Hi-Crush Inc.

Consolidated Financial Statements

As of December 31, 2022 and 2021 and for the Years Ended December 31, 2022 and 2021

INDEX TO FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of
Hi-Crush Inc.

Opinion

We have audited the consolidated financial statements of Hi-Crush Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Whitley Penn LLP

Houston, Texas
April 27, 2023

HI-CRUSH INC.
Consolidated Balance Sheets
(In thousands)

	December 31, 2022	December 31, 2021
Assets		
Current assets:		
Cash	$ 26,855	$ 25,810
Restricted cash	10,559	21,820
Accounts receivable, net	92,209	50,167
Inventories	17,628	15,886
Prepaid expenses and other current assets	9,034	18,645
Total current assets	156,285	132,328
Property, plant and equipment, net	142,803	118,897
Operating lease right-of-use assets	24,948	9,825
Intangible assets, net	4,619	8,252
Other assets	146	386
Total assets	$ 328,801	$ 269,688
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 44,930	$ 26,069
Accrued and other current liabilities	21,563	18,442
Current portion of deferred revenues	666	5,591
Current portion of long-term debt	2,943	1,520
Current portion of operating lease liabilities	11,821	4,109
Total current liabilities	81,923	55,731
Long-term debt, net of current portion	849	1,147
Operating lease liabilities, net of current portion	13,151	5,733
Asset retirement obligations	15,759	21,381
Deferred tax liabilities	240	301
Total liabilities	111,922	84,293
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.001 par value, 10,157 shares authorized at December 31, 2022 and 2021, respectively; 7,185 shares and 7,137 shares issued and outstanding at December 31, 2022 and 2021, respectively	-	-
Additional paid-in-capital	282,668	283,629
Accumulated deficit	(65,789)	(98,227)
Accumulated other comprehensive loss	-	(7)
Total stockholders' equity	216,879	185,395
Total liabilities and stockholders' equity	$ 328,801	$ 269,688

See Notes to Consolidated Financial Statements.

HI-CRUSH INC.
Consolidated Statements of Operations
(In thousands)

	Year Ended December 31, 2022	Year Ended December 31, 2021
Revenues	$ 591,537	$ 345,375
Cost of goods sold	443,227	294,702
Gross profit	148,310	50,673
Operating costs and expenses:		
General and administrative	32,492	28,597
Depreciation, depletion and amortization	26,711	24,864
Accretion	2,279	2,852
Restructuring	173	1,281
Other operating income, net	(11,121)	(15,691)
Income from operations	97,776	8,770
Other income (expense):		
Earnings from equity method investment	-	32,239
Loss from sale of marketable securities	-	(10,914)
Loss on extinguishment of debt	-	(11,226)
Convertible notes inducement expense	-	(16,673)
Interest income (expense)	100	(44,477)
Income (loss) before income tax	97,876	(42,281)
Income tax (benefit) expense	511	(5,665)
Net income (loss)	$ 97,365	$ (36,616)

See Notes to Consolidated Financial Statements.

HI-CRUSH INC.

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

	Year Ended December 31, 2022		Year Ended December 31, 2021	
Net income (loss)	$	97,365	$	(36,616)
Foreign currency translation adjustment		7		3
Comprehensive income (loss)	$	97,372	$	(36,613)

See Notes to Consolidated Financial Statements.

HI-CRUSH INC.

Consolidated Statements of Cash Flows

(In thousands)

	Year Ended December 31, 2022	Year Ended December 31, 2021
Operating activities:		
Net income (loss)	$ 97,365	$ (36,616)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	26,711	24,864
Deferred income tax expense (benefit)	(61)	224
Provision for credit losses	1,096	-
Stock-based compensation expense	280	334
Amortization of debt issuance costs and discount	-	39,679
Accretion expense	2,279	2,852
Gain on sale of property, plant and equipment	(810)	(2,568)
Gain on sale of Hi-Crush Blair, LLC	(11,399)	-
Non-cash lease expense	6,961	2,949
Earnings from equity method investment	-	(32,239)
Loss from sale of marketable securities	-	10,914
Loss on extinguishment of debt	-	11,226
Inventory step-up amortization	-	2,097
Convertible notes inducement expense	-	16,673
Changes in operating assets and liabilities:		
Accounts receivable	(44,805)	(22,758)
Inventories	(1,442)	1,239
Prepaid expenses, other current assets, and other assets	9,484	9
Accounts payable, accrued and other current liabilities	1,731	9,866
Net cash provided by operating activities	87,390	28,745
Investing activities:		
Capital expenditures for property, plant and equipment	(38,983)	(10,674)
Proceeds from sale of property, plant and equipment	3,412	16,103
Equity method distributions	-	5,953
Proceeds from sale of equity method investment	-	4,695
Proceeds from sale of Hi-Crush Blair, LLC	6,478	-
Proceeds from sale of marketable securities	-	26,325
Net cash provided by (used in) investing activities	(29,093)	42,402
Financing activities:		
Proceeds from long-term debt	2,142	1,395
Repayment of long-term debt	(6,530)	(5,682)
Repurchase of common stock and convertible notes	(1,388)	(17,000)
Cash dividends paid	(62,897)	(44,704)
Proceeds from options exercised	160	1,090
Net cash used in financing activities	(68,513)	(64,901)
Effects of exchange rate on cash	-	3
Net increase (decrease) in cash and restricted cash	(10,216)	6,249
Cash and restricted cash at beginning of year	47,630	41,381
Cash and restricted cash at end of year	$ 37,414	$ 47,630

See Notes to Consolidated Financial Statements.

HI-CRUSH INC.

Consolidated Statements of Changes in Equity

(In thousands, except share amounts)

	Common Stock					
	Shares[1]	Par Value	Additional Paid-In-Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance at December 31, 2020	-	$ -	$ 225,117	$ (15,736)	$ (10)	$ 209,371
Issuance of common stock	238	-	-	-	-	-
Conversion of convertible notes to common stock	6,192	-	57,007	-	-	57,007
Conversion of paid-in-kind interest to convertible notes	-	-	4,387	-	-	4,387
Options exercised	808	-	1,090	-	-	1,090
Other	(57)	-	(77)	-	-	(77)
Repurchase of convertible notes and common stock	(44)	-	(4,229)	-	-	(4,229)
Dividends	-	-	-	(45,875)	-	(45,875)
Stock-based compensation expense	-	-	334	-	-	334
Other comprehensive income	-	-	-	-	3	3
Net loss	-	-	-	(36,616)	-	(36,616)
Balance at December 31, 2021	7,137	$ -	$ 283,629	$ (98,227)	$ (7)	$ 185,395
Options exercised	118	-	160	-	-	160
Restricted shares forfeited	(40)	-	-	-	-	-
Repurchase of common stock	(30)	-	(1,388)	-	-	(1,388)
Dividends	-	-	-	(65,000)	-	(65,000)
Stock-based compensation expense	-	-	280	-	-	280
Other	-	-	(13)	73	-	60
Other comprehensive income	-	-	-	-	7	7
Net income	-	-	-	97,365	-	97,365
Balance at December 31, 2022	7,185	$ -	$ 282,668	$ (65,789)	$ -	$ 216,879

[1] On September 27, 2022, the Company effected a 50,000 to 1 reverse stock split. All share information has been retroactively adjusted to reflect the reverse stock split and the reduced par value of the shares was recorded with the offset to additional paid-in-capital. See Note 13 – Equity for additional information.

See Notes to Consolidated Financial Statements.

1. Business and Organization

Description of Business and Organization

Hi-Crush Inc. (together with its subsidiaries, the "Company") is a fully-integrated provider of proppant and logistics services for hydraulic fracturing operations, offering frac sand production from both fixed and mobile mines, advanced wellsite storage systems, flexible last mile services, and innovative software for real-time visibility and management across the entire supply chain. The Company's 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.

During 2020, the Company filed for voluntary reorganization under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy court and emerged from bankruptcy on October 9, 2020 (the "Emergence Date"). Upon emergence from Chapter 11 bankruptcy, the Company adopted fresh-start accounting in accordance with provisions of the Financial Accounting Standards Board's ("FASB") Account Standards and Codification ("ASC") 852, *Reorganizations* ("ASC 852") which resulted in the Company becoming a new entity for financial reporting purposes on the Emergence Date, as well as having the assets and liabilities recorded at their fair values.

Basis of Presentation

The accompanying Consolidated Financial Statements ("financial statements") of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). In the opinion of management, all normal and recurring adjustments and disclosures necessary for a fair statement are reflected in the period presented. The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. Significant intercompany accounts and transactions have been eliminated in consolidation.

2. Significant Accounting Policies

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. The more significant estimates relate to fair value estimates, including the fair value of assets and liabilities recorded as a result of the adoption of fresh-start accounting, estimates and assumptions for mineral reserves and their impact on calculating depreciation and depletion expense under the units-of-production depreciation method, useful lives used in depreciation and amortization, estimates of fair value for reporting units and asset impairments (including impairments of intangibles and other long-lived assets), estimating potential loss contingencies, inventory valuation, valuation of allowance for credit losses, valuation of right-of-use assets (including potential impairments) and lease liabilities, stock-based compensation, the determination of income tax provisions and the estimated cost of future asset retirement obligations. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of all cash balances and highly liquid investments with an original maturity of three months or less.

Restricted Cash

The Company's restricted cash consists of cash that the Company is contractually obligated to maintain in accordance with certain financial assurance requirements.

Accounts Receivable

Accounts receivables, which relate to sales of frac sand and the performance of logistics and wellsite operations and services for which credit is extended based on the customer's credit history, are recorded at the invoiced amount and generally do not bear interest. The Company regularly reviews the collectability of accounts receivable. Revenues recognized in advance of invoice issuance create assets referred to as "unbilled receivables." Any portion of unbilled receivables for which the Company's right to consideration is conditional on a factor other than the passage of time is considered a contract asset. Unbilled receivables are presented on a combined basis with accounts receivable and are converted to trade receivables once billed. The Company's accounts receivable balance as of December 31, 2020 was $24,807.

Credit Losses

The Company is exposed to credit losses primarily through sales of products and services. The Company's expected loss allowance methodology for accounts receivable is developed using various estimates and assumptions including historical collection experience, current and future economic and market conditions and a review of the current status of customers' trade accounts receivables. Due to the short-term nature of such receivables, the estimate of accounts receivable that may not be collected is based on aging of the accounts receivable balances and the financial condition of customers. Additionally, specific allowance amounts are established to record the appropriate provision for customers that have a higher probability of default. The Company's monitoring activities include timely account reconciliation, dispute resolution, payment confirmation, consideration of customers' financial condition and macroeconomic conditions. As of December 31, 2022 and 2021, the Company maintained an allowance for credit losses of $1,385 and $296, respectively, which is included in accounts receivable, net on the Consolidated Balance Sheets.

Inventories

Sand inventory is stated at the lower of cost or net realizable value using the average cost method.

Inventory manufactured at production facilities includes direct excavation costs, processing costs, overhead allocation, depreciation and depletion. Stockpile tonnages are calculated by measuring the number of tons added and removed from the stockpile. Tonnages are verified periodically by an independent surveyor. Costs are calculated on a per ton basis and are applied to the stockpile based on the number of tons in the stockpile.

Inventory transported for sale at terminal facilities or to the wellsite includes the cost of purchased or manufactured sand, plus transportation and handling related charges.

Spare parts inventory includes critical spares, materials and supplies. The Company accounts for spare parts on a first-in, first-out basis, and value the inventory at the lower of cost or net realizable value. Detailed reviews are performed related to the net realizable value of the spare parts inventory, giving consideration to quality, excessive levels, obsolescence and other factors.

Property, Plant and Equipment

Asset additions and improvements occurring through the normal course of business are capitalized at cost. When assets are retired or disposed of, the cost and the accumulated depreciation and depletion are eliminated from the accounts and any gain or loss is reflected on the Consolidated Statements of Operations. Expenditures for normal repairs and maintenance are expensed as incurred. Construction-in-progress is primarily comprised of machinery and equipment which has not been placed in service.

Drilling and related costs are capitalized for deposits where proven and probable reserves exist and the activities are directed at obtaining additional information on the deposit or converting non-reserve minerals to proven and probable reserves and the benefit is to be realized over a period greater than one year. Mine development costs include engineering, mineralogical studies, drilling and other related costs to develop the mine, the removal of overburden to initially expose the mineral and building access ways. Exploration costs are expensed as incurred and classified as exploration expense. Capitalization of mine development project costs begins once the deposit is classified as proven and probable reserves.

Mining property and development costs are depleted using the units-of-production method based on total estimated reserves and tonnage extracted each period. The impact of revisions to reserve estimates is recognized on a prospective basis. Stripping costs incurred during the production phase of a mine are expensed as incurred.

Property, plant and equipment, other than mining property and development costs, are carried at historical cost and are depreciated using the straight-line method over the estimated useful lives of the assets.

Capitalized costs incurred during the year for major improvement and capital projects that are not placed in service are recorded as construction-in-progress. Construction-in-progress is not depreciated until the related assets or improvements are ready to be placed in service. The Company capitalizes interest cost as part of the historical cost of constructing an asset and preparing it for its intended use. These interest costs are included in property, plant and equipment, net on the Consolidated Balance Sheets. For the years ended December 31, 2022 and 2021, the Company's capitalized interest costs were immaterial.

Impairment of Long-lived Assets

Recoverability of investments in long-lived assets, including property, plant and equipment is evaluated if events or circumstances indicate the impairment of an asset may exist, based on asset groups, which management has defined as the mine and terminal operations and the logistics and wellsite operations. Estimated future undiscounted net cash flows are calculated using estimates, including but not limited to estimates of proven and probable sand reserves, estimated future sales prices (considering historical and current prices, price trends and related factors), operating costs and anticipated capital expenditures.

Reductions in the carrying value of the Company's long-lived assets in an asset group are only recorded if the asset group's undiscounted cash flows are less than the book basis of that asset group and the extent to which the remaining carrying value of the Company's long-lived assets exceeds the fair value, which is generally determined based upon the estimated future discounted net cash flows to be generated by the property, plant and equipment and other long-lived assets in the asset group.

Management's estimates of future sales prices, recoverable proven and probable reserves, asset utilization and operating and capital costs, among other estimates, are subject to certain risks and uncertainties which may affect the recoverability of the Company's investments in long-lived assets. Although management has made its best estimate of these factors based on current conditions, it is reasonably possible that changes could occur in the near term, which could adversely affect management's estimate of the net cash flows expected to be generated from its operating assets.

No impairment charges related to long-lived assets were recorded during the years ended December 31, 2022 and 2021.

Leases

In accordance with ASC 842, *Leases* ("ASC 842"), at inception of a contract, the Company determines if it includes a lease. The Company evaluates the lease against the lease classification criteria within ASC 842. If the direct financing or sales-type classification criteria are met, then the lease is accounted for as a finance lease. All other leases are accounted for as operating leases. When a lease is identified, a right-of-use asset and the corresponding lease liability are recorded on the Consolidated Balance Sheets. Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Right-of-use assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. In the event a lease does not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The operating lease right-of-use assets also include any lease prepayments made, initial direct costs incurred and excludes lease incentives received. The Company generally does not include renewal or termination options in its assessment of the leases unless extension or termination for certain assets is deemed to be reasonably certain. For all leases with a term of 12 months or less, the Company elected the practical expedient to not recognize lease assets and liabilities. For non-revenue contracts containing both lease and non-lease components, both components will be combined and accounted for as one lease component and accounted for under ASC 842; and for revenue contracts containing both lease and non-lease components, both components will be combined and accounted for as one component and accounted for under ASC 606, *Revenue from Contracts with Customers*.

Lease expense for lease payments is recognized on a straight-line basis over the lease term. Additionally, any variable payments, which are generally related to the corresponding utilization of the asset, are recognized in the period in which the obligation was incurred.

Right-of-use assets are assessed periodically for impairment if events or circumstances occur that indicate the carrying amount of the asset may not be recovered. The Company monitors events and modifications of existing lease agreements that would require reassessment of the lease. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding right-of-use asset. No impairment charges related to right-of- use assets were recorded during the years ended December 31, 2022 and 2021.

Intangible Assets

The Company amortizes the cost of definite-lived intangible assets on a straight line basis over their estimated useful lives, ranging from 2 to 21 years. An impairment assessment is performed if events or circumstances occur and may result in the change of the useful lives of the intangible assets. No impairment charges related to intangible assets were recorded during the years ended December 31, 2022 and 2021.

Equity Method Investments

The Company accounts for investments that it does not control, but has the ability to exercise significant influence, using the equity method of accounting. Under this method, the investment is carried originally at cost, increased by any allocated share of the investment company's net income and contributions made by the Company, and decreased by any allocated share of the investment company's net losses and distributions received by the Company. The Company's allocated share of income and losses are based on the rights and priorities outlined in the equity investment agreement.

On the Emergence Date, the Company's equity method investment was adjusted to fair value as part of fresh-start accounting. The difference between the carrying value of the investment in Proppant Express Investments, LLC ("PropX") before the Emergence Date and the fair value of the Company's investment in PropX on the Emergence Date resulted in a basis difference. The basis difference was identified to be associated with the difference in the book value and fair value of PropX's fixed assets and intangible assets, and will be recognized by the Company over the assets remaining depreciable lives.

The Company sold 100% of its membership interest in PropX on October 26, 2021. See Note 7 – Equity Method Investment for additional information.

Debt Issuance Costs

Debt issuance costs related to a recognized debt liability are presented on the Consolidated Balance Sheets as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Debt issuance costs associated with a revolving credit facility are maintained in other assets.

Embedded Conversion Features and Debt Discount

On October 9, 2020, the Company issued 8.0%/10.0% Senior Secured Convertible PIK Toggle Notes due 2026 (the "Convertible Notes"). The Convertible Notes were accounted for following the convertible debt model with a noncontingent beneficial conversion feature ("BCF") pursuant to ASC 470-20, *Debt with Conversion and Other Options.* An embedded conversion feature is considered a BCF if it is in-the-money on the basis of a comparison between (1) the initial fair value of the shares of the issuer's stock into which the instrument is convertible and (2) the instrument's effective conversion price. A noncontingent BCF is accounted for separately from the convertible debt instrument in which it is embedded whereby at issuance, the issuer allocates to additional paid-in-capital a portion of the proceeds received for the convertible debt instrument equal to the BCF's intrinsic value and the resulting discount on the convertible debt instrument is amortized as interest expense using the effective interest method. Due to the Convertible Notes being immediately exercisable at the holders' option, the conversion feature is deemed to be noncontingent and as a result, at the Convertible Notes issuance date all of the proceeds were allocated to additional paid-in-capital as a debt discount.

On December 23, 2021, the Convertible Notes holders ("Noteholders") exchanged their Convertible Notes for the Company's common shares. Refer to Note 9 - Long-Term Debt for additional disclosure on the Convertible Notes.

Asset Retirement Obligations

In accordance with ASC 410-20, *Asset Retirement Obligations*, the Company recognizes reclamation obligations when incurred and records them as liabilities at fair value. In addition, a corresponding increase in the carrying amount of the related asset is recorded and depreciated over such asset's useful life. The reclamation liability is accreted to expense over the estimated productive life of the related asset and is subject to adjustments to reflect changes in value resulting from the passage of time and revisions to the estimates of either the timing or amount of the reclamation costs.

Revenue Recognition

The Company generates frac sand revenues from the sale of raw frac sand that its customers purchase for use in the oil and natural gas industry. A substantial portion of frac sand sales are sold to customers under long-term supply agreements, the current terms of which expire between 2023 and 2026. The agreements define, among other commitments, the volume of product that the Company must provide and the volume that the customer must purchase by the end of the defined periods. Pricing structures under these agreements are in many cases subject to certain contractual adjustments and consist of a combination of negotiated pricing and fixed pricing. These arrangements may undergo negotiations regarding pricing and volume requirements, which may occur in volatile market conditions. The Company also sells sand through individual purchase orders executed on the spot market at prices and other terms determined by the existing market conditions as well as the specific requirements of the customer. The Company typically invoices the frac sand customers as the product is delivered and title transfers to the customer, with standard collection terms of net 30 days.

Frac sand sales revenues are recognized at the point in time following the transfer of control to the customer when legal title passes, which may occur at the production facility, rail origin, terminal or wellsite. Revenue recognition is driven by the execution and delivery of frac sand by the Company to the customer, which is initiated by the customer placing an order for frac sand, the Company accepting and processing the order, and the physical delivery of sand at the location specified by the customer. At that point in time, delivery has occurred, evidence of a contractual arrangement exists and collectability is reasonably assured.

Revenue from make-whole provisions in customer contracts is recognized as other revenue at the end of the defined period when collectability is certain. Customer prepayments in excess of customer obligations remaining on account upon the expiration or termination of a contract are recognized as other operating income during the period in which the expiration or termination occurs.

The Company generates other revenues primarily through the performance of logistics and wellsite operations and services, which includes transportation, equipment rental, and labor services, as well as through activities performed at its in-basin terminals, including transloading sand for counterparties, and lease of storage space. Transportation services typically consist of transporting proppant from storage facilities to the wellsite and are contracted through work orders executed under established pricing agreements. The amount invoiced reflects the transportation services rendered. Equipment rental services provide customers with use of the Company's fleet equipment for either contractual periods defined through formal agreements or for work orders under established pricing agreements. The amounts invoiced reflect either the contractual monthly minimum, or the length of time the equipment was utilized in the billing period. Labor services provide customers with supervisory, logistics, or field personnel through formal agreements or work orders executed under established pricing agreements. The amounts invoiced reflect either the contractual monthly minimum, or the amount of time the Company's labor services were utilized in the billing period.

The Company typically invoices its customers as product is delivered and services are rendered, with standard collection terms of net 30 days. The Company recognizes revenue for logistics and wellsite operations and services and other revenues as title of the product transfers and the services have been rendered and completed. At that point in time, delivery of service has occurred, evidence of a contractual arrangement exists and collectability is reasonably assured.

Deferred Revenues

The Company occasionally receives prepayments from customers for future deliveries of frac sand or equipment. These prepayments represent consideration that is unconditional for which the Company has yet to transfer title to the sand or equipment. Amounts received from customers in advance of product deliveries are recorded as contract liabilities referred to as deferred revenues and recognized as revenue upon delivery of the product.

Fair Value Measurements and Financial Instruments

The amounts reported on the Consolidated Balance Sheets as current assets or liabilities, including cash, accounts receivable, accounts payable, accrued and other current liabilities approximate fair value due to the short-term maturities of these instruments.

The Company's financial assets and liabilities are measured using inputs from the three levels of the fair value hierarchy, which are as follows:

- Level 1 - observable inputs such as quoted prices in active markets;
- Level 2 - inputs other than quoted prices in active markets that can directly or indirectly be observed to the extent that the markets are liquid for the relevant settlement periods; and
- Level 3 - unobservable inputs in which little or no market data exists, therefore inputs reflect the Company's assumptions.

Intangible assets and long-lived assets, including right-of-use assets, are subject to nonrecurring fair value measurement upon acquisition as part of a business combination or when assessing potential impairment of an asset group. In addition, as a result of fresh-start accounting, the Company's assets and liabilities were recorded at their fair values. These assets and liabilities are generally categorized as Level 3 inputs in the fair value hierarchy.

Income Taxes

The Company is an entity treated as a corporation for U.S. federal income tax purposes and is therefore subject to U.S. federal, foreign, and state and local corporate income tax. The Company records its income taxes in accordance with ASC 740, *Income Taxes* ("ASC 740"), which results in the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the book carrying amounts and the tax basis of assets and liabilities.

Deferred Income Taxes

Income taxes are accounted for using the asset and liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis, using tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred assets and liabilities of a change in tax rates is recognized on the Consolidated Statements of Operations in the period when the change is enacted.

For a particular tax-paying component of an entity and within a particular tax jurisdiction, deferred tax assets and liabilities are offset and presented as a single amount, as applicable, on the accompanying Consolidated Balance Sheets.

Foreign Currency Translation

Historically, the Company has recorded foreign currency translation adjustments from the process of translating the functional currency of the financial statements of its foreign subsidiary into the U.S. dollar reporting currency. Due to the relative insignificant activity of our foreign subsidiary, the Company has chosen to change the functional currency to U.S. dollars and therefore will no longer need to record foreign translation adjustments.

(Dollars in thousands, except shares and per share amounts, or where otherwise noted)

3. Inventories

Inventories consisted of the following:

	December 31, 2022	December 31, 2021
Raw material	$ 830	$ 744
Work-in-process	7,615	6,026
Finished goods	7,334	8,655
Spare parts	1,849	461
Inventories	$ 17,628	$ 15,886

As a result of fresh-start accounting, the Company realized a step-up from the book value of work-in-process inventory of $5,797 as of the Emergence Date. Amortization associated with the inventory step-up was $0 and $2,097 for the years ended December 31, 2022 and 2021, respectively, and is included in cost of goods sold on the Consolidated Statements of Operations.

4. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	Estimated Useful Life	December 31, 2022	December 31, 2021
Buildings	3-15 years	$ 3,430	$ 3,320
Mining property and mine development (a)		57,389	54,690
Plant and equipment	1-10 years	83,455	49,267
Transload facilities and equipment	1-8 years	15,849	15,260
Transportation equipment	1-7 years	12,008	12,714
Office furniture, fixtures and equipment	1-5 years	2,611	1,555
Construction-in-progress		9,673	5,203
Property, plant and equipment		184,415	142,009
Less: Accumulated depreciation and depletion		(41,612)	(23,112)
Property, plant and equipment, net		$ 142,803	$ 118,897

(a) Depletable properties that contain frac sand reserves are depreciated using the units-of-production method.

Depreciation and depletion expense was $23,078 and $21,230 for the years ended December 31, 2022 and 2021, respectively.

5. Leases

Lessee

The Company has long-term operating leases, comprised primarily of railcars and container lease arrangements, as well as vehicles, equipment, office space and terminals. The Company's operating leases have remaining lease terms of 0.1 years to 3.9 years, some of which include automatic renewal options, options to extend the leases and options to terminate the leases.

The balance sheet information related to leases are as follows:

	Classification	December 31, 2022	December 31, 2021
Right-of-use assets			
Operating lease	Operating lease right-of-use assets	$ 24,948	$ 9,825
Lease liabilities			
Operating leases	Current portion of operating lease liabilities	$ 11,821	$ 4,109
Operating leases	Operating lease liabilities	13,151	5,733
Total lease liabilities		$ 24,972	$ 9,842

(Dollars in thousands, except shares and per share amounts, or where otherwise noted)

Operating lease liabilities are based on the net present value of the remaining lease payments over the remaining lease term. Upon adoption of fresh-start accounting, the Company's lease obligations were recalculated using the incremental borrowing rate applicable to the Company upon emergence from Chapter 11 bankruptcy and commensurate with its new capital structure. Annually, the Company reviews and adjusts its incremental borrowing rate, which is used to calculate the net present value of new leases. The weighted average remaining lease term and discount rate as of December 31, 2022 and 2021 related to operating leases are as follows:

	December 31, 2022	December 31, 2021
Weighted average remaining lease term	2.3 years	2.4 years
Weighted average discount rate	8.36 %	13.82 %

The lease cost components on the Consolidated Statements of Operations are as follows:

	Classification	Year Ended December 31, 2022	Year Ended December 31, 2021
Operating lease cost	Cost of goods sold	$ 8,305	$ 3,971
Short-term lease cost	Cost of goods sold	13,518	7,791
Variable lease cost	Cost of goods sold	3,502	1,989
Operating lease cost	General and administrative expenses	164	98
Short-term lease cost	General and administrative expenses	132	401
Variable lease cost	General and administrative expenses	175	-
Total operating lease costs		$ 25,796	$ 14,250

Supplemental cash flow information related to the Company's leases is as follows:

	Year Ended December 31, 2022	Year Ended December 31, 2021
Cash paid for amounts included in the measurement of operating lease liabilities	$ 6,978	$ 2,918

As of December 31, 2022, the maturities of lease liabilities are as follows:

Fiscal Year	Operating Leases
2023	$ 13,309
2024	9,242
2025	3,675
2026	982
2027	-
Thereafter	-
Total lease payments	$ 27,208
Less: interest	(2,236)
Total lease liabilities	$ 24,972

Lessor

The Company has operating lease arrangements as the lessor associated with the use of logistics and wellsite operations equipment. These leases are classified as operating leases and result in the recognition of lease income on a straight-line basis, while the underlying leased asset remains on the Consolidated Balance Sheet and continues to depreciate. Lease income associated with these leases is not material.

(Dollars in thousands, except shares and per share amounts, or where otherwise noted)

6. Intangible Assets

As a result of the Company's emergence from Chapter 11 bankruptcy and the application of fresh-start accounting, the Company recorded definite-lived intangible assets which consisted of the following:

	Useful Life	December 31, 2020	Amortization Expense	December 31, 2021
Customer contracts and relationships	2 - 4 years	$ 11,737	$ -	$ 11,737
Trademarks	21 years	1,058	-	1,058
Intangible assets		12,795	-	12,795
Less: Accumulated amortization		(908)	(3,635)	(4,543)
Intangible assets, net		$ 11,887	$ (3,635)	$ 8,252

	Useful Life	December 31, 2021	Amortization Expense	December 31, 2022
Customer contracts and relationships	2 - 4 years	$ 11,737	$ -	$ 11,737
Trademarks	21 years	1,058	-	1,058
Intangible assets		12,795	-	12,795
Less: Accumulated amortization		(4,543)	(3,633)	(8,176)
Intangible assets, net		$ 8,252	$ (3,633)	$ 4,619

Amortization expense was $3,633 and $3,635 for the years ended December 31, 2022 and 2021, respectively. The weighted average remaining life of intangible assets was 5.3 years as of December 31, 2022 and 4.5 years as of December 31, 2021.

As of December 31, 2022, future amortization is as follows:

Fiscal Year	Amortization
2023	$ 2,376
2024	1,396
2025	50
2026	50
2027	50
Thereafter	697
	$ 4,619

7. Equity Method Investment

Investment in Proppant Express Investments, LLC

On September 8, 2016, the Company entered into an agreement to become a member of PropX, which was established to develop last mile logistics equipment for the proppant industry. PropX is responsible for manufacturing containers and conveyor systems that allow for transportation of frac sand from in-basin terminals to the wellsite.

During the year ended December 31, 2021, the Company made no capital contributions to PropX, but did receive cash distributions of $5,953. Within earnings from equity method investment on the Consolidated Statements of Operations, the Company recognized earnings of $3,365, which was comprised of a $215 gain from the Company’s proportionate share of PropX’s operating results, along with $3,150 of amortization associated with the basis difference.

On October 26, 2021, the Company sold its 41.55% membership interest in PropX for an aggregate purchase price of $41,934 which consisted of $4,695 in cash, inclusive of final working capital adjustments, and 2,390,186 shares of the acquirer’s common stock valued at $37,239 based on the share price of $15.58 on the date of the sale. The Company’s investment basis on October 26, 2021 was $13,060, which resulted in a $28,874 gain on the sale and was recorded in earnings from equity method investment on the Consolidated Statements of Operations.

(Dollars in thousands, except shares and per share amounts, or where otherwise noted)

Prior to December 31, 2021, the Company sold all the shares of the acquirer's common stock received in the sale of PropX on the open market for cash proceeds of $26,325, which resulted in a loss of $10,914 and was recorded in loss from marketable securities on the Consolidated Statements of Operations.

8. Accrued and Other Current Liabilities

Accrued and other current liabilities consisted of the following:

	December 31, 2022	December 31, 2021
Accrued compensation and benefit	$ 8,289	$ 8,732
Accrued dividends	3,200	1,171
Accrued royalty payments	2,103	961
Accrued taxes payable	2,605	2,833
Accrued legal fees	1,182	792
Accrued logistics cost	792	240
Other current liabilities	3,392	3,713
	$ 21,563	$ 18,442

9. Long-Term Debt

Long-term debt consisted of the following:

	December 31, 2022	December 31, 2021
Notes payable	$ 3,792	$ 2,667
Less: Current portion of long-term debt	(2,943)	(1,520)
Long-term debt	$ 849	$ 1,147

Notes Payable

In 2014, the Company entered into a purchase and sales agreement to acquire land and underlying frac sand deposits. In connection with this agreement, during the years ended December 31, 2022 and 2021, the Company issued two three-year promissory notes in the amount of $1,629 and $4,595 due in March 2025 and January 2024, respectively, with interest rates of 2.89% and 0.14%, respectively. The promissory notes accrue interest at rates equal to the applicable short-term federal rates. All principal and accrued interest is due and payable at the end of the three-year promissory note terms. However, the promissory notes are prepaid on a quarterly basis during the three-year terms as sand is extracted, delivered, sold and paid for from the properties.

During the years ended December 31, 2022 and 2021, the Company made prepayments of $2,837 and $3,387, respectively, based on the accumulated volume of sand extracted, delivered, sold and paid for. As of December 31, 2022, the company had paid in full the promissory notes due March 2025 and January 2024. As of December 31, 2021, the promissory note due in January 2024 had an outstanding principal balance of $1,208.

The Company entered into several equipment financing agreements during the year ended December 31, 2022 in the amount of $3,884 with terms ending from December 2023 to December 2024 and interest rates ranging from 1.25% to 3.24%. The Company entered into several equipment financing agreements during the year ended December 31, 2021 in the amount of $1,640 with terms ending in November 2023 and December 2023 and interest rates of 1.25%. The Company made payments of $2,150 and $479, leaving a notes payable balance of $2,895 and $1,161 as of December 31, 2022 and 2021, respectively.

Other notes payable also includes short-term obligations, arising from insurance premium financing programs, which renew in July each year. As of December 31, 2022 and 2021, the Company had outstanding balances of $897 and $298, respectively, with interest rates of 5.25% and 3.75%, respectively.

Convertible Notes

On October 9, 2020, the Company entered into an indenture (the "Indenture"), among the Company, the subsidiary guarantors party thereto and Wilmington Savings Fund Society, FSB, as trustee and collateral agent, and issued $48,069 aggregate principal amount of convertible notes ("Convertible Notes") thereunder, inclusive of put option notes, which mature on April 9, 2026. The Convertible Notes are guaranteed on a senior basis by the Company's existing domestic subsidiaries (the "Guarantors") on a full and unconditional basis.

Cash interest on the Convertible Notes accrues at the rate of 8.0% per annum and is payable in cash. Interest on the Convertible Notes may also be paid in kind ("PIK") at the Company's election, and PIK interest accrues at the rate of 10.0% per annum and shall be payable either (x) by increasing the principal amount of the outstanding note by an amount equal to the amount of PIK Interest for the applicable interest period (rounded up to the nearest $1.00) or (y) by issuing additional Convertible Notes in certificated form in an aggregate principal amount equal to the amount of PIK interest for the period (rounded up to the nearest $1.00). Interest payments are due semiannually in arrears on October 15 and April 15, commencing on April 15, 2021. The Company recorded interest expense of $0 and $4,321 related to the Convertible Notes for the years ended December 31, 2022 and 2021, respectively. In addition, the Company made PIK interest payments in the amount of $0 and $4,387 during the years ended December 31, 2022 and 2021, respectively.

The Convertible Notes are convertible into shares of the Company's common stock based on an initial conversion rate of 5.3934774 shares of common stock per $1.00 principal amount of Convertible Notes, at any time prior to the second business day immediately preceding the maturity date, in principal amounts of $1.00 or an integral multiple of $1.00 in excess thereof. The conversion rate is subject to adjustment from time to time upon the occurrence of certain events specified in the Indenture. If the Company experiences a change of control, the holders of the Convertible Notes will have the right to require the Company to repurchase all or any part of their Convertible Notes at a purchase price equal to 101% of the aggregate principal amount of the Convertible Notes repurchased, plus accrued and unpaid interest, if any, to but not including the date of purchase.

The Indenture contains covenants that limit, among other things, the Company's ability and the ability of certain of its subsidiaries, to: incur, assume or guarantee additional indebtedness; pay dividends or distributions on capital stock or redeem or repurchase capital stock; make investments; sell stock of its subsidiaries; transfer or sell assets; create liens; enter into transactions with affiliates; and enter into mergers or consolidations. The Indenture also provides for certain customary events of default, including, among others, nonpayment of principal or interest, failure to pay final judgments in excess of a specified threshold, failure of a guarantee to remain in effect, bankruptcy and insolvency events, and cross acceleration, which would permit the principal, premium, if any, interest and other monetary obligations on all the then outstanding Convertible Notes to be declared due and payable immediately.

The Convertible Notes contain a noncontingent beneficial conversion feature ("BCF") because the convertible portion or feature of the note provides a rate of conversion that is below market value and therefore is "in-the-money" when issued and can be immediately exercisable at the holders' option. As a result, on the issuance date (October 9, 2020) all of the proceeds from the Convertible Notes were allocated to additional paid-in-capital as a debt discount. The discount is amortized over the term of the Convertible Notes under the effective interest method and is charged to interest expense. Amortization of debt discount included in interest expense was $0 and $39,622 for the years ended December 31, 2022 and 2021, respectively.

Convertible Noteholder Buy-out

On July 8, 2021, the Company entered into a repurchase agreement, whereby the Company agreed to repurchase all of the counterparty's common stock and Convertible Notes for an aggregate consideration of $17,000. At the time of the agreement, the counterparty held 44 shares of the Company's common stock and held $12,483 in aggregate principal amount of the Convertible Notes. Per ASC 405-20, the repurchase of the Convertible Notes constitutes an extinguishment of debt since the Company paid the counterparty cash and was relieved of its obligation for the liability associated with the Convertible Note.

According to ASC 470-20, when a convertible debt instrument containing a BCF is extinguished prior to conversion, the reacquisition price must be first allocated to the intrinsic value of the BCF on the extinguishment date with the offset a debit to additional paid-in-capital ("APIC"). The remaining proceeds are to be allocated to the reacquisition of the Convertible Notes and the associated debt discount and the common shares, with the difference going to loss on extinguishment of debt on the Consolidated Statements of Operations. Below represents how the repurchase consideration was allocated:

(Dollars in thousands, except shares and per share amounts, or where otherwise noted)

	Repurchase consideration
Accrued interest	$ 288
Convertible Notes	12,483
Debt discount	(10,843)
APIC - (BCF intrinsic value)	3,705
Common stock	2
APIC	522
Loss on extinguishment of debt	10,843
Total repurchase consideration	$ 17,000

Conversion of Convertible Notes

On December 23, 2021, the Convertible Notes holders ("Noteholders") entered into an agreement to exchange all of their Convertible Notes for the Company's common shares at an agreed-upon conversion rate of 7.7450252 shares of common stock. This conversion rate was inclusive of the following: (i) 5.3934774 shares of common stock per $1.00 principal amount of the Convertible Notes (per the agreed-upon original conversion rate), (ii) PIK interest accrued through the conversion date, which equated to 0.1018769 shares of common stock per $1.00 principal amount of the Convertible Notes, and (iii) 2.2496709 shares of common stock per $1.00 principal amount of the Convertible Notes, which reflected the PIK interest that would have accrued from the conversion date through June 30, 2025.

In all, the Convertible Notes were converted into 6,192 common shares.

Per ASC 470-20, when a convertible debt instrument contains a BCF, upon conversion all of the unamortized debt discount remaining on that date shall be recognized immediately as interest expense. As such, the Company recorded $31,663 of accelerated interest expense related to the remaining debt discount on the Consolidated Balance Sheet as of December 23, 2021. The net carrying amount of the Convertible Notes after the aforementioned acceleration of the debt discount was recorded to equity to reflect the shares issued. On the date of the conversion, inclusive of accrued interest, the Company had Convertible Notes of $40,728 on the Consolidated Balance Sheet, which was credited to equity.

As a result of the Company providing, as a portion of the exchange consideration, 2.2496709 shares of common stock per $1.00 principal amount of the Convertible Notes, which reflected the PIK interest that would have been accrued from the conversion date through June 30, 2025, this conversion is considered an induced conversion and therefore the fair value of the debt instrument in excess of the fair value of the common shares issued in accordance with the original conversion terms must be recognized as inducement expense with an offset to equity to reflect the shares issued. The Company determined the fair value of these additional inducement shares to be $16,673 by calculating the interest on the notes from the conversion date through June 30, 2025. The inducement expense was recorded as convertible debt inducement expense on the Consolidated Statement of Operations for the year ended December 31, 2021, with an offset to equity.

ABL Credit Facility

On October 9, 2020, the Company entered into the ABL Credit Facility, which matures on August 1, 2023, with JPMorgan Chase, N.A., as administrative agent and collateral agent, and the other lenders party thereto. The ABL Credit Facility was available to the Company and provided for revolving loans and letters of credit in an aggregate amount of up to $25,000, subject to borrowing base capacity. Letters of credit were available up to the lesser of (a) $25,000 and (b) the aggregate unused amount of commitments under the ABL Credit Facility then in effect. The obligations under the ABL Credit Facility were guaranteed by all of the Company's direct and indirect subsidiaries (subject to certain permitted exceptions). The ABL Credit Facility was secured by a lien on substantially all of the Company's and the guarantors' assets (subject to certain exceptions).

Borrowings under the ABL Credit Facility bear interest at a rate equal to, at the Company's option, either (1) a base rate plus an applicable margin ranging between 2.00% per annum and 2.50% per annum, based upon the Company's leverage ratio, or (2) a LIBOR rate plus an applicable margin ranging between 3.00% per annum and 3.50% per annum, based upon the Company's leverage ratio.

The ABL Credit Facility contained customary covenants, including, but not limited to, restrictions on the Company's ability and that of its subsidiaries to merge and consolidate with other companies, incur indebtedness, grant liens or security interests on assets, make acquisitions, loans, advances or investments, pay dividends, sell or otherwise transfer assets, or enter into transactions with affiliates.

(Dollars in thousands, except shares and per share amounts, or where otherwise noted)

The ABL Credit Facility provided that, upon the occurrence of certain events of default, its obligations thereunder may be accelerated and the lending commitments terminated. Such events of default include payment defaults to the lenders thereunder, material inaccuracies of representations and warranties, covenant defaults, cross-defaults to other material indebtedness, voluntary and involuntary bankruptcy proceedings, material money judgments, certain change of control events and other customary events of default.

On April 29, 2021, the Company terminated the ABL Credit Facility and the outstanding liabilities of the Company with respect to its obligations under the ABL Credit Facility. On the date of the termination, the Company did not have any outstanding borrowings under the ABL Credit Facility.

The Company originally incurred debt issuance costs of $482 that were capitalized and were being amortized using the straight-line method, which approximates the effective interest method, over the life of the debt. Amortization expense is included in interest expense and was $0 and $57 for the years ended December 31, 2022 and 2021, respectively. As of the date of the termination of the ABL Credit Facility, the net balance of the debt issuance costs was $383, which was recorded as loss on extinguishment of debt on the Consolidated Statement of Operations for the year ended December 31, 2021.

Maturities

As of December 31, 2022, future minimum debt repayments are as follows:

Fiscal Year		**Amount**
2023	$	2,943
2024		849
2025		-
2026		-
2027		-
Thereafter		-
Total future minimum debt repayments	$	3,792

10. Sale of Business

Sale of Hi-Crush Blair, LLC

On March 4, 2022, the Company entered into a Membership Interest Purchase Agreement (the “Purchase Agreement”) pursuant to which Smart Sand, Inc., acquired all of the issued and outstanding limited liability company interests of Hi-Crush Blair LLC for cash consideration of $6,478, subject to customary purchase price adjustments as set forth in the Purchase Agreement. Entities affiliated with Clearlake Capital Group, L.P., who collectively owned approximately 24% of the outstanding common stock of Smart Sand, Inc. on the closing date, also own a significant portion of the outstanding common stock of the Company. The transaction was unanimously approved by the disinterested directors of both the Company and Smart Sand, Inc. The primary assets of Hi-Crush Blair LLC consisted of an idled frac sand mine and related processing facility located in Blair, Wisconsin. The Company recognized an $11,399 gain from the sale of the business and was recorded in Other operating income, net on the Consolidated Statements of Operations. Below shows how the gain was calculated:

		Gain from sale of Hi-Crush Blair, LLC
Carrying value of assets	$	1,861
Assumption of asset retirement obligation liability		(6,782)
Less: Cash proceeds		(6,478)
Gain on sale of business	$	(11,399)

In connection with the transaction, Smart Sand, Inc. assumed, and the Company was released from, responsibility for certain surety bonds in the aggregate amount of $8,637 that support the reclamation obligations of Hi-Crush Blair LLC with the City of Blair.

(Dollars in thousands, except shares and per share amounts, or where otherwise noted)

11. Asset Retirement Obligations (“ARO”)

Although the ultimate amount of reclamation and closure costs to be incurred is uncertain, the Company maintained a post-closure reclamation and site restoration obligation as follows:

		Amount
Balance at December 31, 2020	$	19,418
Settlement of liabilities		(349)
Accretion expense		2,312
Balance at December 31, 2021	$	21,381
Settlement of liabilities		(568)
Accretion expense		1,728
Assignment of ARO with sale of business		(6,782)
Balance at December 31, 2022	$	15,759

12. Commitments and Contingencies

Customer Contracts

The Company enters into sales contracts with customers, of which certain ones contain minimum annual sand volumes that the Company is required to make available to such customers. For the years ended December 31, 2022 and 2021, no payments for non-delivery of minimum annual sand volumes have been made by the Company to customers under these contracts.

In February 2021, the Company received a settlement payment of $12,905 for past obligations under a customer contract, which was recognized as other operating income on the Consolidated Statements of Operations for the year ended December 31, 2021.

Royalty Agreements

The Company has entered into royalty agreements under which it is committed to pay royalties on sand sold from its production facilities for which the Company has received payment by the customer. Royalty expense is recorded as the sand is sold and is included in costs of goods sold. Royalty expense was $2,789 and $2,757 for the years ended December 31, 2022 and 2021, respectively.

Certain acreage is subject to a minimum annual royalty payment. If not paid within 30 days after the annual period, the original landowner has the right to purchase the property for one dollar, subject to certain terms. If the Company has not made the minimum required royalty payments, the Company may satisfy its obligation by making a lump-sum cash make-whole payment. Accordingly, the Company believes there is no material risk that it will be required to sell back the subject property pursuant to this agreement.

Property Value Guarantees

The Company entered into mining agreements and land use agreements with the Wisconsin municipalities of Bridge Creek, Lincoln, Springfield and Preston that contain property value guarantees ("PVG") for certain property owners in proximity to each mine. The respective PVGs establish a process whereby the Company guarantees fair market value to the owners of residential property specifically identified within the body of the PVG document. According to the terms of the PVGs, the property owner must provide notice in the event they wish to sell the subject residence and additional acreage in certain instances. Upon such notice, the PVGs establish a process by which an appraisal is conducted and the subject property is appraised to establish fair market value and is listed with a real estate broker. In the event the property is sold within 180 days of listing, the Company agrees to pay the owner any shortfall between the sales price and the established fair market value. In the event the property is not sold within the 180 days' time frame, the Company is obligated to purchase the property for fair market value.

As of December 31, 2022 and 2021, the Company has not accrued a liability related to the PVGs because it is not possible to estimate how many of the owners will elect to avail themselves of the provisions of the PVGs, and it cannot be determined if shortfalls will exist in the event of a sale nor can the value of the subject property be ascertained until appraised.

Purchase Commitments

The Company has entered into service agreements with certain transload service providers which requires it to purchase minimum amounts of services over specific periods of time at specific locations. Failure to purchase the minimum level of services require the Company to pay shortfall fees. As of December 31, 2022, the Company had no future minimum purchase commitments with transload service providers. The Company has also entered into purchase commitments for the construction of certain equipment.

(Dollars in thousands, except shares and per share amounts, or where otherwise noted)

As of December 31, 2022, future minimum purchase commitments are as follows:

Fiscal Year		
2023	$	192
2024		96
Thereafter		-
Total minimum purchase commitment	$	288

Litigation

From time to time the Company may be subject to various claims and legal proceedings which arise in the normal course of business, including claims involving various governmental agencies, including but not limited to the Texas Commission on Environmental Quality, Wisconsin Department of Natural Resources and U.S. Environmental Protection Agency, among others. Management is not aware of any legal matters that are likely to have a material adverse effect on the Company's financial position, results of operations or cash flows.

13. Equity

Under the amended and restated certificate of incorporation of the Company that was entered into upon emergence from Chapter 11 bankruptcy, the Company has authority to issue 10,157 shares of common stock, par value $0.001 per share. Shares of common stock may be issued by the Company from time to time in accordance with the amended and restated certificate of incorporation.

Reverse Stock Split

On September 27, 2022, the Company effected a 50,000 to 1 reverse stock split. All share (including dividend per share) information on the Consolidated Statements of Changes in Equity and throughout the Notes has been retroactively adjusted to reflect the reverse stock split and the reduced par value of the shares was recorded with the offset to additional paid-in-capital.

Equity Issuances

During the year ended December 31, 2021, the Company issued 238 shares of common stock on various dates under the Plan to holders of general unsecured claims. There were no new common stock issuances during the year ended December 31, 2022. The new common stock is not traded on a public exchange. Refer to Note 14 – Stock-Based Compensation for information on common stock issuances as a result of stock options exercised.

Convertible Notes Activity

On July 8, 2021, the Company agreed to repurchase common stock and Convertible Notes for an aggregate consideration of $17,000. At the time of the agreement, the counterparty held 44 shares of the Company's common stock and held $12,483 in aggregate principal amount of the Convertible Notes. The transaction resulted in a debit to equity of $4,229.

On December 23, 2021, the holders of the Company's Convertible Notes accepted an offer to exchange all of their Convertible Notes for the Company's common shares at an agreed-upon conversion rate of 7.7450252 shares of common stock. In all, the Convertible Notes were converted into 6,192 common shares, which resulted in a credit to equity of $57,007.

Refer to Note 9 – Long-Term Debt for additional information about the convertible noteholder buy-out and the conversion of the Convertible Notes.

Dividends

On December 7, 2022, the Company's Board of Directors authorized a $9,202 per common share cash dividend to shareholders of record as of December 9, 2022, which amounted to $65,000. The Company paid cash dividends of $62,897 in December 2022 to shareholders and participants under the Management Incentive Plan ("MIP"). Remaining payments under the MIP were deferred to future years subject to the vesting of such awards.

On December 24, 2021, the Company's Board of Directors authorized a $7,000 per common share cash dividend to shareholders of record as of December 28, 2021, which amounted to $45,875. The Company paid cash dividends of $44,704 in December 2021 to shareholders. Payments under the MIP were deferred to future years subject to the vesting of such awards.

(Dollars in thousands, except shares and per share amounts, or where otherwise noted)

As of December 31, 2022, the Company had an accrued dividend equivalent right balance of $3,200, which included unpaid dividends from both 2022 and 2021.

14. Stock-Based Compensation

Management Incentive Program

On May 3, 2021, the Company's Board of Directors approved the grant of stock options to executives and certain employees pursuant to the terms of a Nonstatutory Stock Option Agreement ("2021 Awards"). As of December 31, 2022, the Company had authorized and granted 2021 Awards of 950 shares of time-based and performance-based stock options under the MIP. All options will expire on the tenth anniversary of the grant date. Stock-based compensation expense from stock options is amortized on a straight-line basis over the vesting period. The Company has elected to recognize forfeitures as they are incurred, as this method best reflects actual stock-based compensation expense.

Time-Based Stock Options

During the year ended December 31, 2021, the Company issued 665 shares of time-based stock options to certain of the Company's employees with an exercise price of $1,500. There were no time-based stock options issued during the year ended December 31, 2022. The time-based stock options are exercisable at any time, regardless of whether the options are vested. If the options are exercised before they are vested, the shares will remain subject to forfeiture until the applicable vesting date.

The vesting schedule for time-based stock options issued during the year ended December 31, 2021 is as follows:

- $^1/_3$ vesting on November 30, 2021 and $^1/_{36}$ vesting monthly thereafter;
- upon a change in control ("CIC"), all non-vested time-based stock options will vest immediately assuming continuous employment through the date of the CIC.

Upon termination of employment for cause, all vested and non-vested awards will be forfeited. Upon termination of employment for any reason other than cause, however, only non-vested awards will be forfeited. All vested options may be repurchased by the Company within one year after the date of termination of employment.

To determine the fair value of the time-based stock options, the Company engaged a third party valuation company who utilized both an income approach and a market approach in their valuation. The grant date fair value of all time-based options granted during the year ended December 31, 2021 was determined to be $1,500 per share.

A summary of the Company's time-based stock option activity for the year ended December 31, 2022 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)
Outstanding at January 1, 2022	93	$ 1,500	9.42
Granted	-	-	
Exercised into restricted shares	(83)	1,500	
Forfeited	(10)	1,500	
Outstanding at December 31, 2022	-	$ -	-
Non-vested at December 31, 2022	-		

As time-based stock options are exercised, the employees are issued restricted shares subject to the same vesting terms described above. All holders of restricted shares are entitled to all the rights of absolute ownership of the Company's common shares, including the right to vote those shares and to receive dividends thereon if, as, and when declared by the Board. Any distributions payable with respect to shares of common stock that have not yet vested will be retained by the Company and paid to the employee once the shares become vested.

A summary of the Company's restricted share vesting activity related to time-based options for the year ended December 31, 2022 is presented below:

(Dollars in thousands, except shares and per share amounts, or where otherwise noted)

	Shares	Weighted-Average Grant Date Fair Value
Non-vested at January 1, 2022	335	$ 1,500
MIP options exercised	83	1,500
Forfeited	(18)	1,500
Vested	(220)	1,500
Non-vested at December 31, 2022	180	$ 1,500

As of December 31, 2022, the Company had 590 time-based stock options and restricted shares outstanding. The Company recognized stock-based compensation of $280 and $334 from these awards for the years ended December 31, 2022 and 2021, respectively, and is included in general and administrative expense on the Consolidated Statements of Operations. As of December 31, 2022, there was $270 of total unrecognized compensation cost related to these awards that is expected to be recognized over a weighted-average period of 0.92 years.

The fair value of options that vested during the years ended December 31, 2022 and 2021 was $330 and $284, respectively.

Performance-Based Stock Options

During the year ended December 31, 2021, the Company issued 285 shares of performance-based stock options to certain of the Company's employees with an exercise price of $1,000. There were no performance-based stock options issued during the year ended December 31, 2022. The performance-based stock options are exercisable at any time, regardless of whether the options are vested. If the options are exercised before they are vested, the shares will remain subject to forfeiture until the applicable vesting date.

All performance-based stock options issued during the year ended December 31, 2022 will vest based on Company performance as follows:

- 50% of the options will vest if the Company's investors receive a "multiple on invested capital" ("MOIC") of 2.0x or greater;
- the remaining 50% of the options will vest if the Company's investors receive a MOIC of 3.0x or greater.

Upon termination of employment for cause, all vested and non-vested awards will be forfeited. Upon termination of employment for any reason other than cause, however, only non-vested awards will be forfeited. All vested options may be repurchased by the Company within one year after the date of termination of employment.

To determine the fair value of the performance-based stock options, the Company engaged a third party valuation company who utilized both an income approach and a market approach in their valuation. The grant date fair value of all performance-based options granted during the year ended December 31, 2022 was determined to be $1,000 per share.

A summary of the Company's performance-based stock option activity for the year ended December 31, 2022 is presented below:

	Shares	Weighted Average Exercise Value	Weighted Average Remaining Contractual Life (years)
Outstanding at January 1, 2022	40	$ 1,000	9.42
Granted	-	-	
Exercised into restricted shares	(35)	1,000	
Forfeited	(5)	1,000	
Outstanding at December 31, 2022	-	$ -	-
Unvested at December 31, 2022	-		

As performance-based stock options are exercised, the employees are issued restricted shares subject to the same vesting terms described above. All holders of restricted shares are entitled to all the rights of absolute ownership of the Company's common shares, including the right to vote those shares and to receive dividends thereon if, as, and when declared by the Board. Any distributions payable with respect to shares of common stock that have not yet vested will be retained by the Company and paid to the employee once the shares become vested.

(Dollars in thousands, except shares and per share amounts, or where otherwise noted)

A summary of the Company's restricted share vesting activity related to performance-based options for the year ended December 31, 2022 is presented below:

	Shares	Weighted-Average Grant Date Fair Value
Non-vested at January 1, 2022	225	$ 1,000
MIP options exercised	35	1,000
Forfeited	(22)	1,000
Vested	-	-
Non-vested at December 31, 2022	238	$ 1,000

As of December 31, 2022, the Company had 238 performance-based stock options and restricted stock outstanding. Because the performance-based awards are contingent on a future event occurring, the Company did not recognize stock-based compensation from these awards for the years ended December 31, 2022 and 2021. As of December 31, 2022, there was $238 of total unrecognized compensation cost related to these awards.

Dividend Equivalent Rights

As of December 31, 2022 and 2021, the Company had accrued dividend equivalent rights ("DER's") of $3,200 and $1,171, respectively, under the MIP in conjunction with dividends declared (See Note 13 – Equity).

Upon forfeiture of any unexercised options by a MIP participant, the unpaid DER's associated with such shares shall automatically be forfeited.

15. Defined Contribution Retirement Plans

The Company sponsors a 401(k) defined contribution retirement plans named the Hi-Crush 401(k) Plan ("the Plan"). The Company made matching contributions of up to 4% for 6% of eligible compensation in the Plan, but suspended the Company matching contribution as of July 1, 2020. As of January 1, 2022, the Company reinstated the Company matching contribution in the Plan.

Eligible employees can make annual contributions to the Plan up to the maximum amount allowed by current federal regulations, as noted in the Plan documents. Contributions made by the Company related to the year ended December 31, 2022 were $1,231. The company did not make any contributions during the year ended December 31, 2021.

16. Revenues

The Company recognizes revenue at the point in time control of the promised goods or services is transferred to the customer, in an amount that reflects the consideration expected to be entitled to the Company in exchange for those goods or services. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied.

The majority of contracts are frac sand contracts that have a single performance obligation, as the promise to transfer individual goods or services is not separately identifiable from other promises in the contracts and, therefore, not distinct. For the portion of contracts that contain multiple performance obligations, such as work orders containing a combination of product, transportation, equipment rentals, and labor services, the Company allocates the transaction price to each performance obligation identified in the contract based on relative stand-alone selling prices, or estimates of such prices, and recognize the related revenue as control of each individual product or service is transferred to the customer in satisfaction of the corresponding performance obligations.

(Dollars in thousands, except shares and per share amounts, or where otherwise noted)

Practical Expedients and Exemptions

The Company has elected to use the practical expedients, pursuant to which they have excluded disclosures of transaction prices allocated to remaining performance obligations and when it expects to recognize such revenue. The Company has various long-term contracts with minimum purchase and supply requirements with terms expiring between 2023 and 2026. The remaining performance obligations are primarily comprised of unfulfilled product, transportation service, and labor service orders, some of which hold a remaining duration of less than one year. The transaction price for volumes and services under these contracts is based on timing of customer orders, points of sale, mix of products sold, impact of market conditions and potential contract negotiations, which have not yet been determined and therefore the price is variable in nature. The long-term portion of deferred revenues represents customer prepayments for which related current performance obligations do not yet exist, but are expected to arise, before the expiration of the term.

Deferred Revenues

As a result of fresh-start accounting, the Company realized a step-down from the book value of the deferred revenues in the amount of $1,240 as of the Emergence Date. Accretion associated with the deferred revenues step-down is included in accretion expense on the Consolidated Statements of Operations.

As of December 31, 2022 and 2021, the Company has recorded a total liability of $666 and $5,591, respectively, for prepayments of future deliveries of frac sand. Some prepayments are refundable in the event that the Company is unable to meet the minimum requirements under certain contracts. The Company expects to recognize these revenues during the year ended December 31, 2023.

The following table reflects the changes in contract liabilities, which are classified as deferred revenues:

Balance at December 31, 2020	$	6,510
Accretion expense		540
Collection of prepayments		3,796
Revenue recognized		(5,255)
Balance at December 31, 2021	$	5,591
Accretion expense		551
Revenue recognized		(5,476)
Balance at December 31, 2022	$	666

17. Related Party Transactions

The following table summarizes related party transactions associated with Dune Sand Equipment LLC, an equipment rental company owned by one of the Company's executive officers, as well as the Company's previous equity method investment for the periods indicated. During the year ended December 31, 2022, the Company rented trailers from Dune Sand Equipment LLC at rates no less favorable to the Company than the terms generally available to an unaffiliated third party under the same or similar arrangement. See Note 7 – Equity Method Investment for discussion regarding the sale of the Company's equity method investment in PropX during the year ended December 31, 2021. As of December 31, 2022 and 2021, there were no liabilities outstanding on the Consolidated Balance Sheets associated with either of these related parties.

	Year Ended December 31, 2022		Year Ended December 31, 2021	
Cost of goods sold - related parties (a)(b)	$	131	$	4,442

(a) The Company incurs lease expense for the use of PropX equipment.
(b) The Company incurs rental expense for the use of Dunes Sand Equipment chassis.

(Dollars in thousands, except shares and per share amounts, or where otherwise noted)

18. Income Taxes

Income (loss) before income tax consists of the following:

	Year Ended December 31, 2022		Year Ended December 31, 2021	
U.S.	$	99,099	$	(42,190)
Foreign		(1,223)		(91)
Income (loss) before income tax	$	97,876	$	(42,281)

Income tax (benefit) expense consists of the following:

	Year Ended December 31, 2022		Year Ended December 31, 2021	
Current tax (benefit) expense				
Federal	$	529	$	-
State		43		195
Foreign		-		(6,084)
Current tax (benefit) expense		572		(5,889)
Deferred tax expense				
Foreign		(61)		224
Deferred tax expense (benefit)		(61)		224
Total income tax (benefit) expense	$	511	$	(5,665)

The Company's pre-tax income for the year ended December 31, 2022 and loss for the year ended December 31,2021 was subject to corporate tax at an estimated effective tax rate of approximately 1% and 13%, respectively. The effective tax rate differs from the statutory rate primarily due to the following: (i) state income taxes, (ii) the inclusion of a valuation allowance for U.S. federal and state deferred tax assets and (iii) certain book expenses that are not deductible for tax purposes.

Reconciliation of the U.S. federal statutory income tax rate to the Company's effective tax rate is as follows:

	December 31, 2022	December 31, 2021
Statutory federal rate	21%	21%
State taxes (net)	0%	(1)%
Valuation allowance	(19)%	9%
Effect of Permanent Differences	(1)%	(30)%
Impact of Canadian Refund	0%	14%
Effective tax rate	1%	13%

For the years ended December 31, 2022 and 2021, the Company was in a net deferred tax asset position (before valuation allowance). Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized.

Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the history of cumulative losses. Such objective evidence limits the ability to consider other subjective evidence, such as our projections for future growth.

On the basis of this evaluation, as of December 31, 2022, the Company continues to be in a valuation allowance position, and a valuation allowance of $26,560 was recorded to recognize only the portion of the deferred tax asset that is more likely than not to be realized.

The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as our projections for growth.

(Dollars in thousands, except shares and per share amounts, or where otherwise noted)

Significant components of deferred tax assets and liabilities are as follows:

	December 31, 2022	December 31, 2021
Deferred tax assets		
Property, plant and equipment	$ -	$ 3,745
Intangible assets	19,760	23,820
Operating lease liabilities	3,809	2,246
Asset retirement obligations	4,288	4,462
Net operating loss carryforwards	20,644	23,074
Other	2,864	3,805
Total deferred tax assets	51,365	61,152
Valuation allowance	(26,560)	(56,442)
Net deferred tax assets	24,805	4,710
Deferred tax liabilities		
Property, plant and equipment	17,096	-
Operating lease right-of-use assets	7,027	2,993
Foreign withholding on Canadian subsidiary	240	301
Other	682	1,717
Total deferred tax liabilities	25,045	5,011
Total net deferred tax liabilities	$ 240	$ 301

At December 31, 2022, there are federal net operating loss ("NOL") carryforwards of $86,802, of which $11,853 will begin to expire in the year 2033. The remaining $74,949 of federal NOLs can be carried forward indefinitely. The tax benefits of carryforwards are recorded as an asset to the extent that management assesses the utilization of such carryforwards to be more likely than not, and when the future utilization of some portion of the carryforwards is determined not to be more likely than not a valuation allowance is provided to reduce the recorded tax benefits from such assets. To the extent there are net operating loss carryforwards in 2023, these carryforwards will be assessed for realizability.

As of December 31, 2022, the Company does not have any unrecognized tax benefits and does not anticipate any unrecognized tax benefits during the next twelve months.

The tax years ended December 31, 2019 through 2021 remain open to examination under the applicable statute of limitations in the United States in which the Company files its tax returns.

19. Concentration of Credit Risk

The Company 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 mainly used by the oil and natural gas industry. The Company's business is, therefore, dependent upon economic activity within this market.

In the year ended December 31, 2022, the Company's significant customers that had sales greater than 10%, each had sales of 23% and 15%, respectively. In the year ended December 31, 2021, the Company's significant customers that had sales greater than 10%, each had sales of 22%, 13% and 12%, respectively.

During the years ended December 31, 2022 and 2021, the Company has maintained cash balances in excess of federally insured amounts on deposit with financial institutions. The Company has not experienced losses related to amounts in excess of these limits.

(Dollars in thousands, except shares and per share amounts, or where otherwise noted)

20. Additional Cash Flow Disclosures

	December 31, 2022	December 31, 2021
Reconciliation of cash and restricted cash:		
Cash	$ 26,855	$ 25,810
Restricted cash	10,559	21,820
Total cash and restricted cash	$ 37,414	$ 47,630

	Year Ended December 31, 2022	Year Ended December 31, 2021
Non-cash investing and financing activities:		
Changed in accrued capital expenditures	$ 4,431	$ (640)
Debt financed capital expenditures	5,512	6,235
Additions to operating right-of-use assets and lease liabilities	22,428	7,705
Non-cash consideration from sale of equity method investment	-	37,239
Conversion of Convertible Notes to common stock	-	57,007
Conversion of paid-in-kind interest to Convertible Notes	-	4,387
Change in accrued dividend equivalent rights	2,103	1,171
Cash paid (received) for:		
Interest	$ (105)	$ 479
Reorganization items	-	7,516
Income taxes	$ (114)	$ (5,665)

21. Subsequent Events

In preparing the consolidated financial statements, the Company has evaluated all subsequent events and transactions for potential recognition or disclosure through April 27, 2023, the date the consolidated financial statements were available for issuance.

Dividend Declared

On April 13, 2023, the Company's Board of Directors authorized a $4,890 per common share cash dividend to shareholders of record as of April 17, 2022, which amounted to $35,000.