Hi-Crush Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations
As of December 31, 2020 and for the period from October 1, 2020 through December 31, 2020
(Unaudited)

The following discussion and analysis of the Company's financial condition and results of operations should be read together with the consolidated financial statements and the related notes in the "Audited Financial Statements" separately provided.

Overview

Hi-Crush Inc. (together with its subsidiaries, the "Company," "we," "us" or "our") is a fully-integrated provider of proppant and logistics services for hydraulic fracturing operations, offering frac sand production, advanced wellsite storage systems, flexible last mile services, and innovative software for real-time visibility and management across the entire supply chain. Our strategic suite of solutions provides operators and service companies in all major U.S. oil and gas basins with the ability to build safety, reliability and efficiency into every completion.

Our Assets and Operations

Production Facilities

We own six production facilities located in Wisconsin and Texas. Our four Wisconsin production facilities are equipped with on-site transportation infrastructure capable of accommodating unit trains connected to the Union Pacific Railroad mainline or the Canadian National Railway mainline. Our two Texas production facilities have on-site silo storage capacity and infrastructure capable of direct loading into trucks.

The following table provides a summary of our facilities as of December 31, 2020:

Mine/Plant Name	Mine/Plant Location	In-Service Date	Area (in acres)	Annual Capacity (in tons)	Estimated Proven Reserves (in thousands of tons)
Wyeville facility	Wyeville, WI	June 2011	973	2,700,000	68,625
Augusta facility (a)	Augusta, WI	June 2012	1,187	2,860,000	42,135
Whitehall facility (b)	Whitehall, WI	September 2014	1,626	2,860,000	84,628
Blair facility (c)	Blair, WI	March 2016	1,285	2,860,000	109,853
Kermit facilities (c)	Kermit, TX	July 2017 / December 2018	1,226	6,000,000	102,463

(a) The Augusta facility was idled in January 2019.
(b) In August 2019, the Company reduced the hours of operations at the Whitehall facility and in April 2020 it was idled.
(c) The Blair facility and one of the Kermit facilities were idled in April 2020.

During the first quarter of 2020, we announced our new OnCore Processing mobile frac sand production units ("OnCore units"), which represent the first completely mobile frac sand processing and production units in our industry. This mobile unit concept was designed and engineered by the Company, based on patented equipment that is manufactured by third parties with whom we have exclusivity agreements. The specialized, chassis-mounted equipment allows for mobile-based washing, drying and sorting of frac sand from significantly smaller sand reserves than are typically economically viable for a fixed position production plant. Mining and processing of reserves in closer proximity to our customers’ well completion activities results in lower logistics costs and thus lower total delivered costs for frac sand. During the fourth quarter of 2020, our first OnCore unit was deployed.

Terminal Facilities

As of December 31, 2020, we own or operate eight terminal locations throughout Pennsylvania, Ohio and Texas, of which seven are idled and five are capable of accommodating unit trains. As of December 31, 2020, we leased 1,600 railcars used to transport sand from origin to destination.

Logistics and Wellsite Operations

Our logistics and wellsite operations, named Pronghorn Energy Services, utilize our self-manufactured NexStage silo systems and/or containers, and maintain strict proppant quality control from the mine to the blender. We handle the full spectrum of logistics management with our fully-integrated solution, from railcar fleet management, truck dispatching and dedicated wellsite operations, which structurally reduces costs for customers by eliminating inefficiencies throughout the proppant delivery process.

How We Generate Revenue

We generate revenue by excavating, processing and delivering frac sand and providing related services. A substantial portion of our frac sand is sold to customers with whom we have long-term contracts. We also sell our frac sand on the spot market at prices and other terms determined by the existing market conditions as well as the specific requirements of the customer. Delivery of sand to our customers may occur at the production facility, rail origin, terminal or wellsite.

We generate other revenues through the performance of our logistics and wellsite operations and services, which includes transportation, equipment rental and labor services, and through activities performed at our in-basin terminals, including transloading sand for counterparties, lease of storage space and other services performed on behalf of our customers. A substantial portion of our logistics services are provided to customers with whom we have long-term agreements as defined in a master services agreements and related work orders.

We generate other revenues from the sale of silo systems and related equipment to third parties at negotiated prices for the specific equipment.

Costs of Conducting Our Business

Production Costs

The principal expenses involved in production of raw frac sand are excavation costs, plant operating costs, labor, utilities, maintenance and royalties. We have a contract with a third party to excavate raw frac sand, deliver the raw frac sand to our wet processing facilities and move the sand from our washed sand stockpiles to our dry plants.

Labor costs associated with employees at our processing facilities represent the most significant cost of converting raw frac sand to finished product. We incur utility costs in connection with the operation of our processing facilities, primarily electricity and natural gas, which are both susceptible to price fluctuations. Our facilities require periodic scheduled maintenance to ensure efficient operation and to minimize downtime. Excavation, labor, utilities and other costs of production are capitalized as a component of inventory and are reflected in cost of goods sold when inventory is sold.

We pay royalties to third parties at our Wisconsin facilities at various rates, as defined in the individual royalty agreements. No royalties are due on the sand extracted, processed and sold from our Kermit facilities.

We may, from time to time, purchase sand and other proppant through a long-term supply agreement with a third party at a specified price per ton and also through the spot market.

Logistics Costs

The principal expenses involved in distribution of processed sand are rail freight and fuel surcharges, railcar lease expense, and trucking charges. These logistics costs are capitalized as a component of finished goods inventory held in-basin and are reflected in cost of goods sold when the inventory is eventually sold in-basin or at the wellsite. Other logistics cost components, including transload fees, storage fees and terminal operational costs, such as labor and facility rent, are charged to costs of goods sold in the period in which they are incurred. We utilize multiple railroads to transport our sand and such transportation costs are typically negotiated through long-term working relationships.

The principal expenses involved in delivering sand to the wellsite are costs associated with third party trucking vendors, container rent, labor and other operating expenses associated with handling the product at the wellsite. These logistics costs are charged to costs of goods sold in the period in which they are incurred.

Other Costs of Sales

The principal expenses associated with the sale of silo systems and related equipment is the cost of the equipment generally manufactured by third parties, as well as testing and delivery charges to the location specified by the customer. These expenses are capitalized into equipment inventory and charged to cost of goods sold when delivery is completed to the customer.

General and Administrative Costs

We incur general and administrative costs related to our corporate operations, which includes our corporate office and facilities rent, administrative personnel payroll related expenses, professional fees, insurance and depreciation and amortization expenses.

(Dollars in thousands, except acreage and tonnage or where otherwise noted)

Results of Operations

The following table presents revenues, volumes and pricing for the period indicated:

	Period from October 1, 2020 through December 31, 2020
Frac sand sales revenues	$ 33,102
Other revenues	$ 15,087
Tons sold	1,035,517
Average price per ton sold	$ 32

Liquidity and Capital Resources

We expect our principal sources of liquidity will be available cash and cash generated by our operations. We believe these sources will be sufficient to meet our short-term working capital requirements, long-term capital expenditure requirements and debt service obligations, including interest payments. We expect that our future principal uses of cash will be for capital expenditures, funding debt service obligations and working capital.

Long-term Debt

For information, see Note 11 - Long-Term Debt of the Notes to Consolidated Financial Statements in the Audited Financial Statements.

Off-Balance Sheet Arrangements

As of December 31, 2020, there were $8,004 in surety bonds outstanding related to various performance obligations. These were issued in the ordinary course of our business and are in place to support various performance obligations as required by (i) statutes within the regulatory jurisdictions where we operate and (ii) counterparty support. Obligations under these surety bonds are not normally called, as we typically comply with the underlying performance requirement, and our management believes these surety bonds will expire without being funded.

Capital Requirements

During the period from October 1, 2020 through December 31, 2020, capital expenditures totaled $2,295, primarily related to the development and deployment of our OnCore units.

Working Capital

Working capital is the amount by which current assets, excluding cash, exceed current liabilities, excluding current portion of long-term debt and current portion of operating lease liabilities, and is a measure of our ability to pay our liabilities as they become due.

The following table summarizes our working capital as of the date indicated.

	December 31, 2020
Current assets:	
Accounts receivable, net	$ 24,807
Inventories	18,596
Prepaid expenses and other current assets	18,702
Total current assets	62,105
Current liabilities:	
Accounts payable	13,040
Accrued and other current liabilities	22,030
Current portion of deferred revenues	3,255
Total current liabilities	38,325
Working capital	$ 23,780

(Dollars in thousands, except acreage and tonnage or where otherwise noted)

The following table provides a summary of our cash flows for the periods indicated.

		Period from October 1, 2020 through December 31, 2020
Net cash provided by (used in):		
Operating activities	$	(7,969)
Investing activities		(1,417)
Financing activities		(1,092)

Cash Flows - Period from October 1, 2020 through December 31, 2020

Operating Activities

Net cash used in operating activities was $7,969 for the period from October 1, 2020 through December 31, 2020. Operating cash flows include net loss of $15,736 during the period from October 1, 2020 through December 31, 2020, adjusted for non-cash operating expenses and changes in working capital.

Investing Activities

Net cash used in investing activities was $1,417 for the period from October 1, 2020 through December 31, 2020, and was comprised of $2,295 of capital expenditures, offset by $878 of proceeds from the sale of property, plant and equipment.

Financing Activities

Net cash used in financing activities was $1,092 for the period from October 1, 2020 through December 31, 2020, and was primarily comprised of $385 of repayments on long-term debt and $684 repayment of premium financing notes.

Contractual Obligations

The following table presents our contractual obligations and other commitments as of December 31, 2020:

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Repayment of Convertible Notes	$ 48,069	$ —	$ —	$ —	$ 48,069
Repayment of other notes payable	719	719	—	—	—
Asset retirement obligations (a)	19,418	79	14,805	793	3,741
Minimum royalty payments	7,354	500	1,000	750	5,104
Operating lease obligations	6,001	2,364	3,520	117	—
Minimum purchase commitments (b)	1,486	1,006	384	96	—
Total contractual obligations	$ 83,047	$ 4,668	$ 19,709	$ 1,756	$ 56,914

(a) The asset retirement obligations represent the fair value of the post closure reclamation and site restoration commitments for our property and processing facilities located in Wisconsin.

(b) We have entered into service agreements with transload service providers which requires us to purchase minimum amounts of services over specific periods of time at specific locations. Our failure to purchase the minimum level of services would require us to pay shortfall fees. We have also entered into purchase commitments for the construction of certain equipment.