

# USD Partners LP Investor Presentation

August 2020



# Cautionary Statements

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This presentation contains forward-looking statements within the meaning of U.S. federal securities laws, including statements related to USD Partners LP (“USDPL” or the “Partnership”), the results of development and commercialization efforts by the Partnership and its sponsor, US Development Group LLC (“USDG” or the “Sponsor”), the stability and predictability of the Partnership’s cash flows, the Partnership’s financial flexibility, the Partnership’s plans with respect to leverage, the intention of Energy Capital Partners (“ECP”) to invest in the Sponsor, Canadian oil sands production growth expectations and sensitivity to price movements, expectations with respect to end markets for Canadian oil sands production, pipeline capacity and the timing of completion of pipeline expansion projects, expectations related to crude oil spreads and their impact on demand for our terminalling services, expectations with respect to USDPL’s and USDG’s ability to successfully execute on their commercial priorities and growth projects, expectations with respect to growth and opportunities in the Mexican refined products market, the ability of the railroads serving our terminals to meet customer demand, expectations of growth opportunities and growth drivers at the Partnership’s terminals, and expectations related to the buildout and commercialization of the Sponsor’s Houston Ship Channel joint venture. These statements can be identified by the use of forward-looking terminology including “may,” “believe,” “will,” “expect,” “anticipate,” “estimate,” “continue,” or other similar words. These statements discuss future expectations, contain projections of results of operations or of financial condition, or state other “forward-looking” information. These forward-looking statements involve risks and uncertainties. When considering these forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this presentation, which could cause our actual results to differ materially from those contained in any forward-looking statement.

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. USDPL believes that it has chosen these assumptions or bases in good faith and that they are reasonable. You are cautioned not to place undue reliance on any forward-looking

statements. The current economic downturn and pandemic introduces unusual risks and an inability to predict all risks that may impact the Partnership’s business. Except as required by law, USDPL undertakes no obligation to revise or update any forward-looking statement. You should also understand that it is not possible to predict or identify all such factors and should not consider the following list to be a complete statement of all potential risks and uncertainties:

Changes in general economic conditions; the effects of competition in our industry, in particular, by pipelines and other terminalling facilities; shut-downs or cutbacks at upstream production facilities or refineries or other businesses to which we transport products; the supply of, and demand for, crude oil and biofuels rail terminalling services; our limited history as a separate public partnership; the price and availability of debt and equity financing; our ability to successfully implement our business plan; our ability to complete growth projects on time and on budget; hazards and operating risks that may not be fully covered by insurance; disruptions due to equipment interruption or failure at our facilities or third-party facilities on which our business is dependent; our ability to successfully identify and finance acquisitions and other growth opportunities; natural disasters, weather-related delays, casualty losses and other matters beyond our control; interest rates; labor relations; large customer defaults; changes in tax status; changes in laws or regulations to which we are subject, including compliance with environmental and operational safety regulations that may increase our costs; the coverage, price and availability of insurance; disruptions due to equipment interruption or failure at our facilities or third-party facilities on which our business is dependent; the effects of future litigation; and the factors discussed in the “Risk Factors” section of the Partnership’s Annual Report on Form 10-K for the fiscal year ended December 31, 2019, as updated by the Partnership’s subsequently filed Quarterly Reports on Form 10-Q, which are available to the public at the U.S. Securities and Exchange Commission’s website ([www.sec.gov](http://www.sec.gov)) and at the Partnership’s website ([www.usdpartners.com](http://www.usdpartners.com)).

DRUbit™ is a trade mark of USDG and its affiliates.

# Overview of USD Partners LP

NYSE: USDP



# A Growth-Oriented Logistics MLP with High-Quality Cash Flows

**Formed in 2014 by US Development Group to acquire, develop and operate midstream infrastructure and complementary logistics solutions**

- Assets primarily focused on the transportation of heavy crude oil from Western Canada to key demand centers across North America

**Substantially all of our operating cash flow is generated from multi-year, take-or-pay contracts with primarily investment grade customers**

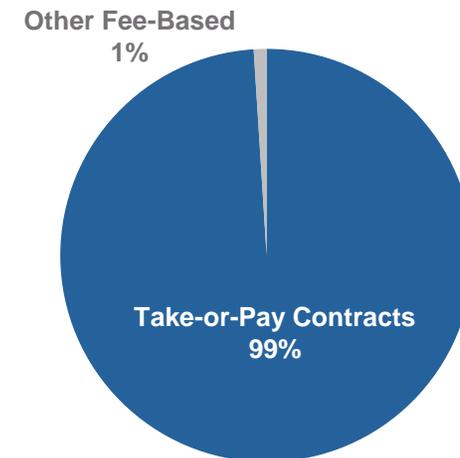
- Including major integrated oil companies, refiners and marketers

**Assets provide multi-modal logistics services, including:**

- Railcar loading and unloading
- Storage and blending in on-site tanks
- Inbound and outbound pipeline connectivity
- Truck transloading
- Leased railcars and associated fleet services

**Units currently offer ~12% yield<sup>2</sup>**

**No direct commodity exposure**



Adjusted EBITDA driven by take-or-pay contracts<sup>1</sup>

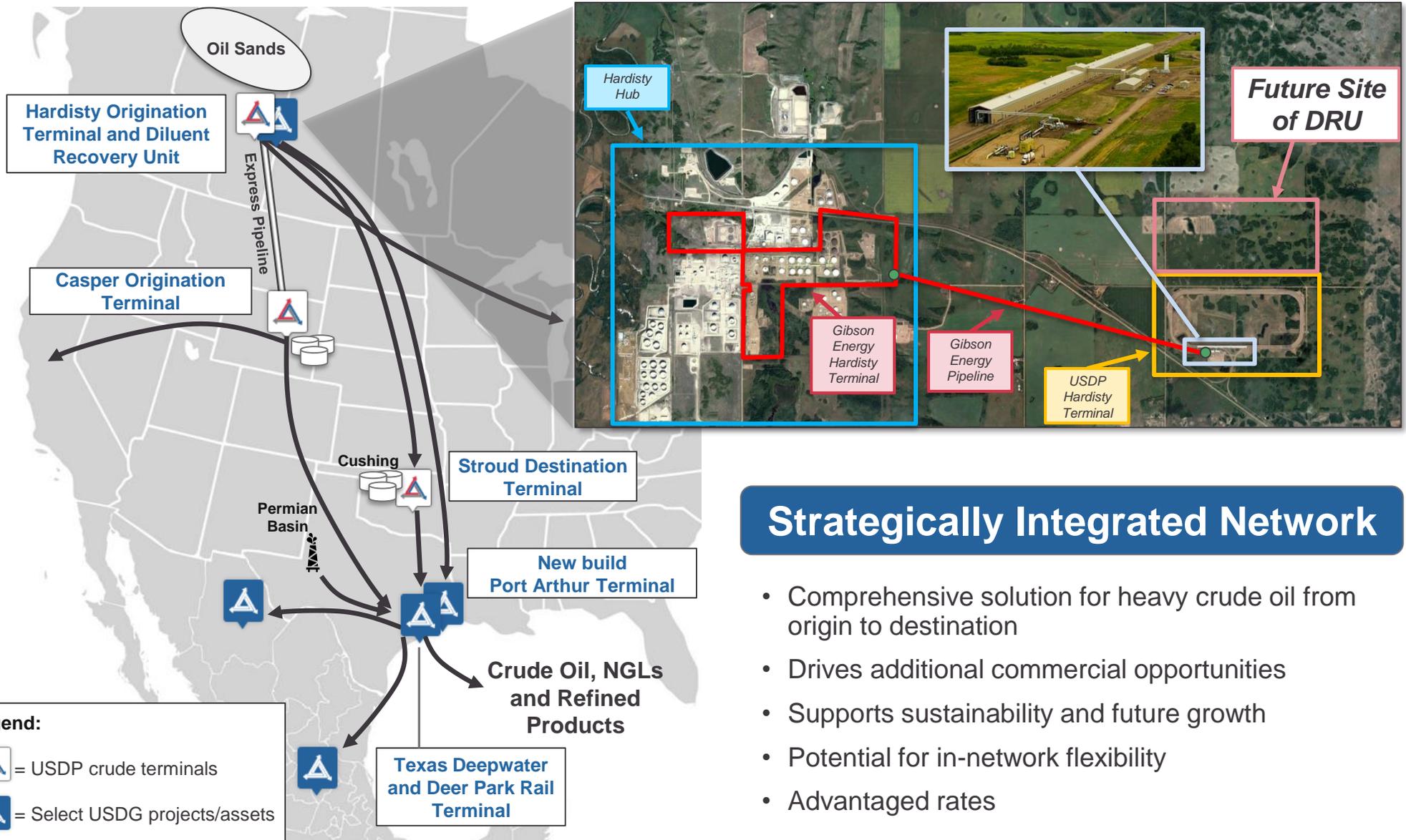


Primarily large, investment grade customers<sup>3</sup>

1. Pie chart represents the Partnership's Terminalling and Fleet Segment Adjusted EBITDA for the six months ended 6/30/2020. Adjusted EBITDA is a non-GAAP measure. For a description of Adjusted EBITDA and a reconciliation to the most comparable measures calculated in accordance with GAAP, see the Appendix to this presentation.  
2. Based on a closing price of \$3.72 on 8/6/2020 and second quarter 2020 distribution of \$0.111 per unit (\$0.444 per unit annualized).  
3. Includes selected terminal customers.

# Strategically Positioned Network Supports Significant Growth Opportunities

A competitive network with full-suite logistics solutions that meet customer needs in a dynamic energy market



# US Development Group Sustainability Framework

**Sustainability is core to our business and is the key to delivering innovative solutions for our customers**

**We believe our business must be sustainable in three dimensions:**

***Our impact on **SOCIETY*****

*Protecting human health and safety as we enhance communities through delivering energy resources*

***Our impact on **NATURE*****

*Being good stewards and protecting the environment in which we live and work*

***Our impact on **INDUSTRY*****

*Creating value for stakeholders through innovative services focused on quality and efficiency*

**Further, our sustainability framework is supported by the various facets of corporate governance**

## Affiliated Programs and Certifications



***Developing Innovative and Sustainable Industry Solutions That Improve Reliability and Efficiency***

# US Development Group Sustainability Highlights

## SOCIETY

### Committed to Health, Safety, and Community

- Zero recordable injuries since 2008 (12 years)
- Recognized by the National Safety Council for having an outstanding safety record since 2008 (12 years)
- Supply chain solutions providing reliable energy products that enhance quality of life in North America
- Support communities where we operate
- Significant support of Boys & Girls Club by executives, offering leadership & fundraising
- Focused on company culture and employee wellbeing

## NATURE

### Protecting the Environment We Work and Live In

- Zero reportable spills at its terminals since 2008 (12 years)
- Own clean fuel terminals, including ethanol and ULSD
- Houston, Texas headquarters in a certified LEED Platinum and ENERGY STAR building
- Committed to protecting local wildlife and their habitat by minimizing impacts during site selection, development, and preserving their environment during operations
- Quarterly EH&S reviews at all operating facilities, with annual third party audits

## INDUSTRY

### Focused on Quality and Efficiency of Services Provided

- Safely and sustainably handled over 300 million barrels of liquid hydrocarbons and biofuels
- Innovative DRUbit™ is non-hazardous & non-flammable when shipped by rail in the US and Canada
- DRUbit™ also creates a more efficient and sustainable takeaway solution compared to existing transportation modes

***Developing Innovative and Sustainable Industry Solutions That Improve Reliability and Efficiency***

## Diluent Recovery Unit (“DRU”): Overview

**US Development Group, LLC (“USD” or our “Sponsor”) and Gibson Energy Inc. (“Gibson”) have jointly agreed, through a 50%/50% joint venture, to construct and operate a diluent recovery unit (DRU) near USD’s Hardisty terminal in Alberta, Canada**

- The DRU will be underpinned by a take-or-pay agreement with ConocoPhillips Canada (“COP”) to process 50,000 barrels per day of inlet bitumen blend through the DRU
- The DRU will be supported by the Canadian Pacific (CP) and Kansas City Southern Railway Company to the U.S. Gulf Coast

### DRU Impact to USD Partners (“USDP” or “the Partnership”)

#### Extension of Remaining Capacity at Hardisty Terminal

- Along with announcement of DRU, COP has agreed to extend related contracts on a multi-year basis at the Partnership’s Hardisty terminal, with approximately a third of the capacity at the Hardisty terminal extended through 2031, subject to completion of DRU
- The Partnership’s Hardisty terminal is 100% contracted through mid-2022

#### First Phase of Re-rating USDP Cash Flow Completed

- USD and Gibson are currently discussing the DRU value proposition with other potential producer and refiner customers to secure long-term, take-or-pay agreements for an additional 50,000+ barrels per day at the proposed DRU, **which would also be contracted for transloading at the Partnership’s Hardisty terminal on a long-term basis**
- Improved contract tenor enhances distribution visibility in the medium to long-term

#### Scalable Design Supports Viable and Attractive Growth Platform

- DRU cost savings and value drivers further enhance the sustainability and competitiveness of the Hardisty terminal as an industry solution
- DRU process is highly scalable, which can support future expansions at economic and competitive rates relative to current pipeline rates

# DRU: An Advantaged and Sustainable Industry Solution

## What is a DRU?

- DRU separates diluent from bitumen. The diluent is then sent back to oil sands formation to be used again; bitumen can then be transported by rail
  - The proprietary process for producing a DRUbit™ barrel suitable for rail transportation has been patented by USD
    - USDG Canadian Patent No. C10G 31/06; US Patent Pending
  - This process uses well-known, proven technology

## Advantages of DRU

### Reduces the role and cost of DILUENT in the value chain

- Creates cost savings; no longer transporting diluent at a loss
- Eliminates / reduces cost of diluent
- Improves residual diluent quality

### Reduces the cost of FREIGHT in the value chain

- Produces non-flammable/non-hazmat commodity (STCC 2911614)
- Promotes use of legacy railcar equipment
- Increases barrel density – shipping more bitumen, less diluent (~30% improvement)
- Increases ability to take more direct routes allowing for more efficient operations

### Improves the value of BITUMEN in the value chain

- Improves bitumen quality, increasing value for refiners
- Delivers consistent product
- Offers high blend potential

### Scalability Advantages

- DRU expansions can be timed to come online to match new production
- Additional commitments to DRU can match targeted production volume
- Provides egress certainty
- Optimizes balance sheet commitment

# DRU: A Safer Export Solution

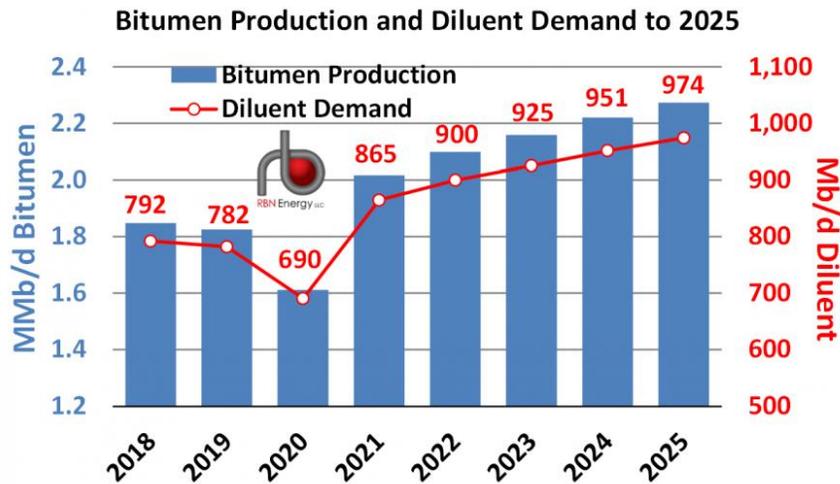
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DRUbit™ is a higher-value and non-regulated commodity that can be transported in existing legacy fleets of coiled-insulated railcars that are not subject to recently prescribed DOT mechanical/structural retrofits

- DRUbit™ is the product of the USDG DRU, which extracts the light diluent component from dilbit that is added to facilitate pipeline transportation, leaving a heavier product with increased bitumen concentration that can be shipped by rail
- U.S. DOT Hazardous Materials regulations (“**HMR**”) and Canada’s Transport of Dangerous Goods (“**TDG**”) regulations define nine categories of hazardous materials. DRUbit™ has been evaluated for applicability in all nine categories
- DRUbit™ does not fall under HMR or TDG regulatory definitions of a hazardous material, and therefore can be documented for rail shipment as a non-regulated commodity
  - Can be loaded at origin below 100°C, and efficiently processed at destination to minimize risk of temperature exposure enroute, with no requirement to be shipped as an elevated temperature hazardous commodity
  - Approved for its own non-hazardous, non-flammable Standard Transportation Commodity Code (“**STCC**”) designation (29 117 14) and an official STCC description of “Petroleum Bitumen Compound, Residue from Atmospheric and Vacuum Distillation”
- The DRU solution safely increases crude takeaway capacity and is cost-competitive with pipelines
- Refineries on the U.S. Gulf Coast are largely configured to process heavier crude feedstock, making DRUbit™ an ideal feedstock for refiners looking to optimize refining economics, and providing producers in Western Canada an opportunity to achieve higher pricing at the plant gate
- The USD DRU will consistently produce DRUbit™ for a range of potential dilbit feeds, exhibiting none of the properties in any of the nine hazardous material categories including flammability, combustibility, toxicity and corrosivity, resulting in increased safety and transportation flexibility

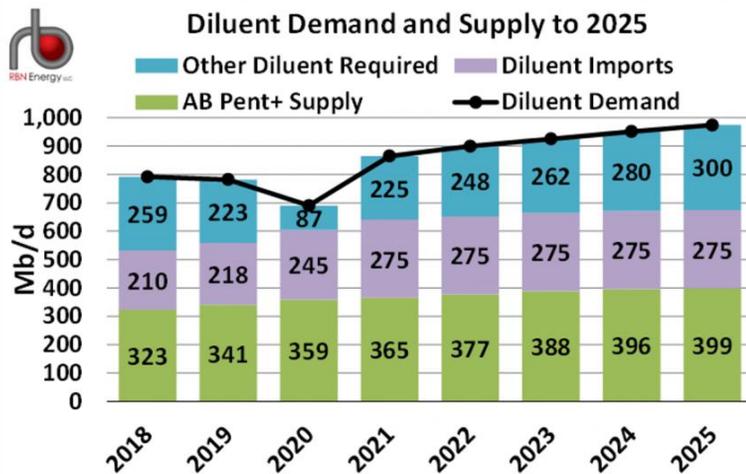
# DRU: Driving Sustainability through Cost Savings

## Alberta bitumen production and diluent demand are projected to continue to increase in the near future



- As demand and production of bitumen grows in Western Canada, so does demand for diluent
- Currently diluent demand outweighs the current diluent production in Western Canada, resulting in pipeline imports for diluent

## Current Alberta diluent supply forecasts indicate a need for costly diluent imports to keep up with demand



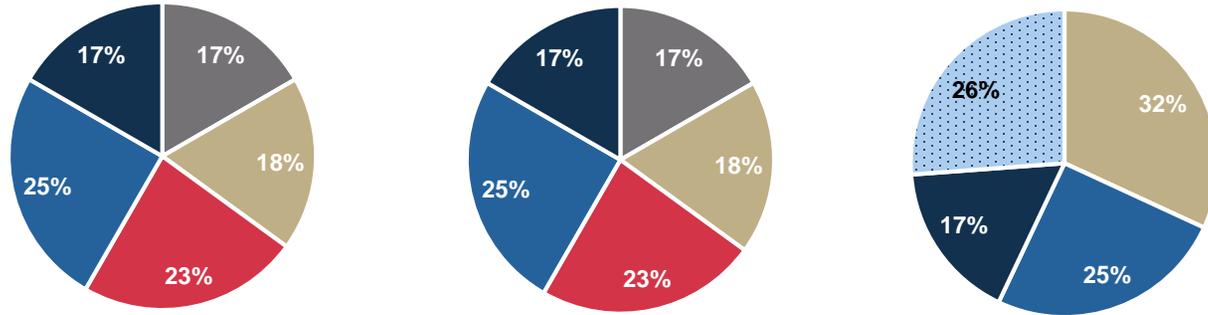
- The expected increase in diluent demand by 2025 would strongly suggest that diluent imports will still be needed
- Projected diluent import volumes are near the maximum capacity of what can be imported given the current capabilities of diluent import pipelines
- Diluent imports are costly to producers and there is an opportunity for material costs savings through USDG's DRU project, as it will return the recovered local diluent for reuse in Western Canada

Source: Alberta Bitumen Production and Diluent Demand to 2025, Diluent Demand and Supply to 2025: AER and RBN Energy LLC

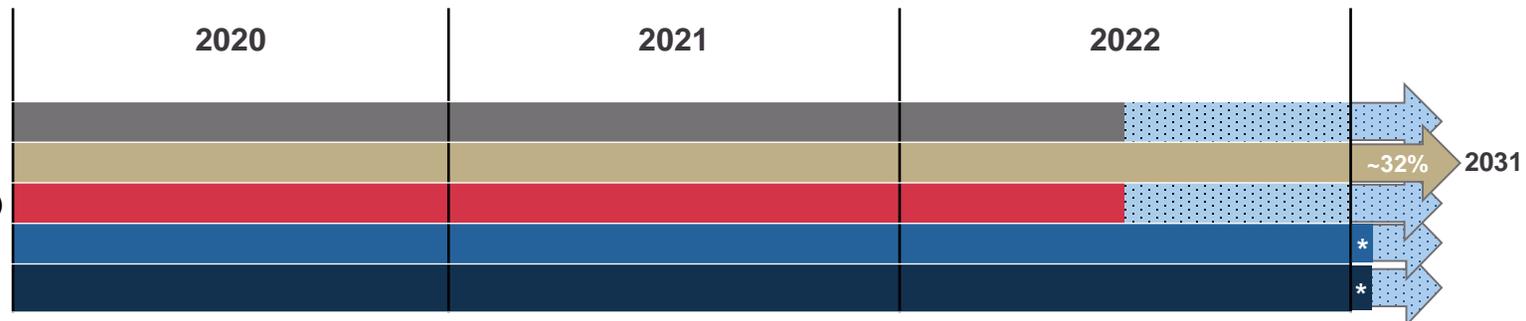
# Multi-year Extensions at Hardisty Generate Long-Term Sustainable Cash Flows



## % of Capacity at Hardisty



Customer	Credit Rating
Customer A1	Producer (A / A3)
Customer A2	Producer (A / A3)
Customer B	Integrated (BBB+ / Baa1)
Customer C	Integrated (BBB- / Ba2)
Customer D	Marketer (BBB- / Ba2)



Potential Future DRU Customers (new or existing customers converting to DRU on a long-term basis)

\* Contracts currently extend through June 2023

- Upon the successful construction and completion of the DRU which we expect will be placed into service in the second quarter of 2021, **approximately a third of the Partnership's take-or-pay Hardisty cash flow will be extended through 2031**
- The Partnership and its Sponsor are in discussions with existing and new customers to re-contract the remaining available capacity at the Hardisty terminal **with the goal of extending 100% of the terminal's existing cash flows to long-term, sustainable 10+ year contracts**

## Strong Industry Support for Transformative DRU Solution

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“From an innovation, sustainability and safety perspective, this is a game changer. This process removes diluent from the crude-by-rail supply chain, and as a result, we end up moving a non-hazardous commodity. This will further increase the safety of crude-by-rail, to the benefit of the communities we operate in and through.”

- Keith Creel, President and CEO, Canadian Pacific

“The DRU process is an innovative solution that competes with pipeline economics and secures improved netbacks across the seasonality and widely varying differentials experienced in the Western Canadian spot market. It helps address a critical challenge to Canada’s oil producers — constrained market access — to the benefit of all Canadians.”

- Kirk Johnson, President, ConocoPhillips Canada

“Very simply, we believe the project benefits Western Canada’s energy ecosystem in a number of ways, including: (1) reducing condensate use; (2) lowering rail costs; and, (3) validating another flexible market outlet. From our perspective, the DRU looks to be a permanent solution for some bitumen production volumes from Western Canada.”

- Andrew Kuske, Credit Suisse Equity Research

“We believe that being a first mover on a DRU in Canada could potentially confer an advantage when it comes to serving other customers who are exploring additional egress options from the basin.”

- RBC Capital Markets

# Financial Flexibility to Execute on Growth Opportunities

## ~\$170 million of available liquidity based on Credit Agreement Capacity, including:

- ~\$3 million of unrestricted cash and cash equivalents
- ~\$167 million of revolver capacity<sup>1</sup> with additional \$100 million accordion available on senior secured credit facility<sup>2</sup>

## Strengthening Financial Position

- The Partnership recently reduced its quarterly distribution in the first quarter of 2020 to proactively strengthen its financial position by diverting certain cash flow to pay down debt
- The Partnership estimates that this decision will free up approximately \$20-\$25 million per year of additional cash, which the Partnership intends to use to de-lever and support future accretive growth projects. The Partnership repaid \$6 million on its Revolver during the second quarter of 2020.

## Well-capitalized sponsor with backing from Energy Capital Partners

- ECP indicated an intention to invest over \$1.0 billion of additional equity capital in our sponsor<sup>3</sup>
  - Energy infrastructure-focused private equity fund with over \$20 billion of capital commitments
  - Extensive MLP and midstream experience

## Leverage and Liquidity (\$ in millions, as of 6/30/2020)

Unrestricted cash and cash equivalents	\$3
Revolving credit facility capacity	\$385
Less: Revolver borrowings	(\$218)
<b>Available liquidity based on Credit Agreement Capacity</b>	<b>\$170</b>
<b>Available liquidity based on Credit Agreement Covenants</b>	<b>\$28</b>
Revolver borrowings	\$218
<b>Total Debt</b>	<b>\$218</b>
<b>Net Debt</b>	<b>\$215</b>
<b>Total Debt / LTM Adjusted EBITDA<sup>2</sup></b>	<b>4.0x</b>
<b>Net Debt / LTM Adjusted EBITDA<sup>2</sup></b>	<b>4.0x</b>

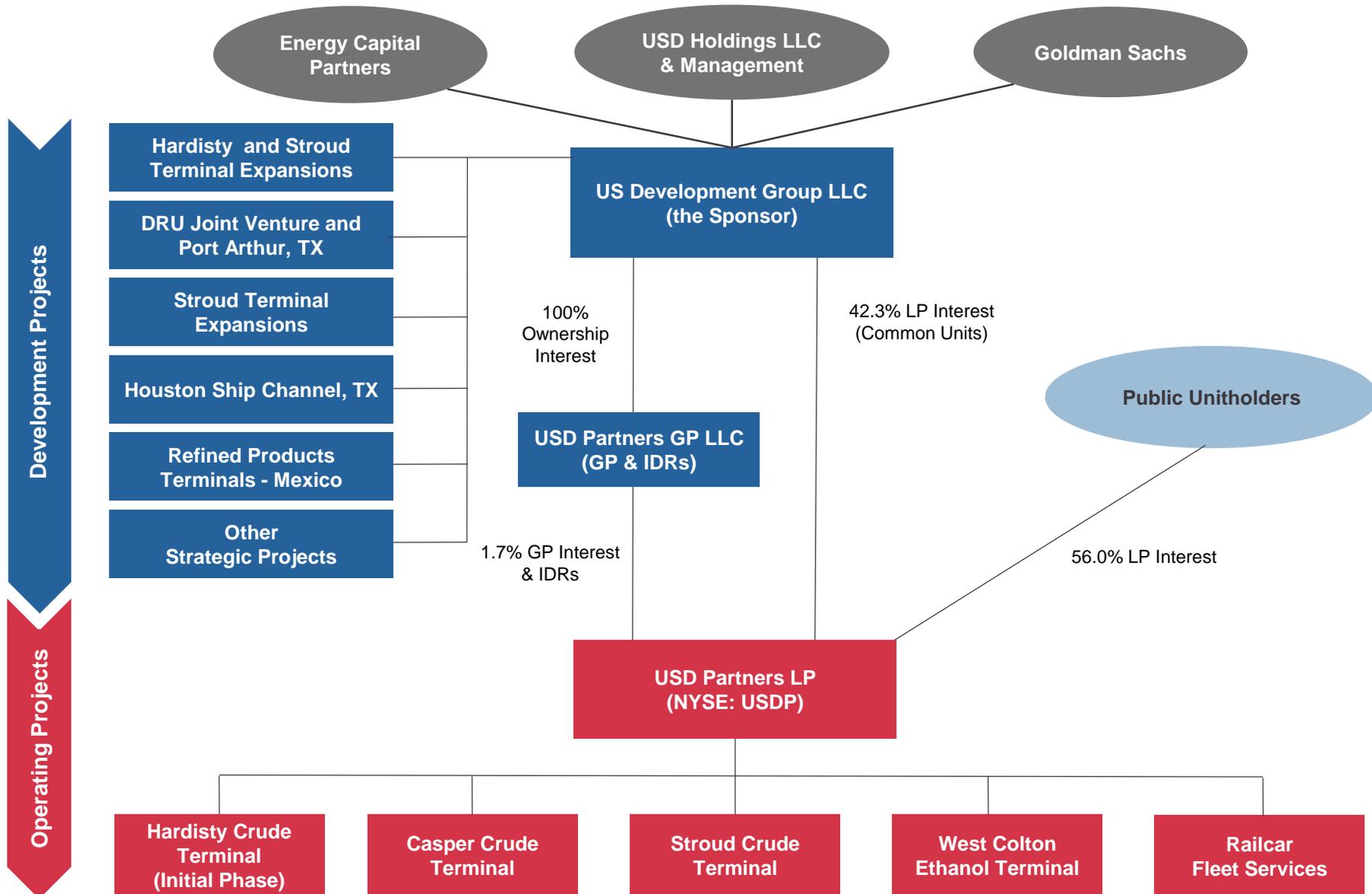
Note: Adjusted EBITDA is a non-GAAP measure. For a description of Adjusted EBITDA and a reconciliation to the most comparable measures calculated in accordance with GAAP, see the Appendix to this presentation.

1. Pursuant to the terms of the credit agreement, the Partnership's borrowing capacity is currently limited to 4.5 times its trailing 12-month consolidated EBITDA, which equates to \$26.2 million of borrowing capacity available at June 30, 2020.

2. Based on historical adjusted EBITDA for the twelve month period ended June 30, 2020 and pro forma adjustments in accordance with the terms of the revolving credit facility. Accordion subject to receiving increased commitments from lenders or other financial institutions and satisfaction of certain conditions.

3. Subject to market and other conditions.

# USD Partners LP: Organizational Structure



Note: As of 6/30/2020 per second quarter 2020 10-Q.

# DRU and Port Arthur Network: Anchored by ConocoPhillips

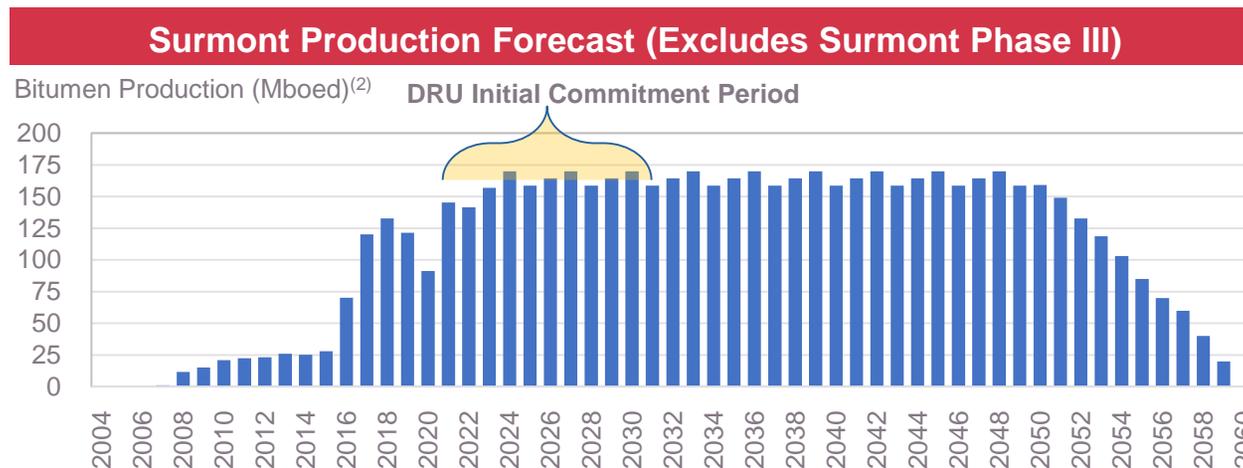


## ConocoPhillips is our contracted anchor for DRU and PAT development

- ConocoPhillips was recently reaffirmed with strong investment grade ratings from S&P (A) and Moody's (A3)

## ConocoPhillips has invested in developing and expanding the Surmont resource as a highly competitive source of heavy crude in the COP production portfolio

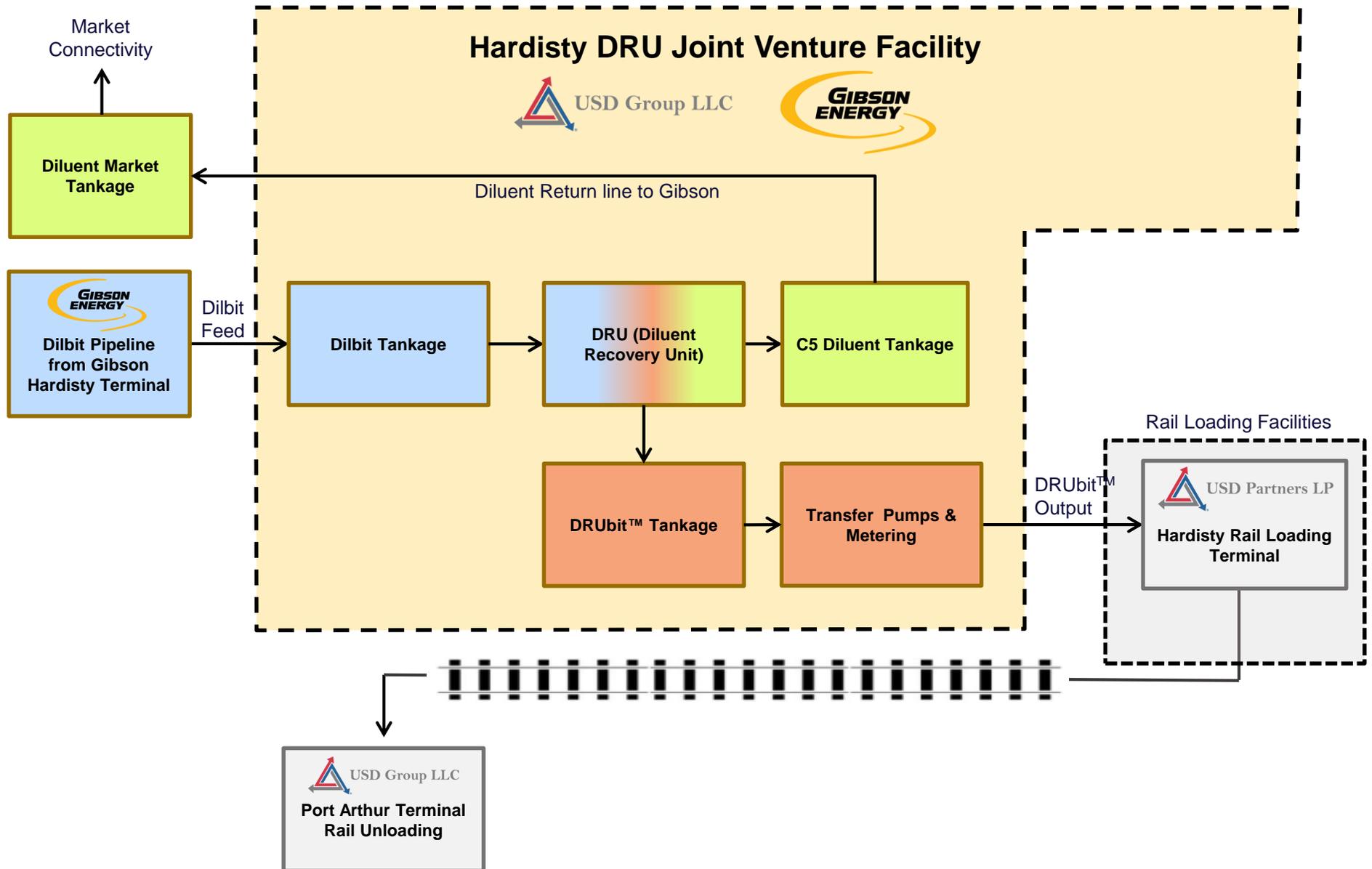
- The Surmont Project is one of the largest oil sands developments in Canada, and is 50/50 owned by ConocoPhillips and Total (COP is the operator)
- Woodmac estimates current “run-rate” production at 150,000 bbl/d of bitumen<sup>(1)</sup> prior to expansions, a level which can be sustained with limited capex through ~2050+ <sup>(2)</sup>
- An extensive resource base (3bn+ Boe) provides multiple decades of production visibility
- Like other SAGD oilsands projects, Surmont is characterized by low ongoing operating costs (~\$14/Boe) and limited ongoing capex needs <sup>(2)</sup>



(1) Bitumen has to be blended with diluent to produce a WCS barrel, therefore, 150,000 bpd of bitumen equates to ~215,000 bpd of WCS

(2) Woodmac Surmont Asset Report, May 2020 and on an 8/8th basis.

# DRU: Joint Venture and Process Overview



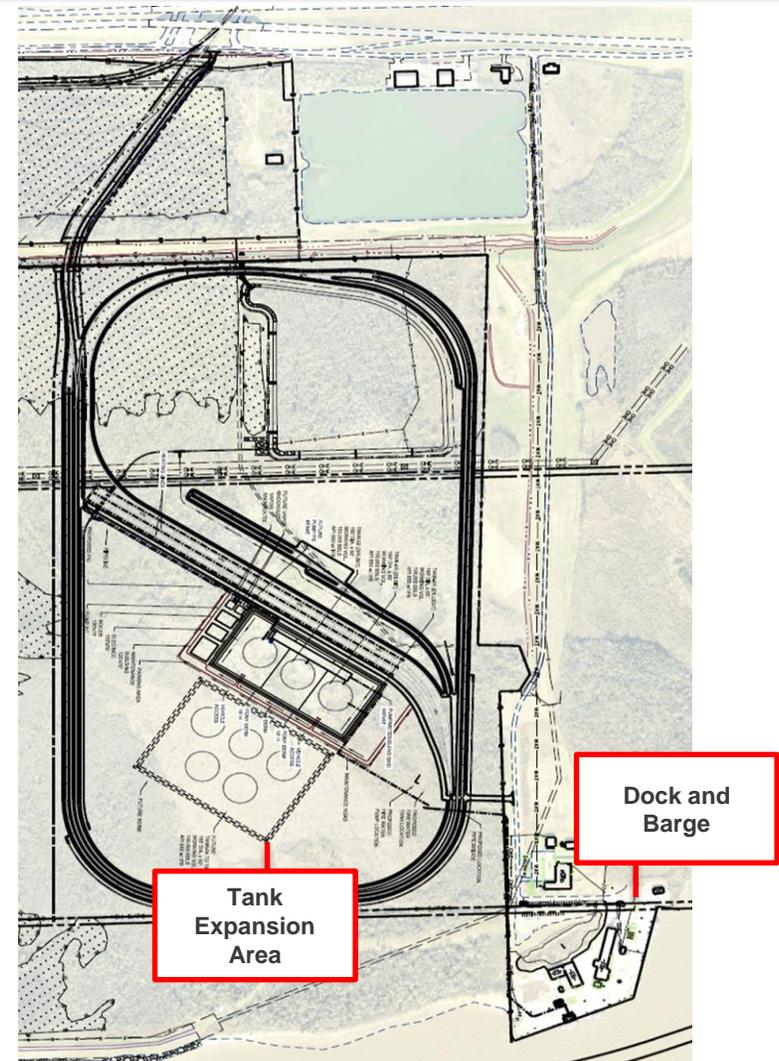
# USDG Port Arthur Terminal (“PAT”) Facility Overview

USDG is currently developing a new terminal in the Port Arthur area, which will consist of a crude by rail receiving terminal capable of handling dilbit and/or DRUbit™ and refined products with tanks, rail, barge and marine access

## Port Arthur Terminal

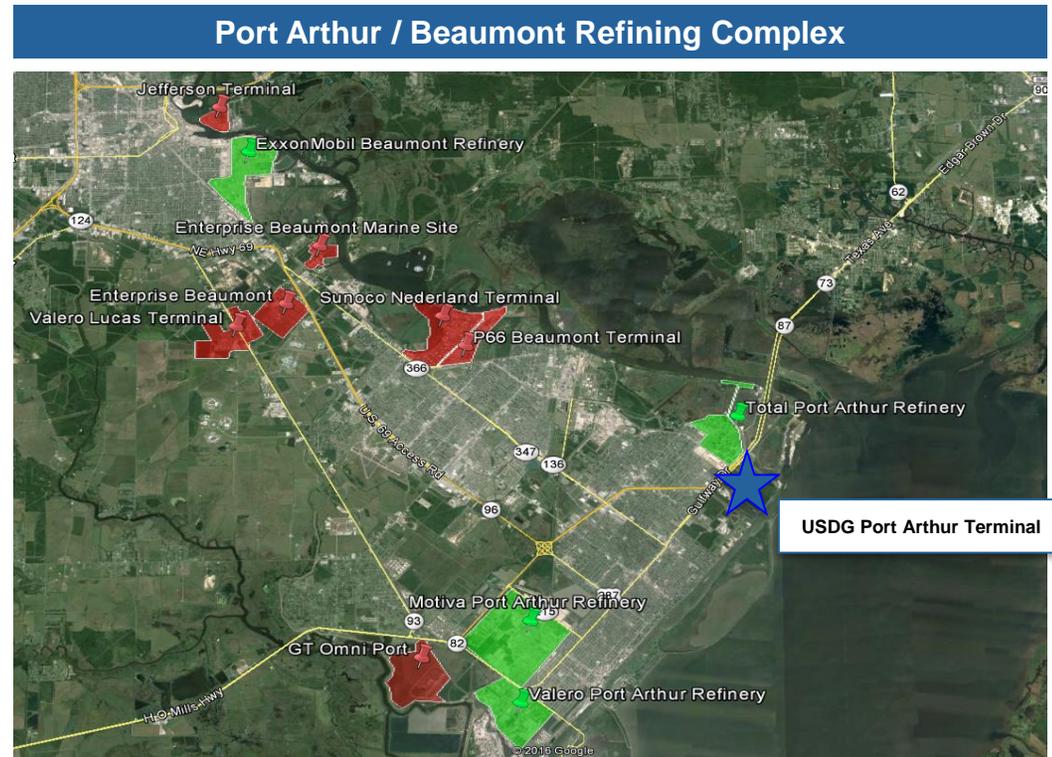
- Strategically located along the Sabine-Neches Waterway in Port Arthur, Texas (approximately 90 miles east of Houston)
- Facility will be constructed on a 220-acre site which USDG has under long-term lease from the KCS, including a marine dock and access to KCS rights-of-way and easements
  - Current marine infrastructure and draft support barge activities (existing bulkhead and 18’ draft) but can be expanded and deepened to accommodate larger vessels
  - Sabine-Neches Waterway regularly supports vessels with draft requirements of 48’
- Terminal is served by the KCS railroad, providing an advantaged single carrier solution for refined products seeking Mexico destinations
- Current air permit allows for 2 heated tanks and 6 additional tanks capable of supporting refined products
  - 3 of these tanks are currently earmarked for crude
- Infrastructure shown in picture has both the first and second phase build-outs

## Facility Layout



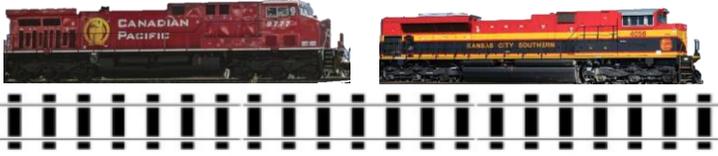
# PAT is an Ideal Landing Spot for DRUbit™ Barrels

- USD's Port Arthur Terminal is a world class Gulf Coast destination to land DRUbit™
  - Existing refinery complex with heavy oil processing capacity
  - Inbound/outbound liquids connectivity
  - Multi-modal export options
- PAT is exclusively served by the KCS which allows for a cost effective and efficient service as a result of the limited alternative commodities that flow on the line from Kansas City
- PAT's connection to the P66 Beaumont Terminal establishes PAT as a critical new source of high value, proprietary heavy feedstock with premier waterborne export optionality
- P66's investment in the inbound Red Oak pipeline (currently deferred) and the direct connection to the Motiva Port Arthur Refinery benefits the USD network through:
  - Local connectivity to Energy Transfer Nederland Terminal and Exxon's Beaumont refinery
  - Development plans to directly connect to Motiva's Port Arthur refinery
  - Outbound connections to Bayou Bridge Pipeline and Zydeco, providing access to Louisiana refiners
  - Existing inbound crude oil via: TC Marketlink Pipeline, CHOPS (OCS), DAPL (Bakken), Seaway Pipeline, and others
  - Inbound light crude oil via the planned Red Oak Pipeline (Permian/Cushing origin)
  - Refined product pipeline connectivity to ExxonMobil Beaumont Refinery
  - Inbound dock capability for C5/condensate barge receipts



	CDU Capacity (Bbls)	CDU Expansion (Bbls)	Future Total CDU Capacity	EIA 2018 Heavy Sour Imports (Bpd)	In-Service Date
Exxon	366,000	250,000	616,000	39,000	2022
Total	245,000	--	245,000	75,000	
Motiva	635,000	--	635,000	162,000	
Valero Premcor	415,000	--	415,000	16,000	
<b>Total</b>	<b>1,661,000</b>	<b>250,000</b>	<b>1,911,000</b>		

# Port Arthur Terminal Overview



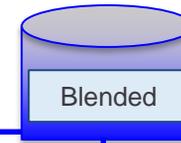
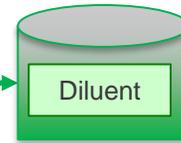
DRUbit™ in by rail  
from Hardisty Terminal

## Facility Rendering



- 150 MB heated and insulated DRUbit™ tank for unit train off-loading
- 150 MB Diluent tank for receipt of condensate and/or light crude oil from barge docks and pipeline
- 150 MB Blend tank for staging product for delivery to barge docks or pipeline

## Barge Docks



Bi-Directional  
Pipeline

**End Markets:  
Port Arthur and  
Lake Charles  
Refiners**

# Asset Overview: USD Partners' Crude Terminals



# Strategically Positioned Terminals Levered to Growing Canadian Production

## Our Hardisty terminal is the only unit-train capable facility directly connected to Hardisty, Canada's largest crude oil storage and export hub

- Capacity to load up to two 120-railcar unit trains or ~150,000 barrels per day<sup>1</sup>
- **Inception to date, the Partnership's Hardisty rail terminal has loaded over 1,400 unit trains with approximately 86 million barrels of crude oil**
- The Partnership's sponsor completed an expansion project in January 2019, referred to as Hardisty South, that added incremental capacity of one and one half 120-railcar unit train or ~112,500 barrels per day<sup>2</sup>
- Located on Canadian Pacific's North Main Line, which offers connectivity to key refining markets across North America
- Exclusive unit-train loading facility for Gibson Energy, who has ~12 million of nearly 30 million barrels of storage at the Hardisty hub<sup>3</sup> with another 1.5 million barrels of storage expected to be placed into service in Q4 2020
- Multi-year take-or-pay contracts with producers, refiners and marketers

## Our Casper terminal is the only unit-train capable facility directly connected to the Express Pipeline, which runs from the Hardisty hub to Casper, Wyoming

- Capacity to load over 100,000 bpd, including both unit-train and manifest shipments, with approximately 900,000 barrels of on-site storage
- Located on the BNSF Main Line, maximizing access to customer-preferred destinations on the West and Gulf coasts
- Includes take-or-pay contracts and recent spot activity with large refiner and producer customers
- Flexibility to receive various grades of crude oil from truck unloading station, as well as an inbound connection from the Platte terminal
- Outbound pipeline connection to a nearby terminal was completed and placed into service in December 2019

1. Based on two 120-railcar unit trains comprised of 28,371 gallon (~676 barrels) railcars being loaded at 92% of volumetric capacity per day. Actual amount of crude oil loading capacity may vary based on factors including the size of the unit train; the size, type and volumetric capacity of the railcars utilized; and the type and specifications of crude oil loaded, among other factors.  
2. USD Partners does not derive any cash flows associated with US Development Group LLC's Hardisty South expansion.  
3. Source: Gibson Energy public filings and Genscape.



Aerial view of Hardisty terminal



Hardisty terminal's scalable design



Aerial view of Casper terminal

# Casper Terminal: Creating Long-term Value

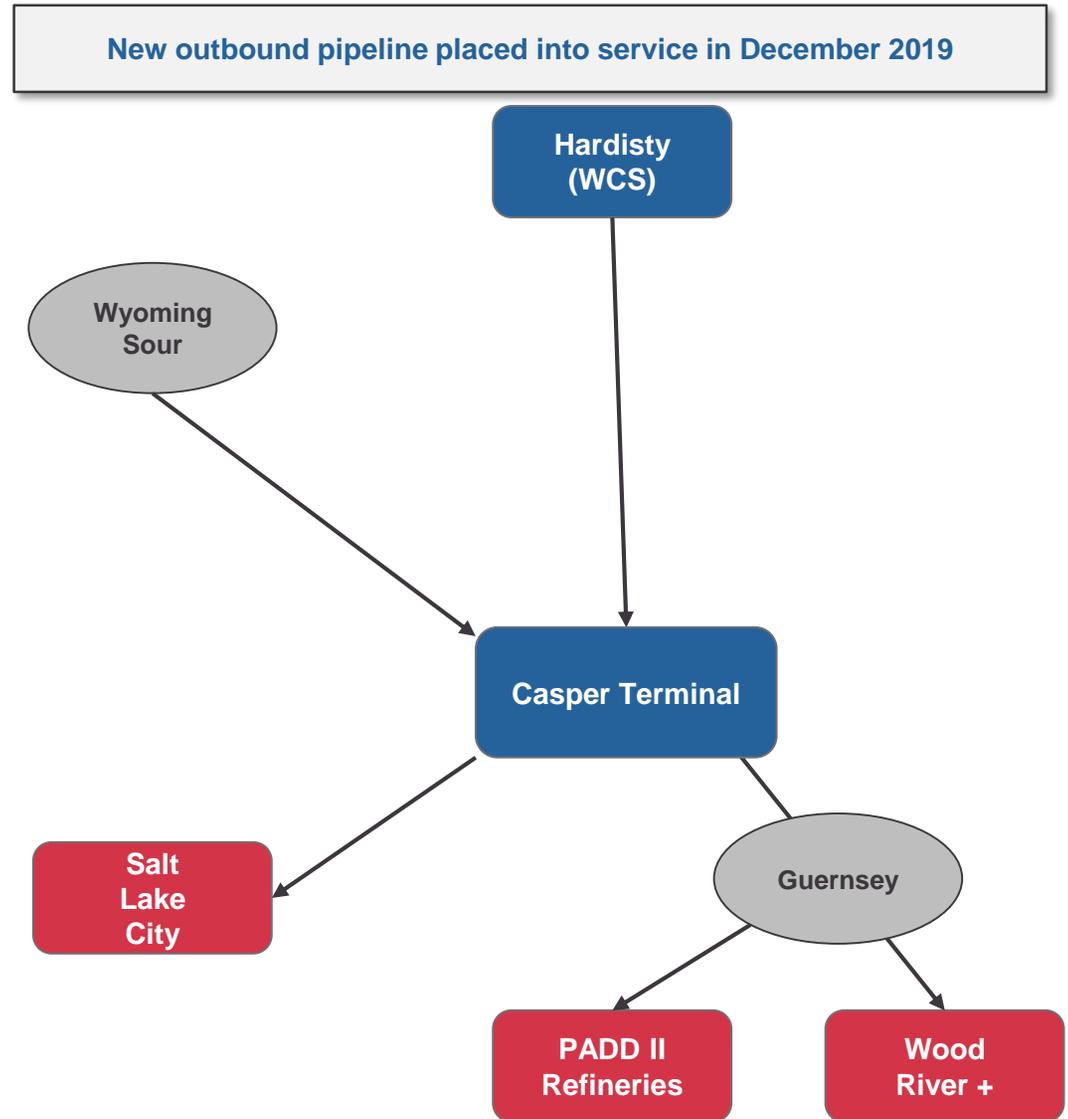
The newly constructed pipeline connection allows Casper to manage and profit from volatility at both origin and destination

## Connection Enhances Value Through Increased Access

- The connection to a nearby terminal with significant pipeline connectivity enhances the utility of the Casper Terminal
- Connection provides outbound access to:
  - PADD II refineries
  - U.S. Gulf coast
  - Salt Lake City
  - Rocky Mountain Pipeline
  - Western corridor through Plains terminal
- Underwritten by three-year take-or-pay agreement with new customer for tank fees, standby fee for rail loading and a per barrel fee for rail loading, effective as of September 2018

## Future Growth

- Enbridge announced an open season to increase the capacity of its Express pipeline by up to 50 kbpd with the use of Drag Reducing Agent (DRA) and the addition of pump stations. In late July 2020, Enbridge announced that it has placed 25 kbpd of the additional capacity on its Express pipeline into service and plans to place the additional 25 kbpd into service sometime in 2021.<sup>1</sup>
- This project could increase crude-by-rail volumes out of the Casper Terminal as the Partnership believes pipelines in the region are already currently being utilized at or near full capacity



1. Source: Public Company website, Press Releases

# Stroud Destination Terminal Connects Western Canadian Crude to Cushing

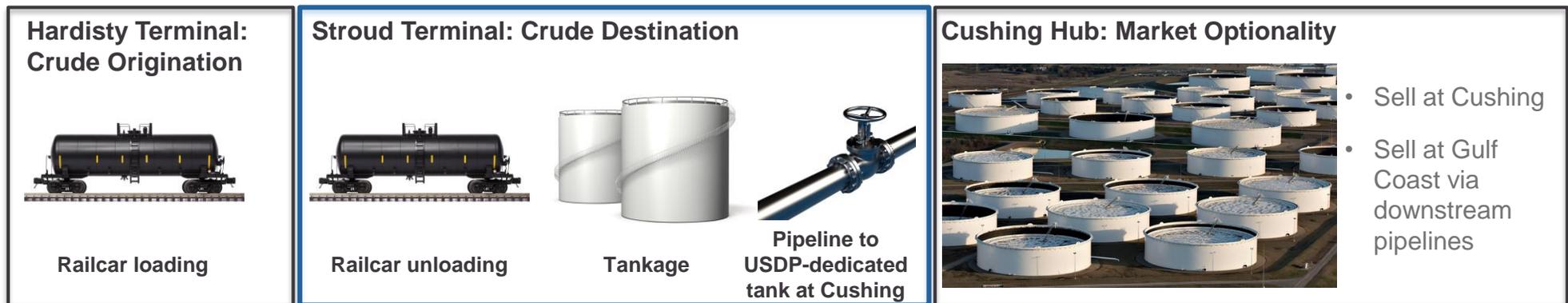
## Terminal Overview

- 76-acre terminal with ~50,000 barrels per day<sup>1</sup> of railcar unloading capacity, two on-site tanks with 140,000 barrels of total capacity and one truck bay
- Served by the BNSF and Union Pacific railways
- Includes 17-mile pipeline connecting the Stroud terminal to the Cushing hub
- 300,000 barrels of segregated working storage capacity at Cushing leased to facilitate outbound shipments
- Initial multi-year take-or-pay agreement with investment-grade rated, multi-national energy company commenced in October 2017
- Stroud customer secured the remaining available capacity at the Stroud terminal from USD Marketing LLC for periods ending in June 2024<sup>2</sup> (most recent renewal)



Aerial view of Stroud terminal

## The Only Unit Train Facility Directly Connected to the Cushing Storage Hub



1. Based on pumping capacity constraints on the pipeline utilized to move crude oil between the Stroud terminal tanks and third party storage tanks at Cushing. With pump modifications, the terminal could unload up to ~64,000 bpd based on one 104-railcar unit train of 28,371 gallon (~676 barrels) railcars at 92% of volumetric capacity per day. Actual amount of crude oil unloading capacity may vary based on factors including the size of the unit train; the size, type and volumetric capacity of the railcars utilized and the type and specifications of crude oil unloaded, among other factors.

2. Pursuant to the Marketing Services Agreement established with the Partnership at the time of the Stroud acquisition. The agreement that expires June 2024 is subject to early termination upon satisfaction of certain conditions.

# Western Canadian Market Update and Opportunities



# Western Canadian Oil Sands are Unlike U.S. Shale

Oil sands projects require substantial up-front capital and produce for multiple decades with relatively low decline, creating a more visible production outlook that is less sensitive to commodity prices than U.S. shale

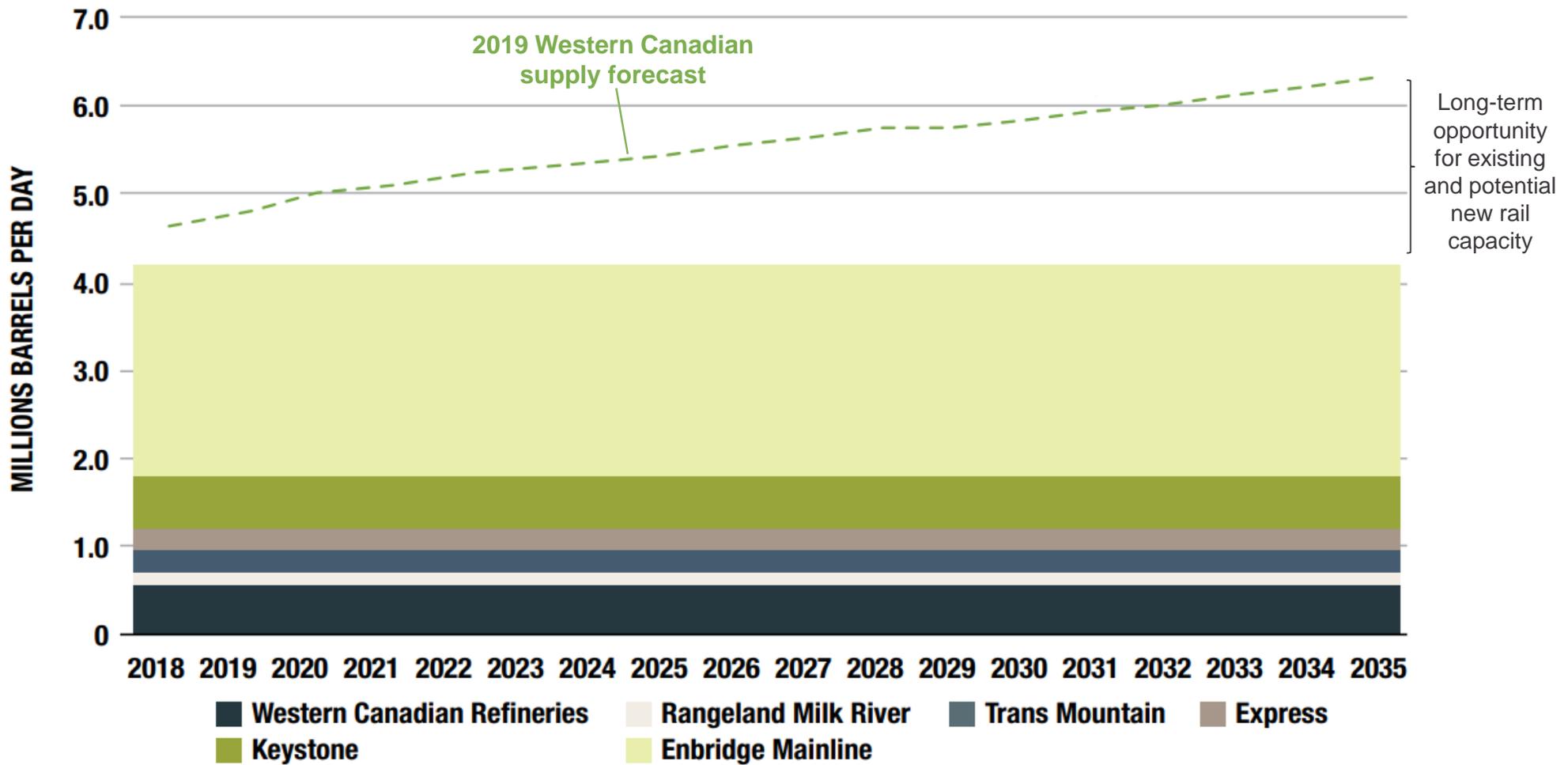
## Western Canadian Oil Sands

## U.S. Shale

	Western Canadian Oil Sands	U.S. Shale
<b>Production Type</b>	Heavy crude oil	Crude oil, natural gas and associated liquids
<b>Typical API Gravity of Crude Oil</b>	Raw Bitumen: Less than 10° Diluted Bitumen: ~20° to 22° Upgraded Bitumen / Synthetic Crude: ~31° to 33°	~35° to 50+°
<b>Capital Profile</b>	Significant up-front capital	Ratable
<b>Asset Life</b>	30+ years	Various
<b>Decline Profile</b>	Low	High initial declines
<b>Sensitivity to Spot Prices</b>	Low	High
<b>Gathering</b>	Substantially all production is gathered into two storage hubs, Hardisty and Edmonton	Local gathering systems are generally well-connected to refining centers via pipelines
<b>Infrastructure</b>	Constrained	Developed / Region-specific

# Growing Western Canadian Crude Oil Supply Requires Additional Takeaway

Relative to 2018 levels, in 2019 CAPP forecasted supply growth of ~1.2 Mmbpd by 2030, well in excess of existing pipeline takeaway capacity



Source: Canadian Association of Petroleum Producers (June 2019)  
 CAPP's Chart Notes: Capacity shown can be reduced by any extraordinary and temporary operating and physical constraints.

# Announced projects support supply growth in Western Canada

## USD's terminal network positioned to provide both volume and quality solutions for new and existing customers

Customer	Project	Crude Type <sup>1</sup>	Barrels Available for Takeaway (bpd) (Bitumen+Diluent)	Anticipated Start-Up Date	Hardisty (Direct / Indirect) <sup>2</sup>	Current Customer?
Producer 1	Project A	Dilbit	314,286	Online / Ramping	Indirect	
Producer 2	Project B	Dilbit	85,714	Online / Ramping	Indirect	
Producer 3	Project C	Synbit/Dilbit	103,571	Online / Ramping	Indirect	Yes
Producer 4	Project C	Synbit/Dilbit	103,571	Online / Ramping	Indirect	
Producer 5	Project D	Dilbit	257,143	Online / Ramping	Indirect	Yes
Producer 5	Project E	Dilbit	371,429	Online / Ramping	Direct	Yes
Producer 6	Project F	Synbit	70,000	Online / Ramping	Indirect	
Producer 7	Project G	Dilbit	39,000	Online / Ramping	Indirect	
Producer 8	Project H	Syncrude	80,000	Online / Ramping	Indirect	
Producer 9	Project I	Dilbit	131,217	Online / Ramping	Direct	Yes
Producer 4	Project I	Dilbit	59,631	Online / Ramping	Direct	
Producer 10	Project I	Dilbit	51,677	Online / Ramping	Direct	
Producer 11	Project J	Dilbit	27,000	Online / Ramping	Indirect	
Producer 12	Project K	Dilbit	28,571	Online / Ramping	Direct	
Producer 2	Project L	Dilbit	4,286	Online / Ramping	Indirect	
Producer 2	Project M	Dilbit	14,286	Online / Ramping	Indirect	
Producer 1	Project N	Dilbit	71,429	Online / Ramping	Indirect	
Producer 8	Project O	Dilbit	52,000	Online / Ramping	Indirect	
Producer 8	Project P	Dilbit	18,571	Online / Ramping	Direct	
Producer 5	Project Q	Dilbit	50,000	Online / Ramping	Indirect	Yes
Producer 2	Project S	Dilbit	14,286	Online / Ramping	Indirect	
Producer 1	Project R	Dilbit	40,000	Q1 2021	TBD	
Producer 8	Project P	Dilbit	18,571	2021	Direct	
Producer 2	Project L	Dilbit	8,571	2021	Indirect	
Producer 2	Project S	Dilbit	14,286	2020 - 2023	Indirect	
Producer 2	Project W	Dilbit	14,286	2020 - 2023	Indirect	
Producer 2	Project S	Dilbit	14,286	2020 - 2023	Indirect	
Producer 12	Project T	Dilbit	18,571	2020 - 2022	Direct	
Producer 12	Project T	Dilbit	24,286	2020 - 2022	Direct	
Producer 12	Project T	Dilbit	42,857	2020 - 2022	Direct	
Producer 12	Project T	Dilbit	74,286	2020 - 2022	Direct	
Producer 5	Project U	Dilbit	57,143	2021 - 2022	Indirect	Yes
Producer 5	Project V	Dilbit	92,857	2021 - 2022	Direct	Yes
Producer 5	Project V	Dilbit	65,000	2021 - 2022	Direct	Yes
Producer 13	Project X	Dilbit	37,143	TBD	Direct	
Producer 8	Project Y	Syncrude	45,000	TBD	Indirect	
Producer 8	Project Y	Syncrude	57,143	TBD	Indirect	
Producer 14	Project Z	Syncrude	77,500	TBD	Indirect	
Producer 3	Project AA	Dilbit	192,857	TBD	Indirect	Yes
Producer 5	Project U	Dilbit	57,143	TBD	Direct	Yes
Producer 1	Project AB	Dilbit	75,000	TBD	TBD	
Producer 1	Project AB	Dilbit	75,000	TBD	TBD	
Various	Debottleneck	Various	75,000	2019 - 2020	Both	
<b>Total Nameplate Capacity</b>			<b>3,124,453</b>			
<b>Estimated Volumes Already Online from Ramp-Up</b>			<b>(1,428,561)</b>			
<b>Expected Production Growth through 2022</b>			<b>1,695,892</b>			

- Note: Based on customer announcements and internal analysis. Actual amounts and the timing and destination of additional barrels may differ from the above estimates. Oil sands projects typically require a 12-18 month ramp up period to reach full capacity. Current customers shaded in blue.
- Synthetic crude oil is a light sweet grade produced from processing bitumen in an upgrader facility used in connection with certain oil sands production. 'Synbit' typically includes a 50/50 mix of bitumen and synthetic crude oil. 'Dilbit' typically includes a 70/30 mix of bitumen and diluent, such as natural gas liquids and condensates.
  - 'Direct' indicates barrels that are delivered directly to Hardisty; 'Indirect' denotes barrels that arrive at Hardisty via Edmonton on Enbridge's Oil Sands System.

# Uncertain Timing and Quantity of Additional Export Pipeline Capacity

Expected timelines have shifted meaningfully over time for the three remaining export pipeline developments

CAPP's Estimated In-Service Date

Proposed Pipeline	Capacity (mbpd)	2013	2014	2015	2016	2017	2018	2019
Mainline Line 3 Replacement	370	–	–	H2 2017	2019	2019	2019	2020
Trans Mountain Expansion	590	Q4 2017	Q4 2017	Q4 2018	Late 2019	End 2019	Dec 2020+	2020+
Keystone XL	830	2015	2017	2018	Denied	2020+	2020+	2020+

## Major energy projects still face multiple headwinds

- Regulatory landscape in flux as Canada introduced new legislation to overhaul the primary federal energy regulator and the environmental assessment process for major projects, as well as enhance environmental protections for fish and navigable waters
- Well-organized opposition from environmental groups, general public and segments of local governments adds to timing uncertainty

### Enbridge Line 3

- Project faces more potential delays after the Minnesota Pollution Control Agency said it will conduct a contested case hearing for granting a key permit. The deadline for the projects Water Quality Certificate Permit was extended to November 14 from previously targeted August 15
- Minnesota's commerce department said the Public Utilities Commission should reconsider the certificate of need it granted the project, arguing that Enbridge failed to submit a long-range forecast for demand for the oil that the pipeline carries, according to a filing that Minnesota Attorney General Keith Ellison submitted on behalf of the department
- The project, was delayed until the second half of 2020 but is now further pushed out to 2021

### Trans Mountain

- Several BC First Nations vowed on July 2, 2020 to keep their fight against the Trans Mountain pipeline expansion going, despite losing what appears to be the last known legal option to overturn federal approval of the project
- The Canadian federal government purchased the Trans Mountain pipeline expansion pipeline from Kinder Morgan in 2018
- The project is subject to 156 conditions enforced by the Canada Energy Regulator. The Government officially approved expansion of Trans mountain June 18, 2019. On June 1 2020 they kicked off pipeline construction in Kamloops, BC. Project is further delayed to Q4 2022

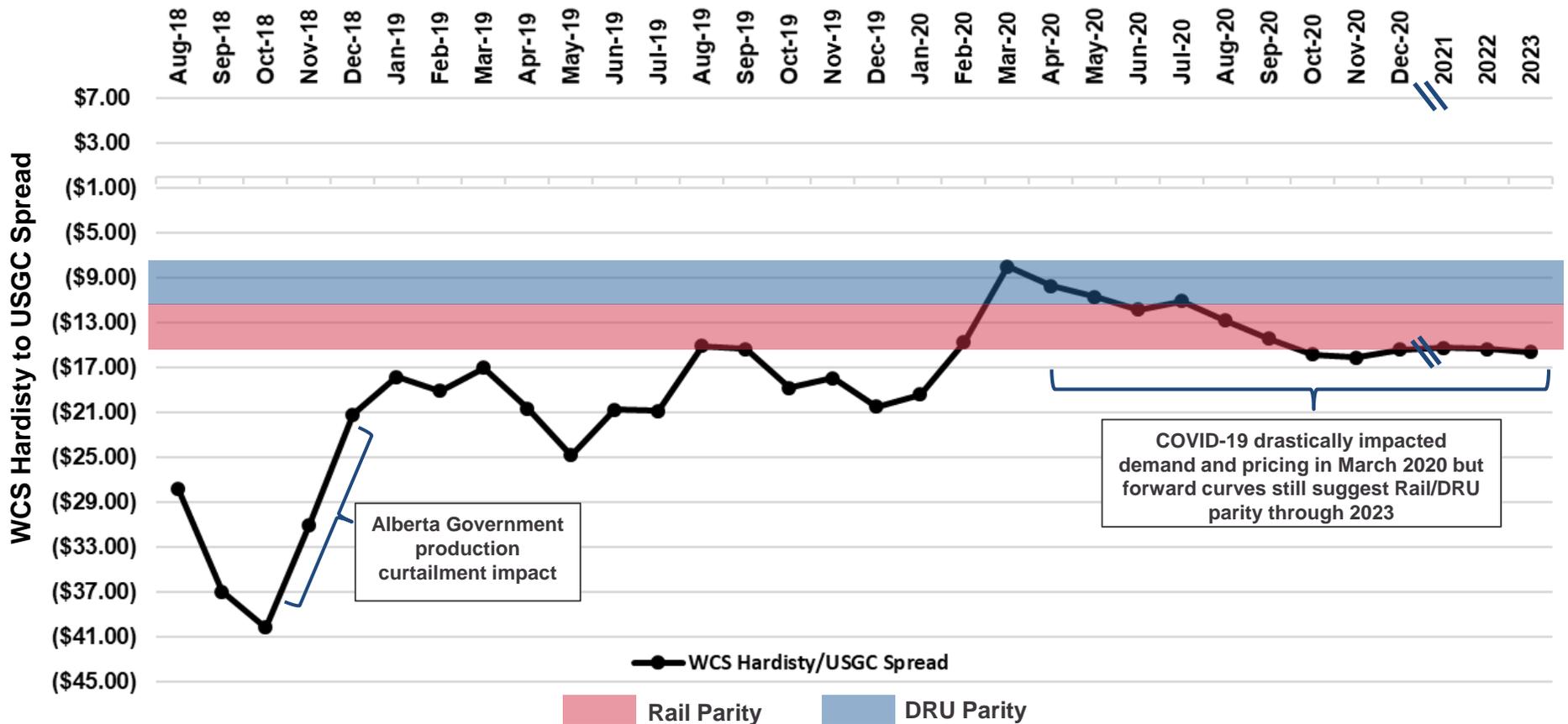
### Keystone XL

- TC Energy is looking at alternative water permits due to the cancellation of a key permit by the U.S Supreme court. TC signed agreement with 4 labor unions to start building the 28 pump stations this fall
- Meanwhile, on July 29, 2020, the White House issued a permit to expand the cross-border shipping limit on the existing Keystone pipeline to 760,000 bpd from 590,000 bpd. TC Energy plans to expand the pipeline by 50,000 bpd in 2021 by using DRA. The additional capacity will be assessed in the future and may need additional capital
- On July 6, 2020, the U.S. Supreme Court refused to let construction start on TC Energy Corp.'s Keystone XL oil-sands pipeline, rejecting a bid by President Donald Trump's administration to jump-start the long-delayed project. The construction is now delayed until 2021

# Forward WCS Prices Indicate Ongoing Takeaway Constraints – This Drives Expectations for Contract Renewals and Extensions as well as Potential Growth Opportunities

Forward curve supports significant potential margin at rates equal or greater than existing contracted rates, incentivizing customers to pursue multi-year term agreements

## WCS Hardisty to USGC Spreads



Source: WCS Hardisty: Argus/Bloomberg as of 8/5/2020  
Mars Forward curve: Argus/Bloomberg as of 8/5/2020

# Other Sponsor Development Activities



# TexasDeepwater Partners (TDWP): Premier Houston Ship Channel Development

## Advantaged Size and Location

- TDWP development encompasses approximately 988 acres
  - 433 acres of contiguous waterfront land capable of supporting rail, tankage and marine operations
  - 248 acres of private dredge storage to receive development and maintenance dredge deposits (largest private dredge in Houston Ship Channel)
- Location near mouth of Houston Ship Channel significantly reduces demurrage time and facilitates marine operations
- Approximately 5,200 feet of deepwater frontage

## Advantaged Strategic and Commercial Position

- Advantaged proximity and connection options to major Gulf Coast refining and pipeline networks make TDWP a highly-attractive receipt point
- Access to several Class 1 railroads via the PTRA (BNSF, UP and KCS)
- Potential marine transload operations with optimal navigable access
  - Current 40 feet water depth
  - Expandable to 45 feet with additional dredging
- Origination / destination pairing with Hardisty, Stroud and Casper
- All necessary permits / approvals in hand, all utilities on site soon: TDWP is shovel-ready



# USDG's TDWP Joint Venture Strategically Positioned for Growth

TDWP has an advantaged strategic and commercial position in the Houston Ship Channel and is currently offering railcar storage, dredge disposal and transloading services to high-quality, primarily investment grade counterparties to develop large-scale storage, blending and distribution infrastructure, including export facilities to international markets

## Current Services Offered

- Existing infrastructure supports railcar storage, switching and handling capabilities for over 800 railcars
- Dredge disposal facilities provide an economic disposal option for operations along the channel
- Refined products transloading out of Shell's Deer Park Refinery

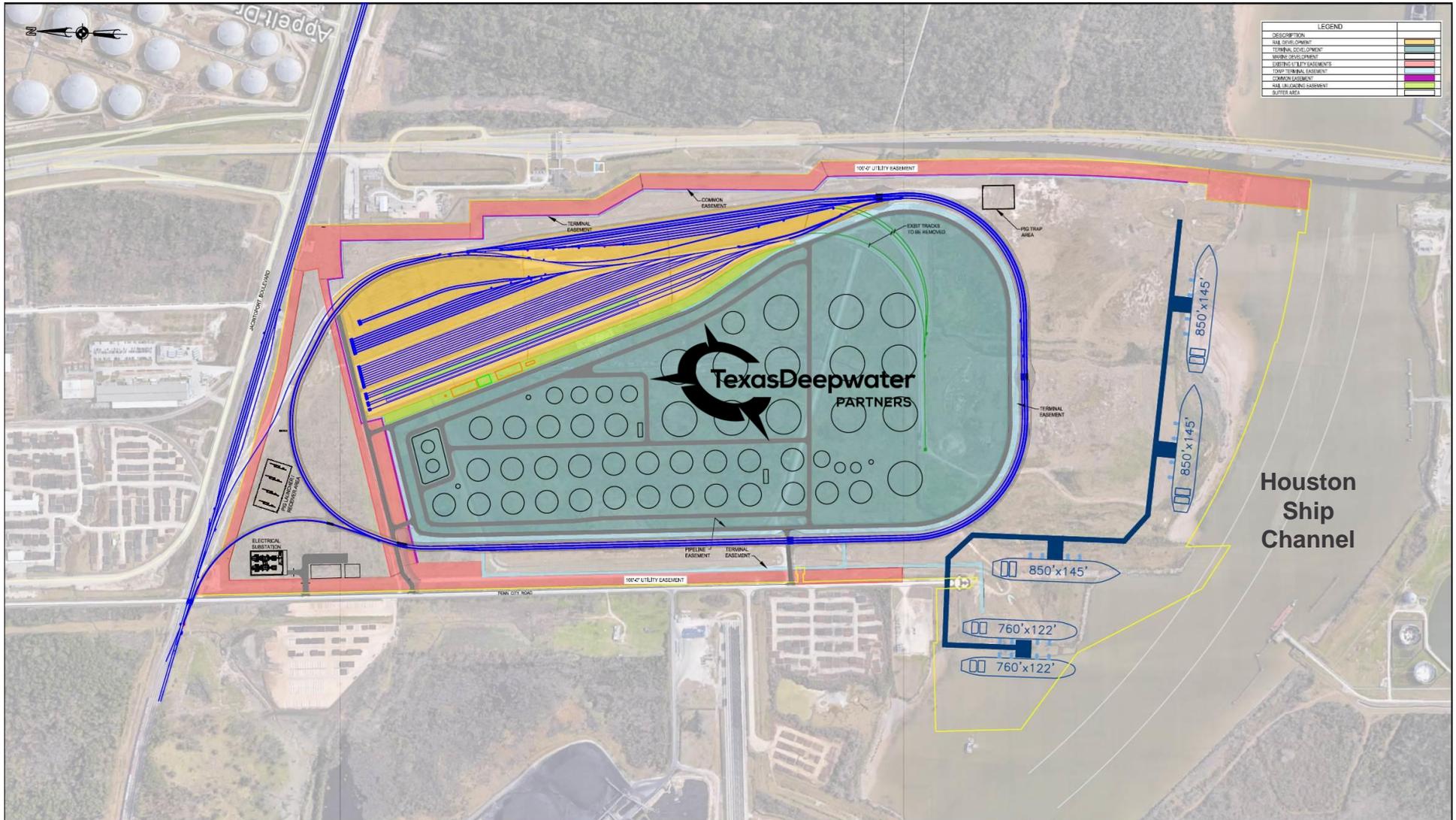
## Advantaged Strategic and Commercial Position

- Large-scale footprint with 45' draft capabilities
- Independent terminal with potential for customer-focused solutions
- Numerous rights-of-way could provide connectivity to nearly all major inbound liquids pipelines
- Multiple docks providing deepwater access to international markets, plus barge connectivity to Gulf Coast refining centers
- Well-suited as future drop down to USDP



# Large Scale, Multi-Modal Energy Terminal Directly on the Houston Ship Channel

988-acre property is **fully-permitted** to support up to 12 million barrels of liquids storage, multiple docks (including barge and deepwater), inbound and outbound pipeline connectivity, as well as a unit train capable rail terminal



Drawing reflects a potential build-out of the Texas Deepwater property based on existing permits. Actual build-out will depend on securing commercial contracts and other matters.

# TDWP Deer Park Rail Terminal Facility Overview

TDWP is the operator of a new refined products origination terminal in the U.S. Gulf Coast, placed into service in August 2019, to serve increasing demand in the Permian Basin and Mexico

## New Origin for Ultra-Low Sulfur Diesel

### • Operations

- TDWP has completed the refurbishment and retrofit of Shell's Deer Park Rail Terminal (DPRT) to transload refined products directly from Shell's refinery to railcars
- The terminal was placed into service in August 2019 and is actively loading railcars
- TDWP is currently leasing the facility from Shell and serve as operator of the refined products transload terminal
  - Initially focused on serving the diesel market, with an option to expand capabilities to regular / premium gasoline and jet fuel
- Rail loading rack is directly connected to Shell's Deer Park refinery complex as well as the Shell Colex terminal
- Refinery can provide products meeting Mexican product specifications as set forth in NOM-016-CRE-2016

### • Commercial / Financial

- Shell is TDWP's direct commercial counterparty, with multi-year contract in place

## Facility Layout



# Developing a Network of Refined Products Destination Terminals Across Mexico

Significant opportunity to enhance the distribution of refined products in a complementary and growing market

## Mexico is a large and growing energy export market for the United States

- Exports of petroleum products (e.g., motor gasoline, distillate fuel oil, propane) to Mexico have continued to grow over the last 3 years
- In 2018, Mexico was the destination for over 1.2 million bpd and over \$30 billion worth of petroleum products from the U.S.
- TexasDeepwater joint venture positioned to be an origination point from the Gulf Coast

## Current takeaway and storage infrastructure not yet optimized to support large volume of imports

- Opportunity to leverage existing rail infrastructure to enable timely customer solutions / speed-to-market
- Ability to offer origin optionality to optimize delivered price in Mexico

## USDG is developing a network of strategically positioned destination terminals in rail-advantaged markets

- Querétaro, Cuauhtémoc and Guanajuato terminals have commenced operations



# Appendix



# Terminals Underpinned by Multi-Year Contracts with High-Quality Customers

USD has been successful in re-contracting its existing customers as well as signing new agreements with new customers. Upon the successful completion of USDG's DRU project, ~32% of the Partnership's Hardisty terminal's capacity will be automatically extended through mid-2031

Customer Type	Credit Rating	Investment Grade?	% of Terminal Capacity Contracted as of July 1, 2020	Contract Term Through Date	Average Customer Dividend Yield <sup>(8)</sup>
<b><u>Hardisty Terminal – USD Partners LP (73% of Adj. EBITDA) <sup>(1)</sup></u></b>					
Integrated	BBB+ / Baa1	✓	23%	Jun-2022	} <b>3.5%</b>
Integrated	BBB- / Ba2	Split	25%	Jun-2023	
Marketer	BBB- / Ba2	Split	17%	Jun-2023	
Producer	A / A3	✓	17%	Jun-2022	
Producer <sup>(2)</sup>	A / A3	✓	18%	Jun-2024 [2031] <sup>(3)</sup>	
<b>Total Capacity Contracted</b>			<b>100%</b>		
<b><u>Hardisty South – US Development Group LLC</u></b>					
Refiner <sup>(4)</sup>	BB / Ba3		30%	Dec-2023	} <b>1.9%</b>
Producer <sup>(4)</sup>	BBB- / Baa3	✓	10%	Jun-2022	
Government Agent <sup>(4)</sup>	A+ / Aa2	✓	30%	Dec-2022	
Producer <sup>(2)</sup>	A / A3	✓	16%	Jun-2024 [2031] <sup>(3)</sup>	
<b>Total Capacity Contracted</b>			<b>86%</b>		
<b><u>Stroud Terminal (23% of Adj. EBITDA) <sup>(1)</sup></u></b>					
Producer	A / A3	✓	52%	Jun-2024 <sup>(5)</sup>	} <b>4.4%</b>
Producer <sup>(6)</sup>	A / A3	✓	17%	Jun-2024 <sup>(6), (7)</sup>	
Producer <sup>(6)</sup>	A / A3	✓	31%	Jun-2024 <sup>(7)</sup>	
<b>Total Capacity Contracted</b>			<b>100%</b>		
<b><u>Casper Terminal (3% of Adj. EBITDA) <sup>(1)</sup></u></b>					
Integrated	AA / Aa1	✓	Variable	Sept-2021 / Dec-2022	} <b>7.9%</b>
Producer	Not Rated		Variable	Dec-2021	

Source: Standard & Poor's, Moody's, Yahoo Finance (as of 8/6/2020)

Note: Certain customers are wholly-owned subsidiaries of the entities whose credit rating and yield are shown above. Marketers include midstream companies with marketing operations. Ratings of Baa3 / BBB- or better are considered investment grade.

- Based on Partnership's Terminalling and Fleet Segment Adjusted EBITDA for the twelve months ended June 30, 2020. Remaining 1% of Adjusted EBITDA is generated by the Partnership's West Colton facility and railcar business.
- Includes capacity associated with a renewal and extension that the Partnership entered into in July 2019 that covers approximately 15% of the capacity at the Partnership's Hardisty terminal. The Partnership expects to service the contract using the limited remaining capacity available at the Hardisty terminal, as well as by subletting excess capacity from USDG's Hardisty South Expansion.
- Upon the successful completion and commissioning of the DRU project, which is expected to be placed into service in the second quarter of 2021, 32% of the Partnership's Hardisty terminal's capacity will be automatically extended through mid-2031.
- USD Partners does not derive any cash flows from the agreements listed herein associated with US Development Group LLC's Hardisty South expansion. The Government Agent is excluded from the average customer yield presented for Hardisty South.
- Upon the latest of (a) USDG's DRU Project being placed into service, (b) USDG's Port Arthur Terminal being placed into service and (c) March 31, 2021, the volume commitment under this agreement will be reduced by one-third of the current commitment upon written request from the customer.
- Upon the latest of (a) USDG's DRU Project being placed into service, (b) USDG's Port Arthur Terminal being placed into service and (c) March 31, 2021, the volume commitment under this agreement will be terminated upon written request from the customer.
- Producer's capacity at Stroud via USD Marketing, a wholly-owned subsidiary of US Development Group LLC, pursuant to the Marketing Services Agreement established with the Partnership entered into at the time of the Stroud acquisition.
- The average customer yield presented herein includes customers who currently have a 0% yield due to distribution suspensions. Average yield presented for Hardisty South excludes the Government Agent customer.

# Non-GAAP Measures

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We define Adjusted EBITDA as Net cash provided by operating activities adjusted for changes in working capital items, changes in restricted cash, interest, income taxes, foreign currency transaction gains and losses, adjustments related to deferred revenue associated with minimum monthly commitment fees and other items which do not affect the underlying cash flows produced by our businesses. Adjusted EBITDA is a non-GAAP, supplemental financial measure used by management and external users of our financial statements, such as investors and commercial banks, to assess:

- our liquidity and the ability of our business to produce sufficient cash flow to make distributions to our unitholders; and
- our ability to incur and service debt and fund capital expenditures.

We define Distributable Cash Flow, or DCF, as Adjusted EBITDA less net cash paid for interest, income taxes and maintenance capital expenditures. DCF does not reflect changes in working capital balances. DCF is a non-GAAP, supplemental financial measure used by management and by external users of our financial statements, such as investors and commercial banks, to assess:

- the amount of cash flow available for making distributions to our unitholders;
- the excess cash flow being retained for use in enhancing our existing business; and
- the sustainability of our current distribution rate per unit.

We believe that the presentation of Adjusted EBITDA and DCF in this report provides information that enhances an investor's understanding of our ability

to generate cash for payment of distributions and other purposes. The GAAP measure most directly comparable to Adjusted EBITDA and DCF is Net cash provided by operating activities. Adjusted EBITDA and DCF should not be considered as alternatives to Net cash provided by operating activities or any other measure of liquidity presented in accordance with GAAP. Adjusted EBITDA and DCF exclude some, but not all, items that affect cash from operations and these measures may vary among other companies. As a result, Adjusted EBITDA and DCF may not be comparable to similarly titled measures of other companies.

# Adjusted EBITDA and Distributable Cash Flow Reconciliation

	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Year Ended December 31,
	2020	2019	2020	2019	2019
	(in thousands)				
<b>Net cash provided by operating activities</b>	\$ 5,409	\$ 9,336	\$ 17,126	\$ 19,507	\$ 38,442
Add (deduct):					
Amortization of deferred financing costs	(207)	(207)	(414)	(657)	(1,072)
Deferred income taxes	189	154	541	403	(79)
Changes in accounts receivable and other assets	334	3,134	2,137	2,298	2,895
Changes in accounts payable and accrued expenses	2,130	(1,221)	1,232	(2,009)	604
Changes in deferred revenue and other liabilities	213	(2,264)	(2,822)	(2,462)	(6,066)
Interest expense, net	2,253	2,970	4,968	6,150	11,936
Provision for (benefit from) income taxes	188	128	(319)	198	662
Foreign currency transaction loss <sup>(1)</sup>	1,150	20	1,058	202	365
Other income	—	(25)	—	(42)	—
Non-cash deferred amounts <sup>(2)</sup>	1,119	161	1,556	110	2,809
<b>Adjusted EBITDA</b>	<b>12,778</b>	<b>12,186</b>	<b>25,063</b>	<b>23,698</b>	<b>50,496</b>
Add (deduct):					
Cash paid for income taxes	(116)	(329)	(433)	(607)	(1,206)
Cash paid for interest	(2,874)	(2,995)	(4,957)	(5,815)	(11,775)
Maintenance capital expenditures	(82)	(45)	(114)	(45)	(216)
<b>Distributable cash flow</b>	<b>\$ 9,706</b>	<b>\$ 8,817</b>	<b>\$ 19,559</b>	<b>\$ 17,231</b>	<b>\$ 37,299</b>

Note: Adjusted EBITDA is a non-GAAP measure. For a description of Adjusted EBITDA, see slide titled "Non-GAAP Measures."

1. Represents foreign exchange transaction amounts associated with activities between the Partnership's U.S. and Canadian subsidiaries.

2. Represents the change in non-cash contract assets and liabilities associated with revenue recognized at blended rates based on tiered rate structures in certain of the Partnership's customer contracts and deferred revenue associated with deficiency credits that are expected to be used in the future prior to their expiration. Amounts presented are net of the corresponding prepaid Gibson pipeline fee that will be recognized as expense concurrently with the recognition of revenue.