

PENNTEX MIDSTREAM PARTNERS, LP

FORM 10-Q (Quarterly Report)

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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**

Commission file number 001-37412
PennTex Midstream Partners, LP
(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

**8111 Westchester Drive, Suite 600
Dallas, Texas**

(Address of principal executive offices)

47-1669563

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

75225

(Zip Code)

(832) 456-4000

(Registrant's telephone number, including area code)

**11931 Wickchester Lane, Suite 300
Houston, Texas**

(Former address, if changed since last report.)

77043

(Zip Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See 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

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

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 1, 2017, the registrant had 20,714,256 common units and 20,000,000 subordinated units outstanding.

PENNTEX MIDSTREAM PARTNERS, LP
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GLOSSARY OF INDUSTRY AND OTHER COMMONLY-USED TERMS

AMI and Exclusivity Agreement: The Amended & Restated Area of Mutual Interest and Midstream Exclusivity Agreement dated as of April 14, 2015 among PennTex NLA Holdings, LLC, Range North Louisiana Operating, LLC and PennTex North Louisiana, LLC, as amended.

Bbl or barrel: One stock tank barrel, or 42 U.S. gallons liquid volume, used in reference to oil, NGLs or other liquid hydrocarbons.

Bbl/d: Bbl per day.

Btu: British thermal units.

Cotton Valley formation: A prolific natural gas play spread across East Texas, northern Louisiana and southern Arkansas. This formation has been under development since the 1930s and is characterized by thick, multi-zone natural gas and oil reservoirs with well-known geologic characteristics and long-lived, predictable production profiles. The depth of the Cotton Valley formation is roughly 7,800 to 10,000 feet.

Energy Transfer : ETP and its affiliates other than the Partnership, including ETE and SXL.

EPA : U.S. Environmental Protection Agency.

ETC : Energy Transfer Company, the name assumed by La Grange Acquisition, L.P., a wholly owned subsidiary of ETP, for conducting business and shared services.

ETE : Energy Transfer Equity, L.P. (NYSE: ETE), a publicly traded Delaware limited partnership.

ETE GP : LE GP, LLC, the general partner of ETE.

ETP : Energy Transfer Partners, L.P. (NYSE: ETP), a publicly traded Delaware limited partnership controlled by ETE. ETP owns all of the membership interests in PennTex Development and directly and indirectly owns and controls the Partnership's general partner.

ETP GP : Energy Transfer Partners GP, L.P., the general partner of ETP and which is indirectly owned and controlled by ETE.

ETP LLC: Energy Transfer Partners, L.L.C, the general partner of ETP GP and which is owned and controlled by ETE.

expansion capital expenditures: Cash expenditures incurred to construct or acquire new midstream infrastructure and to extend the useful lives of our assets, reduce costs, increase revenues or increase system throughput or capacity from current levels.

FERC: U.S. Federal Energy Regulatory Commission.

field: The general area encompassed by one or more oil or gas reservoirs or pools that are located on a single geologic feature, that are otherwise closely related to the same geologic feature (either structural or stratigraphic).

general partner : PennTex Midstream GP, LLC, the general partner of the Partnership.

hydrocarbon: An organic compound containing only carbon and hydrogen.

maintenance capital expenditures: Cash expenditures (including expenditures for the construction of new capital assets or the replacement or improvement of existing capital assets) made to maintain, over the long term, our operating capacity, throughput or revenue.

Mcf: One thousand cubic feet of natural gas.

MDth: A thousand dekatherms, which is a unit of energy equal to 10,000 therms or one billion Btus.

MDth/d : MDth per day.

Memorial Resource : Memorial Resource Development Corp. and its subsidiaries. Memorial Resource was a publicly traded independent exploration and production company and an affiliate of NGP prior to its acquisition by Range Resources in September 2016.

MMBtu: One million British thermal units.

MMcf: One million cubic feet of natural gas.

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MMcfe: One million cubic feet equivalent, determined using a ratio of six Mcf of natural gas to one Bbls of crude oil, condensate or natural gas liquids.

MMcf/d: One million cubic feet per day.

MMcfe/d: One million cubic feet equivalent per day.

natural gas: Hydrocarbon gas found in the earth, composed of methane, ethane, butane, propane and other gases.

NGLs: Natural gas liquids, which consist primarily of ethane, propane, isobutane, normal butane and natural gasoline.

NGP : Natural Gas Partners and its affiliated investment funds.

oil: Crude oil and condensate.

Partnership : PennTex Midstream Partners, LP and its subsidiaries.

PennTex Development : PennTex Midstream Partners, LLC, a wholly owned subsidiary of ETP.

PennTex Management : PennTex Midstream Management Company, LLC, a wholly owned subsidiary of PennTex Development.

Range Resources : Range Resources Corporation (NYSE: RRC), a publicly traded independent exploration and production company, and, unless the context otherwise requires, its subsidiaries. Range Resources became the Partnership's primary customer as a result of its acquisition of Memorial Resource in September 2016.

rich natural gas: Gas having a heat content of greater than 1100 BTU.

SXL : Sunoco Logistics Partners L.P. (NYSE: SXL), a publicly traded Delaware limited partnership. SXL's general partner is a consolidated subsidiary of, and is controlled by, ETP.

throughput: The volume of product transported or passing through a pipeline, plant, terminal or other facility.

Vernon Field : a natural gas field located in and around Jackson Parish, Louisiana within the Cotton Valley formation that offers economic stacked-pay drilling opportunities with high initial production rates.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some of the information in this quarterly report may contain forward-looking statements. Forward-looking statements give our current expectations, contain projections of results of operations or of financial condition, or forecasts of future events. Words such as “may,” “assume,” “forecast,” “position,” “predict,” “strategy,” “expect,” “intend,” “plan,” “estimate,” “anticipate,” “believe,” “project,” “budget,” “potential” or “continue,” and similar expressions are used to identify forward-looking statements. They can be affected by assumptions used or by known or unknown risks or uncertainties. Consequently, no forward-looking statements can be guaranteed. When considering these forward-looking statements, you should keep in mind the risk factors and other cautionary statements described under “Risk Factors” in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016 (the “2016 Form 10-K”) and those set forth from time to time in our filings with the Securities and Exchange Commission (the “SEC”), which are available through our website at www.pentex.com and through the SEC’s website at www.sec.gov. Actual results may vary materially. You are cautioned not to place undue reliance on any forward-looking statements. You should also understand that it is not possible to predict or identify all such factors and should not consider the following list to be a complete statement of all potential risks and uncertainties. Factors that could cause our actual results to differ materially from the results contemplated by such forward-looking statements include:

- our primary customer’s inability to successfully execute its drilling and development plan in northern Louisiana on a timely basis or at all;
- our ability to successfully implement our business strategy;
- realized natural gas, NGL and oil prices;
- competition, including from ETP, which owns our general partner and controls the Partnership;
- government regulations;
- actions taken by third-party producers, operators, processors and transporters;
- pending legal or environmental matters;
- costs of conducting our midstream operations;
- general economic conditions;
- credit markets;
- operating hazards, natural disasters, weather-related delays, casualty losses and other matters beyond our control;
- uncertainty regarding our future operating results; and
- plans, objectives, expectations and intentions contained in this report that are not historical.

We caution you that these forward-looking statements are subject to all of the risks and uncertainties incident to our midstream business, most of which are difficult to predict and many of which are beyond our control. These risks include, but are not limited to, commodity price volatility, inflation, environmental risks, drilling and completion and other operating risks, regulatory changes, the uncertainty inherent in projecting future rates of production, cash flow and access to capital, the timing of development expenditures and the other risks referenced under “Risk Factors” in Item 1A of the 2016 Form 10-K.

Should one or more of the risks or uncertainties described in this quarterly report occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements.

All forward-looking statements, expressed or implied, included in this quarterly report are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue.

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Except as otherwise required by applicable law, we disclaim any duty to update any forward-looking statements, all of which are expressly qualified by the statements in this section, to reflect events or circumstances after the date of this quarterly report.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

PENNTEX MIDSTREAM PARTNERS, LP
UNAUDITED CONSOLIDATED BALANCE SHEET

(in thousands, except outstanding units)

	March 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,490	\$ 8,442
Accounts receivable	17,373	15,225
Other receivables	118	112
Materials and supplies	2,813	2,391
Prepaid and other current assets	275	371
Total current assets	25,069	26,541
Property, plant and equipment, net	359,766	362,906
Intangible assets, net	19,767	20,064
Total non-current assets	379,533	382,970
Total assets	\$ 404,602	\$ 409,511
Liabilities		
Current liabilities:		
Accounts payable	\$ 385	\$ 224
Accounts payable—related party	3,400	626
Other current liabilities	3,113	3,198
Total current liabilities	6,898	4,048
Long-term debt, net	152,809	163,973
Deferred revenues	32,832	23,313
Other non-current liabilities	90	90
Total liabilities	192,629	191,424
Equity		
Partners' equity:		
Limited Partners:		
Common units (20,714,256 units issued and outstanding as of March 31, 2017 and December 31, 2016)	215,712	218,821
Subordinated units (20,000,000 units issued and outstanding as of March 31, 2017 and December 31, 2016)	(3,739)	(734)
General partner	—	—
Total equity	211,973	218,087
Total liabilities and equity	\$ 404,602	\$ 409,511

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

PENNTEX MIDSTREAM PARTNERS, LP
UNAUDITED CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands, except per unit amounts)

	Three months ended March 31,	
	2017	2016
Revenues	\$ 17,071	\$ 17,649
Operating expenses:		
Cost of revenues	2,688	2,192
General and administrative expense	1,672	3,935
Operating and maintenance expense	1,484	2,619
Depreciation and amortization expense	3,435	3,346
Taxes other than income taxes	281	227
Total operating expenses	9,560	12,319
Operating income	7,511	5,330
Interest expense, net	1,615	1,813
Net income	\$ 5,896	\$ 3,517
Earnings per common unit:		
Basic	\$ 0.14	\$ 0.12
Diluted	\$ 0.14	\$ 0.12
Weighted average common and common equivalent units outstanding:		
Basic	20,714,256	20,000,000
Diluted	20,714,256	20,000,000
Cash distribution declared per unit	\$ 0.2950	\$ 0.2750

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

PENNTEX MIDSTREAM PARTNERS, LP
UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands)

	Three months ended March 31,	
	2017	2016
Operating activities		
Net income	\$ 5,896	\$ 3,517
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization expense	3,435	3,346
Accretion of debt discount	336	332
Equity-based compensation expense	—	1,151
Non-cash contribution for general and administrative expense	—	1,157
Changes in deferred revenue, net	9,520	4,116
Changes in operating assets and liabilities:		
Accounts receivable	(2,139)	(384)
Accounts receivable - related party	(9)	(4,401)
Prepaid and other current assets	(331)	2,313
Accounts payable	161	(444)
Accounts payable - related party	2,773	227
Other liabilities	(84)	812
Cash provided by operating activities	19,558	11,742
Investing activities		
Property, plant and equipment expenditures	—	(9,386)
Intangible assets expenditures	—	(45)
Cash used in investing activities	—	(9,431)
Financing activities		
Proceeds from long-term debt	—	14,500
Payments on long-term debt	(11,500)	(11,500)
Payments for debt issuance costs	—	(10)
Distributions to unitholders	(12,010)	(11,000)
Phantom units surrendered to pay taxes	—	(174)
Cash used in financing activities	(23,510)	(8,184)
Net change in cash and cash equivalents	(3,952)	(5,873)
Cash and cash equivalents—beginning of period	8,442	7,760
Cash and cash equivalents—end of period	\$ 4,490	\$ 1,887
Supplemental cash flows:		
Interest paid, net of capitalized interest	\$ 1,619	\$ 1,583

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

PENNTEX MIDSTREAM PARTNERS, LP
UNAUDITED STATEMENT OF CHANGES IN EQUITY
(in thousands)

	<u>General Partner</u>	<u>Common Units</u>	<u>Subordinated Units</u>	<u>Total</u>
Balance at December 31, 2016	\$ —	\$ 218,821	\$ (734)	\$ 218,087
Distributions to unitholders	—	(6,110)	(5,900)	(12,010)
Net income	—	3,001	2,895	5,896
Balance at March 31, 2017	<u>\$ —</u>	<u>\$ 215,712</u>	<u>\$ (3,739)</u>	<u>\$ 211,973</u>

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

PENNTEx MIDSTREAM PARTNERS, LP
NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

1 . Organization and Business Operations

Organization

PennTex Midstream Partners, LP (the “Partnership”) is a growth-oriented limited partnership focused on owning, operating, acquiring and developing midstream energy infrastructure assets in North America. Our sponsor, PennTex Midstream Partners, LLC (“PennTex Development”), was formed by members of its original management team and Natural Gas Partners (“NGP”) in 2014 to develop a multi-basin midstream growth platform initially in partnership with oil and natural gas producers affiliated with NGP.

On November 1, 2016, Energy Transfer Partners, L.P. (“Energy Transfer”) acquired from NGP and certain other contributors (i) all of the outstanding membership interests in PennTex Development, (ii) 6,301,596 common units and 20,000,000 subordinated units collectively representing approximately 64.6% of the outstanding limited partner interests in the Partnership, (iii) all of the outstanding membership interests in the Partnership’s general partner and (iv) 100% of the Partnership’s incentive distribution rights. As a result of such transaction, ETP controls the Partnership. During the three months ended March 31, 2017, Energy Transfer purchased an additional 400,000 common units, on the open market, increasing their total investment to 65.6% of the outstanding limited partner interests in the Partnership.

In April 2017, Energy Transfer merged with a subsidiary of Sunoco Logistics Partners L.P., at which time Energy Transfer changed its name from “Energy Transfer Partners, L.P.” to “Energy Transfer, LP” and Sunoco Logistics Partners L.P. changed its name to “Energy Transfer Partners, L.P.” References to “Energy Transfer” refer to the entity named Energy Transfer Partners, L.P. prior to the close of the merger and the combined entity subsequent to the merger.

Business

The Partnership’s initial assets are located in northern Louisiana and were developed in two phases. The first phase of development, referred to as Phase I, was completed in May 2015 and includes the Lincoln Parish plant, a 200 MMcf/d design-capacity, cryogenic natural gas processing plant, and related natural gas gathering and residue gas transportation pipelines. The second phase of development, referred to as Phase II, was completed in September 2015 and includes the Mt. Olive plant, a 200 MMcf/d design-capacity, cryogenic natural gas processing plant, an NGL transportation pipeline and additions to the residue gas pipeline. The Partnership constructed additional gathering facilities in 2016 and expects to pursue other opportunities for organic development and growth as producers in the region continue to increase production.

Range Louisiana Operating LLC (“RRC Operating”), formerly known as MRD Operating LLC, is the Partnership’s primary customer. On September 16, 2016, Range Resources Corporation (“Range Resources”) completed its previously announced acquisition of Memorial Resource Development Corp. (“Memorial Resource”), and RRC Operating became a wholly owned subsidiary of Range Resources. Prior to the completion of the acquisition, RRC Operating was a wholly owned subsidiary of Memorial Resource, an affiliate of NGP, and was a related party of the Partnership. In connection with the acquisition, MRD Operating LLC changed its name to Range Louisiana Operating LLC. As of September 16, 2016, RRC Operating ceased to be a related party.

The Partnership operates and manages the business as one reportable segment. The accompanying unaudited consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

2 . Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“GAAP”) for interim financial information and with the requirements of Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, these statements include all adjustments (consisting of only normal recurring accruals, unless otherwise disclosed in this quarterly report) necessary for their fair presentation. The accompanying unaudited interim consolidated financial statements do not include all notes that would be included in the Partnership’s annual financial statements and therefore should be read in conjunction with the historical audited financial statements of PennTex Operating and the footnotes thereto included in the Partnership’s Annual Report on Form 10-K for the year ended December 31, 2016 (the “2016 Form 10-K”).

The statement of operations included in the accompanying unaudited consolidated financial statements also includes expense allocations for certain partnership functions performed by PennTex Development, including allocations of general

PENNTX MIDSTREAM PARTNERS, LP
NOTES TO FINANCIAL STATEMENTS

corporate expenses related to executive oversight, accounting, treasury, tax, legal and procurement and information technology. These allocations are based primarily on specific identification of time and/or activities associated with pre-construction, construction and operating activities, employee headcount or capital expenditures. Management believes the assumptions underlying the financial statements, including the assumptions regarding allocating general and administrative expenses from PennTex Development, are reasonable. General and administrative expenses allocated to the Partnership for which the Partnership will reimburse PennTex Development are reflected as a payable due to a related party.

Use of Estimates

The financial statements have been prepared in conformity with GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date, the reported amounts of expense and disclosure of contingencies. This includes estimates made in the assessment of potential impairment of long-lived assets and estimates used to calculate allocation of expenses from PennTex Development. The Partnership's valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely on projections of future operating performance. Although management believes these estimates are reasonable, actual results could differ from such estimates.

Revenue Recognition

The Partnership earns revenue from gathering, processing and transportation services provided to its customers. Revenue is recognized when all of the following criteria are met: (i) persuasive evidence of an exchange arrangement exists, (ii) delivery has occurred or service obligations have been fulfilled, (iii) the price is fixed or determinable and (iv) collectability is reasonably assured. For commercial agreements that provide for specified minimum volume commitments and variable rates, the Partnership recognizes revenue based on a weighted average rate over the term of the agreements.

Deferred Revenue

The Partnership's processing agreement with RRC Operating requires RRC Operating to pay a fee based on the volume of gas actually processed, subject to a cumulative minimum volume commitment that is measured as of the end of each quarterly period. To the extent that RRC Operating has not delivered the applicable cumulative minimum volume commitment as of the end of a quarterly period, RRC Operating is required to pay a deficiency fee to the Partnership. The amount paid to the Partnership as a deficiency fee is characterized as unearned revenue. The Partnership invoices RRC Operating based upon the applicable rates specified in the processing agreement for the services provided and recognizes revenue based on a weighted average rate over the term of the agreement. The excess of the fees invoiced under the processing agreement compared to the fees recognized as revenue are characterized as unearned revenue. Unearned revenue is reported as deferred revenue on the Consolidated Balance Sheet.

Deferred revenue is recognized as revenue once all contingencies or potential performance obligations associated with the related volumes have either been satisfied or expired. As of March 31, 2017, the Partnership had deferred revenue of \$32.8 million, of which \$9.5 million was generated during the three months ended March 31, 2017. As of December 31, 2016, the Partnership had \$23.3 million deferred revenue.

Accounting Policies

The accounting policies followed by the Partnership are set forth in Note 2—Summary of Significant Accounting Policies in the 2016 Form 10-K. The accompanying unaudited consolidated financial statements include all of the Partnership's accounts and the accounts of its subsidiaries. There were no significant changes to the Partnership's accounting policies during the three months ended March 31, 2017.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") amended its guidance on revenue recognition. The core principle of those accounting standards updates ("ASU") is that an entity should recognize revenue to depict the transfer of promised 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 guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with earlier adoption permitted for interim and annual periods beginning after December 15, 2016. This guidance may be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption. The Partnership anticipates adopting this guidance in the first quarter of 2018 and is currently evaluating the impact on its consolidated financial statements. The Partnership plans to apply the modified retrospective method. The Partnership is currently evaluating the impact of this pronouncement on its consolidated financial statements.

In February 2016, the FASB issued authoritative guidance that requires the balance sheet recognition of lease assets and lease liabilities by lessees for leases previously classified as operating leases under prior GAAP. The lease assets recognized in

PENNTEX MIDSTREAM PARTNERS, LP
NOTES TO FINANCIAL STATEMENTS

the balance sheet will represent a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The lease liability recognized in the balance sheet will represent the lessee's obligation to make lease payments arising from a lease, measured on a discounted basis. The Partnership will be required to adopt the new standard in annual and interim periods beginning January 1, 2019. Lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. These practical expedients relate to the identification and classification of leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date, and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset. The Partnership is continuing to evaluate the new standard but has not yet determined the appropriate methodology for implementing the new standard or the expected impact adoption will have on its consolidated financial statements.

In August 2016, the FASB issued authoritative guidance to reduce the diversity of reporting on statements of cash flows. This amendment is intended to reduce diversity in practice as to how certain cash receipts and cash payments are presented and classified in the statement of cash flows by providing guidance for several specific cash flow issues. This guidance becomes effective for fiscal years beginning after December 15, 2017 and, therefore, the Partnership will adopt this pronouncement January 1, 2018. The Partnership is currently evaluating the impact of this pronouncement on its consolidated financial statements.

3. Long-term Debt

The Partnership's debt obligations consisted of the following (in thousands) as of the below dates:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
\$275 million MLP revolving credit facility	\$ 156,500	\$ 168,000
Unamortized debt issuance costs	(3,691)	(4,027)
Total long-term debt	<u>\$ 152,809</u>	<u>\$ 163,973</u>

\$275 million MLP revolving credit facility

On December 19, 2014, the Partnership entered into a senior secured revolving credit facility with Royal Bank of Canada, as administrative agent, and a syndicate of lenders that became effective in June 2015 and matures on December 19, 2019 (the "MLP revolving credit facility"). The agreement provides for a \$275 million credit commitment that is expandable up to \$400 million under certain conditions. The funds have been used for general purposes, including the funding of capital expenditures. The Partnership's assets are pledged as collateral for this credit facility.

The MLP revolving credit facility contains various covenants and restrictive provisions that, among other things, limit or restrict the Partnership's ability to incur or guarantee additional debt, incur certain liens on assets, dispose of assets, make certain distributions (including distributions from available cash, if a default or event of default under the credit agreement then exists or would result from making such a distribution), change the nature of the Partnership's business, engage in certain mergers or make certain investments and acquisitions, enter into non-arms-length transactions with affiliates and designate certain subsidiaries of the Partnership as "Unrestricted Subsidiaries" for purposes of the credit agreement. Currently, no subsidiaries have been designated as Unrestricted Subsidiaries. The Partnership is required to comply with a minimum consolidated interest coverage ratio of 2.50 x and a maximum consolidated leverage ratio of 4.75 x with respect to the fiscal quarter ending March 31, 2017.

As of March 31, 2017, the Partnership had \$117.5 million of available borrowing capacity under the MLP revolving credit facility. As of March 31, 2017, the Partnership was in compliance with the covenants under the MLP revolving credit facility.

The borrowed amounts are subject to interest based upon the current consolidated total leverage ratio at the time of the borrowing. At the Partnership's discretion it can borrow utilizing either Eurodollar loans or Alternate Base Rate ("ABR") loans. Interest on Eurodollar loans is based on the LIBOR plus an applicable margin that varies between 2.0% and 3.25% based on the consolidated total leverage ratio. Interest on ABR loans is equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Federal Funds Effective Rate in effect on such day plus 1.5% and (c) the Adjusted LIBOR for a one-month interest period on such day plus 1.0% and plus an applicable margin that varies between 1.00% and 2.25% based on the consolidated total leverage ratio. The unused portion of the credit facility is subject to a commitment fee, which is 0.375% multiplied by the amount of the unused commitment. As of March 31, 2017, the weighted average interest rate on outstanding borrowings was 2.8%. The fair value of the long-term debt approximates the carrying amount because the interest rate is variable and reflective of market rates.

PENNTEX MIDSTREAM PARTNERS, LP
NOTES TO FINANCIAL STATEMENTS

The following table sets forth the outstanding borrowings, letters of credit issued and available borrowing capacity under the MLP revolving credit facility as of March 31, 2017 (in thousands):

Total borrowing capacity	\$ 275,000
Less: Outstanding borrowings	156,500
Less: Letters of credit issued	1,000
Available borrowing capacity	<u>\$ 117,500</u>

4. Partnership and Equity Distributions

Quarterly Distribution

The First Amended and Restated Agreement of Limited Partnership of the Partnership (the “Partnership Agreement”) provides for a minimum quarterly distribution of \$0.2750 per unit for each quarter, or \$1.10 per unit on an annualized basis. On April 26, 2017, the Partnership announced a distribution of \$0.2950 per unit for the first quarter of 2017. This distribution will be paid on May 12, 2017 to unitholders of record on May 5, 2017.

5. Earnings per Unit

The following table illustrates the Partnership’s calculation of net income per unit for the three months ended March 31, 2017 :

	Three months ended March 31,	
	2017	2016
	<i>(in thousands, except unit and per unit amounts)</i>	
Net income	\$ 5,896	\$ 3,517
Less: Net loss attributable to general partner	—	(1,157)
Net income attributable to the Partnership	<u>5,896</u>	<u>4,674</u>
Less:		
Payments for distribution equivalents ⁽²⁾	—	174
Limited partners’ distribution declared on common units ⁽¹⁾	6,110	5,501
Limited partners’ distribution declared on subordinated units ⁽¹⁾	<u>5,900</u>	<u>5,500</u>
Distribution in excess of net income attributable to the Partnership	(6,114)	(6,501)
Distribution in excess of net income attributable to equity-based awards	—	(101)
Distribution in excess of net income attributable to partners	<u>\$ (6,114)</u>	<u>\$ (6,400)</u>

⁽¹⁾ Distribution declared on April 26, 2017, attributable to the first quarter of 2017.

⁽²⁾ Represents Distribution Equivalent Rights (the “DERs”) paid in respect of phantom units.

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	General Partner		Limited Partners— Common Units	Limited Partners— Subordinated Units	Total
<i>(in thousands, except unit and per unit amounts)</i>					
Three Months Ended March 31, 2017					
Net income attributable to the limited partner unitholders:					
Distribution declared ⁽¹⁾	\$	—	\$ 6,110	\$ 5,900	\$ 12,010
Distribution in excess of net income attributable to partners		—	(3,111)	(3,003)	(6,114)
Net income attributable to limited partners	<u>\$</u>	<u>—</u>	<u>\$ 2,999</u>	<u>\$ 2,897</u>	<u>\$ 5,896</u>

Weighted average common units outstanding:

Basic	—	20,714,256	20,000,000	40,714,256
Diluted	—	20,714,256	20,000,000	40,714,256

Net income per common unit:

Basic		\$ 0.14	\$ 0.14	
Diluted		\$ 0.14	\$ 0.14	

⁽¹⁾ Distribution declared on April 26, 2017 attributable to the period indicated; includes distribution to be paid in respect of common units issued and outstanding as of the distribution record date of May 5, 2017 .

			Limited Partners— Common Units	Limited Partners— Subordinated Units	Total
<i>(in thousands, except unit and per unit amounts)</i>					
Three months ended March 30, 2016					
Net income attributable to the limited partner unitholders:					
Distribution declared	\$	—	\$ 5,500	\$ 5,500	\$ 11,000
Distribution in excess of net income attributable to partners		—	(3,200)	(3,200)	(6,400)
Net income attributable to partners	<u>\$</u>	<u>—</u>	<u>\$ 2,300</u>	<u>\$ 2,300</u>	<u>\$ 4,600</u>

Weighted average common units outstanding:

Basic	—	20,000,000	20,000,000	40,000,000
Diluted	—	20,000,000	20,000,000	40,000,000

Net income per common unit:

Basic		\$ 0.12	\$ 0.12	
Diluted		\$ 0.12	\$ 0.12	

6 . Commitments and Contingencies

Contractual Commitments

Commercial Agreements with RRC Operating

The Partnership has entered into 15 -year processing, gathering and residue gas and NGL transportation agreements with RRC Operating. The processing agreement contains a specified daily minimum volume threshold for RRC Operating, which increased to 460,000 MMBtu/d effective July 1, 2016. On July 1, 2026, RRC Operating’s daily minimum volume threshold will decrease to 345,000 MMBtu/d through May 31, 2030, and will then decrease to 115,000 MMBtu/d effective June 1, 2030

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through the remainder of the initial term ending October 1, 2030. Any volumes of gas delivered up to the applicable daily minimum volume threshold are charged the firm fixed-commitment fee and any volumes delivered in excess of such threshold are charged the interruptible-service fixed fee. RRC Operating must pay a deficiency payment based on the firm-commitment fixed fee with respect to a particular quarterly period if the cumulative minimum volume commitment as of the end of such period exceeds the sum of (i) the cumulative volumes processed under the processing agreement as of the end of such period plus (ii) volumes corresponding to deficiency payments incurred prior to such period. RRC Operating may utilize these deficiency payments as a credit for fees owed to the Partnership only to the extent it has delivered the total minimum volume commitment under the processing agreement within the initial 15 -year term of the agreement. Additionally, all volumes delivered by RRC Operating in excess of the minimum volume commitment in a quarterly period apply against and reduce, on a one -for-one basis, the cumulative minimum volume commitment used to calculate deficiency payments for future quarterly periods. The processing agreement also requires RRC Operating to reimburse a portion of the Partnership's electricity expenses for electric compression at the processing plants.

The gathering agreement provides for the gathering of RRC Operating's processable natural gas for delivery to the Partnership's processing plants (or a third party as described below). The gathering agreement initially provides for a firm capacity reservation payment and a usage fee that is subject to a minimum volume commitment. For the period from June 1, 2015 through November 30, 2019, (i) the firm capacity reservation payment is based on a daily capacity of 460,000 MMBtu/d, calculated monthly, and (ii) the usage fee is based on volumes delivered into the gathering system, subject to a deficiency fee based on a specified minimum volume commitment that is calculated and paid on an annual basis. The specified minimum gathering volume commitment equals RRC Operating's then applicable daily minimum volume threshold under the processing agreement (excluding any optional increases by RRC Operating). Accordingly, the specified minimum gathering volume commitment will not be less than 115,000 MMBtu/d nor more than 460,000 MMBtu/d. Beginning December 1, 2019 through the end of the gathering agreement term, all volumes will be subject to a usage fee, subject to the deficiency fee and minimum volume commitment described above, and no firm capacity reservation payment will apply. The gathering agreement also provides for the delivery of RRC Operating's rich natural gas, on an interruptible basis, to facilities operated by a third party for a specified usage fee.

The residue gas and NGL transportation agreements provide for the transportation of residue gas and NGLs produced at the Partnership's processing plants to downstream markets. RRC Operating pays a usage fee for all volumes transported under the residue gas and NGL transportation agreements and also pays a monthly fee for priority firm service under the gas transportation agreement. Both transportation agreements include a plant tailgate dedication pursuant to which all of RRC Operating's residue gas and NGLs produced from the Partnership's processing plants are delivered for transportation on the Partnership's residue gas and NGL pipelines.

Services and Secondment Agreement

The Partnership is party to a 10 -year services and secondment agreement with the general partner, PennTex Development and PennTex Midstream Management Company, LLC ("PennTex Management") pursuant to which PennTex Management and PennTex Development provide operational, general and administrative services to the Partnership.

Guarantees or Other Support

The Partnership has letters of credit outstanding that are backed by the MLP revolving credit facility as collateral support.

Legal Proceedings

The Partnership may from time to time be involved as a party to various legal proceedings that are incidental to the ordinary course of business. The Partnership regularly analyzes current information and, as necessary, will provide accruals for probable liabilities on the eventual disposition of these matters. In the opinion of management, as of March 31, 2017 , there are no pending legal matters that would have a material impact on the results of operations, financial position or cash flows.

7. Related-Party Transactions

Operational, General and Administrative Services

The Partnership does not have employees, and the officers of the general partner manage the operations and activities of the Partnership. All operational, general and administrative responsibilities are performed by employees of Energy Transfer pursuant to the services and secondment agreement and for which the Partnership reimburses or pays a specified administrative fee to Energy Transfer, which is settled in cash monthly. The administrative fee was \$250,000 per month during the first six months of the year ended December 31, 2016 and was \$333,333 per month during the last six months of the year ended

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December 31, 2016. Beginning January 1, 2017, the administrative fee is subject to renegotiation. Beginning January 1, 2017, the administrative fee is \$338,000 per month. The Partnership is also required to reimburse PennTex Development and its affiliates for all other direct or allocated costs and expenses incurred by them on the Partnership's behalf under the services and secondment agreement.

In addition, the Partnership is allocated additional general and administrative expenses to the extent that the administrative fee paid under the services and secondment agreement is less than the Partnership's share of PennTex Development's overall general and administrative expenses, which allocation is not payable in cash and is recorded as a non-cash general and administrative expense of the Partnership. The non-cash general and administrative expense is recorded as a non-cash contribution to the Partnership by the general partner. The Partnership's allocated general and administrative expenses and operating and maintenance expenses consist of the following (in thousands):

	Three months ended March 31,	
	2017	2016
Allocated general and administrative expenses:		
Cash	\$ 1,000	\$ 750
Non-cash	—	1,157
Operating and maintenance expenses	730	1,152
Total	<u>\$ 1,730</u>	<u>\$ 3,059</u>

The Partnership had outstanding accounts payable to affiliates of \$3.4 million and \$0.6 million as of March 31, 2017 and December 31, 2016, respectively.

8. Concentrations of Risk

Financial instruments that potentially subject the Partnership to concentrations of credit risk consist of cash and cash equivalents and accounts receivable. The Partnership maintains cash in bank deposit accounts that, at times, may exceed federally insured limits. The Partnership has not experienced any losses in such accounts to date and does not believe it is exposed to any significant risk.

Accounts receivable are from natural gas producers for which the Partnership will gather, process and transport natural gas and transport natural gas liquids. This industry concentration has the potential to impact the Partnership's overall exposure to credit risk, either positively or negatively, in that the Partnership's customers may be similarly affected by changes in economic, industry or other conditions. Management monitors the creditworthiness of counterparties.

The Partnership has entered into long-term commercial agreements with RRC Operating. RRC Operating accounted for 86% and 97% of the Partnership's total revenues for the three months ended March 31, 2017 and 2016, respectively. The Partnership is potentially exposed to concentration of business and credit risk primarily through the Partnership's commercial agreements with RRC Operating. Management monitors the creditworthiness of RRC Operating, and the Partnership has not experienced any collectability issues with RRC Operating.

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

The following discussion and analysis should be read in conjunction with the historical financial statements and related notes included in Part I, Item 1 of this quarterly report. The following discussion contains "forward-looking statements" that reflect our future plans, estimates, beliefs and expected performance. We caution that assumptions, expectations, projections, intentions or beliefs about future events may, and often do, vary from actual results and the differences can be material. Please read "Cautionary Statement Regarding Forward-Looking Statements" on page ii of this quarterly report. Also, please read the risk factors and other cautionary statements described under "Risk Factors" in Item 1A of the Partnership's Annual Report on Form 10-K for the year ended December 31, 2016 (the "2016 Form 10-K") included elsewhere in this report. We do not undertake any obligation to update any forward-looking statements except as otherwise required by applicable law.

Overview

We are a growth-oriented limited partnership focused on owning, operating, acquiring and developing midstream energy infrastructure assets in North America. Our sponsor, PennTex Development, was formed by members of its original management team and by NGP in 2014 to develop a multi-basin midstream growth platform initially in partnership with oil and natural gas producers affiliated with NGP.

On November 1, 2016, ETP acquired from NGP and certain other contributors (i) all of the outstanding membership interests in PennTex Development, (ii) 6,301,596 common units and 20,000,000 subordinated units collectively representing approximately 65% of the outstanding limited partner interests in the Partnership, (iii) all of the outstanding membership interests in our general partner and (iv) all of the Partnership's incentive distribution rights. As a result of such transaction, ETP owns our general partner and controls the Partnership. During the three months ended March 31, 2017, Energy Transfer purchased an additional 400,000 common units on the open market, increasing their total investment to 66% of the outstanding limited partner interests in the Partnership.

In April 2017, Energy Transfer merged with a subsidiary of Sunoco Logistics Partners L.P., at which time Energy Transfer changed its name from "Energy Transfer Partners, L.P." to "Energy Transfer, LP" and Sunoco Logistics Partners L.P. changed its name to "Energy Transfer Partners, L.P." References to "Energy Transfer" refer to the entity named Energy Transfer Partners, L.P. prior to the close of the merger and the combined entity subsequent to the merger.

We currently provide natural gas gathering and processing and residue gas and NGL transportation services to producers focused on the Cotton Valley formation in northern Louisiana. Our assets primarily consist of natural gas gathering pipeline, two 200 MMcf/d design-capacity cryogenic natural gas processing plants and residue gas and NGL transportation pipelines. Our primary customer is Range Resources, which completed its acquisition of Memorial Resource in September 2016. Prior to its acquisition by Range Resources, Memorial Resource was an affiliate of NGP and was our primary customer. In addition to providing midstream services to our primary customer with our existing assets, we pursue other opportunities for organic development and growth as producers in our region continue to develop their acreage.

Our assets are supported by long term, fee-based commercial agreements with Range Resources, including gathering and processing agreements that contain minimum volume commitments. Under the AMI and Exclusivity Agreement, we also have the exclusive right to develop, own and operate midstream assets and to provide midstream services to support Range Resources' growing production in northern Louisiana (other than production subject to existing third-party commitments or other arrangements to which we consent).

Our Operations

We generate substantially all of our revenues pursuant to long-term, fee-based commercial agreements with Range Resources Corporation ("Range Resources"). Our gathering and processing agreements with Range Resources contain minimum volume commitments, our gathering agreement contains firm capacity reservation payments and our residue gas and NGL transportation agreements contain plant tailgate dedications for natural gas processed at our processing plants. We believe these commercial agreements provide long-term stability to our business. In addition, pursuant to the AMI and Exclusivity Agreement, we have the exclusive right to provide midstream services to support Range Resources' current and future production on its operated acreage within northern Louisiana (other than production subject to existing third-party commitments or other arrangements to which we consent). Our assets are designed to accommodate projected future production growth of Range Resources and to allow us to pursue volumes from third parties.

Because we do not take ownership of the natural gas and NGLs that we gather, process and transport under our agreements with Range Resources, we generally do not have direct exposure to fluctuations in commodity prices. However, we have indirect exposure to commodity prices in that persistently low commodity prices may cause Range Resources or other customers to delay drilling or shut-in production, which would reduce the volumes of natural gas available for gathering, processing and transporting on our systems. In addition, we take title to and resell NGLs that we process pursuant to

interruptible processing agreements with other customers, which results in some direct commodity price exposure. However, because these are interruptible agreements, we are not obligated to process any specified natural gas volumes and we are not required to purchase any NGLs under the agreement.

Please read “Quantitative and Qualitative Disclosures About Market Risk” in Item 3 of this quarterly report.

How We Evaluate Our Operations

Our management uses a variety of financial and operational metrics to analyze our performance. We view these metrics as important factors in evaluating our profitability and liquidity and review these measurements on at least a monthly basis for consistency and trend analysis. These metrics include (i) contract mix and volumes, (ii) operating costs and expenses and (iii) Adjusted EBITDA and distributable cash flow. We manage our business and analyze our results of operations as a single business segment.

Contract Mix and Volumes

Our results are driven primarily by fees assessed for volumes of natural gas that we gather and process and volumes of residue gas and NGLs that we transport for our customers. In order to limit our direct exposure to commodity price volatility, where possible, we have and will continue to seek to enter into multi-year, fee-based contracts. If market conditions do not allow us to enter into fee-based contracts, we may enter into contracts that expose us to commodity price volatility. Additionally, we seek to enter into contracts containing firm volume commitments or similar arrangements to provide revenue certainty for our assets, particularly in the context of making investment decisions for new midstream infrastructure. To the extent our contracts contain usage-based fees, our results will depend on actual throughput volumes.

Our current contracts with Range Resources contain minimum volume commitments for natural gas processing, firm capacity reservation fees for natural gas gathering and interruptible fees for volumes in excess of those minimum and firm commitments, as applicable, and usage fees for residue gas and NGL transportation. Although these contracts are entirely fee-based and accordingly limit our commodity price exposure, the volume of natural gas that we gather, process or transport depends on successful drilling and production activity in northern Louisiana, and we generally expect the level of drilling and production to positively correlate with long-term trends in commodity prices.

Operating Costs and Expenses

The primary components of our operating costs and expenses that we evaluate include operations and maintenance and general and administrative.

Operations and Maintenance Expense

Operations and maintenance expense consists primarily of utilities and power costs, employee, contract services and material and supply costs, whether directly incurred by us or incurred by our general partner and billed to us. Changes in operating conditions and changes in regulation can impact maintenance requirements and affect the timing and amount of our operating costs and expenditures.

General and Administrative Expense

In our historical financial statements, general and administrative expenses consist primarily of: (i) direct and indirect costs for which we reimburse our general partner, PennTex Development and its affiliates pursuant to the services and secondment agreement among us, our general partner, PennTex Development and PennTex Management and (ii) other expenses attributable to our status as a publicly traded partnership, such as expenses associated with annual and quarterly reporting; tax return and Schedule K-1 preparation and distribution expenses; Sarbanes-Oxley compliance expenses; expenses associated with maintaining compliance with applicable NASDAQ listing requirements; independent auditor fees; legal fees; investor relations expenses; registrar and transfer agent fees; director and officer liability insurance expenses and director compensation.

Adjusted EBITDA and Distributable Cash Flow

We use Adjusted EBITDA and distributable cash flow to assess the ability of our assets to generate cash sufficient to pay interest costs, support indebtedness and make cash distributions. We define Adjusted EBITDA as net income, plus interest expense, income taxes, depreciation and amortization, changes in deferred revenue, equity-based compensation expense, non-cash general and administrative expenses, non-cash loss (income) related to derivative instruments and impairments on long-term assets. We define distributable cash flow as Adjusted EBITDA, less cash interest expense related to operating activities, net of interest income, income taxes paid and maintenance capital expenditures, and distribution equivalents paid in cash. Distributable cash flow does not reflect changes in working capital balances.

Adjusted EBITDA and distributable cash flow are non-GAAP supplemental financial measures that our management uses, and external users of our financial statements, such as investors, commercial banks, research analysts and others, may use, to assess:

- the ability of our business to generate sufficient cash flow to make distributions to our unitholders;
- our ability to incur and service debt and fund capital expenditures;
- the financial performance as compared to other publicly traded companies in the midstream energy industry, without regard to historical cost basis or, in the case of Adjusted EBITDA, financing methods; and
- the viability of acquisitions and other capital expenditure projects and the returns on investment of various expansion and growth opportunities.

The GAAP liquidity measure most directly comparable to Adjusted EBITDA and distributable cash flow is net cash provided by operating activities. We believe that the presentation of Adjusted EBITDA and distributable cash flow provides information useful to investors in assessing our financial condition and results of operations. Adjusted EBITDA and distributable cash flow should not be considered alternatives to net income, operating income, cash flows from operations or any other measure of financial performance or liquidity presented in accordance with GAAP. Adjusted EBITDA and distributable cash flow have important limitations as analytical tools because they exclude some but not all items that affect net income and net cash provided by operating activities. Additionally, because Adjusted EBITDA and distributable cash flow may be defined differently by other companies in our industry, our definition of Adjusted EBITDA and distributable cash flow may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

Results of Operations

The following provides a summary of our results of operations for the periods indicated:

	Three months ended March 31,	
	2017	2016
	(in thousands)	
Revenue	\$ 17,071	\$ 17,649
Operating expenses:		
Cost of revenues	2,688	2,192
General and administrative expense	1,672	3,935
Operating and maintenance expense	1,484	2,619
Depreciation and amortization expense	3,435	3,346
Taxes other than income taxes	281	227
Total operating expenses	9,560	12,319
Operating income	\$ 7,511	\$ 5,330
Adjusted EBITDA ⁽¹⁾	\$ 20,466	\$ 15,100
Operating Data:		
Gathering (MDth/d)	265	308
Processing (MDth/d)	235	276
Transportation (MDth/d)	204	243
NGL transportation (Bbls/d)	9,656	9,740

⁽¹⁾ For a discussion of the non-GAAP financial measure Adjusted EBITDA, including a reconciliation of Adjusted EBITDA to its most directly comparable financial measures calculated and presented in accordance with GAAP, please read “Non-GAAP Financial Measures” below.

Three months ended March 31, 2017 compared to the three months ended March 31, 2016

For the three months ended March 31, 2017 and 2016, we recorded revenue of \$17.1 million and \$17.6 million, respectively, which includes \$ 1.1 million and \$1.9 million for electric compression reimbursement, respectively. We generated this revenue by providing gathering, processing, and transportation services to customers.

Range Resources’s cumulative processing volumes through the three months ended March 31, 2017 and 2016 were below the applicable minimum processing commitment under the processing agreement. As a result, we recorded deficiency payment of \$9.2 million and \$3.1 million, respectively, attributable to undelivered volumes during such period. As of March 31, 2017 and 2016, non-current liabilities on our balance sheet reflects deferred revenues of \$32.8 million and \$4.1 million, respectively, which includes the deficiency payment and processing fees incurred by Range Resources in excess of the weighted average processing fee over the duration of the processing agreement. All of the amounts included in deferred revenue as of March 31, 2017 have been billed and collected as of April 30, 2017.

Deferred revenue is recognized as revenue once all contingencies or potential performance obligations associated with the related volumes have either been satisfied or expired. Range Resources may use deficiency payments paid under the processing agreement to offset future processing fees to the extent that Range Resources delivers the total minimum processing volume under the processing agreement prior to October 1, 2030.

As of March 31, 2017 and 2016, Range Resources’s cumulative processing volumes were below the applicable minimum processing commitment by 75,988 MDth and 7,153 MDth, respectively.

For the three months ended March 31, 2017 compared to the three months ended March 31, 2016, our total general and administrative expenses and operating and maintenance expenses decreased approximately \$2.3 million and \$1.1 million, respectively, primarily due to efficiencies realized following Energy Transfer’s acquisition of our general partner.

For the three months ended March 31, 2017 and 2016, our cost of revenues consists of approximately \$2.3 million and \$2.0 million of electric compression expense, respectively.

Our Adjusted EBITDA increased by \$5.4 million and distributable cash flow increased by \$5.9 million during the three months ended March 31, 2017 as compared to the three months ended March 31, 2016. These increases are primarily due to an increase in deferred revenue of \$5.4 million, which is due to a higher minimum volume commitment.

Liquidity and Capital Resources

Overview

Our ability to finance our operations, fund capital expenditures, pay cash distributions to unitholders and satisfy our indebtedness obligations depends on our ability to generate cash flow in the future. Our ability to generate cash flow is subject to a number of factors, some of which are beyond our control. Please read “Risk Factors” in Item 1A of the 2016 Form 10-K.

Our primary sources of liquidity following the Offering have been borrowings under our \$275 million revolving credit facility and cash generated from our operations. We also expect that any future issuance of equity and debt securities will provide additional sources of liquidity.

We expect to distribute all of our available cash to unitholders in accordance with the terms of our partnership agreement. We believe that cash on hand, cash generated from operations and availability under our revolving credit facility will be adequate to meet our operating needs, our planned short-term capital and debt service requirements and our planned cash distributions to unitholders. We believe that future internal growth projects or potential acquisitions will be funded primarily through borrowings under our revolving credit facility or through issuances of debt and equity securities.

Management believes that our anticipated cash flows from operations and available borrowings under our revolving credit facility will be sufficient to meet our liquidity needs for the next twelve months.

Revolving Credit Facility

Our \$275 million senior secured revolving credit facility became effective upon completion of the Offering. The revolving credit facility contains an accordion feature that allows us to expand the facility up to \$400 million in certain circumstances. The revolving credit facility contains various affirmative and negative covenants and restrictive provisions that limit our ability (as well as the ability of our subsidiaries) to, among other things:

- incur or guarantee additional debt, including certain hedging obligations;
- make certain investments and acquisitions;
- incur certain liens or permit them to exist;
- alter our lines of business;
- enter into certain types of transactions with affiliates;
- merge or consolidate with another company; and
- transfer, sell or otherwise dispose of assets.

In addition, our revolving credit facility restricts our ability to make distributions on, or redeem or repurchase, our equity interests, except for distributions of available cash so long as, both at the time of the distribution and after giving effect to the distribution, no default exists under the revolving credit facility. Our revolving credit facility also requires us to maintain certain financial covenants. As of March 31, 2017, we were in compliance with the covenants under our revolving credit facility.

Our revolving credit facility contains customary events of default for facilities of this nature, including:

- events of default resulting from our failure or the failure of any guarantors to comply with covenants and financial ratios;
- the occurrence of a change of control;
- the institution of insolvency or similar proceedings against us or any guarantor; and
- the occurrence of a default under any other material indebtedness we or any guarantor may have.

Upon the occurrence and during the continuation of an event of default, subject to the terms and conditions of our revolving credit facility, our lenders may declare any outstanding principal of our revolving credit facility debt, together with accrued and unpaid interest, to be immediately due and payable and exercise other remedies.

As of March 31, 2017, we had \$156.5 million drawn under our revolving credit facility and had \$1.0 million of letters of credit outstanding, resulting in \$117.5 million of additional available borrowing capacity.

Working Capital

Working capital is the amount by which our current assets exceed our current liabilities. As of March 31, 2017, our working capital decreased to \$18.2 million from \$22.5 million as of December 31, 2016. Our working capital requirements were primarily driven by changes in accounts payable and accounts receivable due to the timing of collections from our customers. Our working capital requirements have been primarily driven by changes in accounts payable along with changes in accounts receivable due to the timing of collections from our customers and payments to suppliers. A material adverse change in operations or available financing under our revolving credit facility could impact our ability to fund our requirements for liquidity and capital resources.

Historical Cash Flow

All of the following discussions relate to the three months ended March 31, 2017. The following table and discussion presents a summary of our cash flow for the periods indicated:

	Three months ended March 31,	
	2017	2016
	(in thousands)	
Net cash provided by (used in):		
Operating activities	\$ 19,558	\$ 11,742
Investing activities	\$ —	\$ (9,431)
Financing activities	\$ (23,510)	\$ (8,184)

Operating Activities.

Cash flows provided by operating activities were \$19.6 million for the three months ended March 31, 2017 compared to \$11.7 million of cash flows used in operating activities for the three months ended March 31, 2016.

We had net income of \$5.9 million for the three months ended March 31, 2017 compared to \$3.5 million for the three months ended March 31, 2016. Net income for the three months ended March 31, 2017 increased over the net income for the three months ended March 31, 2016 is primarily attributable to lower general and administrative expenses as well as lower operating and maintenance expenses. We generated net cash of \$9.5 million for the three months ended March 31, 2017 due to the differences in our billing activities as compared to our revenue recognized, which was \$5.4 million higher than the three months ended March 31, 2016 which is primarily attributable to the larger minimum volumes in the respective periods, per our processing agreements.

The components of working capital that had the most significant impact on operating cash flow during the current period were accounts receivable, accounts payable and other current liabilities.

Investing Activities.

There were no cash flows used for investing for the three months ended March 31, 2017 and \$9.4 million for the three months ended March 31, 2016. During the three months ended March 31, 2016, cash flows used in investing activities were used to expand and improve the effectiveness and efficiency of our assets.

Financing Activities.

During the three months ended March 31, 2017, cash flows used in financing activities consist of repayments under our revolving credit facility and distributions to unitholders. During the three months ended March 31, 2016, we borrowed and made repayments under our revolving credit facility and made distributions to our unitholders. Borrowings from our revolving credit facility represent our main source of funding other than operations.

Distributions

Our minimum quarterly distribution is \$ 0.2750 per unit, which corresponds to an aggregate distribution of \$11.2 million per quarter and \$44.8 million per year based on the common units and subordinated units outstanding as of March 31, 2017. Following are distributions declared and/or paid by the Partnership subsequent to December 31, 2016:

Three Months Ended	Date Paid/To Be Paid	Distributions			Total	Distribution per Limited Partner Unit
		Common Units	Subordinated Units	Incentive Distribution Rights		
(in thousands, except per unit amounts)						
March 31, 2017 ⁽¹⁾	May 12, 2017	\$6,110	\$5,900	\$—	\$ 12,010	\$ 0.2950
December 31, 2016	February 14, 2017	\$6,110	\$5,900	\$—	\$ 12,010	\$ 0.2950

⁽¹⁾On April 26, 2017, the Partnership announced a distribution of \$0.2950 per unit for the three months ended March 31, 2017. The distribution will be paid on May 12, 2017 to unitholders of record as of May 5, 2017.

Capital Requirements

Our business is capital-intensive, requiring significant investment to maintain and improve existing assets. We categorize capital expenditures as either:

- *maintenance capital expenditures*, which include those expenditures made to maintain, over the long term, our operating capacity, throughput or revenue, including the replacement of system components and equipment that have become obsolete or have approached the end of their useful lives; or
- *expansion capital expenditures*, which include those expenditures incurred in order to construct or acquire new midstream infrastructure and to extend the useful lives of our assets, reduce costs, increase revenues or increase system throughput or capacity from current levels.

Non-GAAP Financial Measures

As described above in “—How We Evaluate our Operations—Adjusted EBITDA and Distributable Cash Flow,” we use Adjusted EBITDA and distributable cash flow to assess the ability of our assets to generate cash sufficient to pay interest costs, support indebtedness and make cash distributions. Additionally, Adjusted EBITDA is a financial measure reported to our lenders and used to determine compliance with certain of the financial covenants included in our revolving credit facility.

Adjusted EBITDA and distributable cash flow are non-GAAP financial measures. The GAAP liquidity measure most directly comparable to Adjusted EBITDA and distributable cash flow is net cash provided by operating activities. Adjusted EBITDA and distributable cash flow should not be considered as alternatives to the GAAP measures of net income (loss) or net cash provided by operating activities, as applicable. Adjusted EBITDA and distributable cash flow are not presentations made in accordance with GAAP and have important limitations as analytical tools because they include some, but not all, items that affect net income (loss) or net cash provided by operating activities, as applicable. You should not consider Adjusted EBITDA or distributable cash flow in isolation or as substitutes for analysis of results as reported under GAAP. Our definitions of Adjusted EBITDA and distributable cash flow may not be comparable to similarly titled measures of other companies.

Adjusted EBITDA for the three months ended March 31, 2016 includes the results of our predecessor's operations for the period prior to the Offering on June 9, 2015. The following table reconcile Adjusted EBITDA to the most directly comparable GAAP financial and liquidity measures for the periods presented, and further reconciles Adjusted EBITDA for the three months ended March 31, 2017 and 2016 to distributable cash flow attributable to the Partnership:

	Three months ended March 31,	
	2017	2016
(in thousands)		
Reconciliation to Net Cash Provided by Operating Activities:		
Net cash provided by operating activities	\$ 19,558	\$ 11,742
Plus:		
Cash interest expense related to operating activities	1,280	1,481
Changes in working capital	(372)	1,877
Adjusted EBITDA	20,466	15,100
Less:		
Cash interest expense related to operating activities	1,280	1,481
Maintenance capital expenditures	—	158
Distribution equivalents paid in cash ⁽¹⁾	—	174
Distributable cash flow	\$ 19,186	\$ 13,287

⁽¹⁾ Represents distribution equivalent rights paid in cash in respect of the applicable period to the extent reflected as changes in equity.

The following table provides the calculation of Adjusted EBITDA as defined above:

	Three months ended March 31,	
	2017	2016
(in thousands)		
Net income	\$ 5,896	\$ 3,517
Add:		
Interest expense, net	1,615	1,813
Depreciation and amortization expense	3,435	3,346
Changes to deferred revenue, net	9,520	4,116
Equity-based compensation expense	—	1,151
Non-cash contribution for general and administrative expense	—	1,157
Adjusted EBITDA	\$ 20,466	\$ 15,100

Critical Accounting Policies and Estimates

Our significant accounting policies are described in Note 2 to the unaudited consolidated financial statements included elsewhere in this quarterly report. The preparation of our financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosure of contingent assets and liabilities. We disclosed certain critical accounting policies and estimates in our 2016 Form 10-K, and no significant changes have occurred since that time.

Off-Balance Sheet Arrangements

As of March 31, 2017, we did not have any off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The primary objective of the following information is to provide forward-looking quantitative and qualitative information about our potential exposure to market risk. The term “market risk” refers to the risk of loss arising from adverse changes in commodity prices and interest rates. The disclosures are not meant to be precise indicators of expected future losses, but rather indicators of reasonably possible losses. This forward-looking information provides indicators of how we view and manage our ongoing market risk exposures.

Commodity Price Risk

All of our commercial contracts with Range Resources are 15-year, fee-based agreements, with no direct commodity price exposure to natural gas or NGLs. However, we are indirectly exposed through this customer’s economic decisions to develop and produce natural gas from which we receive revenues for providing gathering, processing and transportation services. Our contracts provide for minimum volume commitments, firm capacity reservation payments and plant tailgate dedications, which minimize our exposure to commodity price fluctuations. In addition, we take title to and resell NGLs that we process pursuant to processing agreements with other customers, which results in some direct commodity price exposure. However, because these are interruptible agreements, we are not obligated to process any specified volume of gas and we are not required to purchase any NGLs under the agreements. The revenues and costs of revenue from these interruptible agreements represent an insignificant amount of our total reported revenues and costs of revenue.

Interest Rate Risk

As described above, our \$275 million revolving credit facility became effective upon completion of the Offering. As of March 31, 2017, we had \$156.5 million of borrowings outstanding under the revolving credit facility. We currently do not hedge the interest on portions of our borrowings under the revolving credit facility, although we may do so from time-to-time in order to manage risks associated with floating interest rates. A 1% increase in the effective interest rate on our outstanding borrowings at March 31, 2017 would result in an annual increase in our interest expense of approximately \$1.6 million.

Credit Risk

We are exposed to credit risk. Credit risk represents the loss that we would incur if a counterparty fails to perform under its contractual obligations. For example, we are substantially dependent on Range Resources as our primary customer, and any event, whether in our area of operations or otherwise, that adversely affects Range Resources’ production, drilling and completion schedule, financial condition, leverage, market reputation, liquidity, results of operations or cash flows may adversely affect our revenues and cash available for distribution. Our contracts have provisions pursuant to which we have the right to request and receive from the customer adequate security support in the form of letters of credit, cash collateral, prepayments or guarantees.

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 our management, including our 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. 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 under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2017 at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

During the three months ended March 31, 2017, our internal controls over financial reporting, including certain disclosure controls and corporate governance procedures, have been impacted by changes made to conform to the existing controls of ETP, the owner of our general partner. None of these changes are in response to any identified deficiency or weakness in our internal controls over financial reporting.

There were no other changes that have materially affected, or are reasonably likely to affect, our internal controls over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Our operations are subject to a variety of risks and disputes normally incident to our business. As a result, we may, at any given time, be a defendant in various legal proceedings and litigation arising in the ordinary course of business. However, we are not currently subject to any material litigation.

We maintain insurance policies with insurers in amounts and with coverage and deductibles that we, with the advice of our insurance advisers and brokers, believe are reasonable and prudent. We cannot, however, assure you that this insurance will be adequate to protect us from all material expenses related to potential future claims for personal injury and property damage or that these levels of insurance will be available in the future at economical prices.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors discussed under “Risk Factors” in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016 . There have been no material changes or updates to our risk factors previously disclosed in such annual report.

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits required to be filed pursuant to the requirements of Item 601 of Regulation S-K are set forth in the Exhibit Index accompanying this Quarterly Report on Form 10-Q and are incorporated herein by reference.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this quarterly report to be signed on its behalf by the undersigned thereunto duly authorized.

PennTex Midstream Partners, LP

May 4, 2017

By: PennTex Midstream GP, LLC, its general partner

By: /s/ Thomas E. Long

Name: Thomas E. Long

Title: Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

Exhibit Number	Description
3.1	Certificate of Limited Partnership of PennTex Midstream Partners, LP (incorporated by reference to Exhibit 3.1 to PennTex Midstream Partners, LP's registration statement on Form S-1, as amended (File No. 333-199020), initially filed with the Commission on September 30, 2014).
3.2	First Amended and Restated Agreement of Limited Partnership of PennTex Midstream Partners, LP, dated as of June 9, 2015 (incorporated by reference to Exhibit 3.1 to PennTex Midstream Partners, LP's Current Report on Form 8-K filed with the Commission on June 9, 2015).
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
32.1**	Certifications of Chief Executive Officer and 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.CAL*	XBRL Calculation Linkbase Document
101.DEF*	XBRL Definition Linkbase Document
101.INS*	XBRL Instance Document
101.LAB*	XBRL Labels Linkbase Document
101.PRE*	XBRL Presentation Linkbase Document
101.SCH*	XBRL Schema Document

* Filed as an exhibit to this Quarterly Report on Form 10-Q.

** Furnished as an exhibit to this Quarterly Report on Form 10-Q.

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO RULE 13A-14(A) AND RULE 15D-14(A)
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Kelcy L. Warren , certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PennTex Midstream 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(s) 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)) 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. 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
 - c. 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(s) 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 4, 2017

/s/ Kelcy L. Warren

Kelcy L. Warren

Chief Executive Officer

(Principal Executive Officer)

PennTex Midstream GP, LLC, as general partner of PennTex Midstream Partners, LP

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO RULE 13A-14(A) AND RULE 15D-14(A)
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Thomas E. Long , certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PennTex Midstream 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(s) 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)) 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. 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
 - c. 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(s) 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 4, 2017

/s/ Thomas E. Long

Thomas E. Long

Chief Financial Officer

(Principal Financial Officer)

PennTex Midstream GP, LLC, as general partner of PennTex Midstream Partners, LP

**CERTIFICATION 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 on Form 10-Q of PennTex Midstream Partners, LP (the "Partnership"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Kelcy L. Warren, Chief Executive Officer of PennTex Midstream GP, LLC, the general partner of the Partnership, and Thomas E. Long, Chief Financial Officer of PennTex Midstream GP, LLC, the general partner of the Partnership, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to their 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 4, 2017

/s/ Kelcy L. Warren

Kelcy L. Warren

Chief Executive Officer

(Principal Executive Officer)

PennTex Midstream GP, LLC, as general partner of PennTex Midstream Partners, LP

Date: May 4, 2017

/s/ Thomas E. Long

Thomas E. Long

Chief Financial Officer

(Principal Financial Officer)

PennTex Midstream GP, LLC, as general partner of PennTex Midstream Partners, LP

The foregoing certifications are being furnished as an exhibit to the Report pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, are not being filed as part of the Report for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not incorporated by reference into any filing of the Partnership, whether made before or after the date hereof, regardless of any general incorporation language in such filing.