

Unitholder Allocations of Cancellation of Indebtedness Income from the Exchange Offer

On June 11, 2020, CSI Compressco, LP and CSI Compressco Finance Inc. (the “Issuers”) announced that they had accepted for exchange \$215,208,000, or approximately 72.7%, of their outstanding 7.25% Senior Notes due 2022 (the “Old Notes”) that were validly tendered (and not validly withdrawn) by 11:59 p.m., New York City time, on June 10, 2020, for (i) \$50,000,000 of the Issuers’ 7.50% Senior Secured First Lien Notes due 2025 and (ii) \$155,529,000 aggregate principal amount of new 10.00%/10.75% Senior Secured Second Lien Notes due 2026 (the “Second Lien Notes”), pursuant to its previously announced exchange offer and consent solicitation (the “Exchange Offer”), which commenced on April 17, 2020.

When the Exchange Offer was initiated, the Current Report on Form 8-K, dated April 17, 2020, explained our expectation that the Exchange Offer would result in a material amount of cancellation of indebtedness income (“COD income”) per common unit being allocated to the Partnership’s unitholders that hold common units on the first business day of the month during which the Exchange Offer closed. At that time, we were not able to calculate the amount of the COD income with certainty because the amount of COD income depended in part upon the trading values of the Old Notes and the Second Lien Notes contemporaneous to the Exchange Offer. However, based on the final terms of the Exchange Offer and the ultimate trading values, we now expect COD income of \$2.17 per common unit to be allocated to unitholders that hold units on June 1, 2020. Unitholders that purchase units after June 1, 2020 will not be allocated a portion of COD income from the Exchange Offer.

Based on management’s projections and assumptions (including projections and assumptions related to the tax losses of the Partnership expected to be generated during 2020, the amount of depreciation to be taken by the Partnership during 2020 and this estimate of the COD income), the Partnership anticipates that, after taking into account losses allocated to the Partnership’s unitholders in prior taxable years and the allocation of losses expected to be generated during the 2020 taxable year of the Partnership, most unitholders will have been allocated net losses that exceed or offset a substantial portion of their allocable share of the COD income recognized as a result of the Exchange Offer. These projections and assumptions are based on the expectation that the Partnership’s unitholders on June 1, 2020 that are allocated the COD income will continue to hold their units for the remainder of 2020. The amount of prior year losses available to a unitholder is dependent upon when their units were purchased, the price at which they were purchased and application of the passive activity loss limitation (described below). Unitholders that did not purchase or own units until 2020 would not have prior losses from the Partnership.

Unitholders that sell or otherwise dispose of their units before the end of 2020 will not be allocated losses for the portion of the 2020 taxable year of the Partnership occurring after such sale or other disposition.

Based on management’s projections and assumptions, unitholders that purchased their units in the portion of 2020 occurring prior to June 1, 2020 and that held their units on June 1, 2020 are more likely to be allocated COD income in excess of their current allocable share of the losses of the Partnership and, as a result, are likely to have a higher tax burden as a result of the COD income than unitholders that purchased their units at other times.

A passive activity loss limitation generally limits the deductibility of losses allocated by the Partnership to certain of the Partnership's unitholders. As a result, for the Partnership's unitholders subject to the passive activity loss limitation, passive losses allocated by the Partnership to its unitholders may be used to offset only passive income generated by the Partnership. For the Partnership's unitholders that have appropriately suspended previously allocated losses, those losses would generally be available as an offset to the COD income recognized as a result of the Exchange Offer. For the Partnership's unitholders that did not appropriately suspend such prior losses, that are not subject to the passive activity loss limitation or that have already utilized their prior losses against income from the Partnership, the deduction of such losses would have provided a benefit to such unitholders in the taxable year in which they were deducted, but will not be available to offset the COD income.

Although previously allocated passive losses from the Partnership and current year losses are of a character that can offset the COD income, capital losses resulting from the sale or exchange of units are not able to offset such income. The ability of each unitholder to offset all or a portion of the COD income resulting from the Exchange Offer with current or previously allocated losses will depend on their particular situation, including when and how the unitholder acquired its units and the ability of the unitholder to utilize its suspended passive losses.

Unitholders should consult their tax advisors with respect to their particular situation and the tax consequences of the ownership of units to them, including the tax consequences of the Exchange Offer, the allocation of the COD income described above and the amount and availability of any losses previously allocated to them by the Partnership.