units are restricted in that they may be forfeited by the Awardee and in that they may not, except as otherwise provided in the Plan, be transferred or otherwise disposed of by the Awardee. Subject to the terms and conditions of this Agreement, the forfeiture restrictions on the Phantom Units shall lapse, and the Phantom Units shall vest as set forth in the following vesting chart:

<b>Vesting Date</b>	<b>Percentage of Phantom Units that become Vested</b>
On the day following the date on which the Partnership has paid, for three (3) consecutive quarters, a distribution to Unitholders (as defined below) at or above Vesting Distribution Level 1 (as defined below)	
On the day following the date on which the Partnership has paid, for three (3) consecutive quarters, a distribution to Unitholders at or above Vesting Distribution Level 2 (as defined below)	
On the day following the date on which the Partnership has paid, for three (3) consecutive quarters, a distribution to Unitholders at or above Vesting Distribution Level 3 (as defined below)	
Total	100%

Notwithstanding the vesting chart set forth above in this Section 4(a) (the "**Vesting Chart**"), such restrictions will lapse, and the Phantom Units shall vest in accordance with this Section 4 only if the Awardee has continuously provided services to one of the Partnership Entities (except to the extent such continuous service shall not be a vesting requirement in connection with a Change of Control or a termination or separation from service as provided in Section 5(a) and Section 5(b) hereof) from the Date of Grant until the applicable date of vesting (each, a "**Vesting Date**"). Any

Phantom Units that have not vested or been settled as of the close of business on the Expiration Date (as defined below) shall in all events terminate, expire and otherwise be forfeited by the Awardee on the Expiration Date.

For purposes of this Agreement, “**Expiration Date**” shall mean the later of:

- (i) the close of business on the fifth (5<sup>th</sup>) anniversary of the Date of Grant (the “**Fifth Anniversary Date**”);
- (ii) if at any time prior to the Fifth Anniversary Date the Partnership shall have paid a distribution to Unitholders at or above Vesting Distribution Level 1 (but not at or above Vesting Distribution Level 2) for at least one (1) quarter but less than three (3) consecutive quarters, then the close of business on the second day after the date on which the Partnership shall have paid to Unitholders distributions for the three (3) consecutive quarterly distribution periods commencing immediately following the Fifth Anniversary Date;
- (iii) if at any time prior to the Fifth Anniversary Date the Partnership shall have paid a distribution to Unitholders at or above Vesting Distribution Level 2 for at least one (1) quarter but less than three (3) consecutive quarters (the occurrence of such event, the “**Extension Event**”), then the close of business on the eighth (8<sup>th</sup>) anniversary of the Date of Grant (the “**Eighth Anniversary Date**”); and
- (iv) if the Extension Event shall have occurred and at any time prior to the Eighth Anniversary Date the Partnership shall have paid a distribution to Unitholders at or above Vesting Distribution Level 2 for at least one (1) quarter but less than three (3) consecutive quarters, then the close of business on the second day after the date on which the Partnership shall have paid to Unitholders distributions for the three (3) consecutive quarterly distribution periods commencing immediately following the Eighth Anniversary Date.

Notwithstanding anything contained herein to the contrary and for the avoidance of doubt, if there shall have occurred three (3) consecutive quarters of distributions to Unitholders (A) at or above Vesting Distribution Level 2 or (B) at or above Vesting Distribution Level 3 prior to (x) in the case of clause (A) of this sentence, three (3) consecutive quarters of distributions to Unitholders at or above Vesting Distribution Level 1, or (y) in the case of clause (B) of this sentence, three (3) consecutive quarters of distributions to Unitholders at or above Vesting Distribution Level 1 and/or Vesting Distribution Level 2, then, in either case, upon the vesting of Phantom Units in respect of Vesting Distribution Level 2 or Vesting Distribution Level 3, as the case may be, all Phantom Units that would have vested at the then applicable lower vesting distribution level shall also vest upon the vesting of the Phantom Units at the higher vesting distribution level.

(b) Definitions. For purposes of this Agreement, the following terms shall have the meanings set forth below:

- (i) “**Unitholders**” means the holders of the Partnership’s common and subordinated units.

- (ii) “*Vesting Distribution Level 1*” means a quarterly distribution to all Unitholders in an amount equal to \$0.4457 per unit.
- (iii) “*Vesting Distribution Level 2*” means a quarterly distribution to all Unitholders in an amount equal to \$0.4845 per unit.
- (iv) “*Vesting Distribution Level 3*” means a quarterly distribution to all Unitholders in an amount equal to \$0.5814 per unit.

**5. Change of Control and Termination of Employment or Service.**

(a) Change of Control. Notwithstanding the Vesting Chart set forth in Section 4(a) of this Agreement, upon the occurrence of a Change of Control prior to the final Vesting Date, all Phantom Units subject to this Agreement will immediately become vested and nonforfeitable (to the extent not vested or forfeited prior to that date); provided, however, that if the Awardee experiences a termination of employment with or other separation from service from the applicable Partnership Entity prior to and in connection with such Change of Control (or anticipated Change of Control), then all Phantom Units subject to this Agreement shall immediately become vested and nonforfeitable (to the extent not vested prior to such date) contemporaneously with such Change of Control.

(b) Death and Disability. If the Awardee experiences a termination of employment with or other separation from service from the applicable Partnership Entity due to death or Disability prior to the final Vesting Date, then all Phantom Units subject to this Agreement will immediately become vested and nonforfeitable (to the extent not vested or forfeited prior to that date) as of the date of termination or separation.

(c) Other Terminations. If the Awardee experiences a termination of employment with or other separation from service from the applicable Partnership Entity for any reason other than as described in Section 5(a) or Section 5(b) of this Agreement prior to the final Vesting Date, then all Phantom Units granted pursuant to this Agreement that have not yet vested shall become null and void as of the date of such termination of employment or other separation from service; provided, however, that the Committee, in its sole and absolute discretion, may decide to vest all or any portion of the Phantom Units that remain unvested as of the date of termination or separation or may allow such Phantom Units to remain outstanding and vest pursuant to the Vesting Chart set forth in Section 4(a) hereof or pursuant to such other terms and conditions established by the Committee. The portion of the Phantom Units, if any, that do not become vested in accordance with the foregoing (including in accordance with Section 5(a), pursuant to which Phantom Units shall vest in connection with a Change in Control following the date the Awardee’s employment or other service terminates) shall become null and void as of the date of the termination of employment or other separation from service; provided, however, that, the portion, if any, of the Phantom Units that vest as of such date shall survive.

**6. Settlement Date; Manner of Settlement.** The settlement date or dates of the Units related to the Awardee’s Phantom Units will be the date or dates on which the restrictions on such Phantom Units expire and the Phantom Units become vested as provided in Sections 4 and 5 of this Agreement. To the extent that the Award consists of 1,000 Phantom Units or more, any

Phantom Units that vest shall be paid to the Awardee in the form of Units on the settlement date(s). To the extent that the Award consists of less than 1,000 Phantom Units, any Phantom Units that vest shall be paid to the Awardee in cash on the settlement date(s). The value of any Phantom Unit paid in cash shall equal the number of vested Phantom Units multiplied by the Fair Market Value of a Unit. The value of any fractional Phantom Units shall be paid in cash on the settlement date(s). The value of the fractional Phantom Unit paid in cash shall equal the percentage of a Unit represented by a fractional Phantom Unit multiplied by the Fair Market Value of the Unit. The Awardee agrees that any vested Units that the Awardee acquires upon vesting of the Phantom Units will not be sold or otherwise disposed of in any manner that would constitute a violation of any applicable federal or state securities laws, the Plan or the rules, regulations and other requirements of the U.S. Securities and Exchange Commission (the “SEC”) and any stock exchange upon which the Units are then listed. The Awardee also agrees that any certificates representing the Units acquired under this award may bear such legend or legends as the Committee deems appropriate in order to assure compliance with applicable securities laws. In addition to the terms and conditions provided herein, the Partnership may require that the Awardee make such covenants, agreements, and representations as the Committee, in its sole discretion, deems advisable in order to comply with any such laws, rules, regulations, or requirements.

7. **Limitations on Transfer.** The Awardee agrees that such person shall not dispose of (meaning, without limitation, sell, transfer, pledge, exchange, hypothecate or otherwise dispose of) any Phantom Units or other rights hereby acquired prior to the date the Phantom Units are vested and settled. Any attempted disposition of the Phantom Units in violation of the preceding sentence shall be null and void and the Phantom Units that the Awardee attempted to dispose of shall be forfeited.
8. **Adjustment.** The number of Phantom Units granted to the Awardee pursuant to this Agreement shall be adjusted to reflect distributions of the Partnership paid in units, unit splits or other changes in the capital structure of the Partnership, all in accordance with the Plan. All provisions of this Agreement shall be applicable to such new or additional or different units or securities distributed or issued pursuant to the Plan to the same extent that such provisions are applicable to the units with respect to which they were distributed or issued.
9. **Violation of Law, Regulation or Rule.** The General Partner shall not be required to deliver any Units hereunder if, upon the advice of counsel for the General Partner, such acquisition or delivery would violate the Securities Act of 1933 or any other applicable federal, state, or local law or regulation or the rules of the exchange upon which the Partnership’s Units are traded.
10. **Copy of Plan.** By the execution of this Agreement, the Awardee acknowledges receipt of a copy of the Plan. If any provision of this Agreement is held to be illegal, invalid or unenforceable under any applicable law, then such provision will be deemed to be modified to the minimum extent necessary to render it legal, valid and enforceable; and if such provision cannot be so modified, then this Agreement will be construed as if not containing the provision held to be invalid, and the rights and obligations of the parties will be construed and enforced accordingly.
11. **Notices.** Whenever any notice is required or permitted hereunder, such notice must be in writing and personally delivered or sent by mail. Any such notice required or permitted to



(f) Entire Agreement. This Agreement and the Plan constitute the entire agreement of the parties hereto with regard to the subject matter hereof, and contain all the covenants, promises, representations, warranties and agreements between the parties with respect to the Phantom Units granted hereby. Without limiting the scope of the preceding sentence, all prior understandings and agreements, if any, among the parties hereto relating to the subject matter hereof are hereby null and void and of no further force and effect.

(g) No Liability for Good Faith Determinations. Neither the Partnership Entities nor the members of the Committee and the Board shall be liable for any act, omission or determination taken or made in good faith with respect to this Agreement or the Phantom Units granted hereunder.

(h) No Guarantee of Interests. The Committee, the Board and the Partnership Entities do not guarantee the Units from loss or depreciation.

(i) Tax Withholding. Upon any taxable event arising in connection with the Phantom Units, the Partnership Entities shall have the authority and the right to deduct or withhold, or to require the Awardee to remit to a Partnership Entity, an amount sufficient to satisfy all applicable federal, state and local taxes (including the Awardee's employment tax obligations) required by law to be withheld with respect to such event. In satisfaction of the foregoing requirement, unless otherwise determined by the Committee (which such determination may not be delegated), the General Partner or one of its Affiliates is permitted to withhold Units otherwise issuable in respect of such Phantom Units having a Fair Market Value on the date of withholding equal to the aggregate amount of taxes required to be withheld with respect to such event based on the minimum statutory withholding rates for federal, state, local and foreign income tax and payroll tax purposes that are applicable to such supplemental taxable income to the extent such withholding is elected by the Awardee.

(j) Insider Trading Policy. The terms of the Partnership's insider trading policy with respect to Units are incorporated herein by reference.

(k) Severability. If any provision of this Agreement is held to be illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions hereof, but such provision shall be fully severable and this Agreement shall be construed and enforced as if the illegal or invalid provision had never been included herein.

(l) Headings. The titles and headings of Sections are included for convenience of reference only and are not to be considered in construction of the provisions hereof.

(m) Gender. Words used in the masculine shall apply to the feminine where applicable, and wherever the context of this Agreement dictates, the plural shall be read as the singular and the singular as the plural.

(n) Clawback. Notwithstanding any provisions in the Plan or this Agreement to the contrary, any portion of the payments and benefits provided under this Agreement or the sale of the Units granted hereunder shall be subject to a clawback or other recovery by the Partnership Entities to the extent necessary to comply with applicable law including, without

limitation, the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 or any SEC rule.

(o) Consent to Electronic Delivery; Electronic Signature. In lieu of receiving documents in paper format, the Awardee agrees, to the fullest extent permitted by law, to accept electronic delivery of any documents that the Partnership may be required to deliver (including, without limitation, prospectuses, prospectus supplements, grant or award notifications and agreements, account statements, annual and quarterly reports, and all other forms of communications) in connection with this and any other award made or offered by the Partnership. Electronic delivery may be via a Partnership electronic mail system or by reference to a location on a Partnership intranet to which the Awardee has access. The Awardee hereby consents to any and all procedures the Partnership has established or may establish for an electronic signature system for delivery and acceptance of any such documents that the Partnership may be required to deliver, and agrees that his or her electronic signature is the same as, and shall have the same force and effect as, his or her manual signature.

(p) Section 409A. None of the Phantom Units, the DERs or any amounts paid pursuant to this Agreement are intended to constitute or provide for a deferral of compensation that is subject to Section 409A of the Code. To the extent that the Committee determines that the Phantom Units or DERs are not exempt from Section 409A of the Code, the Committee may (but shall not be required to) amend this Agreement in a manner intended to comply with the requirements of Section 409A of the Code or an exemption therefrom (including amendments with retroactive effect), or take any other actions as it deems necessary or appropriate to (a) exempt the Phantom Units or DERs from Section 409A of the Code and/or preserve the intended tax treatment of the benefits provided with respect to the Phantom Units or DERs, or (b) comply with the requirements of Section 409A of the Code. To the extent applicable, this Agreement shall be interpreted in accordance with the provisions of Section 409A of the Code. Notwithstanding anything in this Agreement to the contrary, to the extent that any payment or benefit hereunder constitutes non-exempt “nonqualified deferred compensation” for purposes of Section 409A of the Code, and such payment or benefit would otherwise be payable or distributable hereunder by reason of the Awardee’s termination of employment or other separation from service, all references to the Awardee’s termination of employment or other separation from service shall be construed to mean a “separation from service” within the meaning of Treasury Regulation Section 1.409A-1(h) (“**Separation From Service**”), and the Awardee shall not be considered to have a termination of employment or a separation from service unless such termination or separation constitutes a Separation from Service with respect to the Awardee. Notwithstanding anything to the contrary in this Agreement, no amounts payable under this Agreement on account of the Awardee’s Separation From Service shall be paid to the Awardee prior to the expiration of the six (6) month period following the Awardee’s Separation From Service to the extent that the Partnership Entities determine that paying such amounts prior to the expiration of such six (6) month period would result in a prohibited distribution under Section 409A(a)(2)(B)(i) of the Code. If the payment of any such amount is delayed as a result of the preceding sentence, then on the first business day following the end of the applicable six (6) month period (or such earlier date upon which such amount may be paid under Section 409A of the Code without resulting in a prohibited distribution), the amount shall be paid to the Awardee.

[Signature Page Follows]

**IN WITNESS WHEREOF**, the General Partner has caused this Agreement to be executed by its officer thereunto duly authorized, and the Awardee has set his hand as to the date and year first above written.

**ARC LOGISTICS GP LLC**

By:

Name:

Title:

**AWARDEE**

---

[Name of Employee]

ARC LOGISTICS  
AMENDED AND RESTATED LONG TERM INCENTIVE PLAN

### PHANTOM UNIT AGREEMENT

This Phantom Unit Agreement, dated [ ] (this “*Agreement*”), is made and entered into by and between Arc Logistics GP LLC, a Delaware limited liability company (the “*General Partner*”), and [ ] (the “*Awardee*”), and relates to Phantom Units awarded to the Awardee on [ ] (the “*Date of Grant*”). Capitalized terms used in this Agreement but not otherwise defined herein shall have the meanings ascribed to such terms in the Plan (as defined below), unless the context requires otherwise.

#### WITNESSETH:

**WHEREAS**, Arc Logistics Partners LP, a Delaware limited partnership (the “*Partnership*”), acting through the Board of Directors of the General Partner (the “*Board*”), has adopted the Arc Logistics Amended and Restated Long Term Incentive Plan (the “*Plan*”) to, among other things, attract, retain and motivate certain employees, consultants and directors of the Partnership, the General Partner and their respective Affiliates (collectively, the “*Partnership Entities*”); and

**WHEREAS**, the Committee has authorized the grant of Phantom Units of the Partnership to directors, employees, officers and consultants as part of their compensation for services provided to the Partnership Entities.

**NOW, THEREFORE**, in consideration of the Awardee’s agreement to provide or to continue providing services, the Awardee and the General Partner agree as follows:

1. **Grant of Phantom Units.** The General Partner hereby grants to the Awardee [Number of Units] Phantom Units (the “*Award*”), subject to all of the terms and conditions set forth in the Plan and this Agreement, including without limitation, those restrictions described in Section 4, whereby each Phantom Unit represents the right to receive one Unit of the Partnership and/or cash in an amount equal to the Fair Market Value of one Unit (each, a “*Phantom Unit*”).
  2. **Phantom Unit Account.** Phantom Units represent hypothetical Units and not actual Units. The General Partner shall establish and maintain a bookkeeping account on its records for the Awardee (a “*Phantom Unit Account*”) and shall record in such Phantom Unit Account: (a) the number of Phantom Units granted to the Awardee and (b) the amount deliverable to the Awardee at settlement on account of Phantom Units that have vested. The Awardee shall not have any interest in any fund or specific assets of the Partnership by reason of this Award or the Phantom Unit Account established for the Awardee.
  3. **Rights of Awardee.** No Units shall be issued to the Awardee at the time the grant is made, and the Awardee shall not be, nor have any of the rights and privileges of, a unitholder or limited partner of the Partnership with respect to any Phantom Units recorded in the Phantom Unit Account. The Awardee shall have no voting rights with respect to the Phantom Units. In the event the Partnership pays any distributions in respect of its outstanding
-

Units and, on the record date for such distribution, the Awardee holds Phantom Units granted pursuant to this Agreement that have not vested and been settled, the Partnership shall deliver to the Awardee an amount in cash or property in the same form the distribution was delivered to unitholders generally based on the number of Units related to the portion of the Awardee's Phantom Units that have not been settled as of the record date for the distribution (the "**DER**"), such distribution equivalents to be delivered to the Awardee on or promptly following the date that the Partnership pays such cash distribution (however, in no event shall the DER payment be made later than 30 days following the date on which the Partnership pays such distribution to unitholders generally). Notwithstanding the date of payment, the Awardee will vest in such DER as of the record date for such distribution. No interest will accrue on any such right between the issuance of the distribution to unitholders generally and the settlement of the DER.

4. **Vesting of Phantom Units.** The Phantom Units are restricted in that they may be forfeited by the Awardee and in that they may not, except as otherwise provided in the Plan, be transferred or otherwise disposed of by the Awardee. Subject to the terms and conditions of this Agreement, the forfeiture restrictions on the Phantom Units shall lapse, and the Phantom Units shall vest as set forth in the following vesting chart:

Vesting Date	Percentage of Phantom Units that become Vested
Total	100%

Notwithstanding the vesting chart set forth above in this Section 4 (the "***Vesting Chart***"), such restrictions will lapse, and the Phantom Units shall vest in accordance with this Section 4 only if the Awardee has continuously provided services to one of the Partnership Entities (except to the extent such continuous service shall not be a vesting requirement in connection with a termination of employment or other separation from service as provided in Section 5(a) and Section 5(b) hereof) from the Date of Grant until the applicable date of vesting (each, a "***Vesting Date***").

5. **Change of Control and Termination of Employment or Service.**

(a) **Termination Prior to or Following a Change of Control.** Notwithstanding the Vesting Chart set forth in Section 4 of this Agreement, in the event the Awardee experiences a termination of employment with or other separation from service from the applicable Partnership Entity prior to the final Vesting Date and (i) such termination of employment or other separation from service is by such Partnership Entity prior to and in connection with a Change of Control (or an anticipated Change of Control), then all Phantom Units subject to this Agreement shall immediately become vested and nonforfeitable (to the extent not vested prior to

such date) contemporaneously with such Change of Control, or (ii) such termination of employment or other separation from service is by the Awardee for “Good Reason” or by such Partnership Entity without “Cause” (as such quoted terms are defined in Section 5(d) hereof) following, in either case, a Change of Control, then all Phantom Units subject to this Agreement shall immediately become vested and nonforfeitable (to the extent not vested prior to such date) as of the date of termination or separation.

(b) Death and Disability. If the Awardee experiences a termination of employment with or other separation from service from the applicable Partnership Entity due to death or Disability prior to the final Vesting Date, then all Phantom Units subject to this Agreement will immediately become vested and nonforfeitable (to the extent not vested or forfeited prior to that date) as of the date of termination or separation.

(c) Other Terminations. If the Awardee experiences a termination of employment with or other separation from service from the applicable Partnership Entity for any reason other than as described in Section 5(a) or Section 5(b) of this Agreement prior to the final Vesting Date, then all Phantom Units granted pursuant to this Agreement that have not yet vested shall become null and void as of the date of such termination of employment or other separation from service; provided, however, that the Committee, in its sole and absolute discretion, may decide to vest all or any portion of the Phantom Units that remain unvested as of the date of termination or separation or may allow such Phantom Units to remain outstanding and vest pursuant to the Vesting Chart set forth in Section 4 hereof or pursuant to such other terms and conditions established by the Committee. The portion of the Phantom Units, if any, that do not become vested in accordance with the foregoing (including in accordance with Section 5(a)(i), pursuant to which Phantom Units shall vest in connection with a Change in Control following the date the Awardee’s employment or other service terminates) shall become null and void as of the date of the termination of employment or other separation from service; provided, however, that, the portion, if any, of the Phantom Units that vest as of such date shall survive.

(d) Definitions. For purposes of this Agreement, the following terms shall have the meanings set forth below.

(i) **“Cause”** means a determination in good faith by a majority of the Board (sitting without the Awardee, if applicable) that the Awardee has:

(A) materially breached this Agreement or any other written employment or severance agreement between the Awardee and the General Partner or the Partnership, including a material breach by the Awardee of any representation, warranty or covenant made under any such agreement, or materially breached any written policy or written code of conduct established by the General Partner or the Partnership and applicable to the Awardee;

(B) committed an act of willful misconduct or breach of fiduciary duty with respect to the Partnership Entities, or an act of fraud, theft or embezzlement;

(C)committed, been convicted of or been indicted for, or pled *nolo contendere* to, any felony (or state law equivalent) or any crime or misdemeanor involving moral turpitude; or

(D)willfully failed or refused, other than due to death or Disability, to perform the Awardee's duties or follow any reasonable directive from the Chief Executive Officer or the Board;

*provided, however*, that if the Awardee's actions or omissions as set forth in (A) through (D) above are of such a nature that they may be cured, such actions or omissions must remain uncured for a period of 30 days after the General Partner or the Board has provided the Awardee written notice providing the details of such actions or omissions and requesting the Awardee to cure such actions or omissions.

(ii) "**Good Reason**" means the occurrence of any of the following events or conditions: (A) a diminution in the Awardee's salary and target bonus of five percent (5%) or more; (B) a material diminution or adverse change in the Awardee's title, duties or authority; (C) a material breach by the General Partner of any of its covenants or obligations under this Agreement or any other written employment or severance agreement between the Awardee and the General Partner or the Partnership; (D) the relocation of the geographic location of the Awardee's principal place of service by more than 50 miles from the location of Awardee's principal place of service as of the Date of Grant; or (E) the failure of any successor to assume the obligations of the General Partner hereunder in accordance with the provisions of Section 12(e) hereof; *provided, however*, that in the case of the Awardee's allegation of Good Reason, (1) the condition described in the foregoing clauses must have arisen without the Awardee's consent; (2) the Awardee must provide written notice to the General Partner of such condition in accordance with this Agreement within 45 days of the initial existence of the condition; (3) the condition specified in such notice must remain uncorrected for 30 days after the receipt of such notice by the General Partner; and (4) the Awardee's termination of employment with or other separation from service from the applicable Partnership Entity must occur within 60 days after such notice is received by the General Partner.

6. **Settlement Date; Manner of Settlement.** The settlement date or dates of the Units related to the Awardee's Phantom Units will be the date or dates on which the restrictions on such Phantom Units expire and the Phantom Units become vested as provided in Sections 4 and 5 of this Agreement. To the extent that the Award consists of 1,000 Phantom Units or more, any Phantom Units that vest shall be paid to the Awardee in the form of Units on the settlement date(s). To the extent that the Award consists of less than 1,000 Phantom Units, any Phantom Units that vest shall be paid to the Awardee in cash on the settlement date(s). The value of any Phantom Unit paid in cash shall equal the number of vested Phantom Units multiplied by the Fair Market Value of a Unit. The value of any fractional Phantom Units shall be paid in cash on the settlement date(s). The value of the fractional Phantom Unit paid in cash shall equal the percentage of a Unit represented by a fractional Phantom Unit multiplied by the Fair Market

Value of the Unit. The Awardee agrees that any vested Units that the Awardee acquires upon vesting of the Phantom Units will not be sold or otherwise disposed of in any manner that would constitute a violation of any applicable federal or state securities laws, the Plan or the rules, regulations and other requirements of the U.S. Securities and Exchange Commission (the “SEC”) and any stock exchange upon which the Units are then listed. The Awardee also agrees that any certificates representing the Units acquired under this award may bear such legend or legends as the Committee deems appropriate in order to assure compliance with applicable securities laws. In addition to the terms and conditions provided herein, the Partnership may require that the Awardee make such covenants, agreements, and representations as the Committee, in its sole discretion, deems advisable in order to comply with any such laws, rules, regulations, or requirements.

7. **Limitations on Transfer.** The Awardee agrees that such person shall not dispose of (meaning, without limitation, sell, transfer, pledge, exchange, hypothecate or otherwise dispose of) any Phantom Units or other rights hereby acquired prior to the date the Phantom Units are vested and settled. Any attempted disposition of the Phantom Units in violation of the preceding sentence shall be null and void and the Phantom Units that the Awardee attempted to dispose of shall be forfeited.
8. **Adjustment.** The number of Phantom Units granted to the Awardee pursuant to this Agreement shall be adjusted to reflect distributions of the Partnership paid in units, unit splits or other changes in the capital structure of the Partnership, all in accordance with the Plan. All provisions of this Agreement shall be applicable to such new or additional or different units or securities distributed or issued pursuant to the Plan to the same extent that such provisions are applicable to the units with respect to which they were distributed or issued.
9. **Violation of Law, Regulation or Rule.** The General Partner shall not be required to deliver any Units hereunder if, upon the advice of counsel for the General Partner, such acquisition or delivery would violate the Securities Act of 1933 or any other applicable federal, state, or local law or regulation or the rules of the exchange upon which the Partnership’s Units are traded.
10. **Copy of Plan.** By the execution of this Agreement, the Awardee acknowledges receipt of a copy of the Plan. If any provision of this Agreement is held to be illegal, invalid or unenforceable under any applicable law, then such provision will be deemed to be modified to the minimum extent necessary to render it legal, valid and enforceable; and if such provision cannot be so modified, then this Agreement will be construed as if not containing the provision held to be invalid, and the rights and obligations of the parties will be construed and enforced accordingly.
11. **Notices.** Whenever any notice is required or permitted hereunder, such notice must be in writing and personally delivered or sent by mail. Any such notice required or permitted to be delivered hereunder shall be deemed to be delivered on the date on which it is personally delivered or, whether actually received or not, on the third business day (on which banking institutions in the State of New York are open) after it is deposited in the United States mail, certified or registered, postage prepaid, addressed to the person who is to receive it at the address which such person has theretofore specified by written notice delivered in accordance



prior understandings and agreements, if any, among the parties hereto relating to the subject matter hereof are hereby null and void and of no further force and effect.

(g) No Liability for Good Faith Determinations. Neither the Partnership Entities nor the members of the Committee and the Board shall be liable for any act, omission or determination taken or made in good faith with respect to this Agreement or the Phantom Units granted hereunder.

(h) No Guarantee of Interests. The Committee, the Board and the Partnership Entities do not guarantee the Units from loss or depreciation.

(i) Tax Withholding. Upon any taxable event arising in connection with the Phantom Units, the Partnership Entities shall have the authority and the right to deduct or withhold, or to require the Awardee to remit to a Partnership Entity, an amount sufficient to satisfy all applicable federal, state and local taxes (including the Awardee's employment tax obligations) required by law to be withheld with respect to such event. In satisfaction of the foregoing requirement, unless otherwise determined by the Committee (which such determination may not be delegated), the General Partner or one of its Affiliates is permitted to withhold Units otherwise issuable in respect of such Phantom Units having a Fair Market Value on the date of withholding equal to the aggregate amount of taxes required to be withheld with respect to such event based on the minimum statutory withholding rates for federal, state, local and foreign income tax and payroll tax purposes that are applicable to such supplemental taxable income to the extent such withholding is elected by the Awardee.

(j) Insider Trading Policy. The terms of the Partnership's insider trading policy with respect to Units are incorporated herein by reference.

(k) Severability. If any provision of this Agreement is held to be illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions hereof, but such provision shall be fully severable and this Agreement shall be construed and enforced as if the illegal or invalid provision had never been included herein.

(l) Headings. The titles and headings of Sections are included for convenience of reference only and are not to be considered in construction of the provisions hereof.

(m) Gender. Words used in the masculine shall apply to the feminine where applicable, and wherever the context of this Agreement dictates, the plural shall be read as the singular and the singular as the plural.

(n) Clawback. Notwithstanding any provisions in the Plan or this Agreement to the contrary, any portion of the payments and benefits provided under this Agreement or the sale of the Units granted hereunder shall be subject to a clawback or other recovery by the Partnership Entities to the extent necessary to comply with applicable law including, without limitation, the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 or any SEC rule.

(o) Consent to Electronic Delivery; Electronic Signature. In lieu of receiving documents in paper format, the Awardee agrees, to the fullest extent permitted by law, to accept electronic delivery of any documents that the Partnership may be required to deliver (including, without limitation, prospectuses, prospectus supplements, grant or award notifications and agreements, account statements, annual and quarterly reports, and all other forms of communications) in connection with this and any other award made or offered by the Partnership. Electronic delivery may be via a Partnership electronic mail system or by reference to a location on a Partnership intranet to which the Awardee has access. The Awardee hereby consents to any and all procedures the Partnership has established or may establish for an electronic signature system for delivery and acceptance of any such documents that the Partnership may be required to deliver, and agrees that his or her electronic signature is the same as, and shall have the same force and effect as, his or her manual signature.

(p) Section 409A. None of the Phantom Units, the DERs or any amounts paid pursuant to this Agreement are intended to constitute or provide for a deferral of compensation that is subject to Section 409A of the Code. To the extent that the Committee determines that the Phantom Units or DERs are not exempt from Section 409A of the Code, the Committee may (but shall not be required to) amend this Agreement in a manner intended to comply with the requirements of Section 409A of the Code or an exemption therefrom (including amendments with retroactive effect), or take any other actions as it deems necessary or appropriate to (a) exempt the Phantom Units or DERs from Section 409A of the Code and/or preserve the intended tax treatment of the benefits provided with respect to the Phantom Units or DERs, or (b) comply with the requirements of Section 409A of the Code. To the extent applicable, this Agreement shall be interpreted in accordance with the provisions of Section 409A of the Code. Notwithstanding anything in this Agreement to the contrary, to the extent that any payment or benefit hereunder constitutes non-exempt “nonqualified deferred compensation” for purposes of Section 409A of the Code, and such payment or benefit would otherwise be payable or distributable hereunder by reason of the Awardee’s termination of employment or other separation from service, all references to the Awardee’s termination of employment or other separation from service shall be construed to mean a “separation from service” within the meaning of Treasury Regulation Section 1.409A-1(h) (“**Separation From Service**”), and the Awardee shall not be considered to have a termination of employment or a separation from service unless such termination or separation constitutes a Separation from Service with respect to the Awardee. Notwithstanding anything to the contrary in this Agreement, no amounts payable under this Agreement on account of the Awardee’s Separation From Service shall be paid to the Awardee prior to the expiration of the six (6) month period following the Awardee’s Separation From Service to the extent that the Partnership Entities determine that paying such amounts prior to the expiration of such six (6) month period would result in a prohibited distribution under Section 409A(a)(2)(B)(i) of the Code. If the payment of any such amount is delayed as a result of the preceding sentence, then on the first business day following the end of the applicable six (6) month period (or such earlier date upon which such amount may be paid under Section 409A of the Code without resulting in a prohibited distribution), the amount shall be paid to the Awardee.

[Signature Page Follows]

**IN WITNESS WHEREOF**, the General Partner has caused this Agreement to be executed by its officer thereunto duly authorized, and the Awardee has set his hand as to the date and year first above written.

**ARC LOGISTICS GP LLC**

By:

Name:

Title:

**AWARDEE**

---

[Name of Employee]

ARC LOGISTICS  
AMENDED AND RESTATED LONG TERM INCENTIVE PLAN

### PHANTOM UNIT AGREEMENT

This Phantom Unit Agreement, dated [ ] (this “*Agreement*”), is made and entered into by and between Arc Logistics GP LLC, a Delaware limited liability company (the “*General Partner*”), and [ ] (the “*Awardee*”), and relates to Phantom Units awarded to the Awardee on [ ] (the “*Date of Grant*”). Capitalized terms used in this Agreement but not otherwise defined herein shall have the meanings ascribed to such terms in the Plan (as defined below), unless the context requires otherwise.

#### WITNESSETH:

**WHEREAS**, Arc Logistics Partners LP, a Delaware limited partnership (the “*Partnership*”), acting through the Board of Directors of the General Partner (the “*Board*”), has adopted the Arc Logistics Amended and Restated Long Term Incentive Plan (the “*Plan*”) to, among other things, attract, retain and motivate certain employees, consultants and directors of the Partnership, the General Partner and their respective Affiliates (collectively, the “*Partnership Entities*”); and

**WHEREAS**, the Committee has authorized the grant of Phantom Units of the Partnership to directors, employees, officers and consultants as part of their compensation for services provided to the Partnership Entities.

**NOW, THEREFORE**, in consideration of the Awardee’s agreement to provide or to continue providing services, the Awardee and the General Partner agree as follows:

- 1. Grant of Phantom Units.** The General Partner hereby grants to the Awardee [Number of Units] Phantom Units (the “*Award*”), subject to all of the terms and conditions set forth in the Plan and this Agreement, whereby each Phantom Unit represents the right to receive one Unit of the Partnership and/or cash in an amount equal to the Fair Market Value of one Unit (each, a “*Phantom Unit*”). Phantom Units represent hypothetical Units and not actual Units. The Awardee shall not have any interest in any fund or specific assets of the Partnership by reason of this Award.
  - 2. Vesting and Settlement of Phantom Units.** Subject to the terms and conditions of this Agreement, the Phantom Units shall be immediately vested as of the Date of Grant. The settlement date of the Units related to the Awardee’s Phantom Units shall be the Date of Grant. To the extent that the Award consists of 1,000 Phantom Units or more, the Phantom Units shall be paid to the Awardee in the form of Units on the settlement date. To the extent that the Award consists of less than 1,000 Phantom Units, the Phantom Units shall be paid to the Awardee in cash on the settlement date. The value of any Phantom Unit paid in cash shall equal the number of vested Phantom Units multiplied by the Fair Market Value of a Unit. The value of any fractional Phantom Units shall be paid in cash on the settlement date. The value of the fractional Phantom Unit paid in cash shall equal the percentage of a Unit represented by a fractional Phantom Unit
-



**6. General Provisions.**

(a) Administration. This Agreement shall at all times be subject to the terms and conditions of the Plan. The Committee shall have sole and complete discretion with respect to all matters reserved to it by the Plan and decisions of a majority of the Committee with respect thereto and with respect to this Agreement shall be final and binding upon the Awardee and the General Partner. In the event of any conflict between the terms and conditions of this Agreement and the Plan, the provisions of the Plan shall control.

(b) No Effect on Service. Nothing in this Agreement or in the Plan shall be construed as giving the Awardee the right to be retained in the employ or service of the Partnership Entities. Furthermore, the Partnership Entities may at any time terminate the service relationship with the Awardee free from any liability or any claim under the Plan or this Agreement, unless otherwise expressly provided in the Plan, this Agreement or other written agreement.

(c) Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, without regard to conflicts of law principles thereof.

(d) Amendments. This Agreement may be amended only by a written agreement executed by the General Partner and the Awardee, except that the Committee may unilaterally waive any conditions or rights under, amend any terms of, or alter this Agreement provided no such change (other than pursuant to Section 7(b), 7(c), 7(d), 7(e), or 7(g) of the Plan) materially reduces the rights or benefits of the Awardee with respect to the Phantom Units without his consent.

(e) Binding Effect. This Agreement shall be binding upon and inure to the benefit of any successor or successors of the General Partner or the Partnership and upon any person lawfully claiming under the Awardee.

(f) Entire Agreement. This Agreement and the Plan constitute the entire agreement of the parties hereto with regard to the subject matter hereof, and contain all the covenants, promises, representations, warranties and agreements between the parties with respect to the Phantom Units granted hereby. Without limiting the scope of the preceding sentence, all prior understandings and agreements, if any, among the parties hereto relating to the subject matter hereof are hereby null and void and of no further force and effect.

(g) No Liability for Good Faith Determinations. Neither the Partnership Entities nor the members of the Committee and the Board shall be liable for any act, omission or determination taken or made in good faith with respect to this Agreement or the Phantom Units granted hereunder.

(h) No Guarantee of Interests. The Committee, the Board and the Partnership Entities do not guarantee the Units from loss or depreciation.

(i) Tax Withholding. Upon any taxable event arising in connection with the Phantom Units, the Partnership Entities shall have the authority and the right to deduct or withhold, or to require the Awardee to remit to a Partnership Entity, an amount sufficient to satisfy all

applicable federal, state and local taxes (including the Awardee's employment tax obligations) required by law to be withheld with respect to such event. In satisfaction of the foregoing requirement, unless otherwise determined by the Committee (which such determination may not be delegated), the General Partner or one of its Affiliates is permitted to withhold Units otherwise issuable in respect of such Phantom Units having a Fair Market Value on the date of withholding equal to the aggregate amount of taxes required to be withheld with respect to such event based on the minimum statutory withholding rates for federal, state, local and foreign income tax and payroll tax purposes that are applicable to such supplemental taxable income to the extent such withholding is elected by the Awardee.

(j) Insider Trading Policy. The terms of the Partnership's insider trading policy with respect to Units are incorporated herein by reference.

(k) Severability. If any provision of this Agreement is held to be illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions hereof, but such provision shall be fully severable and this Agreement shall be construed and enforced as if the illegal or invalid provision had never been included herein.

(l) Headings. The titles and headings of Sections are included for convenience of reference only and are not to be considered in construction of the provisions hereof.

(m) Gender. Words used in the masculine shall apply to the feminine where applicable, and wherever the context of this Agreement dictates, the plural shall be read as the singular and the singular as the plural.

(n) Clawback. Notwithstanding any provisions in the Plan or this Agreement to the contrary, any portion of the payments and benefits provided under this Agreement or the sale of the Units granted hereunder shall be subject to a clawback or other recovery by the Partnership Entities to the extent necessary to comply with applicable law including, without limitation, the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 or any SEC rule.

(o) Consent to Electronic Delivery; Electronic Signature. In lieu of receiving documents in paper format, the Awardee agrees, to the fullest extent permitted by law, to accept electronic delivery of any documents that the Partnership may be required to deliver (including, without limitation, prospectuses, prospectus supplements, grant or award notifications and agreements, account statements, annual and quarterly reports, and all other forms of communications) in connection with this and any other award made or offered by the Partnership. Electronic delivery may be via a Partnership electronic mail system or by reference to a location on a Partnership intranet to which the Awardee has access. The Awardee hereby consents to any and all procedures the Partnership has established or may establish for an electronic signature system for delivery and acceptance of any such documents that the Partnership may be required to deliver, and agrees that his or her electronic signature is the same as, and shall have the same force and effect as, his or her manual signature.

(p) Section 409A. None of the Phantom Units or any amounts paid pursuant to this Agreement are intended to constitute or provide for a deferral of compensation that is subject

to Section 409A of the Code. To the extent that the Committee determines that the Phantom Units are not exempt from Section 409A of the Code, the Committee may (but shall not be required to) amend this Agreement in a manner intended to comply with the requirements of Section 409A of the Code or an exemption therefrom (including amendments with retroactive effect), or take any other actions as it deems necessary or appropriate to (a) exempt the Phantom Units from Section 409A of the Code and/or preserve the intended tax treatment of the benefits provided with respect to the Phantom Units, or (b) comply with the requirements of Section 409A of the Code. To the extent applicable, this Agreement shall be interpreted in accordance with the provisions of Section 409A of the Code.

[Signature Page Follows]

**IN WITNESS WHEREOF**, the General Partner has caused this Agreement to be executed by its officer thereunto duly authorized, and the Awardee has set his hand as to the date and year first above written.

**ARC LOGISTICS GP LLC**

By:

Name:

Title:

**AWARDEE**

---

[Name of Employee]

**Certification of Chief Executive Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Vincent T. Cabbage, certify that:

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

Date: May 5, 2017

\_\_\_\_\_  
/s/ VINCENT T. CABBAGE  
Vincent T. Cabbage  
Chief Executive Officer, Chairman and Director

**Certification of Chief Financial Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Bradley K. Oswald, certify that:

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

Date: May 5, 2017

/s/ BRADLEY K. OSWALD

Bradley K. Oswald

Senior Vice President, Chief Financial Officer and Treasurer

**Certification of the  
Chief Executive Officer  
Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906  
of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Arc Logistics Partners LP (the "Partnership") on Form 10-Q for the period ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Vincent T. Cabbage, the Chief Executive Officer of Arc Logistics GP LLC, the General Partner of the Partnership, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

Date: May 5, 2017

/s/ VINCENT T. CABBAGE

---

Vincent T. Cabbage  
Chief Executive Officer, Chairman and Director

**Certification of the  
Chief Financial Officer  
Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906  
of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Arc Logistics Partners LP (the "Partnership") on Form 10-Q for the period ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bradley K. Oswald, the Chief Financial Officer of Arc Logistics GP LLC, the General Partner of the Partnership, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

Date: May 5, 2017

/s/ BRADLEY K. OSWALD

\_\_\_\_\_  
Bradley K. Oswald

Senior Vice President, Chief Financial Officer and Treasurer

