Sprague Resources LP

Non-GAAP Supplement

Q2 2019

Overview

This Non-GAAP Measures Quarterly Supplement (the "Supplement") provides information of interest to investors, analysts and other parties including supplemental financial information and reconciliations and other information concerning Sprague's use of non-GAAP financial measures and is updated quarterly. The term "Sprague" refers to Sprague Resources LP.

To supplement the financial information presented in accordance with United States generally accepted accounting principles ("GAAP"), Sprague's management uses certain non-GAAP financial measurements to evaluate its results of operations. This Supplement provides information about the following non-GAAP measures: EBITDA, adjusted gross margin, adjusted EBITDA, distributable cash flow, distribution coverage ratio, permanent leverage ratio, liquidity, as well as additional information pertaining to guidance.

Use of Non-GAAP Measures

Management publicly discloses non-GAAP financial measures in the course of our earnings releases, financial presentations, earnings conference calls, investor and analyst meetings and otherwise which are provided as additional information to investors, analysts and other parties. Sprague believes that investors benefit from having access to the same financial measures that are used by its management and that these measures are useful to investors because they aid in comparing its operating performance with that of other companies with similar operations. However, Sprague's calculations of non-GAAP measures may not be comparable to similarly titled measures of other businesses because they may be defined differently by other companies.

These non-GAAP measures may not be indicative of the historical operating results nor are they intended to be predictive or projections of future results and should be considered within the context of our complete audited and unaudited financial results for the given period, which are available on the Investor Relations page of our website www.spragueenergy.com and in EDGAR public filings with the Securities and Exchange Commission (the "SEC").

Sprague's non-GAAP measures should be viewed as supplemental to, and should not be considered as alternatives to, GAAP measures including, but not limited to net earnings (loss), operating profit (loss), cash flow from operating, investing and financing activities, or any other measure of financial performance or liquidity presented in accordance with GAAP.

Pursuant to the requirements of SEC Regulation G, when Sprague refers to a non-GAAP measure, we will also present in this document, in the presentation itself or on a Form 8-K in connection with the presentation on the Investor Relations/Non-GAAP Measures page of our website, www.spragueenergy.com, to the extent practicable, the most directly comparable financial measure calculated and presented in accordance with GAAP, along with a reconciliation of the differences between the non-GAAP measure we reference and such comparable GAAP measure.

Sprague Resources LP

Non-GAAP Measures

EBITDA and Adjusted EBITDA

Management believes that adjusted EBITDA is an aid in assessing repeatable operating performance that is not distorted by non-recurring items or market volatility, the viability of acquisitions and capital expenditure projects and ability of our assets to generate sufficient revenue, that when rendered to cash, will be available to pay interest on our indebtedness and make distributions to our unitholders.

We define EBITDA as net income (loss) before interest, income taxes, depreciation and amortization. We define adjusted EBITDA as EBITDA adjusted for unrealized hedging losses and decreased by unrealized hedging gains (in each case with respect to refined products and natural gas inventory, prepaid forward contracts and natural gas transportation contracts), changes in fair value of contingent consideration, the net impact of biofuel excise tax credits in 2017 and 2013, and commencing in the fourth quarter of 2017 adjusted for the impact of acquisition related expenses.

EBITDA and adjusted EBITDA are used as supplemental financial measures by external users of our financial statements, such as investors, trade suppliers, research analysts and commercial banks to assess:

- The financial performance of our assets, operations and return on capital without regard to financing methods, capital structure or historical cost basis;
- The ability of our assets to generate sufficient revenue, that when rendered to cash, will be available to pay interest on our indebtedness and make distributions to our equity holders;
- Repeatable operating performance that is not distorted by non-recurring items or market volatility; and
- The viability of acquisitions and capital expenditure projects.

EBITDA and adjusted EBITDA are not prepared in accordance with GAAP and should not be considered alternatives to net income (loss) or operating income, or any other measure of financial performance presented in accordance with GAAP. EBITDA and adjusted EBITDA exclude some, but not all, items that affect net income (loss) and operating income (loss).

The GAAP measure most directly comparable to EBITDA and adjusted EBITDA is net income (loss). EBITDA and adjusted EBITDA should not be considered as an alternative to net income (loss) or cash provided by (used in) operating activities, or any other measure of financial performance or liquidity presented in accordance with GAAP. EBITDA and adjusted EBITDA are not presentations made in accordance with GAAP and have important limitations as analytical tools and should not be considered in isolation or as substitutes for analysis of our results as reported under GAAP. Because EBITDA and adjusted EBITDA exclude some, but not all, items that affect net income (loss) and is defined differently by different companies, our definitions of EBITDA and adjusted EBITDA may not be comparable to similarly titled measures of other companies.

We recognize that the usefulness of EBITDA and adjusted EBITDA as an evaluative tool may have certain limitations, including:

- EBITDA and adjusted EBITDA do not include interest expense. Because we have borrowed money in order to finance our operations, interest expense is a necessary element of our costs and impacts our ability to generate profits and cash flows. Therefore, any measure that excludes interest expense may have material limitations;
- EBITDA and adjusted EBITDA do not include depreciation and amortization expense. Because capital assets, depreciation and amortization expense is a necessary element of our costs and ability to generate profits, any measure that excludes depreciation and amortization expense may have material limitations;
- EBITDA and adjusted EBITDA do not include provision for income taxes. Because the payment of income taxes is a necessary element of our costs, any measure that excludes income tax expense may have material limitations;
- EBITDA and adjusted EBITDA do not reflect capital expenditures or future requirements for capital expenditures or contractual commitments;
- EBITDA and adjusted EBITDA do not reflect changes in, or cash requirements for, working capital needs; and
- EBITDA and adjusted EBITDA do not allow us to analyze the effect of certain recurring and non-recurring items that materially affect our net income or loss.

Sprague Resources LP

Non-GAAP Measures

Adjusted Gross Margin

Management trades, purchases, stores and sells energy commodities that experience market value fluctuations. To manage the Partnership's underlying performance, including its physical and derivative positions, management utilizes adjusted gross margin. In determining adjusted gross margin, management adjusts its segment results for the impact of unrealized gains and losses with regard to refined products and natural gas inventory, prepaid forward contracts and natural gas transportation contracts, which are not marked to market for the purpose of recording unrealized gains or losses in net income (loss). These adjustments align the unrealized hedging gains and losses to the period in which the revenue from the sale of inventory, prepaid fixed forwards and the utilization of transportation contracts relating to those hedges is realized in net income (loss). Adjusted gross margin is also used by external users of our consolidated financial statements to assess our economic results of operations and its commodity market value reporting to lenders.

We define adjusted gross margin as net sales less cost of products sold (exclusive of depreciation and amortization) and decreased by total commodity derivative gains and losses included in net income (loss) and increased by realized commodity derivative gains and losses included in net income (loss), in each case with respect to refined products and natural gas inventory, prepaid forward contracts and natural gas transportation contracts. Adjusted gross margin has no impact on reported volumes or net sales.

Adjusted gross margin is used as supplemental financial measures by management to describe our operations and economic performance to investors, trade suppliers, research analysts and commercial banks to assess:

- The economic results of our operations;
- The market value of our inventory and natural gas transportation contracts for financial reporting to our lenders, as well as for borrowing base purposes; and
- Repeatable operating performance that is not distorted by non-recurring items or market volatility.

Adjusted gross margin is not prepared in accordance with GAAP and should not be considered as alternatives to net income (loss) or operating income (loss) or any other measure of financial performance presented in accordance with GAAP.

We define adjusted unit gross margin as adjusted gross margin divided by units sold, as expressed in gallons for refined products, and in MMBtus for natural gas.

Distributable Cash Flow

Sprague defines distributable cash flow as adjusted EBITDA less cash interest expense (excluding imputed interest on deferred acquisition payments), cash taxes, and maintenance capital expenditures. Distributable cash flow calculations also reflect the elimination of compensation expense expected to be settled with the issuance of Partnership units, expenses related to business combinations and other adjustments. Distributable cash flow is a significant performance measure used by Sprague and by external users of its financial statements, such as investors, commercial banks and research analysts, to compare the cash generating performance of the Partnership in relation to the cash distributions expected to be paid to its unitholders. Distributable cash flow is also an important financial measure for Sprague's unitholders since it serves as an indicator of its success in providing a cash return on investment. Additionally, distributable cash flow is utilized as a performance measure in certain of its compensation plans. Distributable cash flow indicates to investors whether or not Sprague can generate performance that can sustain or support an increase in quarterly distribution rates. Distributable cash flow is also a quantitative standard used throughout the investment community with respect to publicly-traded partnerships because the value of a unit of such an entity is generally determined by the unit's yield, which in turn is based on the amount of cash distributions the entity pays to a unitholder.

Sprague Resources LP

Non-GAAP Measures

Distribution Coverage Ratio

Sprague also calculates the ratio of distributable cash flow to the total cash distribution declared for the period (the distribution coverage ratio) as it provides important information relating to the relationship between Sprague's financial operating performance and its cash distribution capability. Sprague defines the distribution coverage ratio as the ratio of distributable cash flow to the quarterly distribution payable on all outstanding common and subordinated units and incentive distributions.

Permanent Leverage Ratio

Sprague uses the term "permanent leverage" or "permanent leverage ratio" when referring to its Consolidated Total Leverage Ratio as contained in its Credit Agreement. Sprague's permanent leverage ratio equates to the aggregate of its acquisition facility borrowings, capital lease obligations, debentures and other debt divided by the consolidated trailing twelve-month adjusted EBITDA, as defined by the Credit Agreement. For computing compliance with the Credit Agreement, Sprague makes modifications to adjusted EBITDA to reflect the pro forma effect of acquisitions and adjusts for interest income, non-cash expenses, gain (loss) on sale of assets and other adjustments as allowed under the Credit Agreement. Management believes the permanent leverage ratio is helpful to investors in assessing the Partnership's overall debt profile and is used by management to evaluate its ability to finance capital expenditures and acquisitions.

Liquidity

Sprague defines liquidity as the potential availability under its Credit Agreement (consisting of maximum credit commitments, less balances outstanding) less adjustments associated with compliance with financial covenants and other provisions of the Credit Agreement that may limit borrowings.

Guidance

Reconciliation of non-GAAP adjusted EBITDA guidance to the closest corresponding GAAP measure (expected net income (loss)) is not available without unreasonable efforts on a forward-looking basis due to the inherent difficulty and impracticality of forecasting certain amounts required by GAAP such as unrealized gains and losses on derivative hedges, which can have a significant and potentially unpredictable, impact on our future GAAP financial results.

Sprague Resources LP
Reconciliations of Non-GAAP Measures

$ in thousands	Three Months Ended June 30, 2019	Three Months Ended March 31, 2019	Three Months Ended December 31, 2018	Three Months Ended September 30, 2018	Three Months Ended June 30, 2018	Three Months Ended March 31, 2018	Three Months Ended December 31, 2017	Three Months Ended September 30, 2017
Net Income (Loss) to EBITDA, Adjusted EBITDA and Distributable Cash Flow								
Net income (loss)	$ (4,778)	$ 33,921	$ 36,527	$ (18,434)	$ (13,195)	$ 74,921	$ (12,894)	$ (14,316)
Add/(deduct):								
Interest expense, net	9,898	11,772	10,389	8,950	9,243	9,772	8,649	7,095
Tax provision (benefit)	1,056	413	2,048	295	(286)	2,975	54	853
Depreciation and amortization	8,408	8,388	8,232	8,343	8,378	8,425	8,588	6,655
EBITDA	$ 14,584	$ 54,494	$ 57,196	(846)	$ 4,140	$ 96,093	$ 4,397	$ 287
Add/(deduct):								
Unrealized gain (loss) on inventory	364	4,236	(13,651)	3,281	971	(23,561)	15,498	13,673
Unrealized gain (loss) on prepaid forward contract	—	—	—	—	—	—	(169)	(667)
Unrealized gain (loss) on natural gas transportation contracts	(5,446)	(7,988)	(14,701)	5,939	3,716	(14,068)	16,546	760
Biofuel tax credit	—	—	—	—	—	(4,022)	4,022	—
Acquisition related expenses (1)	2	8	22	30	252	443	1,331	722
Other adjustments (2)	174	171	176	204	197	194	231	—
Adjusted EBITDA	$ 9,678	$ 50,921	$ 29,042	$ 8,608	$ 9,276	$ 55,079	$ 41,856	$ 14,775
Add/(deduct):								
Cash interest expense, net (excluding imputed interest on deferred acquisition payments)	(8,588)	(10,453)	(9,061)	(7,619)	(7,908)	(8,433)	(7,275)	(5,360)
Cash taxes	(1,726)	611	(1,921)	(973)	308	(2,369)	(152)	(723)
Maintenance capital expenditures	(2,028)	(1,466)	(2,297)	(2,586)	(3,473)	(2,262)	(3,893)	(4,322)
Elimination of expense relating to incentive compensation and directors fees expected to be paid in common units	140	(197)	(805)	(335)	(594)	838	586	(243)
Other	(128)	1	54	(265)	—	304	126	159
Distributable cash flow	$ (2,652)	$ 39,417	$ 15,012	$ (3,170)	$ (2,391)	$ 43,157	$ 31,248	$ 4,286
Distributions declared and equivalent rights paid for the period	$ 17,230	$ 17,230	$ 17,230	$ 17,230	$ 17,225	$ 18,304	$ 15,861	$ 15,063
Distribution coverage ratio	(0.2)x	2.3x	0.9x	(0.2)x	(0.1)x	2.4x	2.0x	0.3x
Trailing twelve month distribution coverage ratio	0.7x	0.7x	0.8x	1.0x	1.1x	1.2x	0.7x	1.1x

(1) Beginning in the fourth quarter of 2017, we have excluded the impact of acquisition related expenses from our calculation of adjusted EBITDA. We incur expenses in connection with acquisitions and given the nature, variability of amounts, and the fact that these expenses would not have otherwise been incurred as part of our continuing operations, adjusted EBITDA excludes the impact of acquisition related expenses. Adjusted EBITDA for all periods shown have been revised to conform to this presentation.

(2) Represents the change in fair value of contingent consideration related to the 2017 Coen Energy acquisition and other expense.

Sprague Resources LP
Reconciliations of Non-GAAP Measures

$ in thousands	Three Months Ended June 30, 2019	Three Months Ended March 31, 2019	Three Months Ended December 31, 2018	Three Months Ended September 30, 2018	Three Months Ended June 30, 2018	Three Months Ended March 31, 2018	Three Months Ended December 31, 2017	Three Months Ended September 30, 2017
Cash Flows								
Net cash provided by (used in) operating activities	$ 140,445	$ (2,975)	$ (32,323)	$ (14,030)	$ 148,597	$ 56,735	$ (69,849)	$ (96,469)
Net cash provided by (used in) investing activities	$ (3,053)	(2,171)	(3,899)	(3,701)	(5,603)	(3,652)	(42,222)	(20,610)
Net cash provided by (used in) financing activities	$ (137,734)	4,040	25,256	27,690	(139,975)	(54,286)	115,739	116,562
Other	$ (15)	33	(125)	55	(21)	(3)	(47)	63
Net change in cash and cash equivalents	$ (357)	$ (1,073)	$ (11,091)	$ 10,014	$ 2,998	$ (1,206)	$ 3,621	$ (454)
Cash Flow from Operations to Distributable Cash Flow								
Net cash provided by (used in) operating activities	$ 140,445	$ (2,975)	$ (32,323)	$ (14,030)	$ 148,597	$ 56,735	$ (69,849)	$ (96,469)
Add/(deduct):								
Changes in assets and liabilities	(136,142)	47,106	78,128	3,649	(152,364)	29,639	67,071	88,761
Unrealized gain (loss) on inventory	364	4,236	(13,651)	3,281	971	(23,561)	15,498	13,673
Unrealized gain (loss) on prepaid forward contracts	—	—	—	—	—	—	(169)	(667)
Unrealized gain (loss) on natural gas transportation contracts	(5,446)	(7,988)	(14,701)	5,939	3,716	(14,068)	16,546	760
Maintenance capital expenditures	(2,028)	(1,466)	(2,297)	(2,586)	(3,473)	(2,262)	(3,893)	(4,322)
Biofuel tax credit	—	—	—	—	—	(4,022)	4,022	—
Acquisition related expenses (1)	2	8	22	30	252	443	1,331	722
Other	153	496	(166)	547	(90)	253	691	1,828
Distributable cash flow	$ (2,652)	$ 39,417	$ 15,012	$ (3,170)	$ (2,391)	$ 43,157	$ 31,248	$ 4,286
Capital Expenditures								
Maintenance capital expenditures per distributable cash flow	$ 2,028	$ 1,466	$ 2,297	$ 2,586	$ 3,473	$ 2,262	$ 3,893	$ 4,322
Less: principal payments on maintenance capital leases	352	342	299	272	242	227	256	222
Maintenance capital expenditures	1,676	1,124	1,998	2,314	3,231	2,035	3,637	4,100
Expansion capital expenditures	1,555	1,069	1,072	1,722	2,386	1,646	3,448	8,088
Other capital expenditures	—	—	845	—	—	—	96	8,468
Total capital expenditures	$ 3,231	$ 2,193	$ 3,915	$ 4,036	$ 5,617	$ 3,681	$ 7,181	$ 20,656

(1) Beginning in the fourth quarter of 2017, we have excluded the impact of acquisition related expenses from our calculation of adjusted EBITDA. We incur expenses in connection with acquisitions and given the nature, variability of amounts, and the fact that these expenses would not have otherwise been incurred as part of our continuing operations, adjusted EBITDA excludes the impact of acquisition related expenses. Adjusted EBITDA for all periods shown have been revised to conform to this presentation.

Sprague Resources LP
Reconciliations of Non-GAAP Measures

$ in thousands	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
Net Income (Loss) to EBITDA, Adjusted EBITDA and Distributable Cash Flow				
Net income (loss)	$ 79,819	$ 29,497	$ 10,166	$ 78,348
Add/(deduct):				
Interest expense, net	38,354	31,006	27,145	26,911
Tax provision (benefit)	5,032	3,822	2,108	1,816
Depreciation and amortization	33,378	28,125	21,237	20,342
EBITDA	$ 156,583	$ 92,450	$ 60,656	$ 127,417
Add/(deduct):				
Unrealized gain (loss) on inventory	(32,960)	124	31,304	2,079
Unrealized gain (loss) on prepaid forward contracts	—	(1,076)	(1,552)	2,628
Unrealized gain (loss) on natural gas transportation contracts	(19,114)	10,441	18,612	(21,695)
Biofuel tax credit	(4,022)	4,022	—	—
Acquisition related expenses	747	3,038	1,177	2,919
Other adjustments	771	231	—	—
Adjusted EBITDA	$ 102,005	$ 109,230	$ 110,197	$ 113,348
Add/(deduct):				
Cash interest expense, net	(33,021)	(24,430)	(23,170)	(23,359)
Cash taxes	(4,955)	(2,966)	(1,719)	(1,668)
Maintenance capital expenditures	(10,618)	(12,428)	(9,379)	(8,855)
Elimination of expense relating to incentive compensation and directors fees expected to be paid in common units	(896)	2,289	3,075	8,437
Other	93	1,023	48	1,786
Distributable cash flow	$ 52,608	$ 72,718	$ 79,052	$ 89,689
Distributions declared for the period	$ 69,989	$ 60,375	$ 49,098	$ 42,084
Distribution coverage ratio	0.8x	1.2x	1.6x	2.1x

Sprague Resources LP
Reconciliations of Non-GAAP Measures

$ in thousands	As of June 30, 2019	As of March 30, 2019	As of December 31, 2018	As of September 30, 2018
Permanent Leverage Ratio				
Acquisition facility	$ 340,600	$ 348,100	$ 376,100	$ 379,100
Capital leases and other debt	6,658	6,602	6,314	5,296
Indebtedness for Credit Agreement Leverage Ratio	$ 347,258	$ 354,702	$ 382,414	$ 384,396
Credit Agreement EBITDA [1]				
Adjusted EBITDA	$ 98,249	$ 97,847	$ 102,005	$ 114,819
Plus acquisition pro forma adjustments	—	—	—	—
Plus interest income	622	651	576	496
Plus non-cash expenses	1,015	1,188	1,598	837
Plus loss (minus gain) on sale of assets	(420)	(293)	(293)	(218)
Plus other adjustments as allowed by the Credit Agreement	2,436	1,649	1,649	—
Credit Agreement EBITDA	$ 101,902	$ 101,042	$ 105,535	$ 115,934
Permanent Leverage Ratio	3.4x	3.5x	3.6x	3.3x
Liquidity - Working Capital Facility				
Working capital borrowing base	$ 321,636	$ 473,295	$ 512,467	$ 402,421
Working capital facility borrowings	(223,690)	(335,534)	(284,998)	(236,400)
Outstanding letters of credit	(32,981)	(61,430)	(65,520)	(41,280)
Liquidity - Working Capital Facility	$ 64,965	$ 76,331	$ 161,949	$ 124,741
Liquidity - Acquisition Facility				
Acquisition borrowing base	$ 550,000	$ 550,000	$ 550,000	$ 550,000
Acquisition facility borrowings	(340,600)	(348,100)	(376,100)	(379,100)
Liquidity - Acquisition Facility	$ 209,400	$ 201,900	$ 173,900	$ 170,900

(1) On a trailing twelve month basis