

2020 ANNUAL REPORT

**BETTER.  
FASTER.  
RESILIENT.**







LIBERTY

WILKINSON BASH  
FIELD SERVICE

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*OneStim® is a mark of Schlumberger.*







# LETTER FROM THE CEO

## LIBERTY WAS RESILIENT IN 2020

In 2020 Liberty faced serious challenges, as did our industry, country, and the world. Liberty responded rapidly and decisively to the COVID-19 pandemic and to the subsequent plunge in business activity in the U.S. oil and gas industry. The safety of our team members and their families came first. We immediately held a company-wide virtual townhall to inform the Liberty family about COVID and our rapid action plans to prevent transmission in our workplaces and provide support and services to any who were impacted. Our COVID Response Committee kept up with the latest science and data, developed systems and processes to protect our family, regularly communicated across the company, and worked tirelessly to reduce stress and provide support during these truly trying times. We strove to keep our families safe while also keeping the country supplied with the essential energy and materials that played central roles in combating the pandemic. I am proud of the Liberty family's tremendous response in stressful times that was so effective in keeping our workplaces safe and enabling remote work for so many critical tasks without delay. Our family was resilient in crisis.

In addition to the serious public health challenge, we also faced a collapse in frac industry business conditions. Liberty performed strongly in the first quarter even as the demand for frac fleets continued the decline that began in the second half of 2018. However, beginning in late March demand for frac services in the oil basins where Liberty works dropped by over 90%, a simply unprecedented collapse. U.S. oil production was

at an all-time high (roughly 13 million barrels of oil per day) when our country and the world experienced a rapid decline in demand for oil as much of the economy went into lockdown. Our customers were forced to hit the brakes on new well construction. I commend them all for their rapid, candid, and compassionate communications about their changing plans. Unfortunately, nothing could prevent Liberty's first-ever layoffs. Laying off nearly half of our employees and furloughing so many others was the most painful decision the Liberty executive team has ever made. As activity rebounded, the furloughs ended, and we have hired back several hundred of those laid off. I am proud and humbled by the actions and words of our team members throughout this trying ordeal. Resilience was again the order of the day.

Our second quarter revenues dropped by nearly 90%, and our first quarter positive net income — of which we were proud given the challenging market even then — swung to a significant net loss in Q2, even at the Adjusted EBITDA\* level. We made sure that Liberty's balance sheet remained resilient throughout the crisis. We took aggressive cost-cutting actions across the company and slashed our 2020 capital expenditures. We set, and achieved, our goal to end the year with a cash balance at least as large as we had at the end of Q1 when the storm arrived.

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*\*Adjusted EBITDA is a non-GAAP financial and operational measure. Please see endnote 1 following this annual report for important additional information, including a reconciliation to the most comparable GAAP measure.*

Although Liberty's revenues declined from \$2 billion in 2019 to only \$966 million in 2020, we incurred no new debt and maintained a very strong balance sheet. All this while partnering with our customers as work rapidly ramped down and throughout the gradual rebound in activity during the second half of 2020. Our revenues grew sequentially over 60% in both Q3 and Q4 of 2020. Adjusted EBITDA for the full year was \$58 million driven by a relatively strong first quarter. The second quarter was the only quarter of negative Adjusted EBITDA despite the COVID-driven collapse of demand, and the continued improvement positions us well as we enter the next phase of the cycle. 2020 was by far the most challenging business environment of my career, but Liberty remained resilient.

Despite the turbulent times of 2020, our operations continued to run well. We improved on our already strong safety performance from 2019 and set many operational efficiency records in 2020. For example, in the final quarter of 2020 we set our record for frac crew efficiency across all our active fleets! Our technology development efforts made great progress on both improving the economics of unconventional oil and gas production and lowering the environmental impacts.

## SCHLUMBERGER ONESTIM® DEAL\*

As Sun Tzu said over two millennia ago, "In chaos there is also opportunity." Liberty's 2020 acquisition of Schlumberger's OneStim fracture, plug and perf wireline, and sand mining businesses was a truly transformative deal. This deal brought a tremendous technology portfolio, more than doubling of our frac equipment, entry into the main natural gas basins (Marcellus, Haynesville, and Midcon) and Canada, a top-notch wireline business that is the key onsite dance partner with frac operations, and two world-class sand mines in the heart of the Permian basin.

This deal brought together the #1 (Liberty) and #3 (Schlumberger) frac businesses as ranked by customers in the 2019 Kimberlite survey. This was not consolidation for the sake of consolidation. Instead, it was bringing together two of the leaders

*\*OneStim® is a mark of Schlumberger.*

in frac technology, scale, and customer-recognized performance to build a better, more resilient company. The deal involved no cash. We issued new LBRT shares representing 37% ownership in the combined company to Schlumberger plus an ongoing technology alliance that will help Liberty and Schlumberger lead the next generation of oil and gas production and ESG technologies. We were thrilled on December 31, 2020, to welcome over 800 new family members to Liberty, including many long-tenured leaders in the industry.

While I hope to never repeat a year like 2020, I am proud and humbled to be on the Liberty team who performed so strongly and resiliently throughout it all. As we enter 2021 the world economy is recovering as is demand for oil and gas. After a setback like last year, billions of people in developing countries are anxious to resume progress on bettering their lives. They are anxious to replace wood and dung with liquid petroleum gas (LPG), a cleaner and more resilient cooking fuel. Anxious to gain and/or expand access to electricity and modern energy that enables longer, healthier, more resilient lives. The petrochemical industry is growing even faster as world demand for personal protective equipment (PPE) and other medical equipment grows. Global demand growth for natural gas is strong as its benefits in both reducing air pollution and greenhouse gas emissions have been clearly demonstrated in the United States. The United States has become the third largest and most rapidly growing exporter of natural gas.

My best wishes to all of you and your families. Know that the Liberty family is constantly striving to make the world **BETTER, FASTER, STRONGER, CLEANER**, and more **RESILIENT**.

SINCERELY,

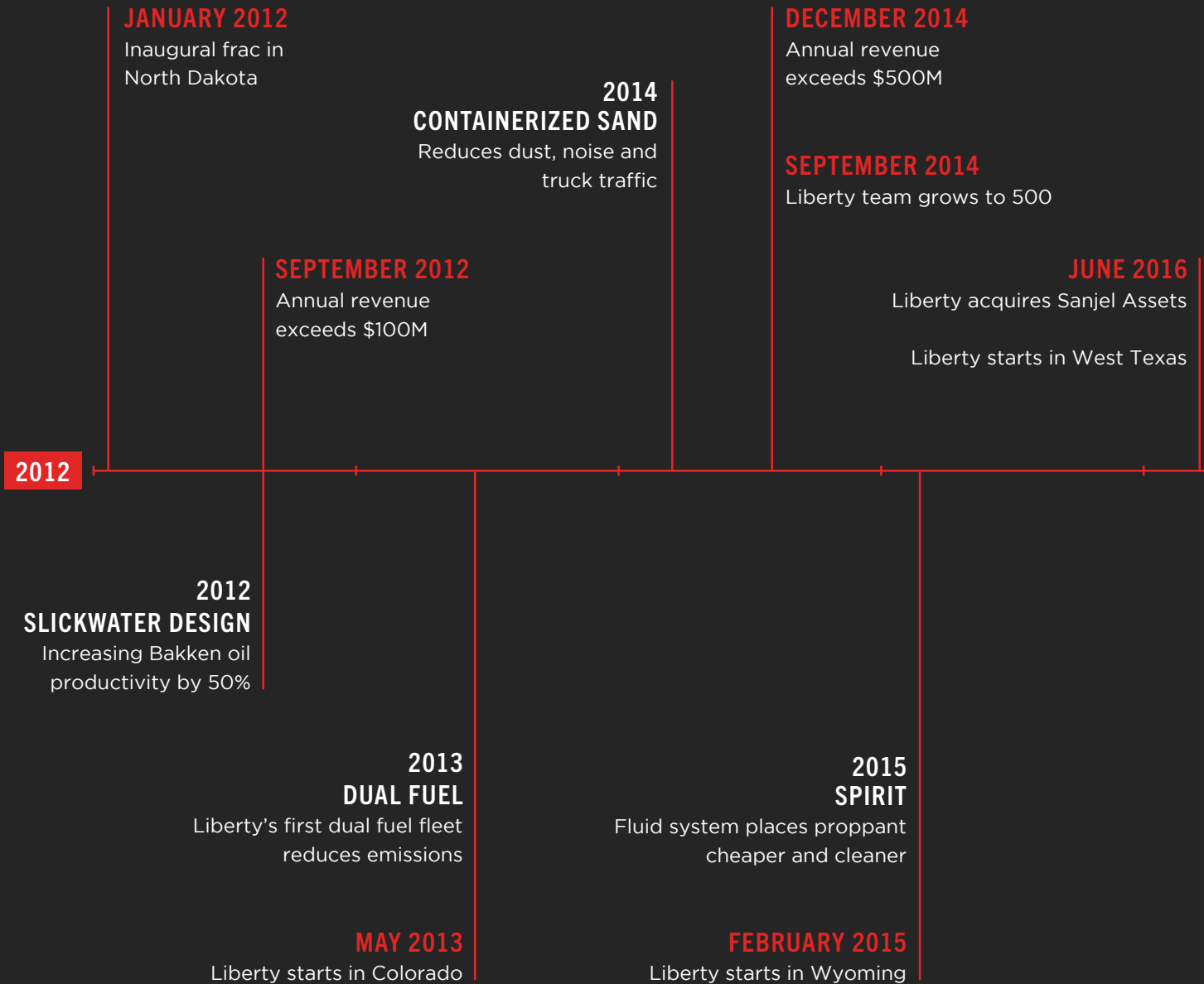


**CHRIS WRIGHT**  
**CHAIRMAN AND CEO**





# HISTORY OF LIBERTY



**MARCH 2017**

Liberty team grows to 1,500

**JANUARY 2017**

IVF and adoption assistance added as employee benefit

**SEPTEMBER 2017**

Annual revenue exceeds \$1B

**JULY 2017**

Liberty starts in South Texas

**JANUARY 2019**

Adopted Ban the Box initiative

**DECEMBER 2020**

Closed OneStim acquisition

**LBRT IPO**

**2021**

**NOVEMBER 2016**

Liberty team grows to 1,000

**NOVEMBER 2017**

Liberty team grows to 2,000

**2016 QUIET FLEET™**

Liberty introduces Quiet Fleet technology

**NOVEMBER 2018**

Annual revenue exceeds \$2B

**2018 TIER IV DGB CAT FIELD TEST PARTNERSHIP**

Step change in emissions reduction

**2020 NEXT GEN FRAC FLEET WHITE PAPER**

ESG profile quantified for Next Gen fleets

**2020 TIER IV DGB**

Fleets deployed



# ONESTIM ACQUISITION

In 2020, Liberty acquired Schlumberger's North American onshore hydraulic fracturing business, OneStim, strengthening Liberty's position in offering one of the most innovative suites of completion services and technologies to operators in onshore North America. The OneStim acquisition included pressure pumping, pumpdown perforating wireline, and Permian frac sand businesses as well as an extensive technology portfolio and significant owned real estate footprint.

As Liberty enters its next decade as a company, we are now better, faster, and more resilient. We have laid the foundation for a new era of technology and sustainability in the oil and gas industry. We are driven to advance global energy access by bringing hydrocarbons to the surface in a clean, safe, and efficient way. The transaction supercharges technology and scale at Liberty, with an expanded technology portfolio, dedicated team of professionals, and breadth of operations that form the foundation for us to achieve greater innovation and efficiency to deliver the best service to our customers and returns to our shareholders.

## UNRIVALED TECHNOLOGY PLATFORM



### SUB-SURFACE ENGINEERING & WELL DESIGN

Raise well productivity and lower the cost of bringing energy to the world



### EQUIPMENT DESIGN & OPERATIONS

Improve design with engineering, real-time automation, and predictive analytics



### INTEGRATED CLOUD-BASED BUSINESS SYSTEMS

Cost-effectively scale operations



### TECHNOLOGY-DRIVEN ENVIRONMENTAL IMPROVEMENT

Harness real data to drive technology that significantly reduces environmental impact

## CASH FLOW POTENTIAL

**200 TO 250 FLEETS**  
NORTH AMERICAN INDUSTRY DEMAND AT FLAT TO MODEST OIL AND GAS PRODUCTION GROWTH

**~20%**  
HISTORICAL PRO FORMA MARKET SHARE AVERAGE

**40 TO 50 FLEETS**  
ACTIVE MID-CYCLE PRO FORMA



**ATTRACTIVE FREE CASH FLOW POTENTIAL**



## INCREASED SCALE

**\$5.2B**  
2019 REVENUE<sup>1</sup>

**3<sup>RD</sup>**  
LARGEST NORTH AMERICAN  
OILFIELD SERVICE COMPANY

**~500**  
ISSUED & PENDING PATENTS<sup>2</sup>

**~50**  
PUMPDOWN PERFORATING  
WIRELINE UNITS

**2.5MM HHP**  
AVAILABLE FOR SERVICE

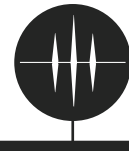
**8MM TPA**  
PERMIAN SAND MINE CAPACITY

## VERTICAL INTEGRATION

**CAPITAL LIGHT MANUFACTURING**  
Pumps: Largest Maintenance  
Cost & Time Item

**FRAC SAND MINING & LOGISTICS**  
Sand: Largest Consumable  
Cost of Completions

**PUMPDOWN PERFORATING WIRELINE**  
Wireline: Leading Cause of  
Frac Delays



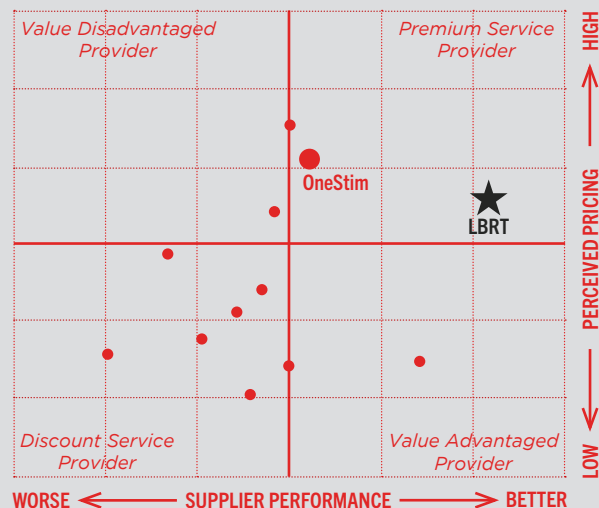
**Enhanced capabilities for design  
and build-out of Next Gen fleets**

**In-house frac sand provides  
optionality on long-term sand prices**

**Natural integration with frac**

<sup>1</sup> Given the significant impact of COVID-19 during 2020 and its continued effects on drilling and completion activities in the oil and gas industry, 2019 pro forma revenues do not represent the expected 2021 financial performance of Liberty.  
<sup>2</sup> Includes transferred and licensed patents

### KIMBERLITE FRAC PERFORMANCE PERCEPTION



## KIMBERLITE

Kimberlite, an independent industry research firm that extensively polled E&P frac customers across North America, released their 2019 Frac Industry Report. It again showed Liberty ranked #1 in quality in the eyes of North American E&Ps. Among the operators who viewed technology as critical to their decisions, Liberty's technology was viewed as #1 and Schlumberger was ranked a close #3, with 4th place miles behind. Both Liberty and Schlumberger have customer profiles weighted toward technology-embracing leading players who demand top-tier service providers. The marriage of our strong technology portfolio matters.

Source: Kimberlite International Oilfield Research, "September 2019 Hydraulic Fracturing Supplier Performance Report."



# SAFETY

## OUR PEOPLE ARE OUR MOST IMPORTANT ASSET.

The Liberty team is well-trained to handle the complexities of daily field operations, and our training and competency remain current with the latest technology and standards. This year, our training was put to the test. We were faced with the challenge of responding to a global pandemic and had to react quickly to pivot our operations both in the field and in the office to keep our employees and our business running safely. Ensuring our team's safety and the safety of those around us is the most important thing we do.



**.66**

2020 TRIR  
(TOTAL RECORDABLE INCIDENT RATE)

18% LOWER  
THAN INDUSTRY AVERAGE





# COVID-19 RESPONSE

THE LIBERTY TEAM CONTINUED TO SHOW UP 24 HOURS A DAY DURING THE PANDEMIC TO BE SURE WE COULD PROVIDE THE ENERGY NEEDED TO FIGHT COVID-19.



## IN FEBRUARY 2020, WE FORMED A COVID-19 RESPONSE COMMITTEE

to design and implement safety procedures and contingency plans at our customer locations and our offices and facilities that allowed continued delivery of safe frac services while protecting the health of both our customers and employees.



## DEFINED COVID-19 POLICY THROUGH A COVID PREPAREDNESS PLAN

Developed protocols for exposure, contact tracing and quarantine in each state and each basin where we operate.



## PIVOTED OUR HSE PROCEDURES TO ENSURE SAFETY IN ALL WORK ENVIRONMENTS

This included: face covering policies, temperature checks, increased sanitization practices, installation of plexiglass partitions.



## PIVOTED ALL CORPORATE POSITIONS ABLE TO WORK FROM HOME

and outlined protocols and procedures for a return-to-work plan.





# ENVIRONMENT

When Liberty built its first frac fleet in 2011, the engines used were capable of consuming only diesel fuel and met the current Tier II emissions standard for off-road engines at the time. In the years since that first fleet, technology has continued to evolve. Liberty has been an early adopter of each of these advancements, seeking to provide our customers with access to the best available technology for their completions.

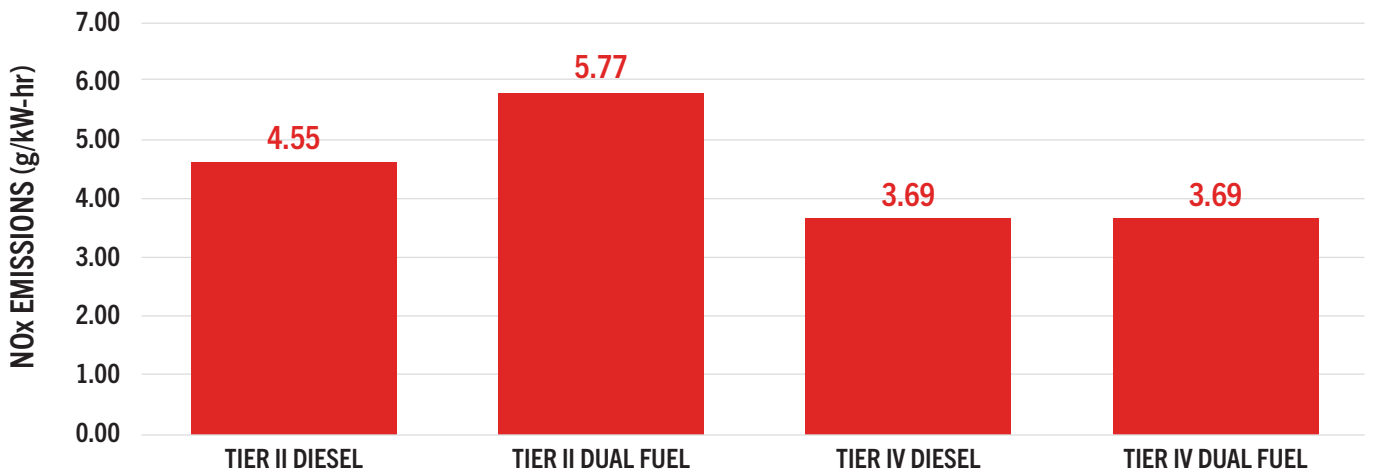
**THE DIESEL ENGINE WE USE NOW IS CLEANER AND MORE POWERFUL THAN EVER BEFORE, AND THE DUAL NATURAL GAS/DIESEL FUEL CAPABILITIES HAVE ALSO ADVANCED SIGNIFICANTLY WHEN COMPARED TO EARLIER GENERATIONS.**

In 2013, Liberty deployed its first Tier II dual fuel fleet. This advancement allowed for the displacement of up to 65% of the diesel with natural gas. The use of natural gas in place of diesel offered benefits from both a cost and particulate matter emissions standpoint when compared with the base Tier II engine. Tier II dual fuel capabilities were included in every new Liberty fleet built between then and the end of 2017. Tier IV emissions requirements became effective at the start of 2018, ushering in a generation of diesel engines that had 90% lower NOx and particulate emissions when compared with the original Tier I requirements. Liberty built several new fleets using the new Tier IV engines for deployment in 2018. Caterpillar introduced dual fuel capability to its Tier IV frac engines in the fall of 2019, pushing the diesel displacement rate to 85% from the previous limit of 65% on a Tier II engine. As an early field test partner for this technology, Liberty had already developed a level of comfort with the new system and quickly placed an order for 45 of these next-generation engines to ensure our ability to provide customers access to the technology. Liberty is committed to upgrading additional fleets to this system over the coming months and years and continuing to improve the ESG profile of our fleet.

Our next step in the journey to deliver cleaner, safer, more efficient and resilient frac operations is the deployment of a fully electric frac fleet. Liberty has been hard at work on the fabrication and testing of a next-generation electric frac pump. Our novel approach to this technology addresses many of the shortcomings present in early-generation electric frac equipment. A redesigned pump to distribute higher flow rates through more valves and multiple electric motors running in parallel to ensure redundancy are just a couple of unique features that separate digiFrac from the competition. When paired with the fully electric process trailer (combination blender and hydration unit) acquired through the OneStim transaction, Liberty will be able to offer a fully electric frac fleet. This fleet is designed to be powered by natural gas reciprocating engines paired with a battery pack to ensure the optimal emissions profile on location. We arrived at this conclusion after an extensive study observing emissions of different electric configurations (please see whitepaper titled: The Next Generation of Fracturing Fleets, A Liberty ESG Evaluation at [libertyfrac.com](http://libertyfrac.com)).

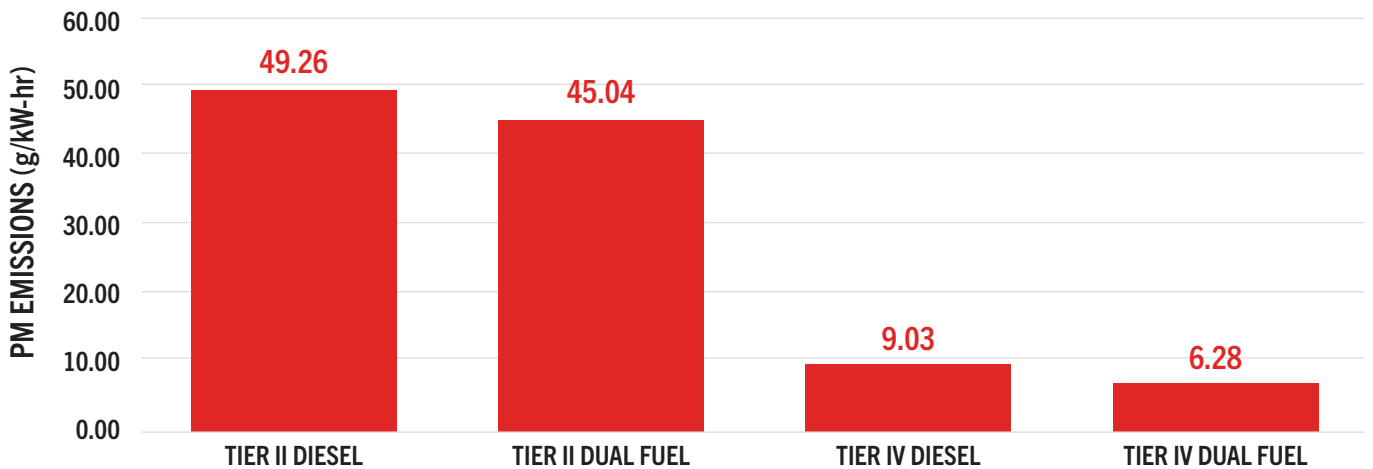


## NO<sub>x</sub> EMISSIONS



*NO<sub>x</sub> emissions are a result of high temperatures in the combustion process. One of the main goals when transitioning from Tier II to Tier IV engines was to reduce NO<sub>x</sub> emissions. The manufacturers accomplished this by reducing peak temperatures and pressures within the engine.*

## PARTICULATE MATTER EMISSIONS



*The emission of particulate matter (PM), the black smoke typically associated with a diesel engine, is 80% lower for a Tier IV engine than for a Tier II diesel engine. This reduction is accomplished through the use of a diesel particulate filtration system on each engine.*



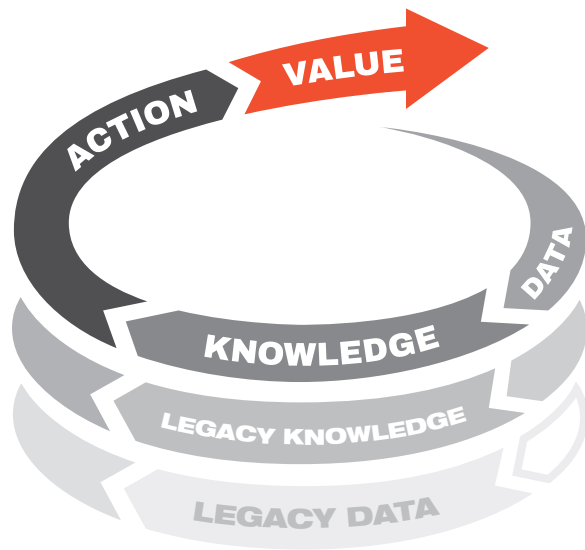


# TECHNOLOGY

Our mission is simple and aligned with our customers' main goal: lower the cost to produce a barrel of oil and an MCF of natural gas. Liberty engineers have been at the leading edge of frac and well completion optimization that has helped our customers reduce the cost to produce a barrel of oil by more than 65% over the last 8 years! This has created resilience for our customers in the global oil industry, enabling the U.S. to become the world's top producer of oil and natural gas. Our leading innovation has helped us build long-term trusted partnerships with our customers.

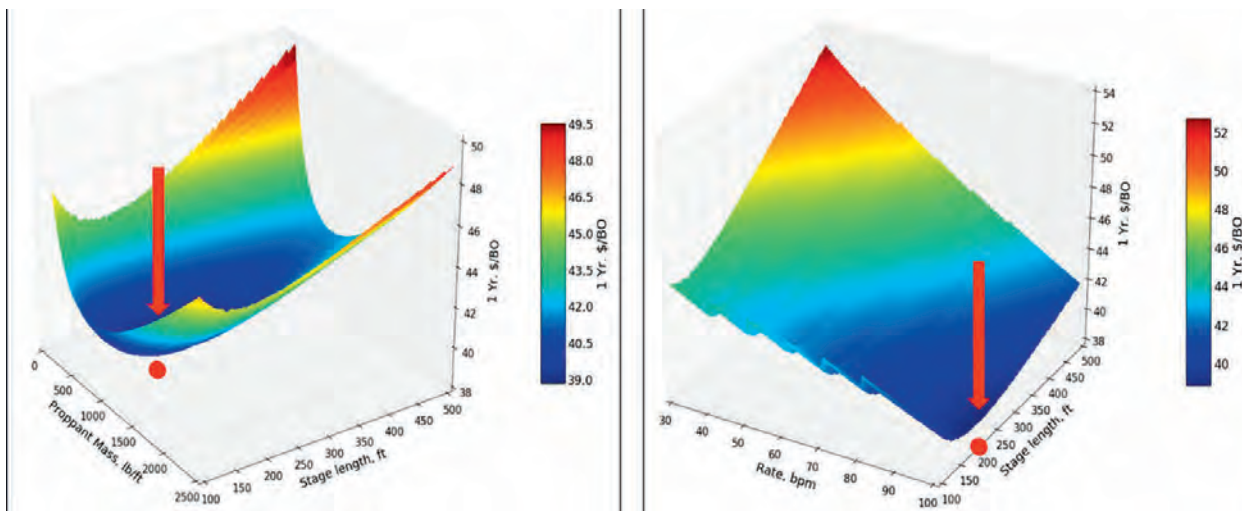
Liberty's leading engineers and geoscientists use our Spiral Up<sup>SM</sup> workflow to continue driving well productivity improvements. This workflow combines our customers' data and knowledge with Liberty's statistical and modeling tools for economic optimization. Our proprietary FracTrends<sup>TM</sup> database of over 100,000 unconventional wells, coupled with our expertise in advanced data analytics, delivers actionable value creation opportunities for our customers.

Our year-end OneStim acquisition brought us additional modeling and analytical tools to further grow our competitive advantage in production optimization. The acquisition brought us proprietary metadata for thousands of wells now included in our FracTrends database and significantly improved statistical analysis and economics evaluation capabilities now in our Fraconomics<sup>TM</sup> tool. We also added expanded and improved petrophysics data to our FracTrends database, as well as expanding the geographic coverage to include the major gas basins and the Western Canadian Sedimentary Basin.



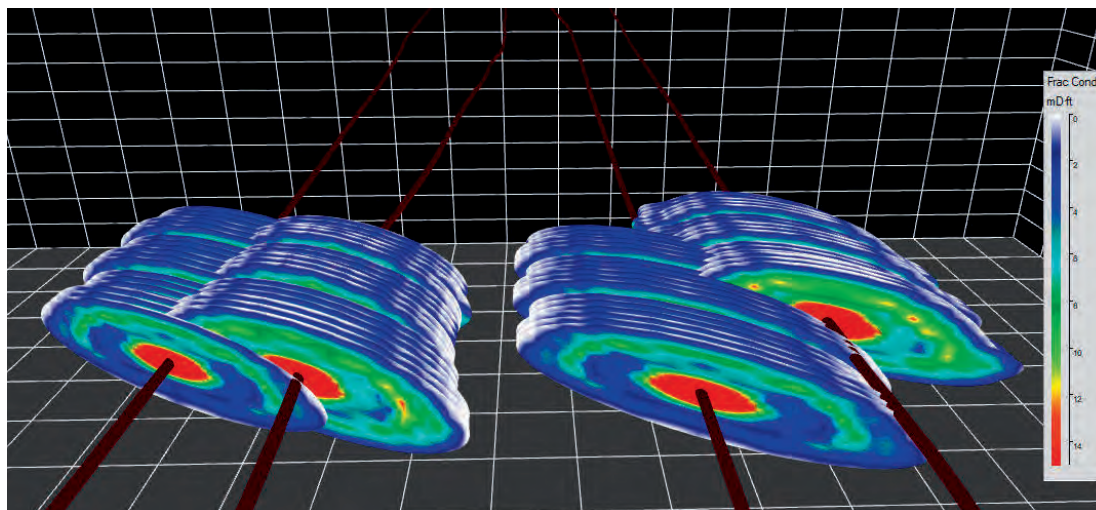


The graph below shows an example of creating value with Liberty's Spiral Up tools. Using production data from thousands of nearby wells from our FracTrends database combined with our proprietary multivariate analysis tools (big data tools constrained by physics) allows us to determine the frac design and geological parameters that are most critical for well production. Liberty's Fraconomics model can then quantify the economic impacts of altering proppant mass per foot, frac stage length, injection rate, and more, to find the optimal strategy to lower the cost of producing a barrel of oil.



The OneStim acquisition also brought a suite of new fracture growth models and reservoir models that are tailored to the depth of understanding of the subsurface. In modeling we always have a choice regarding the details we want to capture about fracture growth, and we always balance our choice of a model's sophistication with the quality and availability of real-data sources to calibrate these models. When our customers have more detailed petrophysical and reservoir descriptions, we can now utilize integrated complex frac and reservoir modeling.

An example of this more complex modeling is captured in the figure below. These models capture the impact that each individual fracture placed has on the subsurface rock and, therefore, on the growth of subsequent fractures. The bottom line is that subsequent fractures grow differently than the previous fractures as the rock, and its stress state, is being changed by each fracture pumped into the well and nearby offset wells. This information allows better planning of frac sequencing, design, and execution.



The expanded capabilities that we developed in 2020 and the tremendous new capabilities added through our OneStim acquisition make Liberty an even more desirable partner for existing and potential customers. Liberty and our customers continue Spiraling Up.

# EMPLOYEE Q&A

**ROBERT HENDERSON**  
SONICSTRAP



## WHAT IS YOUR LIBERTY STORY?

I started at Liberty in January of 2013. After hiking the Appalachian Trail in 2012, I wanted the outdoor adventure to continue. The oilfield in North Dakota seemed like the perfect place to meld engineering, challenging conditions, and the outdoors. Through my fiancée, I met someone from Liberty who knew someone who knew the engineering manager. After many emails and phone calls I convinced him I did want to work outside in freezing temperatures. I started as a field engineer in North Dakota, became the first full-time district engineer in our North Dakota camp, then the first district engineer in our Odessa camp when we acquired Sanjel's assets, and now I am the Technical Development Manager out of Denver.

## HOW DO TECHNOLOGY AND INNOVATION FACTOR INTO THE CULTURE AT LIBERTY?

We have a saying at Liberty that guides everything we do. We want to be the Best Damn Frac Company, period. If we are other things, we want to be that one thing first. This concept requires us to test and to innovate technology while pursuing that goal. Our customers deserve to have us live up to that commitment. We owe it to ourselves as well. The acquisition of OneStim reinforces our commitment to excellence through innovation by providing some very powerful tools to our teams.

## YOU INVENTED A PIECE OF TECHNOLOGY THAT IS NOW USED ACROSS LIBERTY OPERATIONS. TELL US ABOUT THE SONICSTRAP AND HOW IT CAME TO BE.

Nothing happens in a vacuum. SonicStrap would not be a realized technology without our gritty technical development engineers, expert fabrication

team, or a supportive management team helping challenge the status quo by supporting new ideas – full stop. The SonicStrap system is a highly accurate and precise electronic system of level sensors to track chemicals. It was conceptualized by realizing there was a better tool to accomplish the necessary task of maintaining a location's chemical inventory than an operator and a wooden stick. This technology has protected operators, increased efficiency, and increased operational excellence. We created a tool we would be proud to use ourselves.


## WHAT OTHER FUN THINGS DO YOU GET TO DO AS THE TECHNICAL DEVELOPMENT MANAGER?

I am a huge nerd. I love technology and games. I also believe that access to energy is central to humanity's continued prosperity. When we mix technology, games, and that truth, you get the creation of some of our educational tools like the Joule Grand Prix. We make energy requirements tangible to participants in a 30-second competitive hand crank drag race game that lights up lightbulbs. The game captures a person's output and compares that to their friends' and other energy sources. Humans use a whole lot of energy to live, and we often are out of touch with just how much energy or what that looks like from a relative effort standpoint.

## WHAT DO YOU LOVE MOST ABOUT LIBERTY?

I love working with our inventive, clever, accountable, and ambitious employees pursuing the apex of our market with integrity. There is a lot to love, but the people are what make Liberty what it is.



An aerial photograph of a suburban town with a mix of residential areas, green spaces, and a golf course. In the background, a range of mountains with snow-capped peaks is visible under a clear blue sky. The text is overlaid on the image, framed by large red quotation marks.

**I LOVE WORKING WITH  
OUR INVENTIVE, CLEVER,  
ACCOUNTABLE, AND  
AMBITIOUS EMPLOYEES  
PURSUING THE APEX OF OUR  
MARKET WITH INTEGRITY.  
THERE IS A LOT TO LOVE,  
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MAKE LIBERTY WHAT IT IS.**

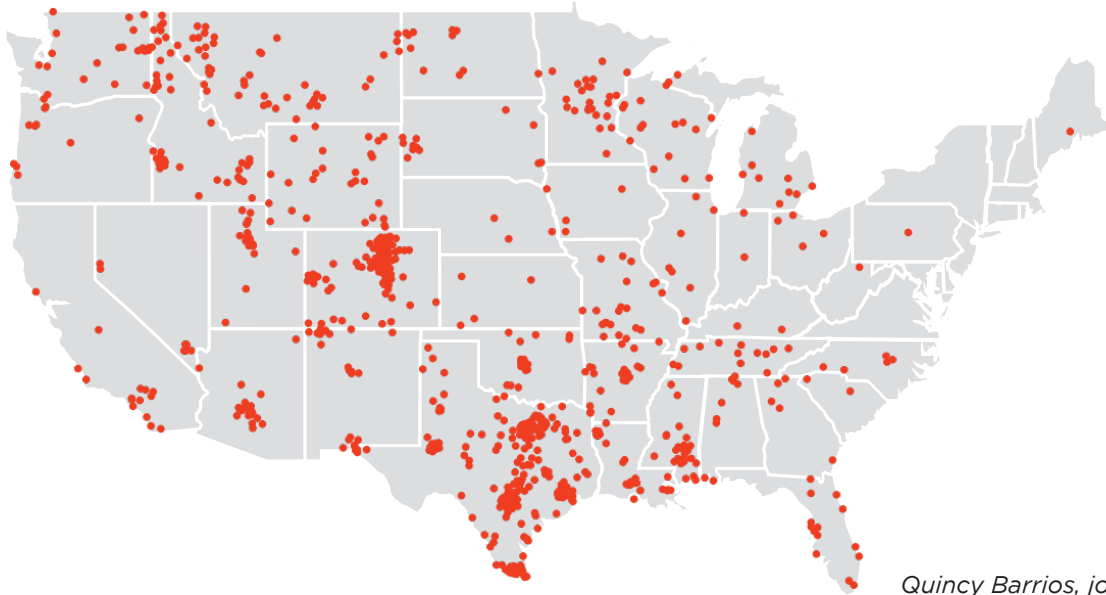




# PEOPLE & CULTURE

In the midst of a global pandemic and an oil and gas industry downturn, the Liberty family came together to work through an extraordinarily difficult time. Together we were able to weather our first-ever layoffs and furloughs and have now been able to end all furloughs and rehire several hundred of our people. We hope to continue this trend in the future. The success of Liberty is directly attributable to the quality of our people, and we believe building a strong culture inside our organization translates to strong communities where Liberty families call home.

## WE HAVE LIBERTY FAMILIES LIVING IN RURAL COMMUNITIES AND BIG CITIES ACROSS THE U.S.



*Quincy Barrios, joined the crew November 2020*

## DID YOU KNOW?

**82**

LIBERTY BABIES  
BORN IN 2020

**3**

FAMILIES ASSISTED  
WITH ADOPTION

**60**

FAMILIES ASSISTED WITH  
FERTILITY TREATMENT





# FEATURED TEAM MEMBERS

## KELE OGBONNAYA

- Born and raised in Lagos, Nigeria and moved to Denver, Colorado in 2009
- Attended the University of Colorado and started working as a Field Engineer after graduating in 2012. Currently is an Account Representative located in Houston.

**“I LOVE IT HERE. LIBERTY IS EVERYTHING I HAD HOPED FOR IN A WORKPLACE. I HAVE DEVELOPED SOME LIFELONG FRIENDSHIPS AND HAVE HAD THE OPPORTUNITY TO WORK ACROSS DIFFERENT DEPARTMENTS. THE PEOPLE HERE MAKE THE DIFFERENCE. HARD WORK AND RESILIENCE ARE ALWAYS REWARDED AT LIBERTY. LIBERTY FOREVER.”**



## BROOKE LOBUE

- Started working at Liberty right when she turned 18 years old as a Fabricator Welder
- Passions include horses and cars

**“I HAVE REALLY ENJOYED BEING A PART OF A SHOP THAT STRIVES TO BE BETTER, DO BETTER AND ALWAYS PUTS OUR BEST QUALITY WORK OUT THERE. I TAKE PRIDE SEEING A LIBERTY TRUCK ON THE ROAD, KNOWING THE LIBERTY TEAM IS MAKING A DIFFERENCE EACH AND EVERY DAY!”**

## BOBBY WOODALL II

- Service Leader for Raptor Crew in Eagleford Basin
- Born and raised in Pleasanton, Texas

**“CURIOSITY IS WHAT GOT ME INTO THIS INDUSTRY. AS I PROGRESSED IN MY OILFIELD CAREER, I WANTED TO WORK WITH A COMPANY THAT WOULD ALLOW ME TO GROW. WE CONTINUE TO WORK ON WAYS TO IMPROVE ON OUR EQUIPMENT, PERFORM AS A TEAM, AND STRIVE TO BE BETTER INDIVIDUALS. I LOVE IT HERE AT LIBERTY, AND I AM PROUD TO BE PART OF THE TEAM. SHOUT OUT TO ALL MY TEAM MEMBERS IN SOUTH TEXAS! MY SUCCESS IS ATTRIBUTED TO THE TEAM THAT SURROUNDS ME.”**





# COMMUNITY

*Liberty Farmington cooked cheeseburgers and hot dogs on our Liberty grill for the 500 participants and family members of the Special Olympics 2020 SONM State Poly Hockey Championships. February 2020*

No matter what changes we have faced as a company, Liberty is a family. We hold tight to the small company feel, and this mentality has shaped our approach to community outreach. Our family and communities are resilient, and we have worked hard this year to support local organizations fighting tirelessly to support those in need during a year of unprecedented challenge.

## AN ACTIVE APPROACH TO COMMUNITY OUTREACH

As strong believers in the “work hard, play hard” mentality Liberty has sought opportunities that get us engaged and moving. While we had to make some adjustments in 2020, our team was still out there building houses with Habitat for Humanity, playing basketball with the kids at the Tennyson Center for Children, and packing lunches for students in need.

**LIBERTY'S HYBRID VOLUNTEERING PROGRAM HAS ENABLED LIBERTY TO EXTEND VOLUNTEER OPPORTUNITIES INTO OUR BROADER LIBERTY FAMILY, INCLUDING THEIR SPOUSES AND CHILDREN.**

## VOLUNTEERING GOES VIRTUAL

We acted fast to adapt our community outreach opportunities to include both virtual and safe in-person options. We got to work writing thank-you cards to our first responders and cards to those in nursing homes, and we encouraged all members of the Liberty family to share their gratitude. While we missed seeing many of our community partners in person, we are so proud of the creative ways we adapted and were able to support our communities in 2020.



*Missing volunteering with the kids at the Tennyson Center for Children during these unusual holiday times, Liberty prepared movie night baskets for the kids over their 2020 Thanksgiving break.*



## FEATURED COMMUNITY PARTNER: FREEDOM SERVICE DOGS

Freedom Service Dogs, founded in 1987, unleashes the potential of dogs by transforming them into custom-trained, life-changing assistance dogs for people in need. They serve both children and adults, living with disabilities such as autism, traumatic brain injury, multiple sclerosis, spinal cord injuries or veterans with PTSD. These dogs provide an invaluable resource for many in our community who need a little extra support.

“During my months in the hospital, there wasn’t an expectation of survival. One night, I was thinking, ‘Should I give up?’ because it was so hard and it hurt so much. But I thought about my family and about the service dog that I didn’t even know. You helped me before I even met Quest. It was the hope that you would provide me with a partner that lifted me up in tough times.”



– Dale (pictured with his FSD, Quest), U.S. Army veteran with PTSD and injuries suffered in a parachuting accident

“OVER THE LAST SEVEN YEARS, LIBERTY OILFIELD SERVICES HAS BEEN AN INSTRUMENTAL PARTNER OF FREEDOM SERVICE DOGS (FSD). IN PARTICULAR, THE INCREDIBLE SUPPORT THAT FSD HAS RECEIVED FROM LIBERTY HAS BEEN VITAL TO OUR ANNUAL FACES OF FREEDOM SPORTING CLAYS TOURNAMENTS IN DENVER, CO AND MIDLAND, TX, WHICH SUPPORT OUR OPERATION FREEDOM PROGRAM – AN IMPORTANT PROGRAM OF FSD THAT PLACES LIFE-CHANGING DOGS, CUSTOM-TRAINED TO BECOME SERVICE DOGS, WITH VETERANS IN NEED. FSD IS TRULY GRATEFUL BEYOND MEASURE FOR THE PARTNERSHIP WITH LIBERTY, AND WE LOOK FORWARD TO CONTINUING TO SEE IT GROW FOR MANY YEARS TO COME.”

– NADINE PACE, FSD

Committed to tackling children’s weekend hunger, Liberty Denver packed Power Sacks with Food for Thought Denver in March 2020.



Liberty kids, Mack and Monty, participated in our company-wide letter-writing campaign to thank essential workers in local communities.



**MEET LIBERTY,  
THE FSD PUPPY WE  
SPONSORED THIS YEAR.**

This past year, we sponsored an adorable black lab FSD puppy named Liberty! Liberty will change the life of her future owner, and we are watching proudly as she completes her training through the Prison Puppy Raising Project at Trinidad Correctional Facility, a program that allows currently incarcerated persons to develop new skills, build self-esteem, and provide an invaluable service for organizations like FSD. When she is old enough, she will be placed with her forever human in need. Onwards and upwards, Liberty!





# BUSINESS STRATEGY & FINANCIAL SNAPSHOT

## **DELIVERING LEADING RETURNS IN A CYCLICAL INDUSTRY, TAKING ADVANTAGE OF THE DOWNCYCLES**

Personally, collectively and financially, 2020 was a year defined by the COVID crisis. Liberty weathered the storm of the COVID-19 impact with tenacity and strength and ended the year with determination and resolve in building a better company. With the dedication, sacrifice and commitment of the Liberty family, we were able to successfully navigate through the crisis.

The year started with an oversupplied frac market and a challenging pricing environment, but Liberty posted relatively strong results for the first quarter with our 24 fleets actively working. The COVID storm hit the North American frac market in March when the closing of world economies drove down oil demand, and WTI crude oil price collapsed into the \$20s. North American operators responded by almost completely shutting down oil development activities by May.

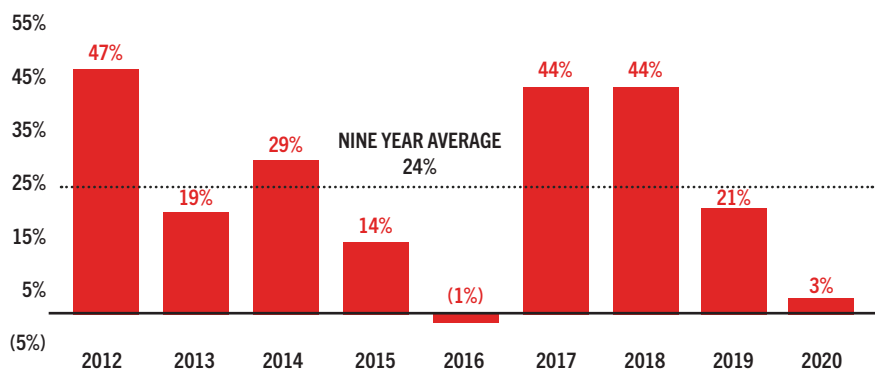
In partnership with our customers, we assessed the market and made the necessary but personally difficult decision to reduce the size of our staffed frac fleet count by approximately 50%, a fleet level that positioned us to support our key customers' activity plans in the second half of the year. We undertook a companywide furlough plan for the balance of the employees to conserve cash. Frac activity for Liberty reached bottom in the second quarter of 2020 with only a handful of active fleets. Following that dramatic decline, we were able to support our customers' rising activity levels by ramping up our active frac fleet count to 16 by the end of the year and bringing back many of our experienced employees to the Liberty family.



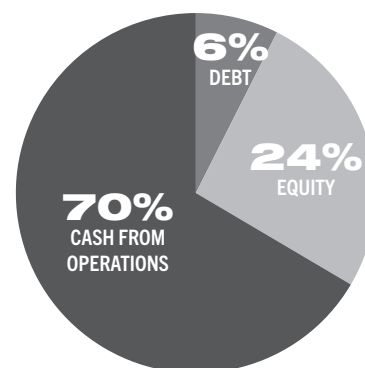
The unique challenges of 2020 also provided a transformative opportunity. Liberty has always maintained a strong balance sheet to enable us to not only weather challenging times but to take advantage of them. As we did in the last downturn of 2015/2016, we were able to execute on a strategic acquisition at attractive pricing. In September 2020, we announced an agreement to acquire Schlumberger's onshore hydraulic fracturing business in the United States and Canada (OneStim), including its pressure pumping, pumpdown perforating wireline, and Permian frac sand businesses, in exchange for a 37% equity interest in Liberty. This deal increased our scale, technical expertise, geographic diversity, and vertical integration. The transaction was significantly accretive on key financial metrics: EBITDA, free cash-flow, and earnings per share.

Despite the significant challenges and the severe downturn in oil prices in 2015/2016, Liberty has averaged a pre-tax cash return on capital invested (CROCI\*) of approximately 24% in our nine years of operations. It is our culture of innovation and the empowerment of our employees that set our returns apart from the rest of the industry. Liberty has been battle tested, and we have thrived.

## CASH RETURN ON CAPITAL INVESTED\*



## HISTORICAL FUNDING SOURCES



| (\$ in Millions)                 | 2020    | 2019    | 2018    |
|----------------------------------|---------|---------|---------|
| <b>Total revenue</b>             | \$966   | \$1,990 | \$2,155 |
| <b>Total gross profit</b>        | \$108   | \$369   | \$526   |
| <b>Pre-tax net (loss) income</b> | \$(192) | \$89    | \$289   |
| <b>Adjusted EBITDA **</b>        | \$58    | \$291   | \$444   |

### Operating metrics (annualized)

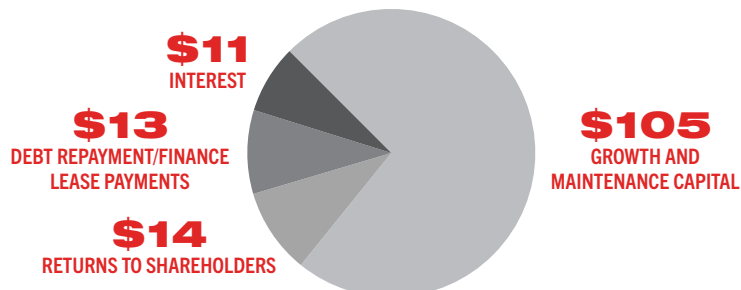
| Operating Metric                   | 2020 | 2019 | 2018  |
|------------------------------------|------|------|-------|
| <b>Average active frac fleets</b>  | 13.2 | 22.8 | 21.3  |
| <b>Revenue/active fleet</b>        | \$73 | \$87 | \$101 |
| <b>Adj. EBITDA **/active fleet</b> | \$4  | \$13 | \$21  |

\*Cash return on capital invested is derived in part from non-GAAP financial measures. Please see endnote 3 following this annual report for important additional information.

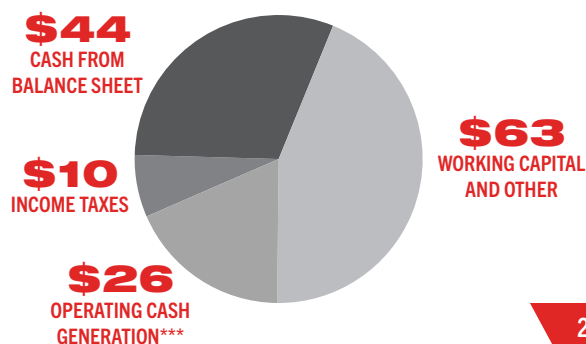
\*\*Adjusted EBITDA is a non-GAAP financial measure. Please see endnote 1 following this annual report for important additional information, including a reconciliation to the most comparable GAAP measure.

\*\*\* Operating Cash Generation is a non-GAAP financial measure. Please see endnote 4 following this annual report for important additional information, including a reconciliation to the most comparable GAAP measure.

### 2020 USE OF CASH (\$ IN MILLIONS)



### 2020 SOURCE OF CASH (\$ IN MILLIONS)



## RECONCILIATIONS

<sup>1</sup> Adjusted EBITDA is not presented in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”). Please see the table below for a Reconciliation of Net Income to EBITDA and Adjusted EBITDA, its most directly comparable U.S. GAAP financial measure.

| (\$ in Millions)                  | Year Ended<br>31-Dec-2020 | Year Ended<br>31-Dec-2019 | Year Ended<br>31-Dec-2018 |
|-----------------------------------|---------------------------|---------------------------|---------------------------|
| <b>Net (Loss) Income</b>          | <b>\$(161)</b>            | <b>\$75</b>               | <b>249</b>                |
| Depreciation & Amortization       | \$180                     | \$165                     | 125                       |
| Interest Expense                  | \$15                      | \$15                      | 17                        |
| Income Tax (Benefit) Expense      | \$(31)                    | \$14                      | 40                        |
| <b>EBITDA</b>                     | <b>\$3</b>                | <b>\$269</b>              | <b>\$431</b>              |
| Stock based compensation expense  | \$17                      | \$14                      | \$6                       |
| Fleet start-up and lay-down costs | \$12                      | \$4                       | \$10                      |
| Asset acquisition costs           | \$9                       | -                         | \$1                       |
| Loss (gain) on disposal of assets | -                         | \$3                       | \$(4)                     |
| Provision for credit losses       | \$5                       | \$1                       | -                         |
| Non-recurring payroll expense     | \$2                       | -                         | -                         |
| Severance and related costs       | \$10                      | -                         | -                         |
| <b>Adjusted EBITDA</b>            | <b>\$58</b>               | <b>\$291</b>              | <b>\$444</b>              |

<sup>2</sup> Pre-Tax Return on Capital Employed (“ROCE”) is an operational measure. Please see the table below for a Calculation of Pre-Tax Return on Capital Employed. Certain amounts in the table below may not sum to the amounts presented due to the cumulative effects of rounding.

| (\$ in Millions)                 | Twelve Months Ended<br>31-Dec-2020 | Twelve Months Ended<br>31-Dec-2019 |
|----------------------------------|------------------------------------|------------------------------------|
| <b>Net (loss) income</b>         | <b>\$(161)</b>                     | <b>\$75</b>                        |
| Income tax (benefit) expense     | \$(31)                             | \$14                               |
| <b>Pre-tax net (loss) income</b> | <b>\$(192)</b>                     | <b>\$89</b>                        |

| (\$ in Millions)                          | Twelve Months Ended<br>31-Dec-2020 | Twelve Months Ended<br>31-Dec-2019 | Twelve Months Ended<br>31-Dec-2018 |
|---|------------------------------------|------------------------------------|------------------------------------|
| <b>Capital Employed</b>                   |                                    |                                    |                                    |
| Total debt, net of discount               | \$106                              | \$106                              | \$107                              |
| Total equity                              | \$1,310                            | \$781                              | \$741                              |
| <b>Total capital employed</b>             | <b>\$1,416</b>                     | <b>\$888</b>                       | <b>\$847</b>                       |
| <b>Average capital employed</b>           | <b>\$1,152</b>                     | <b>\$867</b>                       |                                    |
| <b>Pre-tax return on capital employed</b> | <b>-17%</b>                        | <b>10%</b>                         |                                    |



<sup>3</sup> Cash Return on Capital Invested is defined as the ratio of Adjusted EBITDA, a non-U.S. GAAP measure, to gross capital invested (total assets plus accumulated depreciation less non-interest bearing current liabilities). Please see note 1 for a reconciliation of Adjusted EBITDA to its most comparable U.S. GAAP measure.

<sup>4</sup> Operating Cash Generation is not presented in accordance with U.S. GAAP. Please see the table at right for a reconciliation to Cash Flow from Operations, its most directly comparable U.S. GAAP financial measure.

| (\$ in Millions)                            | Twelve Months Ended<br>31-Dec-2020 |
|---|------------------------------------|
| <b>Cash flow from operations</b>            | <b>\$85</b>                        |
| Changes in Operating Assets and Liabilities | \$(63)                             |
| Cash paid for interest                      | \$11                               |
| Net cash received for income taxes          | \$(10)                             |
| Proceeds from disposal of assets            | \$3                                |
| <b>Operating cash generation</b>            | <b>\$26</b>                        |







**Shares Listed**

New York Stock Exchange  
Symbol: LBRT

**Transfer Agent and Registrar**

American Stock Transfer & Trust Company, LLC

Attn: Client Support  
6201 15th Avenue  
Brooklyn, NY 11219

Phone: 1-800-937-5449 or 1-718-921-8124 (outside of U.S.)  
astfinancial.com

**Investor Relations Contact Information**

To contact Liberty's investor relations department, stockholders may call the company at 303-515-2851 or send a message via email to [IR@libertyfrac.com](mailto:IR@libertyfrac.com).



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
**FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Fiscal Year Ended December 31, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 001-38081



## Liberty Oilfield Services Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware

81-4891595

(State or Other Jurisdiction of Incorporation or Organization)

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

950 17th Street, Suite 2400  
Denver, Colorado

80202

(Address of Principal Executive Offices)

(Zip Code)

(303) 515-2800

(Registrant's Telephone Number, Including Area Code)

### Securities registered pursuant to Section 12(b) of the Act:

| Title of each class                    | Trading symbol(s) | Name of each exchange on which registered |
|--|-------------------|---|
| Class A Common Stock, par value \$0.01 | LBRT              | New York Stock Exchange                   |

### Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company   
Emerging growth company

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

As of June 30, 2020, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of voting and non-voting common stock held by non-affiliates of the registrant was approximately \$356.7 million, determined using the per share closing price on the New York Stock Exchange on that date of \$5.48. Shares of common stock held by each director and executive officer (and their respective affiliates) and each person who owns 10 percent or more of the outstanding common stock or who is otherwise believed by the registrant to be in a control position have been excluded. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

At February 19, 2021 the Registrant had 165,068,515 shares of Class A Common Stock and 14,472,440 shares of Class B Common Stock outstanding.

Documents Incorporated by Reference: Part III of this Annual Report on Form 10-K incorporates certain information by reference from the registrant's proxy statement for the 2021 annual meeting of stockholders to be filed no later than 120 days after the end of the registrant's fiscal year.



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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K and certain other communications made by us contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange of 1934, as amended (the “Exchange Act”), including statements about our growth including from the OneStim Acquisition (as defined below), expected performance, future operating results, oil and natural gas demand and prices, future global economic conditions, the impacts of the COVID-19 pandemic, improvements in operating procedures and technology, the business strategies of our customers, in addition to other estimates, and beliefs. For this purpose, any statement that is not a statement of historical fact should be considered a forward-looking statement. We may use the words “estimate,” “outlook,” “project,” “position,” “potential,” “likely,” “believe,” “anticipate,” “plan,” “expect,” “intend,” “achievable,” “anticipate,” “may,” “will,” “continue,” “should,” “could” and similar expressions to help identify forward-looking statements. We cannot assure you that our assumptions and expectations will prove to be correct. Important factors could cause our actual results to differ materially from those indicated or implied by forward-looking statements, including but not limited to the risks described in this Annual Report on Form 10-K (“Annual Report”) and other filings that we make with the U.S. Securities Exchange Commission (the “SEC”). We undertake no intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise and readers should not rely on the forward-looking statements as representing the Company’s views as of any date subsequent to the date of the filing of this Annual Report. These forward-looking statements are based on management’s current belief, based on currently available information, as to the outcome and timing of future events.

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

This Annual Report includes market and industry data and certain other statistical information based on third-party sources including independent industry publications, government publications and other publish independent sources, such as content and estimates provided by Coras Research, LLC as of December 31, 2020. Coras Research, LLC (“CORAS”) is not a member of the Financial Industry Regulator Authority (FINRA) or the Securities Investor Protection Corporation (SIPC) and is not a registered broker dealer or investment advisor. Although we believe these third-party sources are reliable as of their respective dates, we have not independently verified the accuracy or completeness of this information. Some data is also based on our own good faith estimates, which are supported by our management’s knowledge of and experience in the markets and business in which we operate.



## PART I

*As used in this Annual Report on Form 10-K, unless the context otherwise requires, references to the terms “Company,” “we,” “us” and “our” refer to, collectively, Liberty Oilfield Services LLC and LOS Acquisition Co I LLC and its subsidiaries (collectively, the “Predecessor”) for periods prior to the IPO (as defined herein), and, for periods as of and following the IPO, Liberty Oilfield Services Inc. and its consolidated subsidiaries. References to “Liberty LLC” refer to Liberty Oilfield Services New HoldCo LLC. References to “Liberty Holdings” refer to Liberty Oilfield Services Holdings LLC.*

### Item 1. Business

#### Our Company

We are an independent provider of hydraulic fracturing and wireline services and related goods to onshore oil and natural gas exploration and production (“E&P”) companies in North America. We provide our services primarily in the Permian Basin, the Eagle Ford Shale, the Denver-Julesburg Basin (the “DJ Basin”), the Williston Basin, the San Juan Basin and the Powder River Basin. Following the completion of the OneStim Acquisition (as defined below) we now also provide services in the Haynesville Shale, the South Central Oklahoma Oil Province and Sooner Trend Anadarko Canadian Kingfisher (collectively the “SCOOP/STACK”), the Marcellus Shale, Utica Shale, and the Western Canadian Sedimentary Basin.

The process of hydraulic fracturing involves pumping a pressurized stream of fracturing fluid—typically a mixture of water, chemicals and proppant—into a well casing or tubing in order to cause the underground formation to fracture or crack. These fractures release trapped hydrocarbon particles and provide a conductive channel for the oil or natural gas to flow freely to the wellbore for collection. The propping agent, or proppant,—typically sand—becomes lodged in the cracks created by the hydraulic fracturing process, “propping” them open to facilitate the flow of hydrocarbons from the reservoir to the well. The fracturing fluid is engineered to lose viscosity, or “break,” and is subsequently flowed back from the formation, leaving the proppant suspended in the formation fractures. Once our customer has flushed the fracturing fluids from the well using a controlled flow-back process, the customer manages fluid and water recycling or disposal.

Our hydraulic fracturing fleets consist of mobile hydraulic fracturing units and other auxiliary heavy equipment to perform fracturing services. Our hydraulic fracturing units consist primarily of high-pressure hydraulic pumps, engines, transmissions, radiators and other supporting equipment that are typically mounted on trailers. We refer to the group of units and other equipment, such as blenders, data vans, sand storage, tractors, manifolds and high pressure fracturing iron, which are necessary to perform a typical hydraulic fracturing job, as a “fleet,” and the personnel assigned to each fleet as a “crew,” the size of each fleet and crew can vary depending on the requirements of each job design.

We have wireline operations after December 31, 2020 as a result of the OneStim Acquisition (as defined below). Our wireline units consist of a truck equipped with a spool of wireline that is lowered into wells to convey specialized tools or equipment necessary to connect the wellbore with the target formation. This operation is performed between each hydraulic fracturing stage. We offer our wireline service on a stand alone basis or alongside our hydraulic fracturing services. When offered along side our hydraulic fracturing services, we are able to maximize efficiency for our customers through optimized coordination of the wireline and hydraulic fracturing services.

Our operations are organized into a single business segment, which consists of hydraulic fracturing services, including wireline, and goods, including our Permian sand mines, and we have one reportable geographical segment, North America. We have grown from one active hydraulic fracturing fleet in December 2011 to approximately 30 fleets in the first quarter of 2021, including the addition of active fleets as a result of the OneStim Acquisition (as defined below).

Our founders and existing management were pioneers in the development of data-driven hydraulic fracturing technologies for application in shale plays. Prior to founding the Company, the majority of our management team founded and built Pinnacle Technologies, Inc. (“Pinnacle Technologies”) into a leading fracturing technology company. In 1992, Pinnacle Technologies developed the first commercial hydraulic fracture mapping technologies, analytical tools that played a major role in launching the shale revolution. Our extensive experience with fracture technologies and customized fracture design has enabled us to develop new technologies and processes that provide our customers with real time solutions that significantly enhance their completions. These technologies include hydraulic fracture propagation models, reservoir engineering tools, large, proprietary shale production databases and multi-variable statistical analysis techniques. Taken together, these technologies have enabled us to be a leader in hydraulic fracture design innovation and application.

We believe the following characteristics distinguish us from our competitors and are the foundations of our business: forming ongoing partnerships of trust and innovation with our customers; developing and utilizing technology to maximize well performance; and promoting a people-centered culture focused on our employees, customers and suppliers. We have developed strong relationships with our customers by investing significant time in fracture design collaboration, which substantially

enhances their production economics. Our technological innovations have become even more critical as E&P companies have increased the completion complexity and fracture intensity of horizontal wells. We are proactive in developing innovative solutions to industry challenges, including developing: (i) our databases of U.S. unconventional wells to which we apply our proprietary multi-variable statistical analysis technologies to provide differential insight into fracture design optimization; (ii) our Liberty Quiet Fleet® design which significantly reduces noise levels compared to conventional hydraulic fracturing fleets; (iii) hydraulic fracturing fluid systems tailored to the specific reservoir properties in the basins in which we operate; and (iv) our dual fuel dynamic gas blending fleets that allow our engines to run diesel or a combination of diesel and natural gas, to optimize fuel use, reduce emissions and lower costs. We foster a people-centered culture built around honoring our commitments to customers, partnering with our suppliers and hiring, training and retaining people that we believe to be the best talent in our field, enabling us to be one of the safest and most efficient hydraulic fracturing companies in North America.

### **Recent Developments**

On December 31, 2020, the Company acquired certain assets and liabilities of Schlumberger Limited's ("Schlumberger") OneStim® business, which provides hydraulic fracturing pressure pumping services in onshore United States and Canada, including its pressure pumping, pumpdown perforating and Permian frac sand business (such entire business of Schlumberger, "OneStim," and the portion of OneStim acquired pursuant by the Company, the "Transferred Business") in exchange for consideration resulting in a total of 66,326,134 shares of Class A common stock, par value \$0.01 per share, of the Company (the "Class A Common Stock") being issued in connection with the transaction (such transaction, the "OneStim Acquisition"; see Note 3—The OneStim Acquisition to the consolidated and combined financial statements included in "Item 8. Financial Statements and Supplementary Data"). Effective December 31, 2020, Schlumberger owned 37% of the issued and outstanding shares of our combined Class A Common Stock and our Class B common stock, par value \$0.01 per share (the "Class B Common Stock" and, together with the Class A Common Stock, the "Common Stock").

The OneStim Acquisition substantially increased the Company's geographical reach and expanded operations, allowing the Company to serve a broader range of customers and utilize the increase in scale, vertical integration and technological know-how to better serve new and existing customers. The Transferred Business includes over 500 fully operational hydraulic fracturing pumps, district facilities, pumpdown perforating wireline units, two state-of-the-art sand mines in the Permian Basin and a highly experienced team of employees. Additionally, the Company added over 400 owned and licensed patents, significant internally developed software intellectual property and a strategic alliance agreement, which increases access to technology portfolios and advances the technological collaborations we are able to offer our customers. The combined company offers best-in-class completion services for the sustainable development of unconventional resource plays in the United States and Canada onshore markets.

### **Cyclical Nature of Industry**

We operate in a highly cyclical industry. The key factor driving demand for our services is the level of drilling activity by E&P companies, which in turn depends largely on the current and anticipated economics of new well completions. Global supply and demand for oil and the domestic supply and demand for natural gas are critical in assessing industry outlook. Demand for oil and natural gas is cyclical and subject to large, rapid fluctuations, such as those experienced in 2020. E&P companies tend to increase capital expenditures in response to increases in oil and natural gas prices, which generally results in greater revenues and profits for oilfield service companies such as ours. Increased capital expenditures also ultimately lead to greater production, which historically has resulted in increased supplies of hydrocarbons and reduced prices which in turn tend to drive a future reduction in E&P companies capital expenditures and reduce demand for oilfield services. For these reasons, the results of our operations may fluctuate from quarter to quarter and from year to year, and these fluctuations may distort comparisons of results across periods.

### **Seasonality**

Our results of operations have historically reflected seasonal tendencies relating to holiday seasons, inclement weather and the conclusion of our customers' annual drilling and completion capital expenditure budgets. Our most notable declines typically occur in the fourth quarter of the year for the reasons described above. Additionally, some of the areas in which we have operations, including Canada, the DJ Basin, Powder River Basin and Williston Basin, are adversely affected by seasonal weather conditions, primarily in the winter and spring. During periods of heavy snow, ice, rain, or frost, and related road restrictions, we may be unable to move our equipment between locations, thereby reducing our ability to provide services and generate revenues. The exploration activities of our customers may also be affected during such periods of adverse weather conditions. Additionally, extended drought conditions in our operating regions could impact our ability or our customers' ability to source sufficient water or increase the cost for such water.



## **Intellectual Property**

Over the last several years and in connection with the OneStim Acquisition, we have significantly invested in our research and technology capabilities. Our efforts to date have been focused on developing innovative, fit-for-purpose solutions designed to enhance our core service offerings, increase completion efficiencies, provide cost savings to our operations and add value for our customers.

We seek patent and trademark protections for our technology when we deem it prudent, and we aggressively pursue protection of these rights when warranted. We believe our patents, trademarks, and other protections for our proprietary technologies are adequate for the conduct of our business and that no single patent or trademark is critical to our business. In addition, we rely, to a great extent, on the technical expertise and know-how of our personnel to maintain our competitive position, and we take commercially reasonable measures to protect trade secrets and other confidential and/or proprietary information relating to the technologies we develop.

## **Human Capital Management**

As of December 31, 2020, we had 1,946 employees and no unionized labor. We believe we have good relations with our employees. We promote a people-centered culture focused heavily on our employees and believe that the strength of our workforce is critical to our success as a company. We consistently assess the current business environment and labor market to refine our compensation and benefits programs in order to attract and retain top talent in our industry. We generally strive to hire people with integrity, a positive attitude and hunger to learn and contribute to a team. In response to the COVID-19 pandemic, we reduced our headcount and implemented a company-wide employee furlough plan in order to align with the uncertain level of frac demand we experienced during the second and third quarters of 2020. As of September 30, 2020, all furloughed employees had returned from furlough. We have implemented and continue to implement safety measures in all of our facilities to address the COVID-19 pandemic.

Additionally, as a result of the OneStim Acquisition, we expect to hire approximately 800 employees following a brief transition period during which their continuing service is provided while on secondment from Schlumberger.

### ***Health and Safety***

Our people are our most important asset and ensuring their safety and the safety of those around them is the most important thing we do. Making certain that the Liberty team is well trained to handle the complexities of daily field operations, and that their training and competency remains current with the latest technology and standards is a key component. In order to facilitate this training, we have developed the Liberty Frac Academy, a thorough program where employees are trained on various aspects of the Company, from safety in equipment operation to leadership skills. The Liberty Frac Academy not only ensures dissemination of high-quality training material, but also provides a forum for sharing best practices and lessons learned across the Company.

### ***Programs and Benefits***

One way we have demonstrated a history of investing in our workforce is by offering competitive salaries and wages. To foster a strong sense of ownership, restricted stock units are provided to eligible non-executive employees under our stock incentive program. Furthermore, we offer innovative benefits to all eligible employees, including, among others, comprehensive health insurance coverage, parental leave to all new parents, for birth or adoption, financial support for child adoption, leave to care for partners with serious health conditions, 401(k) savings plan and educational tuition assistance for both bachelor's degree and master's degree programs. We are also passionate about community investment and, in 2019, we joined the Ban the Box initiative which provides work opportunities for formerly incarcerated individuals.

## Properties

### *Properties*

Our corporate headquarters are located at 950 17<sup>th</sup> Street, Suite 2400, Denver, Colorado 80202. We lease our general office space at our corporate headquarters. The lease expires in December 2027. We currently own or lease the following additional principal properties:

| District Facility Location | Size                        | Leased or Owned                    |
|----------------------------|-----------------------------|------------------------------------|
| Midland, TX                | 160,000 sq. ft on 147 acres | Owned                              |
| Odessa, TX                 | 77,500 sq. ft on 47 acres   | Owned                              |
| Cibolo, TX                 | 90,000 sq. ft on 34 acres   | Owned                              |
| Kermit, TX                 | 5,000 acres                 | Owned                              |
| Monahans, TX               | 3,200 acres                 | Owned                              |
| Shreveport, LA             | 225,000 sq ft. on 50 acres  | Owned                              |
| Cheyenne, WY               | 115,000 sq. ft on 60 acres  | Owned                              |
| Gillette, WY               | 32,757 sq. ft on 15 acres   | Leased (through December 31, 2034) |
| Henderson, CO              | 50,000 sq. ft on 13 acres   | Leased (through December 31, 2034) |
| Williston, ND              | 30,000 sq. ft on 15 acres   | Owned                              |
| El Reno, OK                | 80,000 sq. ft on 33 acres   | Owned                              |
| Red Deer, AB               | 170,000 sq. ft on 42 acres  | Owned                              |
| Grand Prairie, AB          | 135,000 sq. ft on 40 acres  | Owned                              |
| Huallen, AB                | 80 acres                    | Owned                              |

We also lease several smaller facilities, which leases generally have terms of one to six years. We believe that our existing facilities are adequate for our operations and their locations allow us to efficiently serve our customers. We do not believe that any single facility is material to our operations and, if necessary, we could readily obtain a replacement facility.

## Marketing and Customers

Our sales and marketing activities typically are performed through our local sales representatives in each geographic region, and are supported by our corporate headquarters. For the years ended December 31, 2020, 2019 and 2018, our top five customers collectively accounted for approximately 48%, 35% and 42% of our revenues, respectively. For the year ended December 31, 2020, PDC Energy Inc., ConocoPhillips Company, Parsley Energy Operations, LLC, and WPX Energy each accounted for more than 10% of our revenues. No customer accounted for more than 10% of our revenues for the year ended December 31, 2019. For the year ended December 31, 2018, Extraction Oil & Gas, Inc. accounted for more than 10% of our revenues.

## Suppliers and Raw Materials

We have a dedicated supply chain team that manages sourcing and logistics to ensure flexibility and continuity of supply in a cost effective manner across our areas of operation. We have built long-term relationships with multiple industry leading suppliers of proppant, chemicals and hydraulic fracturing equipment and have started to internally design and assemble key pump and maintenance parts. In addition, we have built a strong relationship with the assembler of our custom-designed hydraulic fracturing fleets and believe we will continue to have timely access to new, high capability fleets as we continue to grow. In 2018, we also vertically integrated a supplier of certain major components through the acquisition of ST9 Gas and Oil LLC.

We purchase a wide variety of raw materials, parts and components that are manufactured and supplied for our operations. We are not dependent on any single source of supply for those parts, supplies or materials. To date, we have generally been able to obtain the equipment, parts and supplies necessary to support our operations on a timely basis. While we believe that we will be able to make satisfactory alternative arrangements in the event of any interruption in the supply of these materials and/or products by one of our suppliers, we may not always be able to do so. In addition, certain materials for which we do not currently have long-term supply agreements could experience shortages and significant price increases in the future. As a result, we may be unable to mitigate any future supply shortages and our results of operations, prospects and financial condition could be adversely affected. The OneStim Acquisition included two state-of-the-art sand mines in the Permian Basin, which further alleviates the risk of potential future material supply shortages.



## **Competition**

The markets in which we operate are highly competitive. We provide services in various geographic regions across the United States and Canada, and our competitors include many large and small oilfield service providers, including some of the largest integrated service companies. Our hydraulic fracturing services compete with large, integrated companies such as Halliburton Company as well as other companies including Calfrac Well Services Ltd., FTS International, Inc., NexTier Oilfield Solutions Inc., Universal Pressure Pumping, Inc., ProPetro Services, Inc., RPC, Inc., STEP Energy Services and U.S. Well Services, Inc. In addition, our industry is highly fragmented and we compete regionally with a significant number of smaller service providers.

We believe that the principal competitive factors in the markets we serve are technical expertise, equipment capacity, work force competency, efficiency, safety record, reputation, experience and price. Additionally, projects are often awarded on a bid basis, which tends to create a highly competitive environment. We seek to differentiate ourselves from our competitors by delivering the highest-quality services and equipment possible, coupled with superior execution and operating efficiency in a safe working environment.

## **Governmental Regulation**

As a company with operations in both the United States and Canada, we are subject to the laws of both jurisdictions in which we operate and the rules and regulations of various governing bodies, which may differ among those jurisdictions. Compliance with these laws, rules and regulations has not had, and is not expected to have, a material effect on our capital expenditures, results of operations and competitive position as compared to prior periods. We are also subject to numerous environmental and regulatory requirements related to our operations. For further information related to such regulation, see “Item 1A. Risk Factors.”

## **Available Information**

We file or furnish annual, quarterly and current reports, proxy statements and other documents with the SEC under the Exchange Act. The SEC also maintains an internet website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers, including us, that file electronically with the SEC.

We also make available free of charge through our website, [www.libertyfrac.com](http://www.libertyfrac.com), electronic copies of certain documents that we file with the SEC, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

## Item 1A. Risk Factors

*Described below are certain risks that we believe apply to our business and the industry in which we operate. You should carefully consider each of the following risk factors in conjunction with other information provided in this Annual Report on Form 10-K and in our other public disclosures. The risks described below highlight potential events, trends or other circumstances that could adversely affect our business, financial condition, results of operations, cash flows, liquidity or access to sources of financing, and consequently, the market value of our Class A Common Stock. These risks could cause our future results to differ materially from historical results and from guidance we may provide regarding our expectations of future financial performance. The risks described below are those that we have identified as material and is not an exhaustive list of all the risks we face. There may be other risks that we have not identified or that we have deemed to be immaterial. Please refer to the explanation of the qualifications and limitation on forward-looking statements set forth on page ii hereof.*

### **Risks Related to the COVID-19 Pandemic**

***The COVID-19 pandemic has significantly reduced demand for our services, and has had, and may continue to have, a material adverse effect on our operations, business and financial results.***

We face risks related to public health crises, including the ongoing COVID-19 pandemic. Although our operations have been deemed essential by the Department of Homeland Security, the effects of the COVID-19 pandemic, including travel bans, prohibitions on group events and gatherings, shutdowns of certain businesses, curfews, shelter-in-place orders and recommendations to practice social distancing in addition to other actions taken by both businesses and governments, have resulted in a significant and swift reduction in international and U.S. economic activity. The collapse in the demand for oil caused by this unprecedented global health and economic crisis, coupled with the current oil oversupply, has had, and may continue to have, a material adverse impact on the demand for our services. The decline in our customers' demand for our services has had, and is likely to continue to have, a material adverse impact on our financial condition, results of operations and cash flows.

We are closely monitoring the effects of the pandemic on our customers, operations, and employees. These effects have included, and may continue to include, adverse revenue and net income effects, financial health of our customers and therefore their ability to drill and complete wells or pay for services provided, financial health of our suppliers and therefore their ability to deliver necessary goods and services, disruptions to our operations, and ultimately the financial health and results of the Company. As we cannot predict the duration or scope of the COVID-19 pandemic, the anticipated negative financial impact to our operating results cannot be reasonably estimated, but it may last for an extended period of time.

The extent to which our operating and financial results are affected by COVID-19 will depend on various factors and consequences beyond our control, such as the duration and scope of the pandemic, additional actions by businesses and governments in response to the pandemic, and the speed and effectiveness of responses to combat the virus. COVID-19, and the volatile regional and global economic conditions stemming from the pandemic, could also aggravate the other risk factors that we identify herein. COVID-19 may also materially adversely affect our operating and financial results in a manner that is not currently known to us or that we do not currently consider to present significant risks to our operations.

***We are exposed to counterparty credit risk. Nonpayment and nonperformance by our customers, suppliers or vendors could adversely impact our operations, cash flows and financial condition.***

Weak economic conditions and widespread financial distress, including the significantly reduced global and national economic activity caused by the COVID-19 pandemic, could reduce the liquidity of our customers, suppliers or vendors, making it more difficult for them to meet their obligations to us. We are therefore subject to heightened risks of loss resulting from nonpayment or nonperformance by our customers, suppliers and vendors. Severe financial problems encountered by our customers, suppliers and vendors could limit our ability to collect amounts owed to us, or to enforce the performance of obligations owed to us under contractual arrangements. In the event that any of our customers was to enter into bankruptcy, we could lose all or a portion of the amounts owed to us by such customer, and we may be forced to cancel all or a portion of our service contracts with such customer at significant expense to us.

In addition, nonperformance by suppliers or vendors who have committed to provide us with critical products or services could raise our costs or interfere with our ability to successfully conduct our business. All of the above may be exacerbated in the future as the COVID-19 outbreak and the governmental responses to the outbreak continue. These factors, combined with volatile prices of oil and natural gas, may precipitate a continued economic slowdown and/or a recession.



## **Risks Related to the OneStim Acquisition**

***The integration of the Transferred Business may not be as successful as anticipated, and the Company may not achieve the intended benefits or do so within the intended timeframe.***

The OneStim Acquisition involves numerous operational, strategic, financial, accounting, legal, tax and other risks. Difficulties in integrating the Transferred Business, particularly during the COVID-19 pandemic, may result in the Company performing differently than expected, in operational challenges or in the delay or failure to realize anticipated expense-related efficiencies, and could have an adverse effect on the Company's financial condition, results of operations or cash flows. Potential difficulties that may be encountered in the integration process include, among other factors:

- the inability to successfully integrate the Transferred Business, operationally and culturally, in a manner that permits the Company to achieve the full revenue anticipated from the OneStim Acquisition;
- performance shortfalls due to COVID-19 pandemic and related decline in demand for our services;
- complexities associated with managing a larger, more complex, integrated business, including the potential diversion of management's attention;
- not realizing anticipated operating synergies;
- potential unknown liabilities and unforeseen expenses, delays or regulatory conditions associated with the OneStim Acquisition;
- integrating relationships with customers, vendors and business partners;
- performance shortfalls as a result of the diversion of management's attention caused by completing the OneStim Acquisition and integrating the Transferred Business operations; and
- the disruption of, or the loss of momentum in, the Company's ongoing business or inconsistencies in standards, controls, procedures and policies.

Additionally, the success of the OneStim Acquisition will depend, in part, on the Company's ability to realize the anticipated benefits from combining the Transferred Business and the Company's business, including operational and other synergies that the Company believes we will achieve. The anticipated benefits of the OneStim Acquisition may not be realized fully or at all, may take longer to realize than expected or could have other adverse effects that the Company does not currently foresee. Some of the assumptions that the Company has made, such as the achievement of operating synergies, may not be realized.

***The Company's results may suffer if it does not effectively manage its expanded operations following the OneStim Acquisition.***

Since the OneStim Acquisition, the size of the Company's business has increased significantly. In addition, we now own and operate two sand mines. While we have retained qualified personnel to operate the mines, we have not undertaken mining operations in the past. The Company's future success will depend, in part, on the Company's ability to manage this expanded business, which poses numerous risks and uncertainties, including the need to integrate the Transferred Business and their operations into the Company's existing business in an efficient and timely manner, to combine systems and management controls and to integrate relationships with customers, vendors and business partners. Failure to successfully manage the Transferred Business may have an adverse effect on the Company's financial condition, results of operations or cash flows.

***The Schlumberger Parties now have significant influence over us.***

As of December 31, 2020, Schlumberger owned approximately 37% of the outstanding shares of Common Stock. As long as Schlumberger owns or controls a significant percentage of the Company's outstanding voting power, they will have the ability to significantly influence corporate actions requiring stockholder approval, including the election and removal of directors and the size of the board of directors (the "Board"), any amendment to the Company's certificate of incorporation or bylaws, or the approval of any merger or other significant corporate transaction, including a sale of substantially all of the Company's assets. Schlumberger's influence over our management could have the effect of delaying or preventing a change in control or otherwise discouraging a potential acquirer from attempting to obtain control of us, which could cause the market price of the shares of Class A Common Stock to decline or prevent stockholders from realizing a premium over the market price for the shares of Class A Common Stock.

Pursuant to the A&R Stockholders Agreement, Schlumberger has designated two directors to the Company's board of directors. Schlumberger's right to designate directors to our Board is subject to the Schlumberger's ownership percentage of the total outstanding shares of Common Stock. If Schlumberger and its affiliates collectively beneficially own: (a) 20% or greater of the outstanding shares of Common Stock, they will have the right to appoint two directors or (b) at least 10% but less than 20% of the outstanding shares of Common Stock, they will have the right to appoint one director.

Schlumberger's interests may not align with the Company's interests or the interests of the Company's other stockholders.

***Sales of substantial amounts of shares of Class A Common Stock in the open market by Schlumberger could depress the Company's stock price.***

Shares of Class A Common Stock that were issued to Schlumberger in the OneStim Acquisition will become freely tradable once registered pursuant to the amended and restated registration rights agreement entered into in connection with the OneStim Acquisition ("A&R Registration Rights Agreement"). As a result, the shares of Class A Common Stock held by Schlumberger will have no restrictions other than described below or require further registration under the Securities Act, provided, however, that any stockholders, including Schlumberger, who are deemed the Company's affiliates will be subject to the resale restrictions of Rule 144 under the Securities Act.

Pursuant to the A&R Stockholders Agreement, Schlumberger is subject to certain lock-up and transfer restrictions. Schlumberger will not, (a) for a period of nine months from December 31, 2020 (the "Closing"), transfer or dispose of (or take other analogous actions in accordance with the terms of the A&R Stockholders Agreement) any economic, voting or other rights in or to their shares of Class A Common Stock, other than certain permitted transfers, and (b) for a period of four years from the Closing, make any transfer of shares of Class A Common Stock to any direct competitor of the Company or to any person that is subject to, or by virtue of such transfer would become subject to, the reporting obligations under Schedule 13D under the Exchange Act, with respect to shares of Common Stock.

Following the lock-up and transfer restrictions period described above, Schlumberger may wish to dispose of some or all of its interests in the Company, and as a result may seek to sell its shares of Class A Common Stock. These sales (or the perception that these sales may occur), coupled with the increase in the outstanding number of shares of Class A Common Stock, may affect the market for, and the market price of, shares of Class A Common Stock in an adverse manner.

If Schlumberger sells substantial amounts of Class A Common Stock in the public market, the market price of the Class A Common Stock may decrease.

***Following the OneStim Acquisition, we expanded our operations to Canada and may be subject to increased business and economic risks.***

The Company has historically owned and operated its assets exclusively within the United States. In connection with the OneStim Acquisition, we acquired certain Canadian assets and liabilities, which marked our entry into a new geographical territory where we have limited or no experience in owning and operating assets and providing our services. As a result, we are subject to a variety of risks inherent in doing business internationally, including: risks related to the legal and regulatory environment in foreign jurisdictions; fluctuations in currency exchange rates; complying with multiple tax jurisdictions; difficulties in staffing and managing international operations and the increased travel, infrastructure and compliance costs associated with international locations and employees; regulations that might add difficulties in repatriating cash earned outside the United States and otherwise preventing us from freely moving cash; complying with statutory equity requirements; and complying with the U.S. Foreign Corrupt Practices Act and similar laws in Canada. If we fail to manage our operations in Canada successfully, our business may suffer.

**Risks Related to the Oil and Natural Gas Industry**

***Federal, state and local legislative and regulatory initiatives relating to hydraulic fracturing as well as governmental reviews and investment practices for such activities may serve to limit future oil and natural gas E&P activities and could have a material adverse effect on our results of operations and business.***

Various federal, state and local legislative and regulatory initiatives have been, or could be undertaken which could result in additional requirements or restrictions being imposed on hydraulic fracturing operations. Currently, hydraulic fracturing is generally exempt from federal regulation under the Safe Drinking Water Act Underground Injection Control (the "SDWA UIC") program and is typically regulated by state oil and gas commissions or similar agencies but increased scrutiny and regulation, by federal agencies does occur. For example, in late 2016, the Environmental Protection Agency (the "EPA") released a final report on the potential impacts of hydraulic fracturing on drinking water resources, concluding that "water cycle" activities associated with hydraulic fracturing may impact drinking water resources. Additionally, the EPA has asserted regulatory authority pursuant to the SDWA UIC program over hydraulic fracturing activities involving the use of diesel fuel in the fracturing fluid and issued guidance of such activities. Furthermore, the U.S. Bureau of Land Management (the "BLM") published a final rule in 2015 that established stringent standards relating to hydraulic fracturing on federal and Native American lands. The rule was since rescinded, but the rescission is currently on appeal to the U.S. Court of Appeals for the Ninth Circuit. Similarly, the EPA has adopted rules on the capture of methane and other emissions released during hydraulic fracturing. These rules have been the subject of ongoing legal challenges. Notwithstanding these legal challenges, President Biden issued an executive order in January 2021 that called for issuance of proposed rules by no later than September 2021 that would restore rules for methane standards applicable to new, modified, and reconstructed sources and establish new methane and volatile organic compound standards applicable to existing oil and gas operations, including the production, transmission,



processing and storage segments. In addition to federal regulatory actions, legislation has been introduced, but not enacted, in Congress to provide for federal regulation of hydraulic fracturing and to require disclosure of the chemicals used in the hydraulic fracturing process.

The Biden Administration is expected to place significant emphasis on steps to address climate change. Although the U.S. had withdrawn from the Paris Agreement, which requested that nations limit their greenhouse gas emissions through individually-determined reduction goals every five years after 2020, President Biden issued an executive order in January 2021 recommitting the United States to the Paris Agreement. With this recommitment, executive orders may be issued or federal legislation or regulatory initiatives may be adopted to achieve the agreement's goals, including additional restrictions on hydraulic fracturing or related oil and gas development activities. Additionally, in January 2021, the U.S. Department of the Interior issued an order that effectively suspends new oil and gas leases and drilling permits on non-Indian federal lands and waters for a period of 60 days, but the suspension does not limit existing operations under valid leases. President Biden followed with an executive order that ordered the Secretary of the Interior to pause the issuance of new oil and gas leases on federal public lands and offshore waters pending completion of a comprehensive review of federal oil and gas permitting and leasing practices that take into consideration potential climate and other impacts associated with oil and gas activities. This order further directs agencies to identify fossil fuel subsidies provided by such agencies and take measures to ensure that federal funding is not directly subsidizing fossil fuels, with an objective of eliminating fossil fuel subsidies from federal budget requests beginning in 2022. This order is currently being challenged by industry groups. It remains to be seen to what extent the Biden Administration will pursue legislation, additional executive actions, regulations or other regulatory initiatives to limit, delay or prohibit hydraulic fracturing or other aspects of oil and gas development. In the event that these or other new federal restrictions, delays or prohibitions relating to the hydraulic fracturing process are adopted in areas where we or our customers conduct business, we or our customers may incur additional costs or permitting requirements to comply with such federal requirements that may be significant and, in the case of our customers, also could result in added restrictions or delays in the pursuit of exploration, development, or production activities, which would in turn reduce the demand for our services and have a material adverse effect on our results of operations.

Moreover, many states and local governments have adopted regulations that impose more stringent permitting, disclosure, disposal and well-construction requirements on hydraulic fracturing operations, including states where we or our customers operate, such as Texas, Colorado and North Dakota. States could also elect to place prohibitions on hydraulic fracturing, as several states have already done. In addition, some states have adopted broader sets of requirements related to oil and gas development more generally that could impact hydraulic fracturing activities. For example, in 2019 the Colorado legislature adopted SB 19-181, which gave greater regulatory authority to local jurisdictions. In response, the Colorado Oil and Gas Conservation Commission modified its rules to address the requirements of the legislation, adopting increased setback requirements and provisions for assessing alternative sites for well pads to minimize environmental impacts. Environmental groups, local citizens groups and others continue to seek to use a variety of means to force action on additional restrictions on hydraulic fracturing and oil and gas development generally.

A theme of avoiding or limiting investment in companies that engage in hydraulic fracturing has entered into capital markets. For example, in July 2020, Deutsche Bank announced that it would no longer finance oil and gas projects that use hydraulic fracturing in countries with scarce water supplies. Moreover, BlackRock recently affirmed its commitment to divest from investments in fossil fuels due to concerns over climate change. While a substantial number major banks and financing sources remain active in investments related to hydraulic fracturing, it is possible that the investment avoidance or limitation theme could expand in the future and restrict access to capital for companies like us.

Increased regulation and attention given to the hydraulic fracturing process could lead to greater opposition to, and litigation concerning, oil and natural gas production activities using hydraulic fracturing techniques. Additional legislation or regulation could also lead to operational delays for our customers or increased operating costs in the production of oil and natural gas, including from the developing shale plays, or could make it more difficult for us and our customers to perform hydraulic fracturing. The adoption of any additional laws or regulations regarding hydraulic fracturing or a furtherance of themes of investment avoidance or limitation in hydraulic fracturing could potentially cause a decrease in the completion of new oil and natural gas wells and an associated decrease in demand for our services and increased compliance costs and time. Such a decrease could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition. Moreover, the increased competitiveness of alternative energy sources (such as wind, solar, geothermal, tidal and biofuels) or increased focus on reducing the use of combustion engines in transportation (such as governmental mandates that ban the sale of new gasoline-powered automobiles) could reduce demand for hydrocarbons and therefore for our services, which would lead to a reduction in our revenues.

***Our business depends on domestic capital spending by the oil and natural gas industry, and reductions in capital spending could have a material adverse effect on our liquidity, results of operations and financial condition.***

Our business is directly affected by our customers' capital spending to explore for, develop and produce oil and natural gas in the United States. In addition, certain of our customers could become unable to pay their vendors and service providers, including us, as a result of a decline in commodity prices. Reduced discovery rates of new oil and natural gas reserves in our areas of operation as a result of decreased capital spending may also have a negative long-term impact on our business, even in an environment of stronger oil and natural gas prices. Any of these conditions or events could adversely affect our operating results. If current activity levels decrease or our customers further reduce their capital spending, it could have a material adverse effect on our liquidity, results of operations and financial condition.

Industry conditions are influenced by numerous factors over which we have no control, including:

- expected economic returns to E&P companies of new well completions;
- domestic and foreign economic conditions and supply of and demand for oil and natural gas;
- the level of prices, and expectations about future prices, of oil and natural gas;
- the level of global oil and natural gas exploration and production;
- the level of domestic and global oil and natural gas inventories;
- the supply of and demand for hydraulic fracturing services and equipment in the United States;
- federal, tribal, state and local laws, regulations and taxes, including the policies of governments regarding hydraulic fracturing and oil and natural gas exploration, development and production activities as well as non-U.S. governmental regulations and taxes;
- governmental regulations, including the policies of governments regarding the exploration for and production and development of their oil and natural gas reserves;
- political and economic conditions in oil and natural gas producing countries;
- actions by the members of the Organization of Petroleum Exporting Countries with respect to oil production levels and potential changes in such levels;
- global weather conditions and natural disasters;
- worldwide political, military and economic conditions;
- the cost of producing and delivering oil and natural gas;
- lead times associated with acquiring equipment and products and availability of qualified personnel;
- the discovery rates of new oil and natural gas reserves;
- stockholder activism or activities by non-governmental organizations to limit certain sources of funding for the energy sector or to restrict the exploration, development and production of oil and natural gas;
- the availability of water resources, suitable proppant and chemical additives in sufficient quantities for use in hydraulic fracturing fluids;
- advances in exploration, development and production technologies or in technologies affecting energy consumption;
- the availability, proximity and capacity of oil and natural gas pipelines and other transportation facilities;
- merger and divestiture activity among oil and natural gas producers;
- the price and availability of alternative fuels and energy sources; and
- uncertainty in capital and commodities markets and the ability of oil and natural gas companies to raise equity capital and debt financing.

***The volatility of oil and natural gas prices may adversely affect the demand for our hydraulic fracturing services and negatively impact our results of operations.***

The demand for our hydraulic fracturing services is primarily determined by current and anticipated oil and natural gas prices and the related levels of capital spending and drilling activity in the areas in which we have operations. Volatility or weakness in oil prices or natural gas prices (or the perception that oil prices or natural gas prices will decrease) affects the spending patterns of our customers and may result in the drilling of fewer new wells. This, in turn, could lead to lower demand for our services and may cause lower utilization of our assets. We have experienced, and may in the future experience significant fluctuations in operating results as a result of the reactions of our customers to changes in oil and natural gas prices.

Prices for oil and natural gas historically have been extremely volatile and are expected to continue to be volatile. During the year 2020, the posted West Texas Intermediate (“WTI”) price traded at an average of \$39.16 per barrel (“Bbl”), well below the 2019 average of \$56.99 per Bbl. As discussed elsewhere, the combined impact of the COVID-19 pandemic and the breakdown of the Organization of the Petroleum Exporting Countries (“OPEC”) and non-OPEC suppliers (collectively, “OPEC+”) production cut negotiations in the spring caused oil prices to drop to historical lows in April 2020. Prices have started to recover, and averaged \$53.93 per Bbl since the beginning of 2021 through February 16, 2021. If the prices of oil and natural gas continue to be volatile, our operations, financial condition, cash flows and level of expenditures may be materially and adversely affected.

***Delays or restrictions in obtaining permits by us for our operations or by our customers for their operations could impair our business.***

In most states, our operations and the operations of our oil and natural gas producing customers require permits from one or more governmental agencies in order to perform drilling and completion activities, secure water rights, or other regulated activities. Such permits are typically issued by state agencies, but federal and local governmental permits may also be required. The requirements for such permits vary depending on the location where such regulated activities will be conducted. As with all governmental permitting processes, there is a degree of uncertainty as to whether a permit will be granted, the time it will take for a permit to be issued, and the conditions that may be imposed in connection with the granting of the permit. In addition, some of our customers’ drilling and completion activities may take place on federal land or Native American lands, requiring leases and other approvals from the federal government or Native American tribes to conduct such drilling and completion activities or other regulated activities. Under certain circumstances, federal agencies may cancel proposed leases for federal lands and refuse to grant or delay required approvals. Therefore, our customers’ operations in certain areas may be interrupted or suspended for varying lengths of time, causing a loss of revenue to us and adversely affecting our results of operations in support of those customers.

***Oil and natural gas companies’ operations using hydraulic fracturing are substantially dependent on the availability of water. Restrictions on the ability to obtain water for E&P activities and the disposal of flowback and produced water may impact their operations and have a corresponding adverse effect on our business, results of operations and financial condition.***

Water is an essential component of shale oil and natural gas production during both the drilling and hydraulic fracturing processes. Our oil and natural gas producing customers’ access to water to be used in these processes may be adversely affected due to reasons such as periods of extended drought, privatization, third party competition for water in localized areas or the implementation of local or state governmental programs to monitor or restrict the beneficial use of water subject to their jurisdiction for hydraulic fracturing to assure adequate local water supplies. The occurrence of these or similar developments may result in limitations being placed on allocations of water due to needs by third party businesses with more senior contractual or permitting rights to the water. Our customers’ inability to locate or contractually acquire and sustain the receipt of sufficient amounts of water could adversely impact their E&P operations and have a corresponding adverse effect on our business, results of operations and financial condition.

Moreover, the imposition of new environmental regulations and other regulatory initiatives could include increased restrictions on our producing customers’ ability to dispose of flowback and produced water generated in hydraulic fracturing or other fluids resulting from E&P activities. Applicable laws impose restrictions and strict controls regarding the discharge of pollutants into waters of the United States and require that permits or other approvals be obtained to discharge pollutants to such waters. Additionally, regulations implemented under both federal and state laws prohibit the discharge of produced water and sand, drilling fluids, drill cuttings and certain other substances related to the natural gas and oil industry into coastal waters. These laws provide for civil, criminal and administrative penalties for any unauthorized discharges of pollutants and unauthorized discharges of reportable quantities of oil and hazardous substances. Compliance with current and future environmental regulations and permit requirements governing the withdrawal, storage and use of surface water or groundwater necessary for hydraulic fracturing of wells and any inability to secure transportation and access to disposal wells with sufficient capacity to accept all of our flowback and produced water on economic terms may increase our customers’ operating costs and could result in restrictions, delays, or cancellations of our customers’ operations, the extent of which cannot be predicted.



***Fuel conservation measures could reduce demand for oil and natural gas which would in turn reduce the demand for our services.***

Fuel conservation measures, alternative fuel requirements and increasing consumer demand for alternatives to oil and natural gas could reduce demand for oil and natural gas. The impact of the changing demand for oil and natural gas may have a material adverse effect on our business, financial condition, prospects, results of operations and cash flows. Additionally, the increased competitiveness of alternative energy sources (such as wind, solar geothermal, tidal, and biofuels) could reduce demand for hydrocarbons and therefore for our services, which would lead to a reduction in our revenues.

***Our operations are subject to significant risks, some of which are beyond our control. These risks may be self-insured, or may not be fully covered under our insurance policies.***

Our operations are subject to significant hazards often found in the oil and natural gas industry, such as, but not limited to, accidents, including accidents related to trucking operations provided in connection with our services, blowouts, explosions, craterings, fires, natural gas leaks, oil and produced water spills and releases of hydraulic fracturing fluids or other well fluids into the environment. These conditions can cause:

- disruption in operations;
- substantial repair or remediation costs;
- personal injury or loss of human life;
- significant damage to or destruction of property, and equipment;
- environmental pollution, including groundwater contamination;
- unusual or unexpected geological formations or pressures and industrial accidents;
- impairment or suspension of operations; and
- substantial revenue loss.

In addition, our operations are subject to, and exposed to, employee/employer liabilities and risks such as wrongful termination, discrimination, labor organizing, retaliation claims and general human resource related matters.

The occurrence of a significant event or adverse claim in excess of the insurance coverage that we maintain or that is not covered by insurance could have a material adverse effect on our liquidity, consolidated results of operations and financial condition. Claims for loss of oil and natural gas production and damage to formations can occur in the well services industry. Litigation arising from a catastrophic occurrence at a location where our equipment and services are being used or trucking services provided in connection therewith may result in our being named as a defendant in lawsuits asserting large claims.

We do not have insurance against all foreseeable risks, either because insurance is not available or because of the high premium costs. The occurrence of an event not fully insured against or the failure of an insurer to meet its insurance obligations could result in substantial losses. In addition, we may not be able to maintain adequate insurance in the future at rates we consider reasonable. Insurance may not be available to cover any or all of the risks to which we are subject, or, even if available, it may be inadequate, or insurance premiums or other costs could rise significantly in the future so as to make such insurance prohibitively expensive.

***We may be subject to claims for personal injury and property damage, which could materially adversely affect our financial condition, prospects and results of operations.***

Our services are subject to inherent risks that can cause personal injury or loss of life, damage to or destruction of property, equipment or the environment or the suspension of our operations. Litigation arising from operations where our services are provided, may cause us to be named as a defendant in lawsuits asserting potentially large claims including claims for exemplary damages. We maintain what we believe is customary and reasonable insurance to protect our business against these potential losses, but such insurance may not be adequate to cover our liabilities, and we are not fully insured against all risks.

In addition, our customers usually assume responsibility for, including control and removal of, all other pollution or contamination which may occur during operations, including that which may result from seepage or any other uncontrolled flow of drilling and completion fluids. We may have liability in such cases if we are grossly negligent or commit willful acts. Our customers generally agree to indemnify us against claims arising from their employees' personal injury or death to the extent that, in the case of our hydraulic fracturing operations, their employees are injured by such operations, unless resulting from our gross negligence or willful misconduct. Our customers also generally agree to indemnify us for loss or destruction of customer-owned property or equipment. In turn, we agree to indemnify our customers for loss or destruction of property or

equipment we own and for liabilities arising from personal injury to or death of any of our employees, unless resulting from gross negligence or willful misconduct of the customer. However, we might not succeed in enforcing such contractual liability allocation or might incur an unforeseen liability falling outside the scope of such allocation. As a result, we may incur substantial losses which could materially and adversely affect our financial condition and results of operation.

***We are subject to environmental and occupational health and safety laws and regulations that may expose us to significant costs and liabilities.***

Our operations and the operations of our customers are subject to numerous federal, tribal, regional, state and local laws and regulations relating to protection of the environment including natural resources, health and safety aspects of our operations and waste management, including the transportation and disposal of waste and other materials. These laws and regulations may impose numerous obligations on our operations and the operations of our customers, including the acquisition of permits or other approvals to conduct regulated activities, the imposition of restrictions on the types, quantities and concentrations of various substances that may be released into the environment or injected in non-productive formations below ground in connection with oil and natural gas drilling and production activities, the incurrence of capital expenditures to mitigate or prevent releases of materials from our equipment, facilities or from customer locations where we are providing services, the imposition of substantial liabilities for pollution resulting from our operations, and the application of specific health and safety criteria addressing worker protection. Any failure on our part or the part of our customers to comply with these laws and regulations could result in assessment of sanctions including administrative, civil and criminal penalties; imposition of investigatory, remedial or corrective action obligations or the incurrence of capital expenditures; the occurrence of restrictions, delays or cancellations in the permitting, performance or development of projects or operations; and the issuance of orders enjoining performance of some or all of our operations in a particular area.

Our business activities present risks of incurring significant environmental costs and liabilities, including costs and liabilities resulting from our handling of oilfield and other wastes, because of air emissions and wastewater discharges related to our operations, and due to historical oilfield industry operations and waste disposal practices. Moreover, accidental releases or spills may occur in the course of our operations or at facilities where our wastes are taken for reclamation or disposal, and we cannot assure you that we will not incur significant costs and liabilities as a result of such releases or spills, including any third-party claims for injuries to persons or damages to properties or natural resources. Some environmental laws and regulations may impose strict liability, which means that in some situations we could be exposed to liability as a result of our conduct that was lawful at the time it occurred or the conduct of, or conditions caused by, prior operators or other third parties. Remedial costs and other damages arising as a result of environmental laws and costs associated with changes in environmental laws and regulations could be significant and have a material adverse effect on our liquidity, consolidated results of operations and financial condition.

Laws and regulations protecting the environment generally have become more stringent in recent years and are expected to continue to do so, which could lead to material increases in costs for future environmental compliance and remediation. In particular, the federal Endangered Species Act (“ESA”) restricts activities that may result in a “take” of endangered or threatened species and provides for substantial penalties in cases where listed species are taken by being harmed. The dunes sagebrush lizard is one example of a species that, if listed as endangered or threatened under the ESA, could impact our operations and the operations of our customers. The dunes sagebrush lizard is found in the active and semi-stable shinnery oak dunes of southeastern New Mexico and adjacent portions of Texas, including areas where our customers operate and our frac sand facilities are located. The U.S. Fish and Wildlife Service is currently conducting a thorough review to determine whether listing the dunes sagebrush lizard as endangered or threatened under the ESA is warranted. If the dunes sagebrush lizard is listed as an endangered or threatened species, our operations and the operations of our customers in any area that is designated as the dunes sagebrush lizard’s habitat may be limited, delayed or, in some circumstances, prohibited, and we and our customers could be required to comply with expensive mitigation measures intended to protect the dunes sagebrush lizard and its habitat. Furthermore, new laws and regulations, amendment of existing laws and regulations, reinterpretation of legal requirements or increased governmental enforcement with respect to environmental matters could restrict, delay or curtail exploratory or developmental drilling for oil and natural gas by our customers and could limit our well servicing opportunities.

***Oilfield anti-indemnity provisions enacted by many states may restrict or prohibit a party’s indemnification of us.***

We typically enter into agreements with our customers governing the provision of our services, which usually include certain indemnification provisions for losses resulting from operations. Such agreements may require each party to indemnify the other against certain claims regardless of the negligence or other fault of the indemnified party; however, many states place limitations on contractual indemnity agreements, particularly agreements that indemnify a party against the consequences of its own negligence. Furthermore, certain states, including Texas, New Mexico and Wyoming, have enacted statutes generally referred to as “oilfield anti-indemnity acts” expressly prohibiting certain indemnity agreements contained in or related to oilfield services agreements. Such anti-indemnity acts may restrict or void a party’s indemnification of us, which could have a material adverse effect on our business, financial condition, prospects and results of operations.

***Technology advancements in well service technologies, including those involving hydraulic fracturing, could have a material adverse effect on our business, financial condition and results of operations.***

The hydraulic fracturing industry is characterized by rapid and significant technological advancements and introductions of new products and services using new technologies. As competitors and others use or develop new technologies or technologies comparable to ours in the future, we may lose market share or be placed at a competitive disadvantage. Further, we may face competitive pressure to implement or acquire certain new technologies at a substantial cost. Some of our competitors may have greater financial, technical and personnel resources than we do, which may allow them to gain technological advantages or implement new technologies before we can. Additionally, we may be unable to implement new technologies or services at all, on a timely basis or at an acceptable cost. New technology could also make it easier for our customers to vertically integrate their operations, thereby reducing or eliminating the need for our services. Limits on our ability to effectively use or implement new technologies may have a material adverse effect on our business, financial condition and results of operations.

#### **Risks Related to our Mines and Wireline Service**

***The sand mining operations are subject to a number of risks relating to the proppant industry.***

In connection with the OneStim Acquisition, we acquired two state-of-the-art sand mines in the Permian Basin. Sand mining operations are subject to risks normally encountered in the proppant industry. These risks include, among others: unanticipated ground, grade or water conditions; inability to acquire or maintain, or public or nongovernmental organization opposition to, necessary permits for mining, access or water rights; our ability to timely obtain necessary authorizations, approvals and permits from regulatory agencies (including environmental agencies, such as the U.S. Fish and Wildlife Service, where our operations in West Texas may be slowed, limited or halted due to conservation efforts targeted at the habitat of the dunes sagebrush lizard); pit wall or pond failures, and sluffing events; costs associated with environmental compliance or as a result of unauthorized releases into the environment; restrictions imposed on our operations related to the protection of natural resources, including plant and animal species; and reduction in the amount of water available for processing. Any of these risks could result in delays, limitations or cancellations in mining or processing activities, losses or possible legal liability.

***Silica-related legislation, health issues and litigation could have a material adverse effect on our business, reputation or results of operations.***

We are subject to laws and regulations relating to human exposure to crystalline silica. Historically, our environmental compliance costs with respect to existing crystalline silica requirements have not had a material adverse effect on our results of operations; however, federal regulatory authorities and analogous state agencies may continue to propose changes in their regulations regarding workplace exposure to crystalline silica, such as permissible exposure limits, required controls and personal protective equipment. We may not be able to comply with any new laws and regulations that are adopted, and any new laws and regulations could have a material adverse effect on our operating results by requiring us to modify or cease our operations.

In addition, the inhalation of respirable crystalline silica is associated with the lung disease silicosis. There is evidence of an association between crystalline silica exposure or silicosis and lung cancer and a possible association with other diseases, including immune system disorders such as scleroderma. The actual or perceived health risks of handling hydraulic fracture sand could materially and adversely affect hydraulic fracturing service providers, including us, through reduced use of hydraulic fracture sand, the threat of product liability or employee lawsuits, increased scrutiny by federal, state and local regulatory authorities of us and our customers or reduced financing sources available to the industry. Furthermore, we may incur additional costs with respect to purchasing specialized equipment designed to reduce exposure to crystalline silica in connection with our operations or invest capital in new equipment.

***We are subject to the Federal Mine Safety and Health Act of 1977, which imposes stringent health and safety standards on numerous aspects of its operations.***

Our operations are subject to the Federal Mine Safety and Health Act of 1977, as amended by the Mine Improvement and New Emergency Response Act of 2006, which imposes stringent health and safety standards on numerous aspects of mineral extraction and processing operations, including the training of personnel, operating procedures, operating equipment, and other matters. Our failure to comply with such standards, or changes in such standards or the re-interpretation or more stringent enforcement thereof, could have a material adverse effect on our business and financial condition or otherwise impose significant restrictions on its ability to conduct mineral extraction and processing operations.



***The occurrence of explosive incidents could disrupt our operations and could adversely affect our business, financial condition and results of operations.***

The wireline service we provide to oil and natural gas E&P customers involves the storage and handling of explosive materials. Despite the use of specialized facilities to store explosive materials and intensive employee training programs, the handling of explosive materials could result in incidents that temporarily shut down or otherwise disrupt our or E&P customers' operations or could cause restrictions, delays or cancellations in the delivery of services. It is possible that an explosion could result in death or significant injuries to employees and other persons. Material property damage to us, E&P customers and third parties could also occur. Any explosive incident could expose us to adverse publicity or liability for damages or cause production restrictions, delays or cancellations, any of which developments could have a material adverse effect on our ability to compete, business, financial condition and results of operations.

**Risks Related to the TRAs**

***The Company is required to make payments under the TRAs for certain tax benefits that it may claim, and the amounts of such payments could be significant.***

In connection with the Company's initial public offering (the "IPO"), on January 17, 2018, the Company entered into two Tax Receivable Agreements (the "TRAs") with R/C Energy IV Direction Partnership, L.P. and the then-existing owners of Liberty Holdings that continued to own Liberty LLC Units (the "Legacy Owners" and each such person and any permitted transferee, a "TRA Holder"). The TRAs generally provide for the payment by the Company to each TRA Holder of 85% of the net cash savings, if any, in U.S. federal, state, and local income tax and franchise tax (computed using simplifying assumptions to address the impact of state and local taxes) that the Company actually realizes (or is deemed to realize in certain circumstances) as a result of certain increases in tax basis, net operating losses available to the Company as a result of the corporate reorganization performed in connection with the IPO ("Corporate Reorganization"), and certain benefits attributable to imputed interest. The Company will retain the benefit of the remaining 15% of these cash savings.

The Company is a holding company and has no material assets other than its equity interest in Liberty LLC. Because the Company has no independent means of generating revenue, its ability to make payments under the TRAs is dependent on the ability of Liberty LLC to make distributions to the Company in an amount sufficient to cover its obligations under the TRAs. To the extent that the Company is unable to make payments under the TRAs for any reason, such payments will be deferred and will accrue interest until paid.

The term of each of the TRAs continues until all tax benefits that are subject to such TRAs have been utilized or expired, unless the Company experiences a change of control (as defined in the TRAs, which includes certain mergers, asset sales and other forms of business combinations) or the TRAs are terminated early (at the Company's election or as a result of its breach), and the Company makes the termination payments specified in such TRAs. In addition, payments the Company makes under the TRAs will be increased by any interest earned from the due date (without extensions) of the corresponding tax return. Payments under the TRAs commenced in 2020 and so long as the TRAs are not terminated, are anticipated to continue for 15 years after the date of the last redemption of the Liberty LLC Units.

In certain cases, if the Company experiences a change of control (as defined under the TRAs, which includes certain mergers, asset sales and other forms of business combinations) or the TRAs terminate early (at the Company's election or as a result of its breach), the Company would be required to make a substantial, immediate lump-sum payment. As a result, the Company's obligations under the TRAs could have a substantial negative impact on its liquidity and could have the effect of delaying, deferring or preventing certain mergers, asset sales, or other forms of business combinations or changes of control. There can be no assurance that we will be able to finance our obligations under the TRAs. Furthermore, as a result of this payment obligation, holders of our Class A Common Stock could receive substantially less consideration in connection with a change in control transaction than they would receive in the absence of such obligation. Since our payment obligations under the TRAs will not be conditioned upon the TRA Holders' having continued interest in the Company or Liberty LLC, the TRA Holders' interests may conflict with those of the holders of our Class A Common Stock.

Payments under the TRAs are based on the tax reporting positions that we will determine. The TRA Holders will not reimburse us for any payments previously made under the TRAs if any tax benefits that have given rise to payments under the TRAs are subsequently disallowed, except that excess payments made to any TRA Holder will be netted against payments that would otherwise be made to such TRA Holder, if any, after our determination of such excess. As a result, in such circumstances the Company could make payments that are greater than its actual cash tax savings, if any, and may not be able to recoup those payments, which could adversely affect the Company's liquidity. Furthermore, the payments under the TRAs will not be conditioned upon a holder of rights under each of the TRAs having a continued ownership interest in the Company or Liberty LLC. For further details of the TRAs, see Note 11—Income Taxes to the consolidated and combined financial statements included in "Item 8. Financial Statements and Supplementary Data."

## **General Risks Related to our Business**

***We may be adversely affected by uncertainty in the global financial markets and the deterioration of the financial condition of our customers.***

Our future results may be impacted by the uncertainty caused by an economic downturn, volatility or deterioration in the debt and equity capital markets, inflation, deflation or other adverse economic conditions that may negatively affect us or parties with whom we do business resulting in a reduction in our customers' spending and their non-payment or inability to perform obligations owed to us, such as the failure of customers to honor their commitments or the failure of major suppliers to complete orders. Additionally, during times when the oil or natural gas markets weaken, our customers are more likely to experience financial difficulties, including being unable to access debt or equity financing, which could result in a reduction in our customers' spending for our services. In addition, in the course of our business we hold accounts receivable from our customers. In the event of the financial distress or bankruptcy of a customer, we could lose all or a portion of such outstanding accounts receivable associated with that customer. Further, if a customer was to enter into bankruptcy, it could also result in the cancellation of all or a portion of our service contracts with such customer at significant expense or loss of expected revenues to us.

***Reliance upon a few large customers may adversely affect our revenue and operating results.***

Our top five customers represented approximately 48%, 35%, and 42%, of our consolidated and combined revenue for the years ended December 31, 2020, 2019, and 2018, respectively. It is possible that we will derive a significant portion of our revenue from a concentrated group of customers in the future. If a major customer fails to pay us, revenue would be impacted and our operating results and financial condition could be materially harmed. Additionally, if we were to lose any material customer or our customers were to consolidate or merger with other operators, we may not be able to redeploy our equipment at similar utilization or pricing levels or within a short period of time and such loss could have a material adverse effect on our business until the equipment is redeployed at similar utilization or pricing levels.

***We are subject to cyber security risks. A cyber incident could occur and result in information theft, data corruption, operational disruption and/or financial loss.***

The oil and natural gas industry has become increasingly dependent on digital technologies to conduct certain processing activities. For example, we depend on digital technologies to perform many of our services and to process and record financial and operating data. At the same time, cyber incidents, including deliberate attacks, have increased. The U.S. government has issued public warnings that indicate that energy assets might be specific targets of cyber security threats. In early 2020, we experienced a denial of service cyberattack that targeted a portion of our non-financial data. We immediately shutdown critical systems, diagnosed the root cause of the attack and then methodically returned systems online. This cyberattack disrupted certain non-financial aspects of our internal system for a period of less than one day, while limited and non-critical portions of our systems were kept offline for up to one week in order to properly evaluate the breach. We determined that this cyberattack did not materially affect any of our operations. We engaged in extensive data evaluation for potential damage and concluded that minimal to no data loss had occurred as a result of this cyberattack. Our technologies, systems and networks, and those of our vendors, suppliers and other business partners, may become the target of cyberattacks or information security breaches in the future that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of proprietary and other information, or other disruption of business operations. In addition, certain cyber incidents, such as surveillance, may remain undetected for an extended period. Our systems and insurance coverage for protecting against cyber security risks may not be sufficient. As cyber incidents continue to evolve, we will likely be required to expend additional resources to continue to modify or enhance our protective measures or to investigate and remediate any vulnerability to cyber incidents. Our insurance coverage for cyberattacks may not be sufficient to cover all the losses we may experience as a result of such cyberattacks.

***Our assets require significant amounts of capital for maintenance, upgrades and refurbishment and may require significant capital expenditures for new equipment.***

Our hydraulic fracturing fleets and other completion service-related equipment require significant capital investment in maintenance, upgrades and refurbishment to maintain their competitiveness. For example, since January 1, 2011 through December 31, 2020, we have deployed over 30 hydraulic fracturing fleets to service customers at a total cost to deploy of approximately \$1.3 billion. The costs of components and labor have increased in the past and may increase in the future with increases in demand, which will require us to incur additional costs for any fleets we may acquire in the future. Our fleets and other equipment typically do not generate revenue while they are undergoing maintenance, upgrades or refurbishment. Any maintenance, upgrade or refurbishment project for our assets could increase our indebtedness or reduce cash available for other opportunities. Furthermore, such projects may require proportionally greater capital investments as a percentage of total asset value, which may make such projects difficult to finance on acceptable terms. To the extent we are unable to fund such projects, we may have less equipment available for service or our equipment may not be attractive to potential or current customers. Additionally, competition or advances in technology within our industry may require us to update or replace existing fleets or build or acquire new fleets. Such demands on our capital or reductions in demand for our hydraulic fracturing fleets and the increase in cost of labor necessary for such maintenance and improvement, in each case, could have a material adverse effect on our business, liquidity position, financial condition, prospects and results of operations and may increase our costs.

***We rely on certain third parties for proppant and chemical additives, and delays in deliveries of such materials, increases in the cost of such materials or our contractual obligations to pay for materials that we ultimately do not require could harm our business, results of operations and financial condition.***

We have established relationships with certain suppliers of our raw materials (such as proppant and chemical additives). Delays or shortages in raw materials can result from a variety of reasons, including those caused by weather and natural disasters. Even once the root cause of a shortage or delay has passed, it can take time for our supply chain to recover and run in a regular fashion. Should any of our current suppliers be unable to provide the necessary materials or otherwise fail to deliver the materials in a timely manner and in the quantities required, any resulting delays in the provision of services could have a material adverse effect on our business, results of operations and financial condition. Additionally, increasing costs of such materials may negatively impact demand for our services or the profitability of our business operations. In the past, our industry faced sporadic proppant shortages associated with hydraulic fracturing operations requiring work stoppages, which are believed to have adversely impacted the operating results of several competitors. We may not be able to mitigate any future shortages of materials, including proppant. Furthermore, to the extent our contracts require us to purchase more materials, including proppant, than we ultimately require, we may be forced to pay for the excess amount under “take or pay” contract provisions.

***We currently utilize one preferred assembler and a limited number of suppliers for major equipment to both build new fleets and upgrade any fleets we acquire to our preferred specifications, and our reliance on these vendors exposes us to risks including price and timing of delivery.***

We currently utilize one preferred assembler and a limited number of suppliers for major equipment to both build our new fleets and upgrade any fleets we may acquire to our custom design. If demand for hydraulic fracturing fleets or the components necessary to build such fleets increases or these vendors face financial distress or bankruptcy, these vendors may not be able to provide the new or upgraded fleets on schedule or at the current price. If this were to occur, we could be required to seek another assembler or other suppliers for major equipment to build or upgrade our fleets, which may adversely affect our revenues or increase our costs.

***Interruptions of service on the rail lines by which we receive proppant could adversely affect our results of operations.***

We receive a portion of the proppant used in our hydraulic fracturing services by rail. Rail operations are subject to various risks that may result in a delay or lack of service, including lack of available capacity, mechanical problems, extreme weather conditions, work stoppages, labor strikes, terrorist attacks and operating hazards. Additionally, if we increase the amount of proppant we require for delivery of our services, we may face difficulty in securing rail transportation for such additional amount of proppant. Any delay or failure in the rail services on which we rely could have a material adverse effect on our financial condition and results of operations.

***Changes in transportation regulations may increase our costs and negatively impact our results of operations.***

We are subject to various transportation regulations including as a motor carrier by the DOT and by various federal, state and tribal agencies, whose regulations include certain permit requirements of highway and safety authorities. These regulatory authorities exercise broad powers over our equipment transportation operations, generally governing such matters as the authorization to engage in motor carrier operations, safety, equipment testing, driver requirements and specifications and insurance requirements. The trucking industry is subject to possible regulatory and legislative changes that may impact our operations, such as changes in fuel emissions limits, hours of service regulations that govern the amount of time a driver may



drive or work in any specific period and requiring onboard electronic logging devices or limits on vehicle weight and size. As the federal government continues to develop and propose regulations relating to fuel quality, engine efficiency and greenhouse gasses emissions, we may experience an increase in costs related to truck purchases and maintenance, impairment of equipment productivity, a decrease in the residual value of vehicles, unpredictable fluctuations in fuel prices and an increase in operating expenses. Additionally, we rely on third parties to provide trucking services, including hauling proppant to our customer work sites, and these third parties may fail to comply with various transportation regulations, resulting in our inability to use such third party providers. Increased truck traffic may contribute to deteriorating road conditions in some areas where our operations are performed. Our operations, including routing and weight restrictions, could be affected by road construction, road repairs, detours and state and local regulations and ordinances restricting access to certain roads. Proposals to increase federal, state or local taxes, including taxes on motor fuels, are also made from time to time, and any such increase would increase our operating costs. Also, state and local regulation of permitted routes and times on specific roadways could adversely affect our operations. We cannot predict whether, or in what form, any legislative or regulatory changes or municipal ordinances applicable to our logistics operations will be enacted and to what extent any such legislation or regulations could increase our costs or otherwise adversely affect our business or operations.

***Our current and future indebtedness could adversely affect our financial condition.***

As of February 19, 2021, we had \$108.2 million outstanding under our Term Loan Facility and no borrowings outstanding under our ABL Facility (defined herein) with a borrowing base of \$130.7 million, except for a letter of credit in the amount of \$0.8 million. Please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations —Debt Agreements.”

Moreover, subject to the limits contained in our ABL Facility and Term Loan Facility (collectively, the “Credit Facilities”), we may incur substantial additional debt from time to time. Any borrowings we may incur in the future would have several important consequences for our future operations, including that:

- covenants contained in the documents governing such indebtedness may require us to meet or maintain certain financial tests, which may affect our flexibility in planning for, and reacting to, changes in our industry, such as being able to take advantage of acquisition opportunities when they arise;
- our ability to obtain additional financing for working capital, capital expenditures, acquisitions, general corporate and other purposes may be limited;
- we may be competitively disadvantaged to our competitors that are less leveraged or have greater access to capital resources; and
- we may be more vulnerable to adverse economic and industry conditions.

If we incur indebtedness in the future, we may have significant principal payments due at specified future dates under the documents governing such indebtedness. Our ability to meet such principal obligations will be dependent upon future performance, which in turn will be subject to general economic conditions, industry cycles and financial, business and other factors affecting our operations, many of which are beyond our control. Our business may not continue to generate sufficient cash flow from operations to repay any incurred indebtedness. If we are unable to generate sufficient cash flow from operations, we may be required to sell assets, to refinance all or a portion of such indebtedness or to obtain additional financing.

***Unsatisfactory safety performance may negatively affect our customer relationships and, to the extent we fail to retain existing customers or attract new customers, adversely impact our revenues.***

Our ability to retain existing customers and attract new business is dependent on many factors, including our ability to demonstrate that we can reliably and safely operate our business in a manner that is consistent with applicable laws, rules and permits, which legal requirements are subject to change. Existing and potential customers consider the safety record of their third-party service providers to be of high importance in their decision to engage such providers. If one or more accidents were to occur at one of our operating sites, the affected customer may seek to terminate or cancel its use of our equipment or services and may be less likely to continue to use our services, which could cause us to lose substantial revenues. Furthermore, our ability to attract new customers may be impaired if they elect not to engage us because they view our safety record as unacceptable. In addition, it is possible that we will experience multiple or particularly severe accidents in the future, causing our safety record to deteriorate. This may be more likely as we continue to grow, if we experience high employee turnover or labor shortage, or hire inexperienced personnel to bolster our staffing needs.

***If we are unable to fully protect our intellectual property rights, we may suffer a loss in our competitive advantage or market share.***

We do not have patents or patent applications relating to many of our key processes and technology. If we are not able to maintain the confidentiality of our trade secrets, or if our competitors are able to replicate our technology or services, our competitive advantage would be diminished. We also cannot ensure that any patents we may obtain in the future would provide us with any significant commercial benefit or would allow us to prevent our competitors from employing comparable technologies or processes.

***We may be adversely affected by disputes regarding intellectual property rights of third parties.***

Third parties from time to time may initiate litigation against us by asserting that the conduct of our business infringes, misappropriates or otherwise violates intellectual property rights. We may not prevail in any such legal proceedings related to such claims, and our products and services may be found to infringe, impair, misappropriate, dilute or otherwise violate the intellectual property rights of others. If we are sued for infringement and lose, we could be required to pay substantial damages and/or be enjoined from using or selling the infringing products or technology. Any legal proceeding concerning intellectual property could be protracted and costly regardless of the merits of any claim and is inherently unpredictable and could have a material adverse effect on our financial condition, regardless of its outcome.

If we were to discover that our technologies or products infringe valid intellectual property rights of third parties, we may need to obtain licenses from these parties or substantially re-engineer our products in order to avoid infringement. We may not be able to obtain the necessary licenses on acceptable terms, or at all, or be able to re-engineer our products successfully. If our inability to obtain required licenses for our technologies or products prevents us from selling our products, that could adversely impact our financial condition and results of operations.

Additionally, we currently license certain third party intellectual property in connection with our business, and the loss of any such license could adversely impact our financial condition and results of operations.

***Seasonal weather conditions, natural disasters, public health crises, and other catastrophic events outside of our control could severely disrupt normal operations and harm our business.***

Our operations are located in different regions of the United States. Some of these areas, including the DJ Basin, Powder River Basin, Williston Basin and our Canadian operations, are adversely affected by seasonal weather conditions, primarily in the winter and spring. However, as evidenced by the severe winter weather experienced in the southern United States and Canada during February 2021, weather-related hazards can exist in almost all the areas where we operate. During periods of heavy snow, ice or rain, we may be unable to move our equipment between locations or obtain adequate supplies of raw material or fuel, thereby reducing our ability to provide services and generate revenues. The exploration activities of our customers may also be affected during such periods of adverse weather conditions. Additionally, extended drought conditions in our operating regions could impact our ability or our customers' ability to source sufficient water or increase the cost for such water. As a result, a natural disaster or inclement weather conditions could severely disrupt the normal operation of our business and adversely impact our financial condition and results of operations. Furthermore, if the area in which we operate or the market demand for oil and natural gas is affected by a public health crises, such as the coronavirus, or other similar catastrophic event outside of our control, our business and results of operations could suffer.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

Information regarding our properties is contained in “Item 1. Business” and is incorporated by reference herein.

**Item 3. Legal Proceedings**

The information with respect to this Item 3. Legal Proceedings is set forth in Note 14—Commitments and Contingencies included in “Item 8. Financial Statements and Supplementary Data.”

**Item 4. Mine Safety Disclosures**

Information concerning mine safety violations or other regulatory matters required by section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95 to this Form 10-K.



## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### Market Information

On January 17, 2018, we consummated an initial public offering of our Class A Common Stock at a price of \$17.00 per share. Our Class A Common Stock is traded on the NYSE under the symbol "LBRT." Prior to that time, there was no public market for our Class A Common Stock. There is no public market for our Class B Common Stock.

#### Holders of our Common Stock

As of February 19, 2021, there were 33 stockholders of record of our Class A Common Stock and 8 stockholders of record of our Class B Common Stock. The number of record holders is based upon the actual number of holders registered on the books of the Company at such date and does not include holders of shares in "street names" or persons, partnerships, associations, corporations or other entities identified in security position listings maintained by depositories.

#### Dividend Policy

The Company paid quarterly cash dividends of \$0.05 per share of Class A Common Stock on March 20, 2020 to shareholders of record as of March 6, 2020, respectively. The declaration of dividends is subject to approval by the Board and to the Board's continuing determination that such declaration of dividends is in the best interests of the Company and its stockholders. Future dividends may be adjusted at the Board's discretion based on market conditions and capital availability. We are not required to pay dividends, and our stockholders will not be guaranteed, or have contractual or other rights to receive, dividends. On April 2, 2020 the Company suspended future quarterly dividends until business conditions warrant reinstatement.

#### Recent Sales of Unregistered Equity Securities

We had no sales of unregistered equity securities during the period covered by this Annual Report that were not previously reported in a Current Report on Form 8-K.

#### Purchase of Equity Securities By the Issuer and Affiliated Purchasers

On September 10, 2018 the Board authorized a share repurchase plan to repurchase up to \$100.0 million of the Company's Class A Common Stock through September 30, 2019. On January 22, 2019, the Board authorized an additional \$100.0 million under the share repurchase plan through January 31, 2021. During the year ended December 31, 2020, the Company did not purchase any shares of Class A Common Stock.

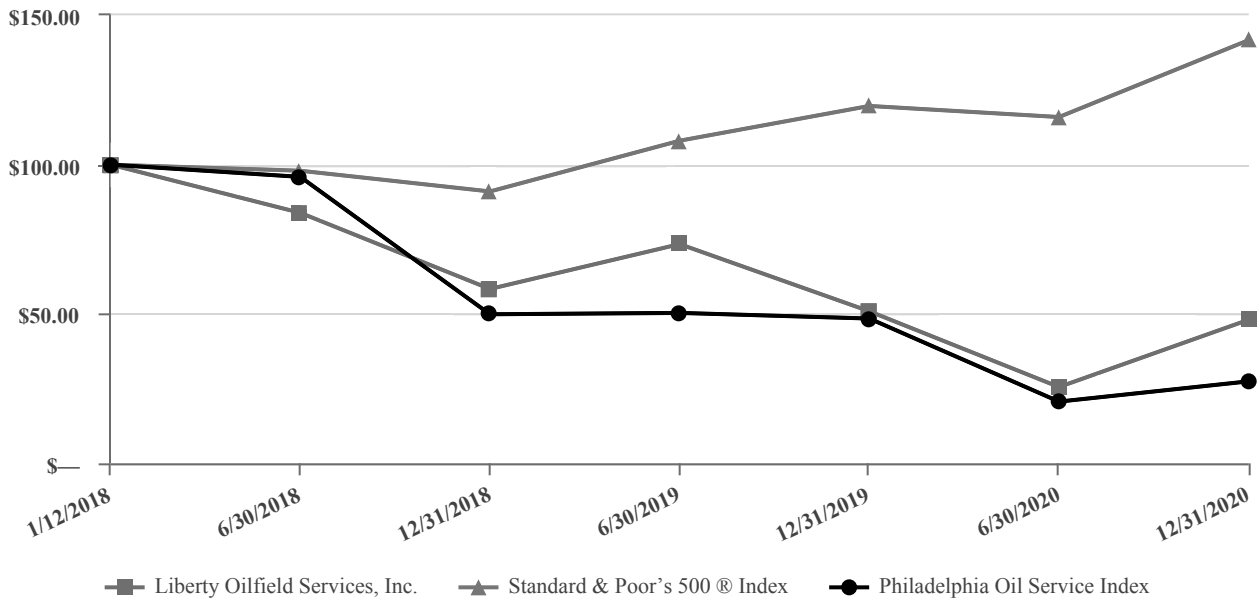
As of December 31, 2020, \$98.7 million remained authorized for future repurchases of Class A Common Stock under the share repurchase program, however effective February 1, 2021, no amounts are authorized for future repurchases.

#### Stock Performance Graph

The following graph and table compares the cumulative total return on our Class A Common Stock with the cumulative total return on the Standard & Poor's 500 ® Index and the Philadelphia Oil Service Index, since January 12, 2018, the first day on which shares of our Common Stock issued in our IPO commenced trading on the NYSE and each semi-annual period thereafter through December 31, 2020. The graph assumes that \$100 was invested in our Class A Common Stock in each index on January 12, 2018 and that any dividends were reinvested on the last day of the month in which they were paid. The cumulative total return set forth is not necessarily indicative of future performance.

The following graph and related information shall not be deemed "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that we specifically incorporate it by reference into such filing.

### Comparison of Cumulative Total Return



|                                 | For Year Ended 2018 |          |              | For the Year Ended 2019 |              | For the Year Ended 2020 |              |
|---------------------------------|---------------------|----------|--------------|-------------------------|--------------|-------------------------|--------------|
|                                 | January 12,         | June 30, | December 31, | June 30,                | December 31, | June 30,                | December 31, |
| Liberty Oilfield Services, Inc. | \$ 100.00           | \$ 83.87 | \$ 58.38     | \$ 73.40                | \$ 50.91     | \$ 25.55                | \$ 48.08     |
| Standard & Poor's 500 Index     | 100.00              | 97.97    | 91.03        | 108.02                  | 119.66       | 115.59                  | 141.70       |
| Philadelphia Oil Service Index  | 100.00              | 95.91    | 49.91        | 50.37                   | 48.48        | 20.67                   | 27.45        |

## Item 6. Selected Consolidated Financial Data

The selected financial data set forth below was derived from our audited consolidated and combined financial statements and should be read in conjunction with “Item 1A. Risk Factors,” “Item 7. Management Discussion and Analysis of Financial Condition and Results of Operations” and our audited consolidated and combined financial statements included in “Item 8. Financial Statements and Supplementary Data.”

|  | Years Ended<br>December 31, |                  |                   |                  |                |
|--|-----------------------------|------------------|-------------------|------------------|----------------|
|  | 2020                        | 2019             | 2018              | 2017             | 2016           |
| (in thousands, except per share and fleet data)  |                             |                  |                   |                  |                |
| <b>Statement of Operations Data:</b>   |                             |                  |                   |                  |                |
| <b>Revenue:</b>  |                             |                  |                   |                  |                |
| Revenue  | \$ 965,787                  | \$ 1,972,073     | \$ 2,132,032      | \$ 1,465,133     | \$ 356,890     |
| Revenue—related parties  | —                           | 18,273           | 23,104            | 24,722           | 17,883         |
| Total revenue  | <u>965,787</u>              | <u>1,990,346</u> | <u>2,155,136</u>  | <u>1,489,855</u> | <u>374,773</u> |
| Operating costs and expenses:  |                             |                  |                   |                  |                |
| Cost of services (exclusive of depreciation and amortization shown separately below)           | 857,981                     | 1,621,180        | 1,628,753         | 1,147,008        | 354,729        |
| General and administrative   | 84,098                      | 97,589           | 98,420            | 80,089           | 35,789         |
| Transaction, severance and other costs   | 21,061                      | —                | 632               | —                | —              |
| Depreciation and amortization of intangible assets   | 180,084                     | 165,379          | 125,110           | 81,473           | 41,362         |
| (Gain) loss on disposal of assets  | (411)                       | 2,601            | (4,342)           | 148              | (2,673)        |
| Total operating costs and expenses   | <u>1,142,813</u>            | <u>1,886,749</u> | <u>1,848,573</u>  | <u>1,308,718</u> | <u>429,207</u> |
| Operating (loss) income  | (177,026)                   | 103,597          | 306,563           | 181,137          | (54,434)       |
| Interest expense, net  | 14,505                      | 14,681           | 17,145            | 12,636           | 6,126          |
| Net (loss) income before income taxes  | (191,531)                   | 88,916           | 289,418           | 168,501          | (60,560)       |
| Income tax (benefit) expense   | (30,857)                    | 14,052           | 40,385            | —                | —              |
| Net (loss) income  | (160,674)                   | 74,864           | 249,033           | 168,501          | (60,560)       |
| Less: Net income (loss) attributable to Predecessor, prior to Corporate Reorganization         | —                           | —                | 8,705             | 168,501          | (60,560)       |
| Less: Net (loss) income attributable to non-controlling interests                              | (45,091)                    | 35,861           | 113,979           | —                | —              |
| Net (loss) income attributable to Liberty Oilfield Services Inc.                               | <u>\$ (115,583)</u>         | <u>\$ 39,003</u> | <u>\$ 126,349</u> | <u>\$ —</u>      | <u>\$ —</u>    |
| <b>Net Income Per Share Data (1):</b>  |                             |                  |                   |                  |                |
| Net (loss) income attributable to Liberty Oilfield Services Inc. stockholders per common share |                             |                  |                   |                  |                |
| Basic  | \$ (1.36)                   | \$ 0.54          | 1.84              |                  |                |
| Diluted  | \$ (1.36)                   | \$ 0.53          | 1.81              |                  |                |
| Weighted average common shares outstanding   |                             |                  |                   |                  |                |
| Basic  | 85,242                      | 72,334           | 68,838            |                  |                |
| Diluted (2)  | 85,242                      | 105,256          | 117,838           |                  |                |
| <b>Statement of Cash Flows Data:</b>   |                             |                  |                   |                  |                |
| Cash flows provided by (used in) operating activities  | \$ 85,425                   | \$ 261,100       | \$ 351,258        | \$ 195,109       | \$ (40,708)    |
| Cash flows used in investing activities  | (100,269)                   | (194,347)        | (255,492)         | (310,043)        | (96,351)       |
| Cash flows (used in) provided by financing activities  | (28,868)                    | (57,375)         | (8,775)           | 119,771          | 148,543        |
| <b>Other Financial Data:</b>   |                             |                  |                   |                  |                |
| Capital expenditures   | \$ 103,637                  | \$ 195,173       | \$ 258,835        | \$ 311,794       | \$ 102,428     |
| EBITDA (3)   | \$ 3,058                    | \$ 268,976       | \$ 431,673        | \$ 262,610       | \$ (13,072)    |
| Adjusted EBITDA (3)  | \$ 57,899                   | \$ 290,741       | \$ 443,684        | \$ 280,728       | \$ (5,588)     |
| Average Active Fleets (4)  | 13.2                        | 22.8             | 21.3              | 15.1             | 7.4            |
| Adjusted EBITDA per Average Active Fleet (5)   | \$ 4,386                    | \$ 12,752        | \$ 20,830         | \$ 18,591        | \$ (755)       |
| <b>Balance Sheet Data (at end of period):</b>  |                             |                  |                   |                  |                |
| Total assets   | \$ 1,889,942                | \$ 1,283,429     | \$ 1,116,501      | \$ 852,103       | \$ 451,845     |
| Long-term debt (including current portion)   | 105,775                     | 106,140          | 106,524           | 196,357          | 103,805        |
| Total liabilities  | 579,899                     | 501,937          | 375,687           | 416,851          | 222,873        |
| Redeemable common units (6)  | —                           | —                | —                 | 42,486           | —              |
| Total equity or member equity  | 1,310,043                   | 781,492          | 740,814           | 392,766          | 228,972        |



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- (1) Net Income Per Share Data above reflects the net income to Class A Common Stock and net income per share for the period indicated based on a weighted average number of Class A Common Stock outstanding for period subsequent to the Corporate Reorganization on January 17, 2018.
  - (2) In accordance with generally accepted accounting principals in the United States (“GAAP”), diluted weighted average common shares outstanding for the year ended December 31, 2020, diluted weighted average common shares outstanding exclude 27,427 weighted average shares of Class B Common Stock, 207 weighted average shares of restricted stock, and 2,460 weighted average shares of restricted stock units. For the year ended December 31, 2019, excludes 9,057 weighted average shares of Class B Common Stock exchanged during the period (share counts presented in 000’s).
  - (3) EBITDA and Adjusted EBITDA are non-GAAP financial measures. For definitions of EBITDA and Adjusted EBITDA and a reconciliation of each to our most directly comparable financial measure calculated and presented in accordance with GAAP, please read “Item 7. Management’s Discussion and Analysis of Financial Conditions and Results of Operations—Comparison of Non-GAAP Financial Measures.”
  - (4) Average Active Fleets is calculated as the daily average of the active fleets for the period presented.
  - (5) Adjusted EBITDA per Average Active Fleet is calculated as Adjusted EBITDA for the period divided by the Average Active Fleets, as defined above.
  - (6) The redeemable common units were deemed extinguished and satisfied in full in the Corporate Reorganization.

## Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with “Item 6. Selected Financial Data” and our audited consolidated and combined financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K. The following discussion contains “forward-looking statements” that reflect our future plans, estimates, beliefs and expected performance. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of a variety of risks and uncertainties, including those described in this Annual Report on Form 10-K under “Cautionary Note Regarding Forward-Looking Statements” and “Item 1A. Risk Factors.” We assume no obligation to update any of these forward-looking statements. This section of this Annual Report on Form 10-K generally discusses 2020 and 2019 items and year-to-year comparisons between 2020 and 2019. For discussion of year ended December 31, 2018, as well as the year ended 2019 compared to the year ended December 31, 2018, refer to Part II, Item 7— “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our 2019 Annual Report on Form 10-K.*

### Overview

We are an independent provider of hydraulic fracturing services and goods to onshore oil and natural gas E&P companies in North America.

We have grown from one active hydraulic fracturing fleet in December 2011 to approximately 30 active fleets in the first quarter of 2021, including the addition of fleets from the OneStim Acquisition in December 2020. We are an independent provider of hydraulic fracturing and wireline services and related goods to onshore oil and natural gas exploration and production (“E&P”) companies in North America. We provide our services primarily in the Permian Basin, the Eagle Ford Shale, the Denver-Julesburg Basin (the “DJ Basin”), the Williston Basin, the San Juan Basin and the Powder River Basin. Following the completion of the OneStim Acquisition (as defined below) we now also provide services in the Haynesville Shale, the SCOOP/STACK, the Marcellus Shale, Utica Shale, and the Western Canadian Sedimentary Basin. Additionally, we operate two sand mines in the Permian Basin.

In response to market conditions described below, in April 2020, we reduced our headcount consistent with the temporary idling of approximately half of our frac fleets that were operating during the first quarter of 2020, while further temporary reductions in active fleets were managed through employee furloughs. As of December 31, 2020, no employees remained on furlough, and with the completion of the OneStim Acquisition we had a total of approximately 30 active frac fleets and 20 active wireline units.

On December 31, 2020, the Company acquired certain assets and liabilities of Schlumberger Limited’s (“Schlumberger”) OneStim® business, which provides hydraulic fracturing pressure pumping services in onshore United States and Canada, including its pressure pumping, pumpdown perforating and Permian frac sand business (such entire business of Schlumberger, “OneStim,” and the portion of OneStim acquired pursuant by the Company, the “Transferred Business”) in exchange for consideration resulting in a total of 66,326,134 shares of Class A common stock, par value \$0.01 per share, of the Company (the “Class A Common Stock”) being issued in connection with the transaction (such transaction, the “OneStim Acquisition”; see Note 3—The OneStim Acquisition to the consolidated and combined financial statements included in “Item 8. Financial Statements and Supplementary Data”). Effective December 31, 2020, Schlumberger owned 37% of the issued and outstanding shares of our Common Stock. The combined company will deliver best-in-class completion services for the sustainable development of unconventional resource plays in the United States and Canada onshore markets.

We believe the following characteristics both distinguish us from our competitors and are the foundations of our business: forming ongoing partnerships of trust and innovation with our customers; developing and utilizing technology to maximize well performance; and promoting a people-centered culture focused on our employees, customers and suppliers. We have developed strong relationships with our customers by investing significant time in fracture design collaboration, which substantially enhances their production economics. Our technological innovations have become even more critical as E&P companies have increased the completion complexity and fracture intensity of horizontal wells. We are proactive in developing innovative solutions to industry challenges, including developing: (i) our proprietary databases of U.S. unconventional wells to which we apply our proprietary multi-variable statistical analysis technologies to provide differential insight into fracture design optimization; (ii) our Liberty Quiet Fleet® design which significantly reduces noise levels compared to conventional hydraulic fracturing fleets; (iii) hydraulic fracturing fluid systems tailored to the specific reservoir properties in the basins in which we operate; and (iv) our dual fuel dynamic gas blending fleets that allow our engines to run diesel or a combination of diesel and natural gas, to optimize fuel use, reduce emissions and lower costs. We foster a people-centered culture built around honoring our commitments to customers, partnering with our suppliers and hiring, training and retaining people that we believe to be the best talent in our field to drive innovation, enabling us to be one of the safest and most efficient hydraulic fracturing companies in the United States.

## Recent Trends and Outlook

During the first quarter of 2020, the emergence of the COVID-19 pandemic placed significant downward pressure on the global economy and oil demand and prices, leading North America operators to announce significant cuts to planned 2020 capital expenditures. Reduced activity levels led to a plunging rig count and an abrupt curtailment of frac activity. As a result, OPEC, coupled with production curtailment and a drop in frac activity amongst North America operators, removed significant oil supply from and eased pressure on the market. During the second half of 2020, OPEC+ suppliers worked to maintain oil production through an agreed upon quota, and North America operators largely remained disciplined in capital spending. Many operators have announced that they are targeting oil and gas production at the end of 2021 to be consistent with production at the end of 2020.

Early signs of a potential global economic recovery have emerged, driven by the rollout of COVID-19 vaccines, fiscal and monetary stimulus policies, and pent-up demand for goods and services. These factors support continued improvement in energy demand, while controlled OPEC+ production and discipline amongst E&P operators are supporting oil and gas prices. WTI prices that have largely stabilized in the second half of 2020, relative to the volatility observed during the second quarter of 2020. In the fourth quarter of 2020, the price of WTI averaged \$42.52 compared with an average of \$40.89 for the third quarter of 2020, which was much improved from an average of \$27.96 for the second quarter of 2020. Subsequent to December 31, 2020, the price of WTI has averaged \$53.93 through February 16, 2021. The recovery of energy demand is also reflected in incremental improvement to rig count, as the most recent domestic onshore rig count for North America was 381 rigs reported on February 19, 2021, up from the average in the fourth quarter of 2020 of 297, according to a report by Baker Hughes, a GE company.

The number of total marketable frac fleets has declined significantly from 2019 as the pandemic accelerated the pace of rationalization and cannibalization of frac equipment. As customer demand is shifting towards next generation technologies that support their emissions and efficiency goals, attrition of older equipment is expected to continue. This supply shrinkage is a necessary part of moving the market towards balance. The current pricing dynamic remains challenging, but the Company is having many productive discussions with customers to phase in modest price improvements throughout the year. The Company was proactive in working with customers as oil prices collapsed, and that partnership works both ways.

With continued uncertainty surrounding the magnitude and timing of oil demand recovery, OPEC+ supply concerns, and ongoing investor pressure for better returns by E&P companies than those achieved over the last decade, we are unable to predict the degree and duration of many factors that may impact our future operating results. The volatile global economic conditions stemming from the pandemic, the liquidity situation for North American oil producers and the reaction of international oil producers could also exacerbate the risk factors identified in this Annual Report, see also the risk factor relating to COVID-19 disclosed in “Item 1A.—Risk Factors” of this Annual Report.

In response to these developments, the continued duration and ultimate severity of which is unknown, we have taken the following steps to protect our employees, customers and business. During February 2020, we formed a COVID-19 response team to implement safety procedures and contingency plans at both our customer locations and in our facilities to ensure our ability to continue providing safe and efficient services to our customers, while protecting the health of both employees and customers.

We have been proactive in protecting our business during these unprecedented events. During the second quarter, we moved quickly to preserve cash and protect our balance sheet and announced strategic actions to align our cost structure with demand for frac services. Regrettably, for the first time in the Company’s history we undertook a reduction of our personnel and staffed fleet count by approximately 50% and implemented a company-wide furlough plan. We also suspended variable compensation plans and our 401(k) match, implemented base salary reductions, executive and director compensation reductions, operating cost rationalization, reduction of planned 2020 capital expenditures, and suspended our quarterly dividend. Further, we implemented a company-wide employee furlough plan that flexes our cost structure to align with the uncertain level of frac demand we experienced during the second and third quarters of 2020. As of September 30, 2020 all employees were returned from furlough, additionally, effective January 1, 2021 the Company restored 401(k) match and base salaries.

E&P operators are navigating through significant challenges, including industry consolidation, a change in the political climate and capital constraints while maintaining general commitments to flat production with 2021 levels relative to 2020 exit rates. Dedicated fleet negotiations for 2021, which started in the fall of 2020, saw continued pricing pressure. However, WTI crude oil prices have improved since the fall bid season.

We believe the frac market will probably experience flat to slightly rising demand for frac services in 2021, based on current visibility into customer plans. Demand of publicly-traded operators is expected to be relatively level during the year, whereas private operator demand is more likely to be focused on the second half of the year. Against this backdrop, the Company expects to maintain approximately 30 active frac fleets in the first quarter of 2021, with the potential of adding more

fleets later in the year if the economics improve. Increased efficiencies that lower our cost of delivery coupled with a gradual, modest rise in frac pricing are the factors that can drive improved fleet profitability.

### ***Increase in Drilling Efficiency and Service Intensity of Completions***

Over the past decade, E&P companies have focused on exploiting the vast resource potential available across many of North America's unconventional resource plays through the application of horizontal drilling and completion technologies, including the use of multi-stage hydraulic fracturing, in order to increase recovery of oil and natural gas. As E&P companies have improved drilling and completion techniques to maximize return and efficiency, we believe that their "break-even oil prices" continue to decline. These improvements in well economics have kept American Shale oil and gas production competitive even as oil and gas prices have declined. Liberty has been a significant partner with our customers in driving these continued improvements.

*Improved drilling economics from horizontal drilling and greater rig efficiencies.* Unconventional resources are increasingly being targeted through the use of horizontal drilling. According to Baker Hughes, as reported on February 19, 2021, horizontal rigs accounted for approximately 90% of all rigs drilling in the United States, up from 74% as of December 31, 2014. Over the past several years, North American E&P companies have benefited from improved drilling economics driven by technologies that reduce the number of days, and the cost, of drilling wells. North American drilling rigs have incorporated newer technologies, which allow them to drill rock more effectively and quickly, meaning each rig can drill more wells in a given period. These include improved drilling technologies and the incorporation of geosteering techniques which allow better placement of the wellbore. Drilling rigs have also incorporated new technology which allows fully-assembled rigs to automatically "walk" from one location to the next without disassembling and reassembling the rig, greatly reducing the time it takes to move from one drilling location to the next. Today the majority of E&P drilling is on multi-well pad development, allowing efficient drilling of multiple horizontal wellbores from the same pad or location. The aggregate effect of these improved techniques and technologies have reduced the average days required to drill a well, which according to Coras, has dropped from 28 days in 2014 to 20 days in 2020.

*Increased complexity and service intensity of horizontal well completions.* In addition to improved rig efficiencies discussed above, E&P companies are also improving the subsurface techniques and technologies used to exploit unconventional resources. These improvements have targeted increasing the exposure of each wellbore to the reservoir by drilling longer horizontal lateral sections of the wellbore. To complete the well, hydraulic fracturing is applied in stages along the wellbore to break-up the resource so that oil and gas can be produced. As wellbores have increased in length, the number of frac stages and/or the number of perf clusters (frac initiation points) has also increased. Further, E&P companies have improved production from each stage by applying increasing amounts of proppant in each stage, which better connects the well to the resource. The aggregate effect of increased number of stages and the increasing amount of proppant in each stage has greatly increased the total amount of proppant used in each well, according to Coras, from six million pounds per well in 2014 to over 16 million pounds per well in 2020. Further efficiency gains are being sought via the "simul-frac" technique. Utilizing a larger frac fleet (1.25x to 2x the normal horsepower), operators are fracturing stages in two separate wells on a pad simultaneously as a single operation. When compared to typical zipper-frac operations, this new method allows for more lateral feet to be completed in a day. This emerging trend will allow operators to complete a pad of wells quicker, thereby shortening the time from spud to first production.

These industry trends continue to keep our customers as important suppliers to the global oil and natural gas markets, which directly benefit hydraulic fracturing companies like us that have the expertise and technological innovations to effectively service today's more efficient oilfield drilling activity and the increasing complexity and intensity of well completions. Given the expected returns that E&P companies have reported for new well development activities due to improved rig efficiencies and increasing well completion complexity and intensity, we expect these industry trends to continue.

### **How We Generate Revenue**

We currently generate revenue through the provision of hydraulic fracturing and wireline services and goods, including sand from our Permian Basin sand mines. These services and goods are performed under a variety of contract structures, primarily master service agreements ("MSAs") as supplemented by statements of work, pricing agreements and specific quotes. A portion of our statements of work, under MSAs, include provisions that establish pricing arrangements for a period of up to one year in length. However, the majority of those agreements provide for pricing adjustments based on market conditions. The majority of our services are priced based on prevailing market conditions and changing input costs at the time the services are provided, giving consideration to the specific requirements of the customer.

Our hydraulic fracturing and wireline services are performed in sections, which we refer to as fracturing stages. The estimated number of fracturing stages to be completed for a particular horizontal well is determined by the customer's well completion design. We recognize revenue for each fracturing stage completed, although our revenue per completed fracturing



stage varies depending on the actual volumes and types of proppants, chemicals and fluid utilized for each fracturing stage. The number of fracturing stages that we are able to complete in a period is directly related to the number and utilization of our deployed fleets and size of stages.

### **Costs of Conducting Our Business**

The principal expenses involved in conducting our business are direct cost of personnel, services and materials used in the provision of services, general and administrative expenses, and depreciation and amortization. A large portion of the costs we incur in our business are variable based on the number of hydraulic fracturing jobs and the requirements of services provided to our customers. We manage the level of our fixed costs, except depreciation and amortization, based on several factors, including industry conditions and expected demand for our services.

### **How We Evaluate Our Operations**

We use a variety of qualitative, operational and financial metrics to assess our performance. First and foremost of these is a qualitative assessment of customer satisfaction because ensuring we are a valuable partner to our customers is the key to achieving our quantitative business metrics. Among other measures, management considers each of the following:

- Revenue;
- Operating Income;
- EBITDA;
- Adjusted EBITDA;
- Annualized Adjusted EBITDA per Average Active Fleet;
- Net Income Before Taxes; and
- Earnings per Share.

#### ***Revenue***

We analyze our revenue by comparing actual monthly revenue to our internal projections for a given period and to prior periods to assess our performance. We also assess our revenue in relation to the number of fleets we have deployed (revenue per average active fleet) from period to period.

#### ***Operating Income***

We analyze our operating income, which we define as revenues less direct operating expenses, depreciation and amortization and general and administrative expenses, to measure our financial performance. We believe operating income is a meaningful metric because it provides insight on profitability and true operating performance based on the historical cost basis of our assets. We also compare operating income to our internal projections for a given period and to prior periods.

#### ***EBITDA and Adjusted EBITDA***

We view EBITDA and Adjusted EBITDA as important indicators of performance. We define EBITDA as net income (loss) before interest, income taxes, depreciation and amortization. We define Adjusted EBITDA as EBITDA adjusted to eliminate the effects of items such as non-cash stock based compensation expense, new fleet or new basin start-up costs, fleet lay-down costs, costs of asset acquisition, gain or loss on the disposal of assets, asset impairment charges, bad debt reserves, and non-recurring expenses that management does not consider in assessing ongoing operating performance. Annualized Adjusted EBITDA per Average Active Fleet is calculated as Adjusted EBITDA annualized, divided by the Average Active Fleets for the same period. See “—Comparison of Non-GAAP Financial Measures” for more information and a reconciliation of EBITDA and Adjusted EBITDA to net income, the most directly comparable financial measure calculated and presented in accordance with GAAP.

## Results of Operations

*Year Ended December 31, 2020, Compared to Year Ended December 31, 2019*

| <u>Description</u>  | <u>Years Ended December 31,</u> |                  |                     |
|---|---------------------------------|------------------|---------------------|
|   | <u>2020</u>                     | <u>2019</u>      | <u>Change</u>       |
|   | (in thousands)                  |                  |                     |
| Revenue   | \$ 965,787                      | \$ 1,990,346     | \$ (1,024,559)      |
| Cost of services, excluding depreciation and amortization shown separately    | 857,981                         | 1,621,180        | (763,199)           |
| General and administrative  | 84,098                          | 97,589           | (13,491)            |
| Transaction, severance and other costs  | 21,061                          | —                | 21,061              |
| Depreciation and amortization of intangible assets                            | 180,084                         | 165,379          | 14,705              |
| (Gain) loss on disposal of assets   | (411)                           | 2,601            | (3,012)             |
| Operating (loss) income   | (177,026)                       | 103,597          | (280,623)           |
| Interest expense, net   | 14,505                          | 14,681           | (176)               |
| Net (loss) income before taxes  | (191,531)                       | 88,916           | (280,447)           |
| Income tax (benefit) expense  | (30,857)                        | 14,052           | (44,909)            |
| Net (loss) income   | (160,674)                       | 74,864           | (235,538)           |
| Less: Net (loss) income attributable to non-controlling interests             | (45,091)                        | 35,861           | (80,952)            |
| Net (loss) income attributable to Liberty Oilfield Services Inc. stockholders | <u>\$ (115,583)</u>             | <u>\$ 39,003</u> | <u>\$ (154,586)</u> |

### ***Revenue***

Our revenue decreased \$1.0 billion, or 51.5%, to \$965.8 million for the year ended December 31, 2020 compared to \$2.0 billion for the year ended December 31, 2019. Average active fleets decreased 42.1% to 13.2 from 22.8 average active fleets deployed during the year ended December 31, 2020 and 2019, respectively, as the Company reduced the staffed fleets in April 2020 in response to market conditions, as discussed in “Recent Trends and Outlook” above. Further, revenue per average active fleet decreased 16.2% to \$73.2 million for the year ended December 31, 2020 compared to \$87.3 million for the year ended December 31, 2019, attributable to lower demand for frac services in the market as previously discussed.

### ***Cost of Services***

Cost of services (excluding depreciation and amortization) decreased \$763.2 million, or 47.1%, to \$858.0 million for the year ended December 31, 2020 compared to \$1.6 billion for the year ended December 31, 2019. The lower expense was primarily related to the reduced levels of activity from fewer average active fleets deployed during 2020, as described above, and to a lesser extent from cost-cutting measures related to personnel costs enacted during 2020 including reduction in headcount and furloughs, as well as a temporary suspension of bonus and 401(k) match programs.

### ***General and Administrative Expenses***

General and administrative expenses decreased by \$13.5 million, or 13.8%, to \$84.1 million for the year ended December 31, 2020 compared to \$97.6 million for the year ended December 31, 2019 primarily related to a decrease in personnel costs, excluding share based compensation, of \$15.1 million due to the reduction in headcount, furlough and flexible cost structure, as well as the temporary suspension of bonus and 401(k) match programs. Partially offsetting this decrease, general and administrative expense included \$12.9 million of share based compensation expense during the year ended December 31, 2020 compared to \$9.2 million for the year ended December 31, 2019.

### ***Transaction, Severance and Other Costs***

Transaction costs were \$8.5 million for the year ended December 31, 2020 compared to \$0 for the year ended December 31, 2019. Such costs were incurred in connection with the OneStim Acquisition and included investment banking, legal, accounting and other professional services provided in connection with closing the transaction.

Severance and other costs were \$12.6 million for the year ended December 31, 2020 compared to \$0 for the year ended December 31, 2019. The costs were primarily related to the reduction in our workforce in April 2020 and the commencement of furlough schedules for remaining employees in May 2020 during which the Company continued to pay insurance and other benefits. The Company did not lay-off or furlough any employees during 2019.

### ***Depreciation and Amortization of Intangible Assets***

Depreciation and amortization of intangible assets expense increased \$14.7 million, or 8.9%, to \$180.1 million for the year ended December 31, 2020 compared to \$165.4 million for the year ended December 31, 2019. The increase in 2020 was due to a full year of depreciation for one fleet deployed during 2019, as well as one additional fleet deployed during early 2020.

### ***(Gain) Loss on Disposal of Assets***

(Gain) loss on disposal of assets increased \$3.0 million to a gain of \$0.4 million for the year ended December 31, 2020 compared to a loss of \$2.6 million for the year ended December 31, 2019. During 2020, we reduced the number of light duty pick-ups in our fleet based on our lower levels of activity and realized gains upon sale commensurate with lease terminations.

### ***Operating (Loss) Income***

We realized an operating loss of \$177.0 million for the year ended December 31, 2020 compared to operating income of \$103.6 million for the year ended December 31, 2019. The decrease is primarily due to the \$1.0 billion, or 51.5%, decrease in total revenue only partially offset by a \$743.9 million decrease in total operating expenses, the significant components of which are discussed above. The decline in operating income was significantly impacted by reduced customer work as a result of the COVID-19 pandemic and steep decline in oil prices in March and April 2020.

### ***Interest Expense, net***

The decrease in interest expense, net of \$0.2 million, or 1.2%, to \$14.5 million during the year ended December 31, 2020 compared to \$14.7 million during the year ended December 31, 2019, was due to lower interest expense on credit facilities and from finance leases, largely offset by reduced interest income from excess cash on hand.

### ***Net (Loss) Income Before Taxes***

We realized a net loss before taxes of \$191.5 million for the year ended December 31, 2020 compared to net income before taxes of \$88.9 million for the year ended December 31, 2019. The decrease is primarily attributable to a decrease in revenue, as discussed above, related to the decrease in pricing and activity.

### ***Income Tax (Benefit) Expense***

We recognized a tax benefit of \$30.9 million for the year ended December 31, 2020, an effective rate of 16.1%, compared to expense of \$14.1 million for the year ended December 31, 2019, an effective rate of 15.8%. The decrease in tax expense is primarily attributable to a decrease in revenue, as discussed above, related to the decrease in pricing and activity.

### **Comparison of Non-GAAP Financial Measures**

We view EBITDA and Adjusted EBITDA as important indicators of performance. We define EBITDA as net income before interest, income taxes, depreciation and amortization. We define Adjusted EBITDA as EBITDA adjusted to eliminate the effects of items such as non-cash stock based compensation, new fleet or new basin start-up costs, fleet lay-down costs, costs of asset acquisitions, gain or loss on the disposal of assets, asset impairment charges, bad debt reserves and non-recurring expenses that management does not consider in assessing ongoing performance.

Our Board, management, investors and lenders use EBITDA and Adjusted EBITDA to assess our financial performance because it allows them to compare our operating performance on a consistent basis across periods by removing the effects of our capital structure (such as varying levels of interest expense), asset base (such as depreciation and amortization) and other items that impact the comparability of financial results from period to period. We present EBITDA and Adjusted EBITDA because we believe they provide useful information regarding the factors and trends affecting our business in addition to measures calculated under GAAP.

### **Note Regarding Non-GAAP Financial Measures**

EBITDA and Adjusted EBITDA are not financial measures presented in accordance with GAAP. We believe that the presentation of these non-GAAP financial measures will provide useful information to investors in assessing our financial performance and results of operations. Net income (loss) is the GAAP measure most directly comparable to EBITDA and Adjusted EBITDA. Our non-GAAP financial measures should not be considered as alternatives to the most directly comparable GAAP financial measure. Each of these non-GAAP financial measures has important limitations as an analytical tool due to exclusion of some but not all items that affect the most directly comparable GAAP financial measures. You should not consider EBITDA or Adjusted EBITDA in isolation or as substitutes for an analysis of our results as reported under GAAP. Because EBITDA and Adjusted EBITDA may be defined differently by other companies in our industry, our definitions of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

The following tables present a reconciliation of EBITDA and Adjusted EBITDA to our net income, which is the most directly comparable GAAP measure for the periods presented:

#### **Year Ended December 31, 2020 Compared to Year Ended December 31, 2019: EBITDA and Adjusted EBITDA**

| <b>Description</b>                | <b>Years Ended December 31,</b> |             |               |
|-----------------------------------|---------------------------------|-------------|---------------|
|                                   | <b>2020</b>                     | <b>2019</b> | <b>Change</b> |
|                                   | (in thousands)                  |             |               |
| Net (loss) income                 | \$ (160,674)                    | \$ 74,864   | \$ (235,538)  |
| Depreciation and amortization     | 180,084                         | 165,379     | 14,705        |
| Interest expense, net             | 14,505                          | 14,681      | (176)         |
| Income tax (benefit) expense      | (30,857)                        | 14,052      | (44,909)      |
| EBITDA                            | \$ 3,058                        | \$ 268,976  | \$ (265,918)  |
| Stock based compensation expense  | 17,139                          | 13,592      | 3,547         |
| Fleet start-up and lay-down costs | 12,175                          | 4,519       | 7,656         |
| Asset acquisition costs           | 8,497                           | —           | 8,497         |
| (Gain) loss on disposal of assets | (411)                           | 2,601       | (3,012)       |
| Provision for credit losses       | 4,877                           | 1,053       | 3,824         |
| Non-recurring payroll expense     | 2,398                           | —           | 2,398         |
| Severance and related costs       | 10,166                          | —           | 10,166        |
| Adjusted EBITDA                   | \$ 57,899                       | \$ 290,741  | \$ (232,842)  |

EBITDA was \$3.1 million for the year ended December 31, 2020 compared to \$269.0 million for the year ended December 31, 2019. Adjusted EBITDA was \$57.9 million for the year ended December 31, 2020 compared to \$290.7 million for the year ended December 31, 2019. The decreases in EBITDA and Adjusted EBITDA resulted from the decreased revenue and other factors described above under the captions *Revenue*, *Cost of Services*, and *General and Administrative Expenses* for *Year Ended December 31, 2020, Compared to Year Ended December 31, 2019*.

### **Liquidity and Capital Resources**

#### **Overview**

Historically, our primary sources of liquidity to date have been cash flows from operations, proceeds from our IPO, and borrowings under our Credit Facilities. We expect to fund operations and organic growth with cash flows from operations and available borrowings under our Credit Facilities. We may incur additional indebtedness or issue equity in order to fund growth opportunities that we pursue via acquisition, such as with the OneStim Acquisition. Our primary uses of capital have been capital expenditures to support organic growth and funding ongoing operations, including maintenance and fleet upgrades.

Cash and cash equivalents decreased by \$43.7 million to \$69.0 million as of December 31, 2020 compared to \$112.7 million as of December 31, 2019. We believe that cash on hand, our operating cash flows and available borrowings under our Credit Facilities will be sufficient to fund our operations for at least the next twelve months.



## Cash Flows

The following table summarizes our cash flows for the periods indicated:

| Description                               | Years Ended December 31, |                 |                    |
|---|--------------------------|-----------------|--------------------|
|   | 2020                     | 2019            | Change             |
|   | (in thousands)           |                 |                    |
| Net cash provided by operating activities | \$ 85,425                | \$ 261,100      | \$ (175,675)       |
| Net cash used in investing activities     | (100,269)                | (194,347)       | 94,078             |
| Net cash used in financing activities     | (28,868)                 | (57,375)        | 28,507             |
| Net increase in cash and cash equivalents | <u>\$ (43,712)</u>       | <u>\$ 9,378</u> | <u>\$ (53,090)</u> |

### *Analysis of Cash Flow Changes Between the Years Ended December 31, 2020 and December 31, 2019*

*Operating Activities.* Net cash provided by operating activities was \$85.4 million for the year ended December 31, 2020, compared to net cash provided by operating activities of \$261.1 million for the year ended December 31, 2019. The \$175.7 million decrease in cash from operating activities was primarily attributable to a \$1.0 billion decrease in revenues, offset by a \$743.9 million decrease in operating expenses and a \$63.3 million increase in cash from changes in working capital for the year ended December 31, 2020, compared to a \$21.6 million decrease in cash from changes in working capital for the year ended December 31, 2019.

*Investing Activities.* Net cash used in investing activities was \$100.3 million for the year ended December 31, 2020, compared to \$194.3 million for the year ended December 31, 2019. The \$94.1 million decrease in net cash used in investing activities is attributable to a decrease in capital expenditures in an effort to reduce spending and as a result of the lower fleet count in 2020.

*Financing Activities.* Net cash used in financing activities was \$28.9 million for the year ended December 31, 2020, compared to \$57.4 million for the year ended December 31, 2019. The \$28.5 million decrease in cash used in financing activities was primarily due to an \$18.4 million decrease in share repurchases and a \$16.6 million reduction in dividends and per unit distributions to non-controlling interest unitholders as a result of the suspension of the dividend in April 2020. Partially offsetting the decreases was a \$6.8 million increase in cash used in financing activities as a result of payments made to non-controlling interest unitholders under the TRAs as a result of the 2020 refund of a portion of cash taxes paid in 2018.

## Debt Agreements

On September 19, 2017, the Company entered into two new credit agreements for a revolving line of credit up to \$250.0 million (the “ABL Facility”) and a \$175.0 million term loan (the “Term Loan Facility”, and together with the ABL Facility the “Credit Facilities”). Following is a description of the ABL Facility and the Term Loan Facility.

### *ABL Facility*

Under the terms of the ABL Facility, up to \$250.0 million may be borrowed, subject to certain borrowing base limitations based on a percentage of eligible accounts receivable and inventory. On May 29, 2020 the Company amended the ABL Facility to allow accounts receivables that are more than 90 but less than 120 days past their original invoice date to be included in the determination of eligible accounts receivables, up to a limit of \$37.5 million when combined with receivable that are more than 60 but less than 90 days past their due date to be included in the borrowing base. The expanded borrowing base terms were in effect from May 1, 2020 through December 31, 2020.

As of December 31, 2020, the borrowing base was calculated to be \$115.1 million, and the Company had no borrowings outstanding, except for a letter of credit in the amount of \$0.8 million, with \$114.3 million of remaining availability. Borrowings under the ABL Facility bear interest at the London InterBank Offered Rate (“LIBOR”) or a base rate, plus an applicable LIBOR margin of 1.5% to 2.0% or base rate margin of 0.5% to 1.0%, as defined in the ABL Facility credit agreement. The unused commitment is subject to an unused commitment fee of 0.375% to 0.5%. Interest and fees are payable in arrears at the end of each month, or, in the case of LIBOR loans, at the end of each interest period. The ABL Facility matures on the earlier of (i) September 19, 2022 and (ii) to the extent the debt under the Term Loan Facility remains outstanding, 90 days prior to the final maturity of the Term Loan Facility, which matures on September 19, 2022. Borrowings under the ABL Facility are collateralized by accounts receivable and inventory, and further secured by the Company, Liberty LLC and R/C IV Non-U.S. LOS Corp., a Delaware corporation (“R/C IV”) and a subsidiary of the Company, as parent guarantors.

### Term Loan Facility

The Term Loan Facility provides for a \$175.0 million term loan, of which \$108.2 million remained outstanding as of December 31, 2020. Amounts outstanding bear interest at LIBOR or a base rate, plus an applicable margin of 7.625% or 6.625%, respectively, and the weighted average rate on borrowings was 8.6% as of December 31, 2020. The Company is required to make quarterly principal payments of 1% per annum of the initial principal balance, commencing on December 31, 2017, with final payment due at maturity on September 19, 2022. The Term Loan Facility is collateralized by the fixed assets of LOS and its subsidiaries, and is further secured by the Company, Liberty LLC and R/C IV, as parent guarantors.

The Credit Facilities include certain non-financial covenants, including but not limited to restrictions on incurring additional debt and certain distributions. Moreover, the ability of the Company to incur additional debt and to make distributions is dependent on maintaining a maximum leverage ratio. The Term Loan Facility requires mandatory prepayments upon certain dispositions of property or issuance of other indebtedness, as defined, and annually a percentage of excess cash flow (25% to 50%, depending on leverage ratio, of consolidated net income less capital expenditures and other permitted payments, commencing with the year ending December 31, 2018). Certain mandatory prepayments and optional prepayments are subject to a prepayment premium of 3% of the prepaid principal declining annually to 1% during the first three years of the term of the Term Loan Facility.

The Credit Facilities are not subject to financial covenants unless liquidity, as defined in the respective credit agreements, drops below a specified level. Under the ABL Facility, the Company is required to maintain a minimum fixed charge coverage ratio, as defined in the credit agreement governing the ABL Facility, of 1.0 to 1.0 for each period if excess availability is less than 10% of the borrowing base or \$12.5 million, whichever is greater. Under the Term Loan Facility, the Company is required to maintain a minimum fixed charge coverage ratio, as defined, of 1.2 to 1.0 for each trailing twelve-month period if the Company's liquidity, as defined, is less than \$25.0 million for at least five consecutive business days. The Company was in compliance with these covenants as of December 31, 2020.

### Contractual Obligations

The table below provides estimates of the timing of future payments that we are contractually obligated to make based on agreements in place at December 31, 2020.

#### Payments Due by Period

|                                | (\$ in thousands) |                   |                   |                  |                   |
|--------------------------------|-------------------|-------------------|-------------------|------------------|-------------------|
|                                | Total             | 1 year            | 1 – 3 years       | 4 – 5 years      | More than 5 years |
| ABL Facility(1)                | \$ —              | \$ —              | \$ —              | \$ —             | \$ —              |
| Term Loan Facility(1)          | 108,215           | 1,750             | 106,465           | —                | —                 |
| Estimated interest payments(2) | 16,062            | 9,406             | 6,656             | —                | —                 |
| Operating lease obligations(3) | 85,628            | 26,546            | 27,197            | 9,905            | 21,980            |
| Finance lease obligations(4)   | 33,731            | 21,270            | 12,461            | —                | —                 |
| Purchase commitments(5)        | 127,420           | 82,141            | 27,347            | 17,932           | —                 |
| Obligations under the TRAs(6)  | 56,594            | —                 | 25,841            | 9,293            | 21,460            |
| <b>Total</b>                   | <b>\$ 427,650</b> | <b>\$ 141,113</b> | <b>\$ 205,967</b> | <b>\$ 37,130</b> | <b>\$ 43,440</b>  |

- (1) Payments on our ABL Facility and Term Loan Facility exclude interest payments. Payments are based on debt balances as of December 31, 2020.
- (2) Estimated interest payments are based on debt balances as of December 31, 2020. Interest rates applied are based on the weighted average rate as of December 31, 2020.
- (3) Operating lease obligations include payments for leased facilities, equipment and vehicles.
- (4) Finance lease obligations include payments for leased vehicles.
- (5) Purchase commitments represent payments under supply agreements for the purchase and transportation of proppants. Some of the agreements include minimum monthly purchase commitments, including agreements under which a shortfall fee may be applied. The shortfall fee may be offset by purchases in excess of the minimum requirement during future periods, as allowed for by each agreement.
- (6) The timing and amount(s) of the aggregate payments due under the TRAs may vary based on a number of factors, including the timing and amount of the taxable income we generate each year and the tax rate then applicable.

## Tax Receivable Agreements

In connection with the IPO, on January 17, 2018, the Company entered into two TRAs with the TRA Holders. The TRAs generally provide for the payment by the Company of 85% of the net cash savings, if any, in U.S. federal, state, and local income tax and franchise tax (computed using simplifying assumptions to address the impact of state and local taxes) that the Company actually realizes (or is deemed to realize in certain circumstances) in periods after the IPO as a result, as applicable to each of the TRA Holders, of (i) certain increases in tax basis that occur as a result of the Company's acquisition (or deemed acquisition for U.S. federal income tax purposes) of all or a portion of such TRA Holders' Liberty LLC Units in connection with the IPO or pursuant to the exercise of the right of each Liberty Unit Holder (the "Redemption Right"), subject to certain limitations, to cause Liberty LLC to acquire all or a portion of its Liberty LLC Units for, at Liberty LLC's election, (A) shares of our Class A Common Stock at the specific redemption ratio or (B) an equivalent amount of cash, or, upon the exercise of the Redemption Right, the right of the Company (instead of Liberty LLC) to, for administrative convenience, acquire each tendered Liberty LLC Unit directly from the redeeming Liberty Unit Holder (the "Call Right") for, at its election, (1) one share of Class A Common Stock or (2) an equivalent amount of cash, (ii) any net operating losses available to the Company as a result of the Corporate Reorganization, and (iii) imputed interest deemed to be paid by the Company as a result of, and additional tax basis arising from, any payments the Company makes under the TRAs.

With respect to obligations the Company expects to incur under the TRAs (except in cases where the Company elects to terminate the TRAs early, the TRAs are terminated early due to certain mergers, asset sales, or other changes of control or the Company has available cash but fails to make payments when due), generally the Company may elect to defer payments due under the TRAs if the Company does not have available cash to satisfy its payment obligations under the TRAs or if its contractual obligations limit its ability to make such payments. Any such deferred payments under the TRAs generally will accrue interest. In certain cases, payments under the TRAs may be accelerated and/or significantly exceed the actual benefits, if any, the Company realizes in respect of the tax attributes subject to the TRAs. The Company accounts for amounts payable under the TRAs in accordance with Accounting Standard Codification ("ASC") Topic 450, *Contingencies* ("ASC Topic 450").

If the Company experiences a change of control (as defined under the TRAs) or the TRAs otherwise terminate early, the Company's obligations under the TRAs could have a substantial negative impact on its liquidity and could have the effect of delaying, deferring or preventing certain mergers, asset sales, or other forms of business combinations or changes of control. There can be no assurance that we will be able to finance our obligations under the TRAs.

## Income Taxes

Following the IPO, the Company is a corporation and is subject to U.S. federal, state and local income tax on its share of Liberty LLC's taxable income. As a result of the IPO and Corporate Reorganization, the Company recorded deferred tax assets and liabilities for the difference between the book value of assets and liabilities for financial reporting purposes and those amounts applicable for income tax purposes.

The effective combined U.S. federal and state income tax rate applicable to the Company for the year ended December 31, 2020 and 2019 was 16.1% and 15.8%, respectively. The Company's effective tax rate is significantly less than the federal statutory income tax rate of 21.0% primarily because no taxes are payable by the Company for the non-controlling interest's share of Liberty LLC's pass-through income for federal, state and local income tax reporting. The Company recognized income tax benefit of \$30.9 million and income tax expense of \$14.1 million for the years ended December 31, 2020 and 2019, respectively.

## Critical Accounting Policies and Estimates

The preparation of financial statements requires the use of judgments and estimates. Our critical accounting policies are described below to provide a better understanding of how we develop our assumptions and judgments about future events and related estimates and how they can impact our financial statements. A critical accounting estimate is one that requires our most difficult, subjective or complex estimates and assessments and is fundamental to our results of operations.

We base our estimates on historical experience and on various other assumptions we believe to be reasonable according to the current facts and circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We believe the following are the critical accounting policies used in the preparation of our combined financial statements, as well as the significant estimates and judgments affecting the application of these policies. This discussion and analysis should be read in conjunction with our combined financial statements and related notes included in "Item 8. Financial Statements and Supplementary Data."

*Business Combinations:* Business combinations are accounted for using the acquisition method of accounting in accordance with the *ASC Topic 805 - Business Combinations*, as amended by Accounting Standards Update ("ASU") 2017-01, *Business Combinations (Topic 805), Clarifying the Definition of a Business*. The purchase price is allocated to the assets acquired and liabilities assumed based on their estimated fair values. Fair value of the acquired assets and liabilities is measured

in accordance with the guidance of *ASC 850 - Fair Value Measurements*, using discounted cash flows and other applicable valuation techniques. Any acquisitions related costs incurred by the Company are expensed as incurred. Any excess purchase price over the fair value of the net identifiable assets acquired is recorded as goodwill if the definition of a business is met. Operating results of an acquired business are included in our results of operations from the date of acquisition.

*Revenue Recognition:* Revenue from hydraulic fracturing services is recognized as specific services are provided in accordance with contractual arrangements. If our assessment of performance under a particular contract changes, our revenue and / or costs under that contract may change. In connection with *ASC Topic 842 - Leases* (“Topic 842”), the Company determined that certain of its service revenue contracts contain a lease component. The Company elected to adopt a practical expedient available to lessors, which allows the Company to combine the lease and service component for certain of the Company’s service contracts when the service component is the predominant component and continues to account for the combined component under *ASC Topic 606 - Revenue from Contracts with Customers*.

*Accounts Receivable:* On January 1, 2020, the Company adopted ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”), which changes the impairment model for most financial assets and certain other instruments. Specifically, this new guidance requires using a forward looking, expected loss model for trade and other receivables, held-to-maturity debt securities, loans, and other instruments. Under ASU 2016-13, a company recognizes as an allowance, the estimate of lifetime expected credit losses, which is expected to result in more timely recognition of such losses.

The Company applies historic loss factors to its receivable portfolio segments that were not expected to be further impacted by current economic developments, and an additional economic conditions factor to portfolio segments anticipated to experience greater losses in the current economic environment. The Company continuously evaluates customers based on risk characteristics, such as historical losses and current economic conditions. Due to the cyclical nature of the oil and gas industry, the Company often evaluates its customers’ estimated losses on a case-by-case basis. It is reasonably possible that our estimates of the allowance for doubtful accounts will change and that losses ultimately incurred could differ materially from the amounts estimated in determining the allowance.

*Inventory:* Inventory consists of raw materials used in the hydraulic fracturing process, such as proppants, chemicals and field service equipment maintenance parts, and is stated at the lower of cost or net realizable value, determined using the weighted average cost method. Net realizable value is determined based on our estimates of selling prices in the ordinary course of business, less reasonably predictable cost of completion, disposal, and transportation, each of which require us to apply judgment.

*Property and Equipment:* We calculate depreciation and amortization on our assets based on the estimated useful lives and estimated salvage values that we believe are reasonable. The estimated useful lives and salvage values are subject to key assumptions such as maintenance, utilization and job variation. These estimates may change due to a number of factors such as changes in operating conditions or advances in technology.

We incur maintenance costs on our major equipment. The determination of whether an expenditure should be capitalized or expensed requires management judgment in the application of how the costs benefit future periods, relative to our capitalization policy. Costs that either establish or increase the efficiency, productivity, functionality or life of a fixed asset are capitalized and depreciated over the remaining useful life of the asset.

*Impairment of long-lived and other intangible assets:* Long-lived assets, such as property and equipment, right-of-use lease assets and intangible assets, are evaluated for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. Recoverability is assessed using undiscounted future net cash flows of assets grouped at the lowest level for which there are identifiable cash flows independent of the cash flows of other groups of assets. When alternative courses of action to recover the carrying amount of the asset group are under consideration, estimates of future undiscounted cash flows take into account possible outcomes and probabilities of their occurrence, which require us to apply judgment. If the carrying amount of the asset is not recoverable based on its estimated undiscounted cash flows expected to result from the use and eventual disposition, an impairment loss is recognized in an amount by which its carrying amount exceeds its estimated fair value. The inputs used to determine such fair value are primarily based upon internally developed cash flow models. Our cash flow models are based on a number of estimates regarding future operations that may be subject to significant variability, are sensitive to changes in market conditions, and are reasonably likely to change in the future.



During the year ended December 31, 2020, as a result of negative market indicators including the COVID-19 pandemic, the increased supply of low-priced oil, and customer cancellations, the Company concluded these triggering events could indicate possible impairment of property and equipment. The Company performed a quantitative and qualitative impairment analysis and determined that no impairment had occurred as of March 31, 2020. As of December 31, 2020, the Company concluded that no additional triggering events occurred and the conclusion reached at March 31, 2020 is still appropriate. Such analysis required management to make estimates and assumptions based on historical data and consideration of future market conditions. Given the uncertainty inherent in any projection, heightened by the possibility of unforeseen additional effects of COVID-19, actual results may differ from the estimates and assumptions used, or conditions may change, which could result in impairment charges in the future.

No impairment was recognized during the years ended December 31, 2020, 2019 and 2018.

*Leases:* The Company adopted Accounting Standards Update (“ASU”) No. 2016-02, *Leases ASC Topic 842* effective January 1, 2019. We elected the modified retrospective transition method under ASC Topic 842 and as such information prior to January 1, 2019 has not been restated and continues to be reported under the accounting standards in effect for the period (*ASC Topic 840-Leases*). We carried forward the historical lease classifications and assessment of initial direct costs, account for lease and non-lease components as a single component, and exclude leases with an initial term of less than 12 months in the lease assets and liabilities. For leases entered into after January 1, 2019, the Company determines if an arrangement is a lease at inception and evaluates identified leases for operating or finance lease treatment. Operating or finance lease right-of-use assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. We use our incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. Lease terms may include options to renew; however, we typically cannot determine our intent to renew a lease with reasonable certainty at inception.

*Tax Receivable Agreements:* In connection with the IPO, on January 17, 2018, the Company entered into two TRAs with the TRA Holders. The TRAs generally provide for the payment by the Company of 85% of the net cash savings, if any, in U.S. federal, state, and local income tax and franchise tax that the Company actually realizes in periods after the IPO as a result of certain tax attributes applicable to each TRA Holder. The Company accounts for amounts payable under the TRAs in accordance with ASC Topic 450, *Contingencies*.

*Share Repurchases:* The Company accounts for the purchase price of repurchased Class A Common Stock in excess of par value (\$0.01 per share of Class A Common Stock) as a reduction of additional paid-in capital, and will continue to do so until additional paid-in capital is reduced to zero. Thereafter, any excess purchase price will be recorded as a reduction to retained earnings.

## **Recent Accounting Pronouncements**

See Note 2—Significant Accounting Policies—*Recently Issued Accounting Standards* to the consolidated and combined financial statements included in “Item 8. Financial Statements and Supplementary Data” for a discussion of recent accounting pronouncements.

## **Off Balance Sheet Arrangements**

We have no material off balance sheet arrangements as of December 31, 2020, except for purchase commitments under supply agreements as disclosed above under “—Contractual Obligations.” As such, we are not materially exposed to any other financing, liquidity, market or credit risk that could arise if we had engaged in such financing arrangements.

## **Item 7A. Quantitative and Qualitative Disclosure about Market Risk**

### **Industry Risk**

The demand, pricing and terms for hydraulic fracturing services and related goods provided by us are largely dependent upon the level of drilling activity in the U.S. oil and natural gas industry, as well as the available supply of hydraulic fracturing equipment. These activity levels are influenced by numerous factors over which we have no control, including, but not limited to: the supply of and demand for oil and natural gas; the level of prices, and expectations about future prices of oil and natural gas; the cost of exploring for, developing, producing and delivering oil and natural gas; the expected rates of declining current production; the discovery rates of new oil and natural gas reserves; supply of actively marketed and staffed fracturing fleets; available rail and other transportation capacity; weather conditions; domestic and worldwide economic conditions; political instability in oil-producing countries; environmental regulations; technical advances affecting energy consumption; the price and availability of alternative fuels; the ability of E&P companies to raise equity capital and debt financing; and merger and divestiture activity among E&P companies.

The level of U.S. oil and natural gas drilling is volatile. Expected trends in oil and natural gas production activities may not materialize and demand for our services may not reflect the level of activity in the industry. Any prolonged and substantial reduction in oil and natural gas prices would likely affect oil and natural gas production levels and therefore affect demand for our services. A material decline in oil and natural gas prices or U.S. activity levels could have a material adverse effect on our business, financial condition, results of operations and cash flows.

### **Interest Rate Risk**

At December 31, 2020, we had \$108.2 million of debt outstanding, with a weighted average interest rate of 8.6%. Interest is calculated under the terms of our Credit Facilities based on our selection, from time to time, of one of the index rates available to us plus an applicable margin that varies based on certain factors. See “Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Debt Agreements.” Assuming no change in the amount outstanding, the impact on interest expense of a 1% increase or decrease in the weighted average interest rate would be approximately \$1.1 million per year. We do not currently have or intend to enter into any derivative arrangements to protect against fluctuations in interest rates applicable to our outstanding indebtedness.

### **Commodity Price Risk**

Our material and fuel purchases expose us to commodity price risk. Material costs primarily include inventory consumed while performing hydraulic fracturing services. Fuel costs consist of diesel fuel used by trucks and other motorized equipment used for hydraulic fracturing services. At times, we have been able to pass along price increases for material costs and fuel costs to customers and conversely have been required to pass along price decreases for material costs to our customers, depending on market conditions. Further, we have purchase commitments with certain vendors to supply proppant inventory used in our operations at a fixed purchase price, including certain commitments which include minimum purchase obligations. Refer to Note 14, “Commitments and Contingencies” included in “Item 8. Financial Statements and Supplementary Data” for further discussion regarding purchase commitments.

## **Item 8. Financial Statements and Supplementary Data**

Our financial statements and supplementary data are included in this Annual Report on Form 10-K beginning on page F-1 and incorporated by reference herein.

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

### **Item 9A. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

In accordance with the Securities Exchange Act of 1934 Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2020 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Our disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures.

As noted in Management's Report on Internal Control Over Financial Reporting, management's evaluation of, and conclusion on, the effectiveness of internal control over financial reporting did not include the internal controls of the entities acquired in the OneStim Acquisition, as defined herein, on December 31, 2020. Under guidelines established by the SEC, companies are permitted to exclude acquisitions from their assessment of internal control over financial reporting during the first year of an acquisition while integrating the acquired company. The Company is in the process of integrating OneStim's and our internal controls over financial reporting. As a result of these integration activities, certain controls will be evaluated and may be changed. Except as noted above, there were no changes to our internal control over financial reporting during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

See page F-1 for Management's Report on Internal Control Over Financial Reporting and page F-4 for Report of Independent Registered Public Accounting Firm on its assessment of our internal control over financial reporting.

### **Item 9B. Other Information**

None.

## PART III

### **Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this item concerning our executive officers, directors and corporate governance is incorporated herein by reference to our definitive proxy statement for our 2021 annual meeting of shareholders, which will be filed with the SEC no later than 120 days after December 31, 2020, under the captions “Proposal 1 — Election of Directors,” “The Board and its Committees,” “Executive Officers” and “Delinquent Section 16(a) Reports.”

### **Item 11. Executive Compensation**

The information required by this item concerning executive compensation is incorporated herein by reference to our definitive proxy statement for our 2021 annual meeting of shareholders, which will be filed with the SEC no later than 120 days after December 31, 2020, under the captions “The Board and its Committees,” “Compensation Discussion & Analysis,” “Compensation Committee Report,” “Executive Compensation Tables,” “Director Compensation” and “CEO Pay Ratio.”

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this item concerning the security ownership of certain beneficial owners and management and related stockholder matters are incorporated herein by reference to our definitive proxy statement for our 2021 annual meeting of shareholders, which will be filed with the SEC no later than 120 days after December 31, 2020, under the captions “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information.”

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this item concerning certain relationships and related person transactions and director independence is incorporated herein by reference to our definitive proxy statement for our 2021 annual meeting of shareholders, which will be filed with the SEC no later than 120 days after December 31, 2020, under the captions “Certain Relationships and Related Party Transactions” and “the Board and its Committees.”

### **Item 14. Principal Accountant Fees and Services**

The information required by this item concerning principal accounting fees and services is incorporated herein by reference to our definitive proxy statement for our 2021 annual meeting of shareholders, which will be filed with the SEC no later than 120 days after December 31, 2020, under the caption “Proposal 2 — Ratification of Appointment of the Company’s Independent Registered Public Accounting Firm.”



## **PART IV**

### **Item 15. Exhibits and Financial Statement Schedules**

#### **(a) Financial Statements and Financial Statement Schedules**

Refer to Index to Financial Statements on page 46.

All schedules are omitted as information required is inapplicable or the information is presented in the consolidated and combined financial statements and the related notes.

#### **(b) Exhibits**

The documents listed in the Index to Exhibits are filed, furnished or incorporated by reference as part of this Annual Report on Form 10-K, and such Index to Exhibits are incorporated herein by reference.

**Item 16. Form 10-K Summary**

None.

## INDEX TO EXHIBITS

| <u>Exhibit<br/>Number</u> | <u>Description</u>   |
|---------------------------|--|
| 2.1                       | Master Reorganization Agreement, dated as of January 11, 2018, by and among Liberty Oilfield Services Inc., Liberty Oilfield Services Holdings LLC, Liberty Oilfield Services New HoldCo LLC, and the other parties named therein (2)  |
| 2.2                       | Master Transaction Agreement, dated as of August 31, 2020, by and among Schlumberger Technology Corporation, Schlumberger Canada Limited, Liberty Oilfield Services Holdings LLC, Liberty Canada Operations Inc. and Liberty Oilfield Services Inc. (11)   |
| 3.1                       | Amended and Restated Certificate of Incorporation of Liberty Oilfield Services Inc. (2)  |
| 3.2                       | Amended and Restated Bylaws of Liberty Oilfield Services Inc. (3)  |
| 4.1                       | Amended and Restated Stockholders Agreement, dated as of December 13, 2020, by and among Liberty Oilfield Services Inc., Riverstone and the Schlumberger Parties (12)  |
| 4.2                       | Description of the Registrant's Securities Registered pursuant to Section 12 of the Securities Exchange Act of 1934. (8)   |
| 10.1                      | Second Amended and Restated Limited Liability Company Operating Agreement of Liberty Oilfield Services New HoldCo LLC (2)  |
| 10.2                      | Tax Receivable Agreement, dated January 17, 2018, by and among Liberty Oilfield Services Inc., R/C Energy IV Direct Partnership, L.P., and R/C Energy IV Direct Partnership, L.P., as agent (2)  |
| 10.3                      | Tax Receivable Agreement, dated January 17, 2018, by and among Liberty Oilfield Services Inc., and the other parties named therein (2)   |
| 10.4                      | Amended and Restated Registration Rights Agreement, dated as of December 31, 2020, by and among Liberty Oilfield Services Inc., the Schlumberger Parties, and the Holders (12)   |
| 10.5                      | Liberty Oilfield Services Inc. Long Term Incentive Plan (2)†   |
| 10.6                      | Liberty Oilfield Services Inc. Legacy Restricted Stock Plan (2)†   |
| 10.7                      | Form of Restricted Stock Grant Notice and Restricted Stock Agreement under the Legacy Restricted Stock Plan (1)†   |
| 10.8                      | Credit Agreement, dated September 19, 2017, by and among Wells Fargo Bank, National Association, as Administrative Agent, Wells Fargo Bank, National Association, JPMorgan Chase Bank, N.A. and Citibank, N.A., as Joint Lead Arrangers, Wells Fargo Bank, National Association, as Book Runner, JPMorgan Chase Bank, N.A. and Citibank, N.A., as Syndication Agents, the lender parties thereto, Liberty Oilfield Services Holdings LLC, as Parent and Liberty Oilfield Services LLC and LOS Acquisition Co I LLC, each as a Borrower (1) |
| 10.9                      | Amendment and Parent Joinder to Credit Agreement, dated January 17, 2018, by and among Liberty Oilfield Services Holdings LLC, Liberty Oilfield Services LLC, LOS Acquisition Co I LLC, Liberty Oilfield Services Inc., Liberty Oilfield Services New Holdco LLC, Wells Fargo Bank, National Association, as Administrative Agent, and the lenders signatory thereto (4)   |
| 10.10                     | Second Amendment and Parent Joinder to Credit Agreement, dated March 21, 2018, by and among Liberty Oilfield Services LLC, LOS Acquisition Co I LLC, Liberty Oilfield Services Inc., Liberty Oilfield Services New Holdco LLC, R/C IV Non-U.S. LOS Corp, Wells Fargo Bank, National Association, as Administrative Agent, and the lenders signatory thereto (4)  |
| 10.11                     | Third Amendment to Credit Agreement, dated May 29, 2020, by and among Liberty Oilfield Services LLC, Liberty Oilfield Services Inc., Liberty Oilfield Services New Holdco LLC, R/C IV Non-U.S. LOS Corp, and Wells Fargo Bank, National Association as Administrative Agent, and the lenders signatory thereto (9)   |
| 10.12                     | Fourth Amendment to Credit Agreement, dated August 12, 2020, by and among Liberty Oilfield Services LLC, Liberty Oilfield Services Inc., Liberty Oilfield Services New Holdco LLC, R/C IV Non-U.S. LOS Corp, Wells Fargo Bank, National Association, as Administrative Agent, and the lenders signatory thereto (10)   |
| 10.13                     | Consent and Fifth Amendment to Credit Agreement, dated December 29, 2020, by and among Liberty Oilfield Services LLC, Liberty Oilfield Services Inc., Liberty Oilfield Services New Holdco LLC, R/C IV Non-U.S. LOS Corp, LOS Cibolo RE Investments, LLC, LOS Odessa RE Investments, LLC, ST9 Gas and Oil LLC, Wells Fargo Bank, National Association, as Administrative Agent, and the lenders signatory thereto *  |

- 10.14 Credit Agreement, dated September 17, 2017, by and among Liberty Oilfield Services LLC and LOS Acquisition CO I LLC, each as Borrower, Liberty Oilfield Services Holdings LLC, as Parent Guarantor and U.S. Bank National Association as Agent (1)
- 10.15 Amendment and Joinder to Credit Agreement, dated January 17, 2018, by and among Liberty Oilfield Services Holdings LLC, Liberty Oilfield Services LLC, LOS Acquisition Co I LLC, Liberty Oilfield Services Inc., Liberty Oilfield Services New Holdco LLC, U.S. Bank National Association, as Administrative Agent, and the lenders signatory thereto (4)
- 10.16 Second Amendment and Joinder to Credit Agreement, dated March 21, 2018, by and among Liberty Oilfield Services LLC, LOS Acquisition Co I LLC, Liberty Oilfield Services Inc., Liberty Oilfield Services New Holdco LLC, R/C IV Non-U.S. LOS Corp, U.S. Bank National Association, as Administrative Agent, and the lenders signatory thereto (4)
- 10.17 Third Amendment to Credit Agreement, dated August 12, 2020, by and among Liberty Oilfield Services LLC, Liberty Oilfield Services Inc., Liberty Oilfield Services New Holdco LLC, R/C IV Non-U.S. LOS Corp, U.S. Bank National Association, as Administrative Agent, and the lenders signatory thereto (10)
- 10.18 Waiver, Consent and Fourth Amendment to Credit Agreement and First Amendment to Guaranty and Security Agreement, dated December 29, 2020, by and among Liberty Oilfield Services LLC, Liberty Oilfield Services Inc., Liberty Oilfield Services New Holdco LLC, R/C IV Non-U.S. LOS Corp, LOS Cibolo RE Investments, LLC, LOS Odessa RE Investments, LLC, ST9 Gas and Oil LLC, U.S. Bank National Association, as Administrative Agent, and the lenders signatory thereto \*
- 10.19 Liberty Oilfield Services 401(k) Savings Plan \*†
- 10.20 Form of Restricted Stock Unit Grant Notice and Restricted Stock Unit Award Agreement under the Long Term Incentive Plan (5)†
- 10.21 Form of Restricted Stock Unit Grant Notice under the Long Term Incentive Plan \*†
- 10.22 Form of Performance Restricted Stock Unit Grant Notice and Performance Restricted Stock Unit Agreement under the Liberty Oilfield Services Inc. Long Term Incentive Plan (6)†
- 10.23 Form of Change in Control Agreement (7)†
- 10.24 Form of Indemnification Agreement between the Company and each of its Directors and Executive Officers (8)
- 21.1 List of subsidiaries of Liberty Oilfield Services Inc. \*
- 23.1 Consent of Deloitte & Touche LLP \*
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 \*
- 31.2 Certification of Chief Financial Officer pursuant to 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 \*
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \*\*
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \*\*
- 95 Mine Safety Disclosure \*
- 101.INS XBRL Instance Document \*
- 101.SCH XBRL Taxonomy Extension Schema Document \*
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document \*
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document \*
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document \*
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document \*
- 104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)\*

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- (1) Incorporated by reference to the exhibits to the registrant's Registration Statement on Form S-1, as amended (SEC File 333-216050).
  - (2) Incorporated by reference to the exhibits to the registrant's Current Report on Form 8-K, filed on January 18, 2018.



- (3) Incorporated by reference to the exhibits to the registrant's Amendment No. 1 to the Current Report on Form 8-K/A, filed on January 22, 2018.
- (4) Incorporated by reference to the exhibits to the registrant's Annual Report on Form 10-K, filed on March 23, 2018.
- (5) Incorporated by reference to the exhibits to the registrant's Quarterly Report on Form 10-Q, filed on May 10, 2018.
- (6) Incorporated by reference to the exhibits to the registrant's Quarterly Report on Form 10-Q, filed on May 3, 2019.
- (7) Incorporated by reference to the registrant's Current Report on Form 8-K, filed on August 30, 2019.
- (8) Incorporated by reference to the exhibits to the registrant's Annual Report on Form 10-K, filed on February 27, 2020.
- (9) Incorporated by reference to the registrant's Current Report on Form 8-K, filed on June 3, 2020.
- (10) Incorporated by reference to the registrant's Quarterly Report on Form 8-K, filed on October 30, 2020.
- (11) Incorporated by reference to the registrant's Current Report on Form 8-K, filed on September 1, 2020.
- (12) Incorporated by reference to the registrant's Current Report on Form 8-K, filed on January 4, 2021.
- \* Filed herewith.
- \*\* Furnished herewith.
- † Denotes a management contract or compensatory plan or arrangement.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### LIBERTY OILFIELD SERVICES INC.

/s/ Christopher A. Wright

Christopher A. Wright  
*Chief Executive Officer*

Date: February 24, 2021

By:

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <b>Signature</b>  | <b>Title</b>  | <b>Date</b>       |
|---|---|-------------------|
| <u>/s/ Christopher A. Wright</u><br>Christopher A. Wright | Chief Executive Officer and Director<br>(Principal Executive Officer) | February 24, 2021 |
| <u>/s/ Michael Stock</u><br>Michael Stock                 | Chief Financial Officer<br>(Principal Financial Officer)              | February 24, 2021 |
| <u>/s/ Ryan T. Gosney</u><br>Ryan T. Gosney               | Chief Accounting Officer<br>(Principal Accounting Officer)            | February 24, 2021 |
| <u>/s/ Simon Ayat</u><br>Simon Ayat                       | Director  | February 24, 2021 |
| <u>/s/ Ken Babcock</u><br>Ken Babcock                     | Director  | February 24, 2021 |
| <u>/s/ Peter A. Dea</u><br>Peter A. Dea                   | Director  | February 24, 2021 |
| <u>/s/ William F. Kimble</u><br>William F. Kimble         | Director  | February 24, 2021 |
| <u>/s/ James R. McDonald</u><br>James R. McDonald         | Director  | February 24, 2021 |
| <u>/s/ Gale A. Norton</u><br>Gale A. Norton               | Director  | February 24, 2021 |
| <u>/s/ Brett Staffieri</u><br>Brett Staffieri             | Director  | February 24, 2021 |
| <u>/s/ Cary D. Steinbeck</u><br>Cary D. Steinbeck         | Director  | February 24, 2021 |

## Index to Financial Statements

### Liberty Oilfield Services Inc.

|  |     |
|--|-----|
| Management's Report on Internal Control Over Financial Reporting   | F-1 |
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| Consolidated Balance Sheets as of December 31, 2020 and 2019   | F-5 |
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## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Liberty Oilfield Services Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act.

Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal controls over financial reporting may vary over time.

Under the supervision of, and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2020 based on the framework and criteria established in *Internal Control-Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this evaluation, management concluded that, as of December 31, 2020, our internal control over financial reporting was effective. Management's evaluation of, and conclusion on, the effectiveness of internal control over financial reporting did not include the internal controls of the entities acquired in the OneStim Acquisition, as defined herein, on December 31, 2020. The acquired business' financial statements constitute 52% and 43% of net and total assets as of December 31, 2020.

The effectiveness of Liberty Oilfield Services Inc.'s internal control over financial reporting as of December 31, 2020 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report that is included herein.



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Liberty Oilfield Services Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Liberty Oilfield Services Inc. and subsidiaries (the “Company”) as of December 31, 2020 and 2019, the related consolidated and combined statements of operations, changes in equity, and cash flows, for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2021, expressed an unqualified opinion on the Company’s internal control over financial reporting.

### Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Company changed its method of accounting for leases effective January 1, 2019 due to the adoption of Accounting Standards Codification Topic 842—Leases.

### Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### *Income Taxes — Tax Receivable Agreements — Refer to Note 11 to the financial statements*

#### *Critical Audit Matter Description*

The amounts payable, as well as the timing of such payments, under the tax receivable agreements (“TRA”) are dependent upon significant future events and assumptions, including among others: (i) the amount of the redeeming unit holder’s tax basis in its Liberty Oilfield Services New HoldCo LLC class B units at the time of the relevant redemption, (ii) the characterization of the tax basis step-up, (iii) the depreciation and amortization periods that apply to the increase in tax

basis (iv), the amount and timing of taxable income the Company generates in future periods until the TRA payable is settled, and (v) the portion of the Company's payments under the TRA that constitute imputed interest or give rise to depreciable or amortizable tax basis.

During the year ended December 31, 2020, exchanges of Liberty Oilfield Services New HoldCo LLC class B units and shares of Class B Common Stock resulted in an increase of \$13.1 million in amounts payable pursuant to tax receivable agreements ("TRA payable"), and a net increase of \$15.5 million in deferred tax assets, all of which were recorded as equity transactions, with no impact to the statement of operations. At December 31, 2020, the Company's TRA payable was \$56.6 million, all of which is presented as a component of long-term liabilities.

We identified the computation of adjustments to the TRA payable as a critical audit matter because of the multiple owners and complex calculations required to arrive at the correct tax basis upon which to calculate the corresponding TRA payable adjustment. This involved complexity in applying relevant tax law and an increased extent of effort, including the need to involve income tax specialists, when performing audit procedures to evaluate the reasonableness of management's calculation of tax basis, iterative impact of the computation of adjustments to the TRA payable, and TRA payable as of year end.

#### *How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the computation of adjustments to the TRA payable included the following, among others:

- We tested the effectiveness of controls over the computation of adjustments to the TRA payable, including management's calculation of the step-up in tax basis that serves as the basis for the computation of adjustments to the TRA payable.
- With the assistance of our income tax specialists, we read the individual TRAs and compared the terms in the agreements for consistency with the mathematical model used by management to calculate the adjustments to the TRA payable.
- With the assistance of our income tax specialists, we evaluated management's computation of adjustments to the TRA payable, and the TRA payable as of year end that is payable over the contractual period by comparing to our independently recalculated value, taking into account the various class B unit exchanges for Class B Common Stock occurring during the year as well as the adjustments in the TRA payable for each exchange.

/s/ DELOITTE & TOUCHE LLP

Denver, Colorado  
February 24, 2021

We have served as the Company's auditor since 2016.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Liberty Oilfield Services Inc.

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Liberty Oilfield Services Inc. and subsidiaries (the “Company”) as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2020, of the Company and our report dated February 24, 2021, expressed an unqualified opinion on those financial statements.

As described in Management's Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Schlumberger's OneStim® business (“OneStim”), which was acquired on December 31, 2020 and whose financial statements constitute 52% and 43% of net and total assets, respectively of the consolidated financial statement amounts as of and for the year ended December 31, 2020. Accordingly, our audit did not include the internal control over financial reporting at OneStim.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP

Denver, Colorado  
February 24, 2021

**LIBERTY OILFIELD SERVICES INC.**  
**Consolidated Balance Sheets**  
**As of December 31, 2020 and 2019**  
**(Dollars in thousands, except share data)**

|   | <b>2020</b>  | <b>2019</b>  |
|---|--------------|--------------|
| <b>Assets</b>   |              |              |
| Current assets:   |              |              |
| Cash and cash equivalents   | \$ 68,978    | \$ 112,690   |
| Accounts receivable—trade, net of provisions for credit losses of \$773 and \$1,053, respectively   | 244,433      | 204,413      |
| Accounts and notes receivable—related party   | —            | 9,629        |
| Unbilled revenue  | 69,516       | 38,868       |
| Inventories   | 118,568      | 88,547       |
| Prepaid and other current assets (including receivables from related parties of \$24,708 and \$0, respectively)   | 65,638       | 34,827       |
| Total current assets  | 567,133      | 488,974      |
| Property and equipment, net   | 1,120,950    | 651,703      |
| Finance lease right-of-use assets   | 38,733       | 55,337       |
| Operating lease right-of-use assets   | 75,878       | 53,076       |
| Other assets  | 81,888       | 34,339       |
| Deferred tax asset  | 5,360        | —            |
| Total assets  | \$ 1,889,942 | \$ 1,283,429 |
| <b>Liabilities and Equity</b>   |              |              |
| Current liabilities:  |              |              |
| Accounts payable  | \$ 193,338   | \$ 117,613   |
| Accrued liabilities:  |              |              |
| Accrued vendor invoices   | 61,210       | 42,753       |
| Operational accruals  | 28,932       | 26,753       |
| Accrued benefits and other (including payables to related parties of \$0 and \$1,329, respectively)   | 28,241       | 39,448       |
| Current portion of long-term debt, net of discount of \$1,386 and \$1,341, respectively   | 364          | 409          |
| Current portion of finance lease liabilities  | 20,580       | 23,646       |
| Current portion of operating lease liabilities  | 23,481       | 15,873       |
| Total current liabilities   | 356,146      | 266,495      |
| Long-term debt, net of discount of \$1,054 and \$2,485, respectively, less current portion  | 105,411      | 105,731      |
| Deferred tax liability  | —            | 19,659       |
| Payable pursuant to tax receivable agreements, including payables to related parties of \$27,173 and \$23,797, respectively   | 56,594       | 48,481       |
| Noncurrent portion of finance lease liabilities   | 11,318       | 24,884       |
| Noncurrent portion of operating lease liabilities   | 50,430       | 36,687       |
| Total liabilities   | 579,899      | 501,937      |
| Commitments & contingencies (Note 14)   |              |              |
| Stockholders' equity:   |              |              |
| Preferred Stock, \$0.01 par value, 10,000 shares authorized and none issued and outstanding   | —            | —            |
| Common Stock:   |              |              |
| Class A, \$0.01 par value, 400,000,000 shares authorized and 157,952,213 issued and outstanding as of December 31, 2020 and 81,885,384 issued and outstanding as of December 31, 2019 | 1,579        | 819          |
| Class B, \$0.01 par value, 400,000,000 shares authorized and 21,550,282 issued and outstanding as of December 31, 2020 and 30,638,960 issued and outstanding as of December 31, 2019  | 216          | 307          |
| Additional paid in capital  | 1,125,554    | 410,596      |
| Retained earnings   | 23,288       | 143,105      |
| Total stockholders' equity  | 1,150,637    | 554,827      |
| Non-controlling interest  | 159,406      | 226,665      |
| Total equity  | 1,310,043    | 781,492      |
| Total liabilities and equity  | \$ 1,889,942 | \$ 1,283,429 |

See Notes to Consolidated and Combined Financial Statements.

**LIBERTY OILFIELD SERVICES INC.**  
**Consolidated and Combined Statements of Operations**  
**For the Years Ended December 31, 2020, 2019, and 2018**  
(In thousands, except per share data)

|   | <u>2020</u>         | <u>2019</u>      | <u>2018</u>       |
|---|---------------------|------------------|-------------------|
| Revenue:  |                     |                  |                   |
| Revenue   | \$ 965,787          | \$ 1,972,073     | \$ 2,132,032      |
| Revenue—related parties   | —                   | 18,273           | 23,104            |
| Total revenue   | <u>965,787</u>      | <u>1,990,346</u> | <u>2,155,136</u>  |
| Operating costs and expenses:   |                     |                  |                   |
| Cost of services (exclusive of depreciation and amortization shown separately below)            | 857,981             | 1,621,180        | 1,628,753         |
| General and administrative  | 84,098              | 97,589           | 98,420            |
| Transaction, severance and other costs  | 21,061              | —                | 632               |
| Depreciation and amortization of intangible assets  | 180,084             | 165,379          | 125,110           |
| (Gain) loss on disposal of assets   | (411)               | 2,601            | (4,342)           |
| Total operating costs and expenses  | <u>1,142,813</u>    | <u>1,886,749</u> | <u>1,848,573</u>  |
| Operating (loss) income   | <u>(177,026)</u>    | 103,597          | 306,563           |
| Other (income) and expense:   |                     |                  |                   |
| Interest income   | (297)               | (983)            | (382)             |
| Interest expense  | 15,065              | 17,485           | 17,527            |
| Interest income—related party   | (263)               | (1,821)          | —                 |
| Total interest expense  | <u>14,505</u>       | <u>14,681</u>    | <u>17,145</u>     |
| Net (loss) income before income taxes   | <u>(191,531)</u>    | 88,916           | 289,418           |
| Income tax (benefit) expense  | <u>(30,857)</u>     | 14,052           | 40,385            |
| Net (loss) income   | <u>(160,674)</u>    | 74,864           | 249,033           |
| Less: Net (loss) income attributable to Predecessor, prior to Corporate Reorganization          | —                   | —                | 8,705             |
| Less: Net (loss) income attributable to non-controlling interests                               | <u>(45,091)</u>     | 35,861           | 113,979           |
| Net (loss) income attributable to Liberty Oilfield Services Inc. stockholders                   | <u>\$ (115,583)</u> | <u>\$ 39,003</u> | <u>\$ 126,349</u> |
| Net (loss) income attributable to Liberty Oilfield Services Inc. stockholders per common share: |                     |                  |                   |
| Basic   | \$ (1.36)           | \$ 0.54          | \$ 1.84           |
| Diluted   | \$ (1.36)           | \$ 0.53          | \$ 1.81           |
| Weighted average common shares outstanding:   |                     |                  |                   |
| Basic   | 85,242              | 72,334           | 68,838            |
| Diluted   | 85,242              | 105,256          | 117,838           |

See Notes to Consolidated and Combined Financial Statements.



**LIBERTY OILFIELD SERVICES INC.**  
**Consolidated Statements of Changes in Equity**  
**For the Years Ended December 31, 2020 and 2019**  
**(In thousands, except share and per unit data)**

|  | Shares of<br>Class A<br>Common<br>Stock | Shares of<br>Class B<br>Common<br>Stock | Class A<br>Common<br>Stock, Par<br>Value | Class B<br>Common<br>Stock, Par<br>Value | Additional<br>Paid in<br>Capital | Retained<br>Earnings | Total<br>Stockholders'<br>equity | Non-<br>controlling<br>Interest | Total Equity |
|--|---|---|--|--|----------------------------------|----------------------|----------------------------------|---------------------------------|--------------|
| <b>Balance—December 31, 2019</b>   | 81,885                                  | 30,639                                  | \$ 819                                   | \$ 307                                   | \$ 410,596                       | \$ 143,105           | \$ 554,827                       | \$ 226,665                      | \$ 781,492   |
| Exchange of Class B Common Stock for Class A Common Stock                                  | 9,089                                   | (9,089)                                 | 91                                       | (91)                                     | 59,474                           | —                    | 59,474                           | (59,474)                        | —            |
| Effect of exchange on deferred tax asset, net of liability under tax receivable agreements | —                                       | —                                       | —  | —  | 2,430                            | —                    | 2,430                            | —                               | 2,430        |
| Issuance of Class A Common Stock, net of issuance costs                                    | 66,326                                  | —                                       | 663                                      | —  | 599,618                          | —                    | 600,281                          | 81,900                          | 682,181      |
| Impact of ownership changes from issuance of Class A Common Stock                          | —                                       | —                                       | —  | —  | 46,400                           | —                    | 46,400                           | (46,400)                        | —            |
| Deferred tax impact of ownership changes from issuance of Class A Common Stock             | —                                       | —                                       | —  | —  | (6,337)                          | —                    | (6,337)                          | —                               | (6,337)      |
| \$0.05/share of Class A Common Stock dividend  | —                                       | —                                       | —  | —  | —                                | (4,244)              | (4,244)                          | —                               | (4,244)      |
| \$0.05/unit distribution to non-controlling unitholders                                    | —                                       | —                                       | —  | —  | —                                | —                    | —                                | (1,532)                         | (1,532)      |
| Other distributions and advance payments to non-controlling interest unitholders           | —                                       | —                                       | —  | —  | (1)                              | —                    | (1)                              | 569                             | 568          |
| Stock based compensation   | —                                       | —                                       | —  | —  | 12,976                           | —                    | 12,976                           | 4,163                           | 17,139       |
| Vesting of Restricted Stock Units  | 657                                     | —                                       | 7  | —  | 407                              | —                    | 414                              | (1,402)                         | (988)        |
| Restricted stock forfeited   | (5)                                     | —                                       | (1)                                      | —  | (9)                              | 10                   | —                                | 8                               | 8            |
| Net loss   | —                                       | —                                       | —  | —  | —                                | (115,583)            | (115,583)                        | (45,091)                        | (160,674)    |
| <b>Balance—December 31, 2020</b>   | 157,952                                 | 21,550                                  | \$ 1,579                                 | \$ 216                                   | \$ 1,125,554                     | \$ 23,288            | \$ 1,150,637                     | \$ 159,406                      | \$ 1,310,043 |
|  | Shares of<br>Class A<br>Common<br>Stock | Shares of<br>Class B<br>Common<br>Stock | Class A<br>Common<br>Stock, Par<br>Value | Class B<br>Common<br>Stock, Par<br>Value | Additional<br>Paid in<br>Capital | Retained<br>Earnings | Total<br>Stockholders'<br>equity | Non-<br>controlling<br>Interest | Total Equity |
| <b>Balance - December 31, 2018</b>   | 68,360                                  | 45,207                                  | \$ 684                                   | \$ 452                                   | \$ 312,659                       | \$ 119,274           | \$ 433,069                       | \$ 307,745                      | \$ 740,814   |
| Exchange of Class B Common Stock for Class A Common Stock                                  | 14,568                                  | (14,568)                                | 145                                      | (145)                                    | 110,852                          | —                    | 110,852                          | (110,852)                       | —            |
| Offering Costs   | —                                       | —                                       | —  | —  | (1,012)                          | —                    | (1,012)                          | (504)                           | (1,516)      |
| Effect of exchange on deferred tax asset, net of liability under tax receivable agreements | —                                       | —                                       | —  | —  | 5,930                            | —                    | 5,930                            | —                               | 5,930        |
| Deferred tax impact of ownership changes from exchanges and repurchases                    | —                                       | —                                       | —  | —  | (11,130)                         | —                    | (11,130)                         | —                               | (11,130)     |
| \$0.20/share of Class A Common Stock dividend  | —                                       | —                                       | —  | —  | —                                | (15,177)             | (15,177)                         | —                               | (15,177)     |
| \$0.20/unit distributions to non-controlling unitholders                                   | —                                       | —                                       | —  | —  | —                                | —                    | —                                | (7,747)                         | (7,747)      |
| Other distributions and advance payments to non-controlling interest unitholders           | —                                       | —                                       | —  | —  | —                                | —                    | —                                | (6)                             | (6)          |
| Share repurchases  | (1,303)                                 | —                                       | (13)                                     | —  | (13,017)                         | —                    | (13,030)                         | (4,068)                         | (17,098)     |
| Stock based compensation expense   | —                                       | —                                       | —  | —  | 6,638                            | —                    | 6,638                            | 6,954                           | 13,592       |
| Vesting of restricted stock units  | 268                                     | —                                       | 3  | —  | (302)                            | —                    | (299)                            | (740)                           | (1,039)      |
| Restricted Stock and RSU Forfeitures   | (8)                                     | —                                       | —  | —  | (22)                             | 5                    | (17)                             | 22                              | 5            |
| Net income   | —                                       | —                                       | —  | —  | —                                | 39,003               | 39,003                           | 35,861                          | 74,864       |
| <b>Balance - December 31, 2019</b>   | 81,885                                  | 30,639                                  | \$ 819                                   | \$ 307                                   | \$ 410,596                       | \$ 143,105           | \$ 554,827                       | \$ 226,665                      | \$ 781,492   |

See Notes to Consolidated and Combined Financial Statements.

**LIBERTY OILFIELD SERVICES INC.**  
**Consolidated and Combined Statements of Cash Flows**  
**For the Years Ended December 31, 2020, 2019, and 2018**  
**(Dollars in thousands)**

|   | <u>2020</u>       | <u>2019</u>       | <u>2018</u>       |
|---|-------------------|-------------------|-------------------|
| Cash flows from operating activities:   |                   |                   |                   |
| Net (loss) income   | \$ (160,674)      | \$ 74,864         | \$ 249,033        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                   |                   |                   |
| Depreciation and amortization   | 180,084           | 165,379           | 125,110           |
| (Gain) loss on disposal of assets   | (411)             | 2,601             | (4,342)           |
| Loss (gain) on tax receivable agreements  | 543               | (122)             | —                 |
| Amortization of debt issuance costs   | 2,232             | 2,205             | 4,031             |
| Inventory write down  | 1,087             | 1,953             | 3,389             |
| Non-cash lease expense  | 3,668             | 3,192             | —                 |
| Stock based compensation expense  | 17,139            | 13,592            | 5,450             |
| Deferred income tax (benefit) expense   | (25,546)          | 23,408            | 20,488            |
| Bad debt provision  | 4,877             | 1,053             | —                 |
| Changes in operating assets and liabilities:                                      |                   |                   |                   |
| Accounts receivable and unbilled revenue  | 53,057            | (11,512)          | 23,074            |
| Accounts receivable and unbilled revenue—related party                            | 9,629             | 5,510             | (11,096)          |
| Inventories   | 2,137             | (30,476)          | (4,610)           |
| Other assets  | 13,780            | (6,464)           | (32,771)          |
| Accounts payable and accrued liabilities  | (15,282)          | 22,386            | (26,798)          |
| Accounts payable and accrued liabilities—related party                            | —                 | (1,000)           | 300               |
| Payment of operating lease liability  | (895)             | (5,469)           | —                 |
| Net cash provided by operating activities   | <u>85,425</u>     | <u>261,100</u>    | <u>351,258</u>    |
| Cash flows from investing activities:   |                   |                   |                   |
| Capital expenditures  | (103,637)         | (195,173)         | (258,835)         |
| Proceeds from disposal of assets  | 3,368             | 826               | 3,343             |
| Net cash used in investing activities   | <u>(100,269)</u>  | <u>(194,347)</u>  | <u>(255,492)</u>  |
| Cash flows from financing activities:   |                   |                   |                   |
| Proceeds from issuance of Class A Common Stock, net of underwriter discount       | —                 | —                 | 230,174           |
| Redemption of LLC Units from Legacy Owners  | —                 | —                 | (25,897)          |
| Repayments of borrowings on term loan   | (1,750)           | (1,750)           | (62,847)          |
| Repayments of borrowings on line-of-credit  | —                 | —                 | (30,000)          |
| Proceeds from Liberty Oilfield Services Holdings LLC                              | —                 | —                 | 2,115             |
| Payments on finance lease obligations   | (11,663)          | (12,143)          | —                 |
| Class A Common Stock dividends  | (4,431)           | (14,776)          | (6,907)           |
| Per unit distributions to non-controlling interest unitholders                    | (1,532)           | (7,747)           | (4,671)           |
| Other distributions and advance payments to non-controlling interest unitholders  | (6,800)           | (6)               | (21,288)          |
| Tax withholding on restricted stock unit vesting                                  | (988)             | (1,039)           | —                 |
| Share repurchases   | —                 | (18,398)          | (82,903)          |
| Payments of debt issuance costs   | (63)              | —                 | (315)             |
| Payment of equity offering costs  | (1,641)           | (1,516)           | (6,236)           |
| Net cash used in financing activities   | <u>(28,868)</u>   | <u>(57,375)</u>   | <u>(8,775)</u>    |
| Net (decrease) increase in cash and cash equivalents                              | (43,712)          | 9,378             | 86,991            |
| Cash and cash equivalents—beginning of period                                     | 112,690           | 103,312           | 16,321            |
| Cash and cash equivalents—end of period   | <u>\$ 68,978</u>  | <u>\$ 112,690</u> | <u>\$ 103,312</u> |
| Supplemental disclosure of cash flow information:                                 |                   |                   |                   |
| Net cash (received) paid for income taxes   | \$ (9,653)        | \$ 1,042          | \$ 27,263         |
| Cash paid for interest  | <u>\$ 11,218</u>  | <u>\$ 12,642</u>  | <u>\$ 13,957</u>  |
| Non-cash investing and financing activities:                                      |                   |                   |                   |
| Capital expenditures included in accounts payable and accrued liabilities         | \$ 10,920         | \$ 32,143         | \$ 45,703         |
| Equity issued in exchange for assets and liabilities                              | <u>\$ 683,822</u> | <u>\$ —</u>       | <u>\$ —</u>       |

See Notes to Consolidated and Combined Financial Statements.

**LIBERTY OILFIELD SERVICES INC.**  
**Notes to Consolidated and Combined Financial Statements**

**Note 1—Organization and Basis of Presentation**

***Organization***

Liberty Oilfield Services Inc. (the “Company”) was incorporated as a Delaware corporation on December 21, 2016, to become a holding corporation for Liberty Oilfield Services New HoldCo LLC (“Liberty LLC”) and its subsidiaries upon completion of a corporate reorganization (the “Corporate Reorganization”) and planned initial public offering of the Company (“IPO”). The Company has no material assets other than its ownership in Liberty LLC. Prior to the Corporate Reorganization, Liberty Oilfield Services Holdings LLC (“Liberty Holdings”) wholly owned Liberty Oilfield Services LLC (“LOS”) and LOS Acquisition CO I LLC (“ACQI” and, together with LOS, the “Predecessor”).

The Company, together with its subsidiaries, is a multi-basin provider of hydraulic fracturing services and goods, with a focus on deploying the latest technologies in the technically demanding oil and gas reservoirs in which it operates, principally in North Dakota, Colorado, Louisiana, Oklahoma, New Mexico, Wyoming, Texas and the provinces of Alberta and British Columbia, Canada.

***Basis of Presentation***

The accompanying consolidated and combined financial statements were prepared using generally accepted accounting principles in the United States of America (“GAAP”) and the instructions to Form 10-K, Regulation S-X and the rules and regulations of the Securities and Exchange Commission.

The accompanying consolidated and combined financial statements and related notes present the consolidated financial position, results of operations, cash flows, and equity of the Company as of and for the years ended December 31, 2020 and 2019, and the combined results of operations and cash flows of the Predecessor for the year ended December 31, 2018.

All intercompany amounts have been eliminated in the presentation of the consolidated financial statements of the Company and the combined financial statements of the Predecessor. Comprehensive income is not reported due to the absence of items of other comprehensive income or loss during the periods presented.

The consolidated and combined financial statements for periods prior to January 17, 2018, reflect the historical results of the Predecessor. The consolidated and combined financial statements include the amounts of the Company and all majority owned subsidiaries where the Company has the ability to exercise control.

The Company’s operations are organized into a single reportable segment, which consists of hydraulic fracturing services and goods.

**Note 2—Significant Accounting Policies**

***Business Combinations***

Business combinations are accounted for using the acquisition method of accounting in accordance with the *Accounting Standard Codification (“ASC”) Topic 805 - Business Combinations*, as amended by Accounting Standards Update (“ASU”) 2017-01, *Business Combinations (Topic 805), Clarifying the Definition of a Business*. The purchase price is allocated to the assets acquired and liabilities assumed based on their estimated fair values. Fair value of the acquired assets and liabilities is measured in accordance with the guidance of ASC 850, *Fair Value Measurements*, using discounted cash flows and other applicable valuation techniques. Any acquisition related costs incurred by the Company are expensed as incurred. Any excess purchase price over the fair value of the net identifiable assets acquired is recorded as goodwill if the definition of a business is met. Operating results of an acquired business are included in our results of operations from the date of acquisition. Refer to Note 3—The OneStim Acquisition.

***Use of Estimates***

The preparation of consolidated and combined financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated and combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The consolidated and combined financial statements include certain amounts that are based on management’s best estimates and judgments. The most significant estimates relate to the fair value of assets acquired and liabilities assumed, collectibility of accounts receivable and estimates of allowance for doubtful accounts, the useful lives and salvage values of

## LIBERTY OILFIELD SERVICES INC.

### Notes to Consolidated and Combined Financial Statements

long-lived assets, future cash flows associated with long-lived assets, net realizable value of inventory, and equity unit valuation. These estimates may be adjusted as more current information becomes available.

#### *Cash and Cash Equivalents*

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. The Company continually monitors its positions with, and the credit quality of, the financial institutions with which it has banking relationships. As of the balance sheet date, and periodically throughout the year, the Company has maintained balances in various operating accounts in excess of federally insured limits.

#### *Accounts Receivable*

On January 1, 2020, the Company adopted ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”) using the modified-retrospective approach, which allows for a cumulative-effect adjustment to the consolidated balance sheet as of the beginning of the first reporting period in which the guidance is effective. Periods prior to the adoption date that are presented for comparative purposes are not adjusted.

The Company applies historic loss factors to its receivable portfolio segments that were not expected to be further impacted by current economic developments, and additional economic conditions factor to portfolio segments anticipated to experience greater losses in the current economic environment. Additionally, the Company continuously evaluates customers based on risk characteristics, such as historical losses and current economic conditions. Due to the cyclical nature of the oil and gas industry, the Company often evaluates its customers’ estimated losses on a case-by-case basis. While there was no impact to the financial statements as a result of adoption of ASU 2016-13, as a result of deteriorating economic conditions for the oil and gas industry brought on by the COVID-19 pandemic, during the year ended December 31, 2020 the Company recorded a provision for credit losses of \$4.9 million. During the year ended December 31, 2019 the Company recorded a provision for credit losses of \$1.1 million related to one customer that filed for bankruptcy. Provisions for credit losses are included in general and administrative expenses in the accompanying consolidated statement of operations, in accordance with the new standard. Refer to “Credit Risk” within Note 8—Fair Value Measurements and Financial Instruments for additional disclosures required under ASU 2016-13.

#### *Inventories*

Inventories consist of raw materials used in the hydraulic fracturing process, such as proppants, chemicals, and field service equipment maintenance parts and other and are stated at the lower of cost, determined using the weighted average cost method, or net realizable value. Inventories are charged to cost of services as used when providing hydraulic fracturing services. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable cost of completion, disposal, and transportation.

#### *Property and Equipment*

Property and equipment are stated at cost. Depreciation and amortization expense is recognized on property and equipment, excluding land, utilizing the straight-line method over the estimated useful lives, ranging from two to 30 years. The Company estimates salvage values that it does not depreciate.

Construction in-progress, a component of property and equipment, represents long-lived assets not yet in service or being developed by the Company. These assets are not subject to depreciation until they are completed and ready for their intended use, at which point the Company reclassifies them to field services equipment or vehicles, as appropriate.

The Company assesses its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is assessed using undiscounted future net cash flows of assets grouped at the lowest level for which there are identifiable cash flows independent of the cash flows of other groups of assets. The Company determined the lowest level of identifiable cash flows to be at the asset group, which is the aggregate of the Company’s hydraulic fracturing fleets that are in service. A long-lived asset is not recoverable if its carrying amount exceeds the sum of estimated undiscounted cash flows expected to result from the use and eventual disposition. When alternative courses of action to recover the carrying amount of the asset group are under consideration, estimates of future undiscounted cash flows take into account possible outcomes and probabilities of their occurrence. If the carrying amount of the asset is not recoverable, an impairment loss is recognized in an amount by which its carrying amount exceeds its estimated fair value, such that its carrying amount is adjusted to its estimated fair value, with an offsetting charge to impairment expense.

The Company measures the fair value of its property and equipment using the discounted cash flow method. The expected future cash flows used for impairment reviews and related fair value calculations are based on judgmental assessments of projected revenue growth, fleet count, utilization, gross margin rates, selling, general and administrative rates, working capital fluctuations, capital expenditures, discount rates and terminal growth rates.

## **LIBERTY OILFIELD SERVICES INC.**

### **Notes to Consolidated and Combined Financial Statements**

During the first quarter of 2020, as a result of negative market indicators including the COVID-19 pandemic, the increased supply of low-priced oil, and customer cancellations, the Company concluded these triggering events could indicate possible impairment of property and equipment. The Company performed a quantitative and qualitative impairment analysis and determined that no impairment had occurred as of March 31, 2020. As of December 31, 2020, the Company concluded that no additional triggering events occurred and the conclusion reached at March 31, 2020 is still appropriate, and no impairment was recognized during the year ended December 31, 2020.

During 2019 and 2018, the Company did not test its long-lived assets for recoverability as there were no triggering events. No impairment was recognized during the years ended December 31, 2019 and 2018.

#### ***Major Maintenance Activities***

The Company incurs maintenance costs on its major equipment. The determination of whether an expenditure should be capitalized or expensed requires management judgment in the application of how the costs incurred benefit future periods, relative to the Company's capitalization policy. Costs that either establish or increase the efficiency, productivity, functionality or life of a fixed asset are capitalized and depreciated over the remaining useful life of the asset.

#### ***Leases***

On January 1, 2019, the Company adopted Accounting Standards Update ("ASU") No. 2016-02, *Leases* (Accounting Standard Codification ("ASC") Topic 842), as amended by other ASUs issued since February 2016 ("ASU 2016-02" or "ASC Topic 842"), using the modified retrospective transition method applied at the effective date of the standard. By electing this optional transition method, information prior to January 1, 2019 has not been restated and continues to be reported under the accounting standards in effect for the period (ASC Topic 840).

In accordance with ASC Topic 842, the Company determines if an arrangement is a lease at inception and evaluates identified leases for operating or finance lease treatment. Operating or finance lease right-of-use assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The Company uses the rate implicit in the lease, when available, or an estimated fully collateralized incremental borrowing rate corresponding with the lease term and the information available at the commencement date in determining the present value of lease payments. Lease terms may include options to renew, however, the Company typically cannot determine its intent to renew a lease with reasonable certainty at inception.

#### ***Deferred Financing Costs***

Costs associated with obtaining debt financing are deferred and amortized to interest expense using the effective interest method. In accordance with ASU No. 2015-03 and 2015-15, for all periods the Company has reflected deferred financing costs related to term loan debt as a direct deduction from the carrying amount, and costs associated with line-of-credit arrangements as other assets.

#### ***Income Taxes***

Following the IPO, the Company is a corporation and is subject to U.S. federal, state and local income tax on its share of Liberty LLC's taxable income. As a result of the IPO and Corporate Reorganization, the Company recorded deferred tax assets and liabilities for the difference between the book value of assets and liabilities for financial reporting purposes and those amounts applicable for income tax purposes.

Deferred income taxes are computed using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements. Deferred tax assets and liabilities are calculated using the enacted tax rates in effect for the year in which the deferred tax asset or liability is expected to reverse. The Company classifies all deferred tax assets and liabilities as non-current.

The Company recognizes the financial statement effects of a tax position when it is more-likely-than-not, based on the technical merits, that the position will be sustained upon examination. A tax position that meets the more-likely-than-not recognition threshold is measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with a taxing authority. Previously recognized tax positions are reversed in the first period in which it is no longer more-likely-than-not that the tax position would be sustained upon examination. Income tax related interest and penalties, if applicable, are recorded as a component of the provision for income tax expense.



## LIBERTY OILFIELD SERVICES INC.

### Notes to Consolidated and Combined Financial Statements

#### ***Tax Receivable Agreements***

In connection with the IPO, on January 17, 2018, the Company entered into two Tax Receivable Agreements (the “TRAs”) with the R/C Energy IV Direct Partnership, L.P. and certain legacy owners that continued to own Liberty LLC Units (each such person and any permitted transferee, a “Tax Receivable Agreement Holder” and together, the “Tax Receivable Agreement Holders”). The TRAs generally provide for the payment by the Company of 85% of the net cash savings, if any, in U.S. federal, state, and local income tax and franchise tax (computed using simplifying assumptions to address the impact of state and local taxes) that the Company actually realizes (or is deemed to realize in certain circumstances) in periods after the IPO as a result, as applicable to each Tax Receivable Agreement Holder, of (i) certain increases in tax basis that occur as a result of the Company’s acquisition (or deemed acquisition for U.S. federal income tax purposes) of all or a portion of such Tax Receivable Agreement Holder’s Liberty LLC Units in connection with the IPO or pursuant to the exercise of the right (the “Redemption Right”) or the Company’s right (the “Call Right”), (ii) any net operating losses available to the Company as a result of the Corporate Reorganization, and (iii) imputed interest deemed to be paid by the Company as a result of, and additional tax basis arising from, any payments the Company makes under the TRAs.

With respect to obligations the Company expects to incur under the TRAs (except in cases where the Company elects to terminate the TRAs early, the TRAs are terminated early due to certain mergers, asset sales, or other changes of control or the Company has available cash but fails to make payments when due), generally the Company may elect to defer payments due under the TRAs if the Company does not have available cash to satisfy its payment obligations under the TRAs or if its contractual obligations limit its ability to make such payments. Any such deferred payments under the TRAs generally will accrue interest. In certain cases, payments under the TRAs may be accelerated and/or significantly exceed the actual benefits, if any, the Company realizes in respect of the tax attributes subject to the TRAs. The Company accounts for amounts payable under the TRAs in accordance with ASC Topic 450, *Contingencies*.

If the Company experiences a change of control (as defined under the TRAs) or the TRAs otherwise terminate early, the Company’s obligations under the TRAs could have a substantial negative impact on its liquidity and could have the effect of delaying, deferring or preventing certain mergers, asset sales, or other forms of business combinations or changes of control.

#### ***Share Repurchases***

The Company accounts for the purchase price of repurchased Class A Common Stock in excess of par value (\$0.01 per share of Class A Common Stock) as a reduction of additional paid-in capital, and will continue to do so until additional paid-in capital is reduced to zero. Thereafter, any excess purchase price will be recorded as a reduction to retained earnings.

#### ***Revenue Recognition***

Effective January 1, 2018, the Company adopted a comprehensive new revenue recognition standard, ASC Topic 606-*Revenue from Contracts with Customers*. The Company adopted the standard using a modified retrospective method. The adoption of this standard did not have a material impact to the consolidated financial position, reported revenue, results of operations or cash flows as of and for the year ended December 31, 2018.

Under ASC Topic 606, revenue recognition is based on the transfer of control, or the customer’s ability to benefit from the services and products in an amount that reflects the consideration expected to be received in exchange for those services and products. In recognizing revenue for services and products, the transaction price is determined from sales orders or contracts with customers. Revenue is recognized at the completion of each fracturing stage, and in most cases the price at the end of each stage is fixed, however, in limited circumstances contracts may contain variable consideration.

Variable consideration typically may relate to discounts, price concessions and incentives. The Company estimates variable consideration based on the amount of consideration we expect to receive. The Company accrues revenue on an ongoing basis to reflect updated information for variable consideration as performance obligations are met.

The Company also assesses customers’ ability and intention to pay, which is based on a variety of factors including historical payment experience and financial condition. Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 30 to 45 days.

In connection with the adoption of ASC Topic 842, the Company determined that certain of its service revenue contracts contain a lease component. The Company elected to adopt a practical expedient available to lessors, which allows the Company to combine the lease and non-lease components and account for the combined component in accordance with the accounting treatment for the predominant component. Therefore, the Company combines the lease and service component for certain of the Company’s service contracts and continues to account for the combined component under ASC Topic 606, *Revenue from Contracts with Customers*.

**LIBERTY OILFIELD SERVICES INC.**  
**Notes to Consolidated and Combined Financial Statements**

***Deferred Revenue***

From time to time, the Company may require partial payment in advance from new customers to secure credit or from existing customers in order to secure additional hydraulic fracturing services. Initially, such payments are recorded in the accompanying consolidated and combined financial statements as deferred revenue, and upon performance of the agreed services, the Company recognizes revenue consistent with its revenue recognition policy described above. As of December 31, 2020 and December 31, 2019, the Company had no amounts recorded as deferred revenue. During the year ended December 31, 2018, the Company recognized to revenue \$9.2 million of customer prepayments initially recorded as deferred revenue.

***Fleet Start-up and Lay-down Costs***

The Company incurs start-up costs to commission a new fleet or district. These costs include hiring and training of personnel, and acquisition of consumable parts and tools. During 2020, as a result of declining oil prices and reduced demand from the impact of global efforts to combat COVID-19, the Company also incurred lay-down costs between the time customer work was completed and prior to personnel lay-offs or furloughs. Start-up and lay-down costs are expensed as incurred, and are reflected in general and administrative expense in the consolidated and combined statement of operations. Start-up and lay-down costs incurred during the year ended December 31, 2020 of \$12.2 million related to the temporary lay-down and subsequent reactivation of 16 fleets for various periods during 2020. Start-up costs incurred during the years ended December 31, 2019 and 2018 of \$4.5 million and \$10.1 million, respectively, related to the establishment of one and three new fleets, respectively.

The terms and conditions of the Credit Facilities between the Company and its lenders provides for the add-back of costs or expenses incurred in connection with the acquisition, deployment and opening of any new hydraulic fracturing fleet or district in the computation of certain financial covenants. (See Note 7—Debt).

***Transaction, Severance and Other Costs***

The Company incurred transaction related costs in connection with the OneStim Acquisition (as defined below). Such costs include investment banking, legal, accounting and other professional services provided in connection with closing the transaction, and are expensed as incurred.

The Company also incurred severance and other costs related to the reduction in workforce in April 2020 and the commencement of furlough schedules for remaining employees in May 2020. Payments made to employees leaving the Company, as well as benefits paid to employees while on furlough are recorded to transaction, severance and other costs in the accompanying consolidated statements of operations for the year ended December 31, 2020. As of December 31, 2020, no employees were on furlough.

***Reclassifications***

Certain amounts in the prior period financial statements have been reclassified to conform to the presentation of the current period financial statements. These reclassifications had no effect on the previously reported net income.

***Recently Adopted Accounting Standards***

***Credit Losses***

In June 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”), which changes the impairment model for most financial assets and certain other instruments. Specifically, this new guidance requires using a forward looking, expected loss model for trade and other receivables, held-to-maturity debt securities, loans, and other instruments. Under ASU 2016-13, a company recognizes, as an allowance, the estimate of lifetime expected credit losses, which is expected to result in more timely recognition of such losses. Refer to “Credit Risk” within Note 8—Fair Value Measurements and Financial Instruments for additional disclosures required under ASU 2016-13.

***Fair Value Measurement***

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement* (“ASU 2018-13”), which eliminates, adds and modifies certain disclosure requirements for fair value measurements. The Company adopted ASU 2018-13 on January 1, 2020 and determined the adoption of this standard did not impact the Company’s consolidated financial statements. Refer to Note 8—Fair Value Measurements and Financial Instruments for the disclosures required under ASU 2018-13.

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*Leases*

In April 2020, the FASB issued FASB Staff Q&A *Topic 842 and Topic 840: Accounting for Lease Concessions Related to the Effects of the COVID-19 Pandemic* (the “Q&A”), which allows companies to elect to recognize the impact of COVID-19 rent concessions, including rent deferrals, within the current period, rather than recognizing these concessions as a lease modification in accordance with lease guidance, ASU No. 2016-02, *Leases (ASC Topic 842)*, if the total lease payments of the modified lease are substantially the same as or less than the total original lease payments. According to the Q&A, entities are to make an election to account for lease concessions related to the effects of the COVID-19 pandemic consistent with how those concessions would be accounted for under Topic 842 and ASC Topic 840, Leases as though enforceable rights and obligations for those concessions existed. The adoption of the Q&A did not have a material impact on the accompanying consolidated financial statements.

***Recently Issued Accounting Standards***

*Simplification of Accounting for Income Taxes*

In December 2019, the FASB issued ASU No. 2019-12, *Simplification of Accounting for Income Taxes*, which simplifies the accounting for income taxes by providing new guidance to reduce complexity and eliminate certain exceptions to the general approach to the income tax accounting model. The guidance is effective for annual periods beginning after December 15, 2020. The Company plans to adopt the new rules in the first quarter of 2021 and does not expect it will have a material impact on the financial statements.

*Reference Rate Reform*

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform*, which provides temporary optional guidance to companies impacted by the transition away from the London Interbank Offered Rate (“LIBOR”). The guidance provides certain expedients and exceptions to applying GAAP in order to lessen the potential accounting burden when contracts, hedging relationships, and other transactions that reference LIBOR as a benchmark rate are modified. This guidance is effective upon issuance and expires on December 31, 2022. The Company is currently assessing the impact of the LIBOR transition and this ASU on the Company’s consolidated financial statements.

*Codification Improvements*

In October 2020, the FASB issued ASU No. 2020-10, *Codification Improvements*, which clarifies various topics, including the addition of existing disclosure requirements to the relevant disclosure sections. This update does not change GAAP, and therefore, is not expected to result in a significant change in accounting practices. The guidance is effective for fiscal periods beginning after December 15, 2020, as the amendment pertains to disclosure items only, the Company plans to adopt the new rules for the first quarter of 2021.

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**Note 3—The OneStim Acquisition**

On August 31, 2020 the Company and certain of its subsidiaries entered into the certain Master Transaction Agreement (the “Transaction Agreement”) with Schlumberger Technology Corporation and Schlumberger Canada Limited (collectively “Schlumberger”), pursuant to which the Company acquired certain assets and liabilities of Schlumberger’s OneStim® business, which provides hydraulic fracturing pressure pumping services in onshore United States and Canada (such entire business of Schlumberger “OneStim,” and the portion of OneStim acquired pursuant to the Transaction Agreement the “Transferred Business”) in exchange for 57,377,232 shares of Class A Common Stock and a non-interest bearing demand promissory note (the “Canadian Buyer Note” and such acquisition, the “OneStim Acquisition”). The Canadian Buyer Note was settled for 8,948,902 shares of Class A Common Stock, and a total of 66,326,134 shares of Class A Common Stock were issued in connection with the OneStim Acquisition. Effective December 31, 2020, Schlumberger owns 37.0% of the Company’s issued and outstanding shares of common stock, including Class A Common Stock and Class B Common Stock. In connection with the issuance of 66,326,134 shares of Class A Common Stock, Liberty LLC also issued 66,326,134 Liberty LLC Units to the Company.

The OneStim Acquisition was completed for total consideration of approximately \$683.8 million based on the value of the Canadian Buyer Note and the closing price of Liberty’s Class A Common Stock on December 31, 2020. The Company accounted for the OneStim Acquisition using the acquisition method of accounting. The aggregate purchase price noted above was allocated to the major categories of assets acquired and liabilities assumed based upon their estimated fair value at the date of the acquisition. The estimated fair values of certain assets and liabilities, including accounts receivable, require significant judgments and estimates. The majority of the measurements of assets acquired and liabilities assumed, are based on inputs that are not observable in the market and thus represent Level 3 inputs.

In accordance with ASC Topic 805, an acquirer is allowed a period, referred to as the measurement period, in which to complete its accounting for the transaction. Such measurement period ends at the earliest date that the acquirer a) receives the information necessary or b) determines that it cannot obtain further information, and such period may not exceed one year. As the OneStim Acquisition closed on December 31, 2020 the Company is in the process of completing the initial purchase price allocation, particularly as it relates to current assets and current liabilities, which are subject to certain minimum working capital contribution requirements under the Transaction Agreement. Such minimum working capital contribution calculations are subject to review and adjustment in order to determine final settlement. In addition, certain inventories are considered provisional until the Company has completed physical inventory counts at each warehouse.

The following table summarizes the fair value of the consideration transferred in the OneStim Acquisition and the preliminary allocation of the purchase price to the fair value of the assets acquired and liabilities assumed as of December 31, 2020, the date of the closing of the OneStim Acquisition:

(\$ in thousands)

**Total Purchase Consideration:**

|   |    |                |
|---|----|----------------|
| Consideration   | \$ | 683,822        |
| Accounts receivable and unbilled revenue  | \$ | 128,602        |
| Inventories   |    | 33,245         |
| Prepaid and other current assets  |    | 30,859         |
| Property and equipment (1)  |    | 559,716        |
| Intangible assets (included in other assets in the accompanying consolidated balance sheet as of December 31, 2020) (2) |    | 54,000         |
| Total identifiable assets acquired  |    | <u>806,422</u> |
| Accounts payable  |    | 75,522         |
| Accrued liabilities   |    | 47,078         |
| Total liabilities assumed   |    | <u>122,600</u> |
| Total purchase consideration  | \$ | <u>683,822</u> |

- (1) Useful lives ranging from two to greater than 25 years, see Note 5—Property and Equipment  
(2) Definite lived intangibles with an average amortization period of five years

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**Notes to Consolidated and Combined Financial Statements**

Transaction costs, costs associated with issuing additional equity and integration costs were recognized separately from the acquisition of assets and assumptions of liabilities in the OneStim Acquisition. Transaction costs consist of legal and professional fees and pre-merger notification fees. Equity offering costs consist of expenses incurred related to the Special Meeting of Stockholders, including the costs to prepare the required filings associated with such meeting, held on November 3, 2020. Integration costs consist of expenses incurred to integrate OneStim’s operations, aligning accounting processes and procedures, and integrating its enterprise resource planning system with those of the Company. Merger and integration costs are expensed as incurred, and equity offering costs were recorded as a reduction to additional paid in capital.

Transaction costs were \$8.5 million, for the year ended December 31, 2020 and are recorded as a component of transaction, severance and other costs in the accompanying consolidated statements of operations. Equity offering costs totaled \$1.6 million for the year ended December 31, 2020 and are recorded as a reduction to additional paid in capital in the accompanying consolidated balance sheets.

The following combined pro forma information assumes the OneStim Acquisition occurred on January 1, 2020. The pro forma information presented below is for illustrative purposes only and does not reflect future events that occurred after December 31, 2020 or any operating efficiencies or inefficiencies that may result from the OneStim Acquisition. Additionally, the pro forma information excludes acquisition related costs incurred by the Company of approximately \$8.5 million for the year ended December 31, 2020. The information is not necessarily indicative of results that would have been achieved had the Company controlled OneStim during the periods presented.

|  | <b>Years ended December 31,</b> |                     |
|--|---------------------------------|---------------------|
|  | <b>2020</b>                     | <b>2019</b>         |
| (unaudited, in thousands)  |                                 |                     |
| Revenue  | \$ 2,191,894                    | \$ 5,174,346        |
| Net loss   | (1,052,807)                     | (1,074,735)         |
| Less: Net loss attributable to non-controlling interests                               | (196,020)                       | (285,178)           |
| Net loss attributable to Liberty Oilfield Services Inc. stockholders                   | <u>\$ (856,787)</u>             | <u>\$ (789,557)</u> |
| Net loss attributable to Liberty Oilfield Services Inc. stockholders per common share: |                                 |                     |
| Basic  | \$ (5.65)                       | \$ (5.69)           |
| Diluted  | \$ (5.65)                       | \$ (5.69)           |
| Weighted average common shares outstanding:  |                                 |                     |
| Basic  | 151,568                         | 138,660             |
| Diluted  | 151,568                         | 138,660             |

The Company’s consolidated statements of operations for the year ended December 31, 2020 does not include any results from OneStim operations as the OneStim Acquisition closed on December 31, 2020.



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**Note 4—Inventories**

Inventories consist of the following:

| (\$ in thousands) | December 31,      |                  |
|-------------------|-------------------|------------------|
|                   | 2020              | 2019             |
| Proppants         | \$ 13,658         | \$ 14,013        |
| Chemicals         | 16,434            | 10,076           |
| Maintenance parts | 88,476            | 64,458           |
|                   | <u>\$ 118,568</u> | <u>\$ 88,547</u> |

During the years ended December 31, 2020 and December 31, 2019, the lower of cost or net realizable value analysis resulted in the Company recording a write-down to inventory carrying values of \$1.1 million and \$2.0 million, respectively, included as a component in cost of services in the consolidated statements of operations.

**Note 5—Property and Equipment**

Property and equipment consist of the following:

| (\$ in thousands)                              | Estimated<br>useful lives<br>(in years) | December 31,        |                   |
|--|---|---------------------|-------------------|
|  |   | 2020                | 2019              |
| Land   | N/A                                     | \$ 38,346           | \$ 5,400          |
| Field services equipment                       | 2-7                                     | 1,249,933           | 978,418           |
| Vehicles                                       | 4-7                                     | 59,741              | 60,290            |
| Buildings and facilities                       | 5-30                                    | 156,109             | 29,930            |
| Mineral reserves                               | >25                                     | 78,793              | —                 |
| Office equipment and furniture                 | 2-7                                     | 6,840               | 6,623             |
|  |   | <u>1,589,762</u>    | <u>1,080,661</u>  |
| Less accumulated depreciation and amortization |   | <u>(622,530)</u>    | <u>(455,687)</u>  |
|  |   | 967,232             | 624,974           |
| Construction in-progress                       | N/A                                     | 153,718             | 26,729            |
|  |   | <u>\$ 1,120,950</u> | <u>\$ 651,703</u> |

During the years ended December 31, 2020, 2019 and 2018, the Company recognized depreciation expense of \$169.9 million, \$153.6 million and \$124.9 million respectively.

During the year ended December 31, 2020, as a result of negative market indicators including the COVID-19 pandemic, the increased supply of low-priced oil, and customer cancellations, the Company concluded these triggering events could indicate possible impairment of property and equipment. The Company performed a quantitative and qualitative impairment analysis and determined that no impairment had occurred as of March 31, 2020. As of December 31, 2020, the Company concluded that no additional triggering events occurred and the conclusion reached at March 31, 2020 is still appropriate. Such analysis required management to make estimates and assumptions based on historical data and consideration of future market conditions. Given the uncertainty inherent in any projection, heightened by the possibility of unforeseen additional effects of COVID-19, actual results may differ from the estimates and assumptions used, or conditions may change, which could result in impairment charges in the future.

In November 2018, one of the Company's hydraulic frac fleets was involved in an accidental fire, which resulted in damage to a portion of the equipment in that fleet. The Company accrued \$15.7 million of insurance proceeds for replacement cost of the damaged equipment, which is presented in prepaid and other current assets on the accompanying consolidated balance sheets as of December 31, 2018. The accrued insurance proceeds offset the \$4.3 million loss recognized on the damaged equipment. The resulting net gain of \$11.5 million was recognized in (gain) loss on disposal of assets for the year ended December 31, 2018.

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**Note 6—Leases**

The Company has operating and finance leases primarily for vehicles, equipment, railcars, office space, and facilities. The terms and conditions for these leases vary by the type of underlying asset.

Certain leases include variable lease payments for items such as property taxes, insurance, maintenance, and other operating expenses associated with leased assets. Payments that vary based on an index or rate are included in the measurement of lease assets and liabilities at the rate as of the commencement date. All other variable lease payments are excluded from the measurement of lease assets and liabilities, and are recognized in the period in which the obligation for those payments is incurred.

The components of lease expense for the years ended as of December 31, 2020, and 2019 were as follows:

| (\$ in thousands)                   | 2020      | 2019      |
|-------------------------------------|-----------|-----------|
| Finance lease cost:                 |           |           |
| Amortization of right-of-use assets | \$ 8,115  | \$ 10,256 |
| Interest on lease liabilities       | 1,770     | 2,652     |
| Operating lease cost                | 25,817    | 20,731    |
| Variable lease cost                 | 2,935     | 3,118     |
| Sublease (income)                   | (113)     | —         |
| Total lease cost, net               | \$ 38,524 | \$ 36,757 |

In accordance with prior guidance, ASC 840, *Leases*, total rent expense was \$40.9 million for the year ended December 31, 2018.

Supplemental cash flow and other information related to leases as of December 31, 2020 and 2019 were as follows:

| (\$ in thousands)  | 2020      | 2019      |
|--|-----------|-----------|
| Cash paid for amounts included in measurement of liabilities:                                    |           |           |
| Operating leases   | \$ 23,612 | \$ 20,849 |
| Finance leases   | 13,433    | 14,795    |
| Right-of-use assets upon adoption of ASC 842 and obtained in exchange for new lease liabilities: |           |           |
| Operating leases   | 29,663    | 70,611    |
| Finance leases   | 10,921    | 65,333    |

During the year ended December 31, 2020, the Company amended certain finance leases, the change in terms of which caused the leases to be reclassified to operating leases. In connection with the amendments, the Company wrote-off finance lease right-of-use assets and liabilities of \$22.5 million and \$19.0 million, respectively, and recognized operating lease right-of-use assets and liabilities of \$18.6 million and \$15.1 million, respectively. There was no gain or loss recognized as a result of these amendments.

Lease terms and discount rates as of December 31, 2020 and 2019 were as follows:

|  | December 31,<br>2020 | December 31,<br>2019 |
|--|----------------------|----------------------|
| Weighted-average remaining lease term: |                      |                      |
| Operating leases                       | 5.9 years            | 6.4 years            |
| Finance leases                         | 1.5 years            | 1.3 years            |
| Weighted-average discount rate:        |                      |                      |
| Operating leases                       | 4.8 %                | 5.4 %                |
| Finance leases                         | 5.8 %                | 5.2 %                |

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Future minimum lease commitments as of December 31, 2020 are as follows:

| (\$ in thousands)     | <u>Finance</u>   | <u>Operating</u> |
|-----------------------|------------------|------------------|
| 2021                  | \$ 21,270        | \$ 26,546        |
| 2022                  | 8,298            | 18,773           |
| 2023                  | 4,163            | 8,424            |
| 2024                  | —                | 5,750            |
| 2025                  | —                | 4,155            |
| Thereafter            | —                | 21,980           |
| Total lease payments  | <u>33,731</u>    | <u>85,628</u>    |
| Less imputed interest | (1,833)          | (11,717)         |
| Total                 | <u>\$ 31,898</u> | <u>\$ 73,911</u> |

The Company's vehicle leases typically include a residual value guarantee. For the Company's vehicle leases classified as operating leases, the total residual value guaranteed as of December 31, 2020 is \$8.7 million; the payment is not probable and therefore has not been included in the measurement of the lease liability and right-of-use asset. For vehicle leases that are classified as finance leases, the Company includes the residual value guarantee, estimated in the lease agreement, in the financing lease liability.

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**Note 7—Debt**

Debt consists of the following:

|   | <b>December 31,</b> |                   |
|---|---------------------|-------------------|
|   | <b>2020</b>         | <b>2019</b>       |
| Term Loan Outstanding   | \$ 108,215          | \$ 109,966        |
| Revolving Line of Credit  | —                   | —                 |
| Deferred financing costs and original issue discount                    | (2,440)             | (3,826)           |
| Total debt, net of deferred financing costs and original issue discount | <u>\$ 105,775</u>   | <u>\$ 106,140</u> |
| Current portion of long-term debt, net of discount                      | \$ 364              | \$ 409            |
| Long-term debt, net of discount and current portion                     | 105,411             | 105,731           |
|   | <u>\$ 105,775</u>   | <u>\$ 106,140</u> |

On September 19, 2017, the Company entered into two new credit agreements for a revolving line of credit up to \$250.0 million (the “ABL Facility”) and a \$175.0 million term loan (the “Term Loan Facility”, and together with the ABL Facility the “Credit Facilities”).

***ABL Facility***

Under the terms of the ABL Facility, up to \$250.0 million may be borrowed, subject to certain borrowing base limitations based on a percentage of eligible accounts receivable and inventory. On May 29, 2020 the Company amended the ABL Facility to allow accounts receivables that are more than 90 but less than 120 days past their original invoice date to be included in the determination of eligible accounts receivables, up to a limit of \$37.5 million when combined with receivables that are more than 60 but less than 90 days past their due date to be included in the borrowing base. The expanded borrowing base terms were in effect from May 1, 2020 through December 31, 2020.

As of December 31, 2020, the borrowing base was calculated to be \$115.1 million, and the Company had no borrowings outstanding, except for a letter of credit in the amount of \$0.8 million, with \$114.3 million of remaining availability. Borrowings under the ABL Facility bear interest at LIBOR or a base rate, plus an applicable LIBOR margin of 1.5% to 2.0% or base rate margin of 0.5% to 1.0%, as defined in the ABL Facility credit agreement. The unused commitment is subject to an unused commitment fee of 0.375% to 0.5%. Interest and fees are payable in arrears at the end of each month, or, in the case of LIBOR loans, at the end of each interest period. The ABL Facility matures on the earlier of (i) September 19, 2022, and (ii) to the extent the debt under the Term Loan Facility remains outstanding, 90 days prior to the final maturity of the Term Loan Facility, which matures on September 19, 2022. Borrowings under the ABL Facility are collateralized by accounts receivable and inventory, and further secured by the Company, Liberty LLC and R/C IV Non-U.S. LOS Corp., a Delaware corporation and a subsidiary of the Company, as parent guarantors.

***Term Loan Facility***

The Term Loan Facility provides for a \$175.0 million term loan, of which \$108.2 million remained outstanding as of December 31, 2020. Amounts outstanding bear interest at LIBOR or a base rate, plus an applicable margin of 7.625% or 6.625%, respectively, and the weighted average rate on borrowings was 8.6% as of December 31, 2020. The Company is required to make quarterly principal payments of 1% per annum of the outstanding principal balance, commencing on December 31, 2017, with final payment due at maturity on September 19, 2022. The Term Loan Facility is collateralized by the fixed assets of LOS and its subsidiaries, and is further secured by the Company, Liberty LLC and R/C IV Non-U.S. LOS Corp., a Delaware corporation and a subsidiary of the Company, as parent guarantors.

The Credit Facilities include certain non-financial covenants, including but not limited to restrictions on incurring additional debt and certain distributions. Moreover, the ability of the Company to incur additional debt and to make distributions is dependent on maintaining a maximum leverage ratio. The Term Loan Facility requires mandatory prepayments upon certain dispositions of property or issuance of other indebtedness, as defined, and annually a percentage of excess cash flow (25% to 50%, depending on leverage ratio, of consolidated net income less capital expenditures and other permitted payments, commencing with the year ending December 31, 2018). Certain mandatory prepayments and optional prepayments are subject to a prepayment premium of 3% of the prepaid principal declining annually to 1% during the first three years of the term of the Term Loan Facility.

The Credit Facilities are not subject to financial covenants unless liquidity, as defined in the respective credit agreements, drops below a specified level. Under the ABL Facility, the Company is required to maintain a minimum fixed charge coverage ratio, as defined in the credit agreement governing the ABL Facility, of 1.0 to 1.0 for each period if excess availability is less

**LIBERTY OILFIELD SERVICES INC.**  
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than 10% of the borrowing base or \$12.5 million, whichever is greater. Under the Term Loan Facility, the Company is required to maintain a minimum fixed charge coverage ratio, as defined, of 1.2 to 1.0 for each trailing twelve-month period if the Company's liquidity, as defined, is less than \$25.0 million for at least five consecutive business days.

The Company was in compliance with these covenants as of December 31, 2020.

Maturities of debt are as follows:

**(\$ in thousands)**

Years Ending December 31,

|      |                   |
|------|-------------------|
| 2021 | \$ 1,750          |
| 2022 | 106,465           |
| 2023 | —                 |
| 2024 | —                 |
| 2025 | —                 |
|      | <u>\$ 108,215</u> |



**Note 8—Fair Value Measurements and Financial Instruments**

The fair values of the Company's assets and liabilities represent the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction at the reporting date. These fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Company's own judgments about the assumptions that market participants would use in pricing the asset or liability. The Company discloses the fair values of its assets and liabilities according to the quality of valuation inputs under the following hierarchy:

- Level 1 Inputs: Quoted prices (unadjusted) in an active market for identical assets or liabilities.
- Level 2 Inputs: Inputs other than quoted prices that are directly or indirectly observable.
- Level 3 Inputs: Unobservable inputs that are significant to the fair value of assets or liabilities.

The classification of an asset or liability is based on the lowest level of input significant to its fair value. Those that are initially classified as Level 3 are subsequently reported as Level 2 when the fair value derived from unobservable inputs is inconsequential to the overall fair value, or if corroborated market data becomes available. Assets and liabilities that are initially reported as Level 2 are subsequently reported as Level 3 if corroborated market data is no longer available. Transfers occur at the end of the reporting period. There were no transfers into or out of Levels 1, 2 and 3 during the years ended December 31, 2020 and 2019.

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, notes receivable, accounts payable, accrued liabilities, long-term debt, and finance and operating lease obligations. These financial instruments do not require disclosure by level. The carrying values of all the Company's financial instruments included in the accompanying balance sheets approximated or equaled their fair values at December 31, 2020 and 2019.

- The carrying values of cash and cash equivalents, accounts receivable and accounts payable (including accrued liabilities) approximated fair value at December 31, 2020 and 2019, due to their short-term nature.
- The carrying value of amounts outstanding under long-term debt agreements with variable rates approximated fair value at December 31, 2020 and 2019, as the effective interest rates approximated market rates.

***Nonrecurring Measurements***

Certain assets and liabilities are measured at fair value on a nonrecurring basis. These items are not measured at fair value on an ongoing basis but may be subject to fair value adjustments in certain circumstances. These assets and liabilities include those acquired through the OneStim Acquisition, which are required to be measured at fair value on the acquisition date in accordance with *ASC Topic 805*. See Note 3—The OneStim Acquisition.

Other assets measured at fair value on a nonrecurring basis consist of notes receivable—related party from the Affiliate, as defined and described in Note 13—Related Party Transactions. The note was initially recorded for the trade receivables, created in the normal course of business, due from the Affiliate as of the Agreement Date, as defined in Note 13—Related Party Transactions. There were no identified events or changes in circumstances that had a significant adverse effect on the fair value of the notes receivable. These notes are classified as Level 3 in the fair value hierarchy as the inputs to the determination of fair value are based upon unobservable inputs. As of December 31, 2020 and December 31, 2019, notes receivable—related party from the Affiliate totaled \$0 and \$2.5 million, respectively.

***Recurring Measurements***

The fair values of the Company's cash equivalents measured on a recurring basis pursuant to *ASC 820-10 Fair Value Measurements and Disclosures* are carried at estimated fair value. Cash equivalents consist of money market accounts which the Company has classified as Level 1 given the active market for these accounts. As of December 31, 2020 and 2019, the Company had cash equivalents, measured at fair value, of \$21.3 million and \$86.9 million, respectively.

***Nonfinancial assets***

The Company estimates fair value to perform impairment tests as required on long-lived assets. The inputs used to determine such fair value are primarily based upon internally developed cash flow models and would generally be classified within Level 3 in the event that such assets were required to be measured and recorded at fair value within the consolidated

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financial statements. Although a triggering event occurred during the year ended December 31, 2020 (see Note 5—Property and Equipment), no such measurements were required as of December 31, 2020 and 2019.

**Credit Risk**

The Company’s financial instruments exposed to concentrations of credit risk consist primarily of cash and cash equivalents, and trade receivables.

The Company’s cash and cash equivalents balance on deposit with financial institutions total \$69.0 million and \$112.7 million as of December 31, 2020 and 2019, respectively, which, as of certain dates, exceeded FDIC insured limits. The Company regularly monitors these institutions’ financial condition.

The majority of the Company’s customers have payment terms of 45 days or less. The Company mitigates the associated credit risk by performing credit evaluations and monitoring the payment patterns of its customers. Concentrations of receivables and revenues were as follows:

|            | Portion of total of consolidated accounts<br>receivable and unbilled revenue as of<br>December 31, |      | Portion of consolidated revenues for the year ended<br>December 31, |      |      |
|------------|--|------|---|------|------|
|            | 2020   | 2019 | 2020  | 2019 | 2018 |
| Customer A | 11 %   | — %  | 12 %  | — %  | — %  |
| Customer B | 11 %   | — %  | 11 %  | — %  | — %  |
| Customer C | — %  | 12 % | 10 %  | — %  | — %  |
| Customer D | — %  | — %  | 10 %  | — %  | — %  |
| Customer E | — %  | — %  | — %   | — %  | 11 % |

As of December 31, 2020, the Company had \$0.8 million in allowance for credit losses. Subsequent to the adoption of ASU 2016-13 (see “Credit Losses” within Note 2—Significant Accounting Policies—*Recently Adopted Accounting Standards*) on January 1, 2020, the Company recognized a \$4.9 million allowance for credit losses, to the Company’s accounts receivables in consideration of both historic collection experience and the expected impact of deteriorating economic conditions for the oil and gas industry at the time, and one customer that entered bankruptcy proceedings during the year.

The Company applied historic loss factors to its receivable portfolio segments that were not expected to be further impacted by current economic developments, and an additional economic conditions factor to portfolio segments anticipated to experience greater losses in the current economic environment. While the Company has not experienced significant credit losses in the past and did not see during 2020 material changes to the payment patterns of its customers, the Company cannot predict with any certainty the degree to which the ongoing impacts of COVID-19, including the potential impact of periodically adjusted borrowing base limits, level of hedged production, or unforeseen well shut-ins may affect the ability of its customers to timely pay receivables when due. Accordingly, in future periods, the Company may revise its estimates of expected credit losses.

As of December 31, 2019, the Company recorded a provision related to one specific entity engaged in the business of oil and gas exploration and production that had filed for bankruptcy. As of December 31, 2018 the Company had no provision for credit losses.

| (\$ in thousands)                              | 2020     | 2019     | 2018 |
|--|----------|----------|------|
| Allowance for credit losses, beginning of year | \$ 1,053 | \$ —     | \$ — |
| Credit losses:                                 |          |          |      |
| Current period provision                       | 4,877    | 1,053    | —    |
| Amounts written off, net of recoveries         | (5,157)  | —        | —    |
| Allowance for credit losses, end of year       | \$ 773   | \$ 1,053 | \$ — |

**Note 9—Equity**

***Preferred Stock***

As of December 31, 2020 and 2019 the Company had 10,000 shares of preferred stock authorized, par value \$0.01, with none issued and outstanding. If issued, each class or series of preferred stock will cover the number of shares and will have the powers, preferences, rights, qualifications, limitations and restrictions determined by the Company's board of directors, which may include, among others, dividend rights, liquidation preferences, voting rights, conversion rights, preemptive rights and redemption rights. Except as provided by law or in a preferred stock designation, the holders of preferred stock will not be entitled to vote at or receive notice of any meeting of shareholders.

***Class A Common Stock***

The Company had a total of 157,952,213 shares of Class A Common Stock outstanding as of December 31, 2020, none of which were restricted. As of December 31, 2019, the Company had a total of 81,885,384 shares of Class A Common Stock outstanding, which included 268,205 shares of restricted stock. Holders of Class A Common Stock are entitled to one vote per share on all matters to be voted upon by the stockholders and are entitled to ratably receive dividends when and if declared by the Company's board of directors.

***Class B Common Stock***

The Company had a total of 21,550,282 and 30,638,960 shares of Class B Common Stock outstanding as of December 31, 2020 and 2019, respectively. Holders of the Class B Common Stock are entitled to one vote per share on all matters to be voted upon by stockholders. Holders of Class A Common Stock and Class B Common Stock vote together as a single class on all matters presented to the Company's stockholders for their vote or approval, except with respect to amendment of certain provisions of the Company's certificate of incorporation that would alter or change the powers, preferences or special rights of the Class B Common Stock so as to affect them adversely, which amendments must be by a majority of the votes entitled to be cast by the holders of the shares affected by the amendment, voting as a separate class, or as otherwise required by applicable law.

Holders of Class B Common Stock do not have any right to receive dividends, unless the dividend consists of shares of Class B Common Stock or of rights, options, warrants or other securities convertible or exercisable into or exchangeable for shares of Class B Common Stock paid proportionally with respect to each outstanding share of Class B Common Stock and a dividend consisting of shares of Class A Common Stock or of rights, options, warrants or other securities convertible or exercisable into or exchangeable for shares of Class A Common Stock on the same terms is simultaneously paid to the holders of Class A Common Stock. Holders of Class B Common Stock do not have any right to receive a distribution upon liquidation or winding up of the Company.

Under the Second Amended and Restated Limited Liability Company Agreement of Liberty LLC (the "Liberty LLC Agreement"), each Liberty Unit Holder has, subject to certain limitations, the Redemption Right, which allows it to cause Liberty LLC to acquire all or a portion of its Liberty LLC Units, for, at Liberty LLC's election, (i) shares of Class A Common Stock at a redemption ratio of one share of Class A Common Stock for each Liberty LLC Unit redeemed, subject to conversion rate adjustments for stock splits, stock dividends and reclassification and other similar transactions or (ii) an equivalent amount of cash. Alternatively, upon the exercise of the Redemption Right, the Company (instead of Liberty LLC) will have the Call Right, which allows it to, for administrative convenience, acquire each tendered Liberty LLC Unit directly from the redeeming Liberty Unit Holder for, at its election, (x) one share of Class A Common Stock or (y) an equivalent amount of cash. In addition, upon a change of control of the Company, the Company has the right to require each holder of Liberty LLC Units (other than the Company) to exercise its Redemption Right with respect to some or all of such unitholder's Liberty LLC Units. In connection with any redemption of Liberty LLC Units pursuant to the Redemption Right or the Call Right, the corresponding number of shares of Class B Common Stock will be canceled.

***Unit-Based Compensation***

Prior to the IPO and Corporate Reorganization, Liberty Holdings issued Class B units of Liberty Holdings ("Legacy Units") to certain eligible employees of the Company. The Legacy Units were non-voting, except with respect to such matters that units are entitled to vote as a matter of law. In such cases, each Legacy Unit entitled the holder to 1/1000<sup>th</sup> of one vote. Certain Legacy Units granted to eligible participants had an assigned benchmark value and were subject to vesting in accordance with the terms of each award letter. Upon termination of the holder's employment for any reason, Liberty Holdings had the right, but not the obligation, to repurchase from the recipient those vested Legacy Units at fair value.

The Company recognizes compensation expense for equity-based Legacy Units issued to employees based on the grant-date fair value of the awards and each award's requisite service period. With the assistance from a third-party valuation expert, the Predecessor determined that the Legacy Units issued to employees were deemed to have a de minimis grant-date fair value

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based on their assigned benchmark values. In connection with the Corporate Reorganization, the unvested Legacy Units were exchanged for 1,258,514 shares of restricted stock with the same terms and requisite vesting conditions as the Legacy Units. All shares of restricted stock were vested as of December 31, 2020.

***Restricted Stock Awards***

Restricted stock awards are awards of Class A Common Stock that are subject to restrictions on transfer and to a risk of forfeitures if the award recipient is no longer an employee or director of the Company for any reason prior to the lapse of the restrictions.

The following table summarizes the Company's unvested restricted stock activity for the year ended December 31, 2020:

|   | <u>Number of Shares</u> | <u>Grant Date Fair Value per Share<sup>(1)</sup></u> |
|---|-------------------------|--|
| Restricted Shares as of December 31, 2019 | 268,205                 | —  |
| Vested                                    | (263,818)               | —  |
| Forfeited                                 | (4,387)                 | —  |
| Outstanding at December 31, 2020          | —                       | \$ —   |

<sup>(1)</sup> As discussed above, the shares of restricted stock retain the grant date fair value of the Legacy Units.

***Long Term Incentive Plan***

On January 11, 2018, the Company adopted the Long Term Incentive Plan (“LTIP”) to incentivize employees, officers, directors and other service providers of the Company and its affiliates. The LTIP provides for the grant, from time to time, at the discretion of the Company's board of directors or a committee thereof, of stock options, stock appreciation rights, restricted stock, restricted stock units, stock awards, dividend equivalents, other stock-based awards, cash awards, substitute awards and performance awards. Subject to adjustment in the event of certain transaction or changes of capitalization in accordance with the LTIP, 12,908,734 shares of Class A Common Stock have been reserved for issuance pursuant to awards under the LTIP. Class A Common stock subject to an award that expires or is canceled, forfeited, exchanged, settled in cash or otherwise terminated without delivery of shares and shares withheld to pay the exercise price of, or to satisfy the withholding obligations with respect to, an award will again be available for delivery pursuant to other awards under the LTIP.

***Restricted Stock Units***

Restricted stock units (“RSUs”) granted pursuant to the LTIP, if they vest, will be settled in shares of the Company's Class A Common Stock. RSUs were granted with vesting terms up to five years. Changes in non-vested RSUs outstanding under the LTIP during the year ended December 31, 2020 were as follows:

|                                    | <u>Number of Units</u> | <u>Weighted Average Grant Date Fair Value per Unit</u> |
|------------------------------------|------------------------|--|
| Non-vested as of December 31, 2019 | 1,734,535              | \$ 16.97   |
| Granted                            | 1,449,329              | 7.72   |
| Vested                             | (935,124)              | 17.15  |
| Forfeited                          | (65,706)               | 11.93  |
| Outstanding at December 31, 2020   | 2,183,034              | \$ 10.90   |

***Performance Restricted Stock Units***

Performance restricted stock units (“PSUs”) granted pursuant to the LTIP, if they vest, will be settled in shares of the Company's Class A Common Stock. PSUs were granted with a three year cliff vesting schedule, subject to a performance target compared to an index of competitors' results over a three year period as designated in the award. The Company records compensation expense based on the Company's best estimate of the number of PSUs that will vest at the end of the performance period. If such performance targets are not met, or are not expected to be met, no compensation expense is recognized and any recognized compensation expense is reversed. Changes in non-vested PSUs outstanding under the LTIP during the year ended December 31, 2020 were as follows:

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|                                    | <b>Number of Units</b> | <b>Weighted Average<br/>Grant Date Fair<br/>Value per Unit</b> |
|------------------------------------|------------------------|--|
| Non-vested as of December 31, 2019 | 329,277                | \$ 14.93   |
| Granted                            | 392,948                | 9.62   |
| Vested                             | —                      | —  |
| Forfeited                          | —                      | —  |
| Outstanding at December 31, 2020   | 722,225                | \$ 12.04   |

Stock-based compensation is included in cost of services and general and administrative expenses in the Company's consolidated and combined statements of operations. The Company recognized stock based compensation expense of \$17.1 million for the year ended December 31, 2020 and \$13.6 million for the year ended December 31, 2019. There was approximately \$18.9 million of unrecognized compensation expense relating to outstanding RSUs and PSUs as of December 31, 2020. The unrecognized compensation expense will be recognized on a straight-line basis over the weighted average remaining vesting period of 2 years.

***Dividends***

On April 2, 2020, the Company suspended future quarterly dividends until business conditions warrant reinstatement.

The Company paid cash dividends of \$0.05 per share of Class A Common Stock on March 20, 2020 to stockholders of record as of March 6, 2020. Liberty LLC paid a distribution of total of \$5.6 million, or \$0.05 per Liberty LLC Unit, to all Liberty LLC unit holders during the year ended December 31, 2020, of which \$4.1 million was paid to the Company. The Company used the proceeds of the distribution to pay the dividend to all holders of shares of Class A Common Stock as of March 6, 2020, which totaled \$4.1 million. For the year ended December 31, 2019, Liberty LLC paid quarterly distributions for a total of \$22.5 million, or \$0.05 per Liberty LLC Unit, to all Liberty LLC unit holders, of which \$14.7 million was paid to the Company. The Company used the proceeds of the distributions to pay quarterly dividends to all holders of Class A Common Stock, which totaled \$14.7 million. Additionally, as of December 31, 2020 and December 31, 2019, the Company had \$0.4 million and \$0.5 million of accrued dividends payable related to restricted stock and RSUs to be paid upon vesting, respectively. Dividends related to forfeited restricted stock and RSUs will be forfeited.

***Share Repurchase Program***

On September 10, 2018 the Company's board of directors authorized a share repurchase plan to repurchase up to \$100.0 million of the Company's Class A Common Stock through September 30, 2019. On January 22, 2019, the Company's board of directors authorized an additional \$100.0 million under the share repurchase plan through January 31, 2021.

During the year ended December 31, 2020, no shares were repurchased under the share repurchase program. During the year ended December 31, 2019, Liberty LLC redeemed and retired 1,303,003 Liberty LLC Units from the Company for \$18.4 million, and the Company repurchased and retired 1,303,003 shares of Class A Common Stock for \$18.4 million, or \$14.66 average price per share.

The repurchase in January 2019 completed the share repurchase amount authorized on September 10, 2018. During the year ended December 31, 2019, of the total amount of Class A Common Stock repurchased, 117,647 shares were repurchased from R/C Energy IV Direct Partnership, L.P., R/C IV Liberty Holdings, L.P., and Riverstone/Carlyle Energy Partners IV, L.P. ("R/C" and collectively, the "Riverstone Sellers"). During the year ended December 31, 2018, of the total amount of Class A Common Stock repurchased, 2,491,160 shares were repurchased pursuant to a Stock Purchase and Sale Agreement, dated as of September 14, 2018, by the Riverstone Sellers. For further details of this related party transaction, see Note 13—Related Party Transactions.

As of December 31, 2020 and 2019, \$98.7 million remained authorized for future repurchases of Class A Common Stock under the share repurchase program, respectively. Following the expiration of the most recent authorization on January 31, 2021, no amounts remain authorized under the share repurchase plan.

The Company accounts for the purchase price of repurchased common shares in excess of par value (\$0.01 per share of Class A Common Stock) as a reduction of additional paid-in capital, and will continue to do so until additional paid-in capital is reduced to zero. Thereafter, any excess purchase price will be recorded as a reduction to retained earnings.

**Note 10—Net (Loss) Income per Share**

Basic net (loss) income per share measures the performance of an entity over the reporting period. Diluted net (loss) income per share measures the performance of an entity over the reporting period while giving effect to all potentially dilutive common shares that were outstanding during the period. The Company uses the “if-converted” method to determine the potential dilutive effect of its Class B Common Stock and the treasury stock method to determine the potential dilutive effect of outstanding restricted stock and RSUs.

The following table reflects the allocation of net (loss) income to common stockholders and net (loss) income per share computations for the periods indicated based on a weighted average number of common stock outstanding:

| (In thousands, except per share data)   | <u>Year Ended<br/>December 31, 2020</u> | <u>Year Ended<br/>December 31, 2019</u> |
|---|---|---|
| <b>Basic Net (Loss) Income Per Share</b>  |   |   |
| <b>Numerator:</b>   |   |   |
| Net (loss) income attributable to Liberty Oilfield Services Inc. Stockholders                   | \$ (115,583)                            | \$ 39,003                               |
| <b>Denominator:</b>   |   |   |
| Basic weighted average shares outstanding   | 85,242                                  | 72,334                                  |
| Basic net (loss) income per share attributable to Liberty Oilfield Services Inc. Stockholders   | \$ (1.36)                               | \$ 0.54                                 |
| <b>Diluted Net (Loss) Income Per Share</b>  |   |   |
| <b>Numerator:</b>   |   |   |
| Net (loss) income attributable to Liberty Oilfield Services Inc. Stockholders                   | \$ (115,583)                            | \$ 39,003                               |
| Effect of exchange of the shares of Class B Common stock for shares of Class A Common Stock     | —                                       | 16,521                                  |
| Diluted net (loss) income attributable to Liberty Oilfield Services Inc. Stockholders           | \$ (115,583)                            | \$ 55,524                               |
| <b>Denominator:</b>   |   |   |
| Basic weighted average shares outstanding   | 85,242                                  | 72,334                                  |
| Effect of dilutive securities:  |   |   |
| Restricted stock  | —                                       | 512                                     |
| Restricted stock units  | —                                       | 1,771                                   |
| Class B Common Stock  | —                                       | 30,639                                  |
| Diluted weighted average shares outstanding   | 85,242                                  | 105,256                                 |
| Diluted net (loss) income per share attributable to Liberty Oilfield Services Inc. Stockholders | \$ (1.36)                               | \$ 0.53                                 |

Diluted weighted average common shares outstanding for the year ended December 31, 2020 exclude 27,427 weighted average shares of Class B Common Stock, 207 weighted average shares of restricted stock, and 2,460 weighted average shares of restricted stock units. Diluted weighted average common shares outstanding for the year ended December 31, 2019 exclude 9,057 weighted average shares of Class B Common Stock exchanged during the period (share counts presented in 000's).

**Note 11—Income Taxes**

Prior to the IPO, the Predecessor was treated as a partnership for U.S. federal, state and local income tax purposes. As such, any liability for federal income tax was the responsibility of the members of the Predecessor. Accordingly, no provision for U.S. federal, state and local income tax has been provided in the combined financial statements of the Company for periods ending prior to the IPO.

Following the IPO, the Company is a corporation and is subject to U.S. federal, state and local income tax on its share of Liberty LLC's taxable income. Liberty LLC is treated as a partnership, and its income is passed through to its owners, for income tax purposes. Liberty LLC's members, including the Company, are liable for federal, state and local income taxes based on their share of Liberty LLC's pass-through taxable income. As of December 31, 2020, tax reporting by the Company's Predecessor for the years ended December 31, 2017 and 2018 is subject to examination by the tax authorities. With few exceptions, as of December 31, 2020, the Company is no longer subject to U.S. federal, state or local examinations by tax authorities for tax years ended before December 31, 2017.



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Income tax (benefit) expense reflected in the consolidated statement of operations consisted of:

| (\$ in thousands)            | <u>Year Ended<br/>December 31, 2020</u> | <u>Year Ended<br/>December 31, 2019</u> | <u>Year Ended<br/>December 31, 2018</u> |
|------------------------------|---|---|---|
| Current:                     |   |   |   |
| Federal                      | \$ (5,541)                              | \$ (9,907)                              | \$ 16,684                               |
| State                        | 230                                     | 551                                     | 3,213                                   |
| Total Current                | <u>\$ (5,311)</u>                       | <u>\$ (9,356)</u>                       | <u>19,897</u>                           |
| Deferred:                    |   |   |   |
| Federal                      | (23,103)                                | 23,419                                  | 19,063                                  |
| State                        | (2,443)                                 | (11)                                    | 1,425                                   |
| Total Deferred               | <u>\$ (25,546)</u>                      | <u>\$ 23,408</u>                        | <u>20,488</u>                           |
| Income tax (benefit) expense | <u>\$ (30,857)</u>                      | <u>\$ 14,052</u>                        | <u>40,385</u>                           |

A reconciliation of the statutory U.S. federal income tax rate of 21.0% to the Company's effective income tax rate is as follows:

| (\$ in thousands)  | <u>Year Ended<br/>December 31, 2020</u> | <u>Year Ended<br/>December 31, 2019</u> | <u>Year Ended<br/>December 31, 2018</u> |
|--|---|---|---|
| Federal income tax (benefit) expense at statutory rate             | \$ (40,222)                             | \$ 18,672                               | \$ 60,778                               |
| State and local income tax (benefit) expense, net                  | (2,212)                                 | 1,525                                   | 4,456                                   |
| Pre-IPO income before income taxes attributable to the Predecessor | —                                       | —                                       | (1,958)                                 |
| Non-controlling interest   | 9,463                                   | (7,531)                                 | (24,606)                                |
| Stock Compensation   | 2,157                                   | 227                                     | —                                       |
| Other  | (43)                                    | 1,159                                   | 1,715                                   |
| Total income tax (benefit) expense                                 | <u>\$ (30,857)</u>                      | <u>\$ 14,052</u>                        | <u>\$ 40,385</u>                        |

The effective tax rate for the years ended December 31, 2020 and 2019 was 16.1% and 15.8%, respectively. The effective tax rate for the period commencing on January 17, 2018, the date of the Corporate Reorganization, through December 31, 2018 was 14.1%.

The Company recognized income tax benefit of \$30.9 million during the year ended December 31, 2020. The Company's effective tax rate is less than the statutory federal income tax rate of 21.0% because no taxes are payable by the Company for the non-controlling interest's share of Liberty LLC's pass-through income for federal, state and local income tax reporting. During 2020, the non-controlling interest effect resulted in a \$9.5 million reduction in income tax benefit.

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The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities are presented below:

| (\$ in thousands)                  | December 31, 2020 | December 31, 2019 |
|------------------------------------|-------------------|-------------------|
| Deferred tax assets:               |                   |                   |
| Federal net operating losses       | \$ 15,632         | \$ 10,486         |
| State net operating losses         | 2,697             | 925               |
| Realized tax benefit - TRAs        | 52,561            | 48,575            |
| Total deferred tax assets          | 70,890            | 59,986            |
| Deferred tax liabilities:          |                   |                   |
| Investment in Liberty LLC          | \$ (64,765)       | \$ (79,099)       |
| Other                              | (765)             | (546)             |
| Total deferred tax liabilities     | (65,530)          | (79,645)          |
| Net deferred tax asset (liability) | \$ 5,360          | \$ (19,659)       |

As of December 31, 2020, the Company had significant deferred tax assets and liabilities. The deferred tax assets include U.S. federal and state net operating losses and the step-up in basis of depreciable assets under Section 754 of the Internal Revenue Code of 1986, as amended. As a result of the IPO and Corporate Reorganization, the Company recorded a deferred tax asset and liability for the difference between the book value and the tax value of the Company's investment in Liberty LLC. The deferred tax assets have been recorded for tax attributes contributed to the Company as part of the Corporate Reorganization. Deferred tax liabilities of \$29.3 million were recorded relating to Liberty LLC Units acquired through the reorganization. The initial deferred tax liability is recorded as a long term liability and additional paid in capital on the consolidated balance sheet as of December 31, 2020.

As of December 31, 2020, the Company has available U.S. federal net operating loss carryforwards to reduce future taxable income of \$3.7 million expiring in 2027, and \$69.3 million with no expiration date. Per the Coronavirus Aid, Relief and Economic Security (“CARES”) Act enacted March 27, 2020, net operating losses (“NOL”) incurred in 2018, 2019, and 2020 may be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. The Company will apply for and expects to receive a NOL carryback refund to recover \$5.5 million of cash taxes paid by the Company in 2018. This amount has been reflected as a receivable in prepaids and other assets.

On December 31, 2020, the Company completed the OneStim Acquisition in a taxable exchange for 66,326,134 shares of Class A Common Stock. The Transferred Business was operated by a limited liability company that was treated as a disregarded entity for federal tax purposes prior to the acquisition date. Upon acquisition the fair market value of assets were recorded for federal tax purposes. Therefore, no goodwill and deferred taxes have been recorded related to the acquisition. See Note 3—The OneStim Acquisition for additional information regarding the OneStim Acquisition.

***Uncertain Tax Positions***

The Company records uncertain tax positions on the basis of a two-step process in which (1) the Company determines whether it is more likely than not the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions meeting the more likely than not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50% likely to be realized upon ultimate settlement with the related tax authority.

The Company determined that no liability for unrecognized tax benefits for uncertain tax positions was required at December 31, 2020. In addition, the Company does not believe that it has any tax positions for which it is reasonably possible that it will be required to record a significant liability for unrecognized tax benefits within the next twelve months. If the Company were to record an unrecognized tax benefit, the Company will recognize applicable interest and penalties related to income tax matters in income tax expense.

***Tax Distributions***

Liberty LLC is treated as a partnership for income tax purposes. Federal, state and local taxes resulting from the pass-through taxable income of Liberty LLC are obligations of its members. Net profits and losses are generally allocated to the members of Liberty LLC (including the Company) in accordance with the number of Liberty LLC Units held by each member

for tax purposes. The Liberty LLC Agreement provides for pro rata cash distributions, and in certain cases non-pro rata cash advances, to assist members (including the Company) in paying their income tax liabilities. The Liberty LLC Agreement requires any tax advances to be proportionally repaid in connection with any redemption of Liberty LLC Units pursuant to the Redemption Right or the Call Right. Net advances received by Liberty LLC from non-controlling interest holders were \$1.4 million and de minimis, respectively, for the years ended December 31, 2020 and 2019.

### ***Tax Receivable Agreements***

The term of each TRA commenced on January 17, 2018, and will continue until all such tax benefits that are subject to such TRA have been utilized or expired, unless the Company experiences a change of control (as defined in the TRAs, which includes certain mergers, asset sales and other forms of business combinations) or the TRAs are terminated early (at the Company's election or as a result of its breach), and the Company makes the termination payments specified in such TRA.

The amounts payable, as well as the timing of any payments, under the TRAs are dependent upon significant future events and assumptions, including the timing of the redemptions of Liberty LLC Units, the price of our Class A Common Stock at the time of each redemption, the extent to which such redemptions are taxable transactions, the amount of the redeeming unit holder's tax basis in its Liberty LLC Units at the time of the relevant redemption, the characterization of the tax basis step-up, the depreciation and amortization periods that apply to the increase in tax basis, the amount of net operating losses available to the Company as a result of the Corporate Reorganization, the amount and timing of taxable income the Company generates in the future, the U.S. federal income tax rate then applicable, and the portion of the Company's payments under the TRAs that constitute imputed interest or give rise to depreciable or amortizable tax basis.

Prior to the Corporate Reorganization, one of the Legacy Owners distributed a portion of its member interest in Liberty Holdings to R/C IV Non-U.S. LOS Corp. ("R/C IV"). Subsequently, in conjunction with the Corporate Reorganization, R/C IV was contributed to the Company. At the time of the contribution, R/C IV had net operating loss carryforwards totaling \$10.9 million for federal income tax purposes and \$10.9 million for certain state income tax purposes, which became available for the Company's use as a result of the contribution. As a result of the Company being in a net income position in 2018 and the expected utilization of deferred tax assets, the Company recognized a deferred tax asset of \$2.6 million and a corresponding \$2.3 million liability pursuant to the TRAs. Of the contributed net operating loss carryforwards, \$6.4 million for federal income tax purposes and \$6.4 million of certain state income tax purposes have been utilized. As a result, the Company has remaining \$1.5 million of deferred tax asset and a corresponding \$1.4 million liability pursuant to the TRAs.

During the year ended December 31, 2020, exchanges of Liberty LLC Units and shares of Class B Common Stock resulted in an increase of \$13.1 million in amounts payable under the TRAs, and a net increase of \$15.5 million in deferred tax assets, all of which were recorded through equity. The Company also made TRA payments of \$1.9 million and \$5.5 million, totaling \$7.4 million for the year ended December 31, 2020. The TRA payments were related to tax benefits realized in prior years and for the Company's NOL carryback of 2019 NOL to 2018 taxable income under the CARES Act.

During the year ended December 31, 2019, exchanges of Liberty LLC Units and shares of Class B Common Stock resulted in an increase of \$34.0 million in amounts payable under the TRAs, and a net increase of \$40.0 million in deferred tax assets, all of which were recorded through equity.

At December 31, 2020, the Company's liability under the TRAs was \$56.6 million, all of which is presented as a component of long term liabilities, and the related deferred tax assets totaled \$54.0 million.

### **Note 12—Defined Contribution Plan**

The Company sponsors a 401(k) defined contribution retirement plan covering eligible employees. However, effective April 1, 2020, in connection with other cost savings measures undertaken in response to declining demand for frac services as a result of the impacts of the COVID-19 pandemic, the Company suspended its 6% matching contribution. Prior to April 1, 2020, the Company made matching contributions at a rate of \$1.00 for each \$1.00 of employee contribution, subject to a cap of 6% of the employee's salary and federal limits. Contributions made by the Company were \$4.2 million, \$15.7 million, and \$13.8 million for the years ended December 31, 2020, 2019 and 2018, respectively.

Effective January 1, 2021 the Company restored its 6% matching contribution.

**Note 13—Related Party Transactions**

As of December 31, 2020 Schlumberger owns 66,326,134 shares of Class A Common Stock of the Company, or 37.0% of the issued and outstanding shares of common stock of the Company, including Class A Common Stock and Class B Common Stock. Under the Transaction agreement, to the extent the net working capital, as defined, of the Transferred Business is less than \$54.6 million, the difference shall be payable in cash to the Company. Additionally, the Company and Schlumberger agreed to an \$8.0 million true-up payment related to the estimated costs to bring certain assets to full working condition. As of December 31, 2020, the Company recorded an estimated receivable from Schlumberger of \$24.7 million related to these true-up payments. The Company collected \$8.0 million in January 2021. Additionally, in conjunction with closing the OneStim Acquisition, the Company entered into a transition services agreement with Schlumberger, under which Schlumberger will provide certain administrative transition services for a rate of approximately \$2.5 million per month, until the Company fully integrates the acquired business.

Prior to the Corporate Reorganization, one of the members of Liberty Holdings contributed a portion of its member interest in Liberty Holdings to R/C IV Non-U.S. LOS Corp (“R/C IV”). Subsequently, in conjunction with the Corporate Reorganization, R/C IV was contributed to Liberty LLC. R/C IV had net operating loss carryforwards for federal and state income tax purposes which resulted in the recognition of a \$2.9 million payable pursuant to the TRAs. During the years ended December 31, 2020 and December 31, 2019, R/C IV Liberty Holdings, L.P. exercised its redemption right and redeemed 4,016,965 and 9,605,786 shares of Class B Common Stock resulting in an increase in tax basis, as described in Note—11 Income Taxes—*Tax Receivable Agreements*, and recognition of \$6.1 million and \$22.3 million in amounts payable under the TRAs, respectively. As of December 31, 2020 and 2019, the Company’s current liabilities under the TRAs payable to R/C IV Liberty Holdings, L.P. and R/C IV Non-US were \$0 and \$1.3 million, respectively, included in accrued interest and other and non-current liabilities were \$27.2 million and \$23.8 million, respectively, in payable pursuant to tax receivable agreements in the accompanying condensed consolidated balance sheets.

In September 2011, Liberty Resources LLC, an oil and gas exploration and production company, and its successor entity (collectively, the “Affiliate”) and LOS, companies with common ownership and management, entered into a services agreement (the “Services Agreement”) whereby the Affiliate is to provide certain administrative support functions to LOS and a master service agreement whereby LOS provides hydraulic fracturing services to the Affiliate at market service rates. The amounts incurred under the Services Agreement by LOS during the years ended December 31, 2020, 2019 and 2018, were \$0, \$0 million, and \$0.2 million, respectively. The Services Agreement was terminated during June 2018.

The amounts of the Company’s revenue related to hydraulic fracturing services provided to the Affiliate for the years ended December 31, 2020, 2019 and 2018, were \$0.0 million, \$18.3 million and \$23.1 million, respectively. As of December 31, 2020 and 2019, \$0.0 million and \$7.1 million, respectively, of the Company’s accounts receivable—related party was with the Affiliate. On June 24, 2019 (the “Agreement Date”), the Company entered into an agreement with the Affiliate to amend payment terms for outstanding invoices due as of the Agreement Date to be due on July 31, 2020. On September 30, 2019, the agreement was amended to extend the due date of the remaining amounts outstanding to October 31, 2020. Amounts outstanding from the Affiliate as of the Agreement Date were \$15.6 million. The amounts outstanding, including all accrued interest was paid in full in January 2020. As of December 31, 2020 and December 31, 2019, amounts outstanding under the amended payment terms from the Affiliate were \$0 and \$2.5 million, all of which is presented in accounts and notes receivable—related party in the accompanying consolidated balance sheet. The balance outstanding is subject to interest at 13% annual percent yield, retroactively applied to the respective invoice date. During the year ended December 31, 2020 and 2019, interest income from the Affiliate was \$0.3 million and \$1.8 million, respectively, and accrued interest as of December 31, 2020 and 2019 was \$0. Receivables earned for services performed after the Agreement Date continue to be subject to normal 30-day payment terms, provided that any amount unpaid after 60 days is subject to 13% interest.

Liberty Holdings entered into an advisory agreement, dated December 30, 2011, with Riverstone/Carlyle Energy Partners IV, L.P. (“R/C”), in which R/C agreed to provide certain administrative advisory services to Liberty Holdings. The advisory services agreement was terminated pursuant to an agreement effective as of January 11, 2018. On January 11, 2018, Liberty Holdings, R/C and other parties entered into a Master Reorganization Agreement that, among other things, crystallized the “waterfall” provisions of Article VI of the Third Amended and Restated Limited Liability Agreement of Liberty Holdings, dated October 11, 2016 (the “Holdings LLC Agreement”), in connection with the initial public offering of shares of Class A Common Stock. As part of this crystallization, R/C and affiliated entities (collectively, the “R/C Affiliates”) received shares of Class A Common Stock, including 117,647 shares of Class A Common Stock (such 117,647 referred to as the “Issued Shares”) to compensate R/C Affiliates for certain accrued preferred returns but which would not have been issued had the \$2.0 million in fees owing under the advisory agreement been paid in cash. Had this fee been paid in cash on or prior to January 11, 2018, R/C and Liberty Holdings acknowledge that R/C Affiliates would not have received the Issued Shares in the crystallization pursuant to the provisions of the Holdings LLC Agreement. Subsequently, during the fourth quarter of 2018, R/C asserted that certain provisions of the termination of services agreement provided for R/C to receive \$2.0 million in cash as payment of those

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accrued fees. To resolve this matter, the Company agreed to pay R/C Affiliates \$2.0 million in cash in exchange for the return, at the IPO price, of the Issued Shares and \$0.3 million for interest and the settlement of the matter. Accordingly, \$2.3 million was recorded as accrued liabilities—related party in the consolidated balance sheet as of December 31, 2018 and subsequently paid in January 2019. The returned shares of Class A Common Stock were canceled and retired, and the Company does not expect to incur future expense related to the advisory agreement or termination thereof.

During 2016, Liberty Holdings entered into a future commitment to invest and become a non-controlling minority member in Proppant Express Investments, LLC, the owner of Proppant Express Solutions, LLC (“PropX”), a provider of proppant logistics equipment. LOS is party to a services agreement (the “PropX Services Agreement”) whereby LOS is to provide certain administrative support functions to PropX, and LOS is to purchase and lease proppant logistics equipment from PropX. The PropX Services Agreement was terminated on May 29, 2018; however, the Company continues to lease equipment from PropX. During the years ended December 31, 2020, 2019 and 2018 for \$8.7 million, \$9.8 million and \$4.4 million, respectively.

Payables to PropX as of December 31, 2020 and 2019 were \$1.5 million and \$0.8 million, respectively.

**Note 14—Commitments & Contingencies**

***Purchase Commitments (tons are not in thousands)***

The Company enters into purchase and supply agreements to secure supply and pricing of proppants, and related proppant transportation, as well as chemicals. As of December 31, 2020 and 2019, the agreements commit the Company to purchase 1,580,750 and 7,978,300 tons, respectively, of proppant through February 1, 2022. Amounts above also include commitments to pay for transport fees on minimum amounts of proppants. Certain proppant supply agreements contain a clause whereby in the event that the Company fails to purchase minimum volumes, as defined in the agreement, during a specific time period, a shortfall fee may apply. Additionally, related proppant transload service commitments extend through 2024.

Future proppant, transload and mancamp commitments are as follows:

| <u>Year ending December 31,</u> |                   |
|---------------------------------|-------------------|
| 2021                            | \$ 82,141         |
| 2022                            | 17,823            |
| 2023                            | 9,524             |
| 2024                            | 10,268            |
| 2025                            | 7,664             |
| Thereafter                      | —                 |
|                                 | <u>\$ 127,420</u> |

Certain supply agreements contain a clause whereby in the event that the Company fails to purchase minimum volumes, as defined in the agreement, during a specific time period, a shortfall fee may apply. In circumstances where the Company does not make the minimum purchase required under the contract, the Company and its suppliers have a history of amending such minimum purchase contractual terms and in rare cases does the Company incur shortfall fees. In the Company were unable to make any of the minimum purchases and the Company and its suppliers cannot come to an agreement to avoid such fees, the Company could incur shortfall fees in the amounts of \$51.8 million, \$17.9 million, \$9.5 million, \$10.3 million, and \$7.7 million for the years ended 2021, 2022, 2023, 2024, and 2025, respectively. Based on forecasted levels of activity, the Company does not currently expect to incur significant shortfall fees.

Included in the commitments for the year ending December 31, 2021 are \$12.3 million of payments expected to be due to Schlumberger, in conjunction with transition services provided by Schlumberger, in the first quarter of 2021 for the use of certain light duty trucks, heavy tractors and field equipment used to various degrees in OneStim’s frac and wireline operations. The Company is in negotiations with the third party owner of such equipment to lease or purchase some or all of such

aforementioned vehicles and equipment, subject to agreement on terms and conditions. No gain or loss is expected upon consummation of any such agreement.

### ***Litigation***

#### *Securities Class Actions*

On March 11, 2020, Marshall Cobb, on behalf of himself and all other persons similarly situated, filed a putative class action lawsuit in the state District Court of Denver County, Colorado against the Company and certain officers and board members of the Company along with other defendants in connection with the IPO (the “Cobb Complaint”). The Cobb Complaint alleges that the Company and certain officers and board members of the Company violated Section 11 of the Securities Act of 1933 by virtue of inaccurate or misleading statements allegedly contained in the registration statement filed in connection with the IPO and requests unspecified damages and costs. The Cobb Plaintiffs also allege control person liability claims under Section 15 of the Securities Act of 1933 against certain officers and board members of the Company and other defendants.

On April 3, 2020, Marc Joseph, on behalf of himself and all other persons similarly situated, filed a putative class action lawsuit in the United States District Court in Denver, Colorado against the Company and certain officers and board members of the Company along with other defendants in connection with the IPO and requests unspecified damages and costs (the “Joseph Complaint,” and collectively with the Cobb Complaint, the “Securities Lawsuits”). The Joseph Complaint, which is based on similar factual allegations made in the Cobb Complaint, alleges that the defendants violated Sections 11 and 12(a)(2) of the Securities Act of 1933 by virtue of inaccurate or misleading statements allegedly contained in the registration statement and prospectus filed in connection with the IPO. The Joseph Complaint also alleges control person liability claims under Section 15 of the Securities Act of 1933 against certain officers and board members of the Company and other defendants.

The Company has hired counsel and plans to vigorously defend against the allegations in the Securities Lawsuits.

#### *Other Litigation*

In addition to the matters described above, from time to time, the Company is subject to legal and administrative proceedings, settlements, investigations, claims and actions. The Company’s assessment of the likely outcome of litigation matters is based on its judgment of a number of factors including experience with similar matters, past history, precedents, relevant financial and other evidence and facts specific to the matter. Notwithstanding the uncertainty as to the final outcome, based upon the information currently available, management does not believe any matters in aggregate will have a material adverse effect on its financial position or results of operations.

The Company cannot predict the ultimate outcome or duration of any lawsuit described in this report.

### **Note 15—Selected Quarterly Financial Data (unaudited)**

The following table sets forth certain unaudited financial and operating information for each quarter of the years ended December 31, 2020 and 2019. The unaudited quarterly information includes all adjustments that, in the opinion of management, are necessary for the fair presentation of information presented. Operating results for interim periods are not necessarily indicative of the results that may be expected for the full fiscal year.



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(\$ in thousands)

| <b>Selected Financial Data:</b>   | <b>Year Ended December 31, 2020</b> |                           |                          |                           |
|---|-------------------------------------|---------------------------|--------------------------|---------------------------|
|   | <b>First<br/>Quarter</b>            | <b>Second<br/>Quarter</b> | <b>Third<br/>Quarter</b> | <b>Fourth<br/>Quarter</b> |
| Revenue   | \$ 472,344                          | \$ 88,362                 | \$ 147,495               | \$ 257,586                |
| Operating costs and expenses:   |                                     |                           |                          |                           |
| Cost of services (exclusive of depreciation and amortization shown separately below)            | 392,716                             | 89,518                    | 139,237                  | 236,510                   |
| General and administrative  | 28,613                              | 18,064                    | 17,307                   | 20,114                    |
| Transaction, severance and other costs  | —                                   | 9,057                     | 2,609                    | 9,395                     |
| Depreciation and amortization   | 44,831                              | 44,931                    | 44,496                   | 45,826                    |
| (Gain) loss on disposal of assets   | (102)                               | 334                       | (752)                    | 109                       |
| Total operating costs and expenses  | <u>466,058</u>                      | <u>161,904</u>            | <u>202,897</u>           | <u>311,954</u>            |
| Operating income (loss)   | 6,286                               | (73,542)                  | (55,402)                 | (54,368)                  |
| Other expense:  |                                     |                           |                          |                           |
| Interest expense, net   | 3,608                               | 3,656                     | 3,595                    | 3,646                     |
| Net income (loss) before income taxes   | 2,678                               | (77,198)                  | (58,997)                 | (58,014)                  |
| Income tax expense (benefit)  | 261                                 | (11,363)                  | (9,972)                  | (9,783)                   |
| Net income (loss)   | 2,417                               | (65,835)                  | (49,025)                 | (48,231)                  |
| Less: Net income (loss) attributable to non-controlling interests                               | 697                                 | (20,064)                  | (14,523)                 | (11,201)                  |
| Net income (loss) attributable to Liberty Oilfield Services Inc. stockholders                   | <u>\$ 1,720</u>                     | <u>\$ (45,771)</u>        | <u>\$ (34,502)</u>       | <u>\$ (37,030)</u>        |
| Net income (loss) attributable to Liberty Oilfield Services Inc. stockholders per common share: |                                     |                           |                          |                           |
| Basic   | \$ 0.02                             | \$ (0.55)                 | \$ (0.41)                | \$ (0.41)                 |
| Diluted   | \$ 0.02                             | \$ (0.55)                 | \$ (0.41)                | \$ (0.41)                 |

**LIBERTY OILFIELD SERVICES INC.**  
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(\$ in thousands)

Year ended December 31, 2019

| <b>Selected Financial Data:</b>  | <b>First<br/>Quarter</b> | <b>Second<br/>Quarter</b> | <b>Third<br/>Quarter</b> | <b>Fourth<br/>Quarter</b> |
|--|--------------------------|---------------------------|--------------------------|---------------------------|
| Revenue  | \$ 535,148               | \$ 542,147                | \$ 515,079               | \$ 397,971                |
| Operating costs and expenses:  |                          |                           |                          |                           |
| Cost of services (exclusive of depreciation and amortization shown separately below) | 429,299                  | 426,444                   | 421,007                  | 344,430                   |
| General and administrative   | 22,088                   | 23,989                    | 25,302                   | 26,210                    |
| Depreciation and amortization  | 38,387                   | 40,368                    | 42,324                   | 44,299                    |
| Loss (gain) on disposal of assets  | 1,223                    | 143                       | (124)                    | 1,359                     |
| Total operating costs and expenses   | <u>490,997</u>           | <u>490,944</u>            | <u>488,509</u>           | <u>416,298</u>            |
| Operating income (loss)  | 44,151                   | 51,203                    | 26,570                   | (18,327)                  |
| Other expense:   |                          |                           |                          |                           |
| Interest expense, net  | 4,182                    | 3,597                     | 3,726                    | 3,176                     |
| Net income (loss) before income taxes  | 39,969                   | 47,606                    | 22,844                   | (21,503)                  |
| Income tax expense (benefit)   | 6,060                    | 7,083                     | 4,004                    | (3,095)                   |
| Net income (loss)  | 33,909                   | 40,523                    | 18,840                   | (18,408)                  |
| Less: Net income (loss) attributable to non-controlling interests                    | 15,788                   | 18,491                    | 7,842                    | (6,260)                   |
| Net income (loss) attributable to Liberty Oilfield Services Inc. stockholders        | <u>\$ 18,121</u>         | <u>\$ 22,032</u>          | <u>\$ 10,998</u>         | <u>\$ (12,148)</u>        |

Net income (loss) attributable to Liberty Oilfield Services Inc. stockholders per common share:

|         |         |         |         |           |
|---------|---------|---------|---------|-----------|
| Basic   | \$ 0.27 | \$ 0.32 | \$ 0.15 | \$ (0.15) |
| Diluted | \$ 0.26 | \$ 0.32 | \$ 0.15 | \$ (0.15) |

**Note 16—Subsequent Events**

On February 8, 2021, certain Liberty LLC Unitholders exercised their redemption rights and redeemed 6.1 million (or up to 7.0 million if the underwriters exercise the option to purchase additional shares) Liberty LLC Units (and an equivalent number of shares of Class B Common Stock) for an equivalent numbers of shares of Class A Common Stock of the Company. This exchange resulted in an increase to the ownership percentage of Liberty LLC owned by the Company. The Company expects to record an increase to the Company's deferred tax asset as a result. In addition, the Company expects to record an increase to the payable pursuant to the TRAs.

There were no other significant subsequent events requiring disclosure or recognition other than those disclosed in these notes to the consolidated financial statements.

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