

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

- ☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2023
OR

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

For the transition period from _____ to _____
Commission File Number 001-41325

HF SINCLAIR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

87-2092143

(State or other jurisdiction of
incorporation or organization)

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

2828 N. Harwood, Suite 1300

Dallas, Texas

75201

(Address of principal executive offices)

(Zip Code)

(214) 871-3555

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock \$0.01 par value	DINO	New York Stock Exchange

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

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

184,113,437 shares of Common Stock, par value \$.01 per share, were outstanding on August 2, 2023.

HF SINCLAIR CORPORATION
INDEX

	<u>Page</u>
Forward-Looking Statements	3
Definitions	5
 PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Balance Sheets June 30, 2023 (Unaudited) and December 31, 2022	6
Consolidated Statements of Income (Unaudited) Three and Six Months Ended June 30, 2023 and 2022	7
Consolidated Statements of Comprehensive Income (Unaudited) Three and Six Months Ended June 30, 2023 and 2022	8
Consolidated Statements of Cash Flows (Unaudited) Six Months Ended June 30, 2023 and 2022	9
Consolidated Statements of Equity (Unaudited) Three and Six Months Ended June 30, 2023 and 2022	10
Notes to Consolidated Financial Statements (Unaudited)	12
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	39
Item 3. Quantitative and Qualitative Disclosures About Market Risk	55
Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles	55
Item 4. Controls and Procedures	58
 PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	59
Item 1A. Risk Factors	60
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	60
Item 5. Other Information	61
Item 6. Exhibits	62
Signatures	63

FORWARD-LOOKING STATEMENTS

On March 14, 2022 (the “Closing Date”), HollyFrontier Corporation (“HollyFrontier”) and Holly Energy Partners, L.P. (“HEP”) announced the establishment of HF Sinclair Corporation, a Delaware corporation (“HF Sinclair”), as the new parent holding company of HollyFrontier and HEP and their subsidiaries, and the completion of their respective acquisitions (the “Sinclair Transactions”) of Sinclair Oil Corporation (now known as Sinclair Oil LLC) and Sinclair Transportation Company LLC (“STC”) from The Sinclair Companies (now known as REH Company and referred to herein as “REH Company”).

References herein to HF Sinclair, “we,” “our,” “ours,” and “us” with respect to time periods prior to March 14, 2022 refer to HollyFrontier and its consolidated subsidiaries and do not include Sinclair Holding LLC, STC or their respective consolidated subsidiaries (collectively, the “Acquired Sinclair Businesses”). References herein to HF Sinclair, “we,” “our,” “ours,” and “us” with respect to time periods from and after March 14, 2022 include the operations of the Acquired Sinclair Businesses. Unless otherwise specified, the financial statements included herein include financial information for HF Sinclair, which for the time period from March 14, 2022 to June 30, 2023 includes the combined business operations of HollyFrontier and its consolidated subsidiaries and the Acquired Sinclair Businesses.

This Quarterly Report on Form 10-Q contains certain “forward-looking statements” within the meaning of the federal securities laws. All statements, other than statements of historical fact included in this Form 10-Q, including, but not limited to, those under “Results of Operations,” “Liquidity and Capital Resources” and “Risk Management” in Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and those in Part II, Item 1 “Legal Proceedings” are forward-looking statements. Forward-looking statements use words such as “anticipate,” “project,” “will,” “expect,” “plan,” “goal,” “forecast,” “strategy,” “intend,” “should,” “would,” “could,” “believe,” “may,” and similar expressions and statements regarding our plans and objectives for future operations. These statements are based on management’s beliefs and assumptions using currently available information and expectations as of the date hereof, are not guarantees of future performance and involve certain risks and uncertainties. Unless specifically noted, all statements concerning our expectations for future results of operations are based on forecasts for our existing operations and do not include the potential impact of any future acquisitions. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that our expectations will prove to be correct. Therefore, actual outcomes and results could materially differ from what is expressed, implied or forecast in these statements. Any differences could be caused by a number of factors including, but not limited to:

- the negotiation and execution, and the terms and conditions, of a definitive agreement relating to our non-binding proposal to acquire all of the outstanding common units of HEP not owned by us or our affiliates (the “Proposed HEP Transaction”) and the ability of HF Sinclair or HEP to enter into or consummate such agreement;
- the risk that the Proposed HEP Transaction does not occur;
- negative effects from the pendency of the Proposed HEP Transaction;
- failure to obtain the required approvals for the Proposed HEP Transaction;
- the time required to consummate the Proposed HEP Transaction;
- the focus of management time and attention on the Proposed HEP Transaction and other disruptions arising from the Proposed HEP Transaction;
- limitations on our ability to effectuate share repurchases due to market conditions and corporate, tax, regulatory and other considerations;
- our and HEP’s ability to successfully integrate the Acquired Sinclair Businesses with our existing operations and fully realize the expected synergies of the Sinclair Transactions or on the expected timeline;
- our ability to successfully integrate the operation of the Puget Sound refinery with our existing operations;
- the demand for and supply of crude oil and refined products, including uncertainty regarding the increasing societal expectations that companies address climate change;
- risks and uncertainties with respect to the actions of actual or potential competitive suppliers and transporters of refined petroleum products or lubricant and specialty products in our markets;
- the spread between market prices for refined products and market prices for crude oil;
- the possibility of constraints on the transportation of refined products or lubricant and specialty products;
- the possibility of inefficiencies, curtailments or shutdowns in refinery operations or pipelines, whether due to reductions in demand, accidents, unexpected leaks or spills, unscheduled shutdowns, infection in the workforce, weather events, global health events, civil unrest, expropriation of assets, and other economic, diplomatic, legislative, or political events or developments, terrorism, cyberattacks, or other catastrophes or disruptions affecting our

operations, production facilities, machinery, pipelines and other logistics assets, equipment, or information systems, or any of the foregoing of our suppliers, customers, or third-party providers, and any potential asset impairments resulting from, or the failure to have adequate insurance coverage for or receive insurance recoveries from, such actions;

- the effects of current and/or future governmental and environmental regulations and policies, including increases in interest rates;
- the availability and cost of our financing;
- the effectiveness of our capital investments and marketing strategies;
- our and HEP's efficiency in carrying out and consummating construction projects, including our ability to complete announced capital projects on time and within capital guidance;
- our and HEP's ability to timely obtain or maintain permits, including those necessary for operations or capital projects;
- our ability to acquire refined or lubricant product operations or pipeline and terminal operations on acceptable terms and to integrate any existing or future acquired operations;
- the possibility of terrorist or cyberattacks and the consequences of any such attacks;
- uncertainty regarding the effects and duration of global hostilities, including the Russia-Ukraine war, and any associated military campaigns which may disrupt crude oil supplies and markets for our refined products and create instability in the financial markets that could restrict our ability to raise capital;
- general economic conditions, including economic slowdowns caused by a local or national recession or other adverse economic condition, such as periods of increased or prolonged inflation; and
- other financial, operational and legal risks and uncertainties detailed from time to time in our and HEP's Securities Exchange Commission filings.

Cautionary statements identifying important factors that could cause actual results to differ materially from our expectations are set forth in this Form 10-Q, including without limitation the forward-looking statements that are referred to above. You should not put any undue reliance on any forward-looking statements. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements set forth under the heading "Risk Factors" included in Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2022, in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2023 and in conjunction with the discussion in this Form 10-Q in "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the headings "Outlook" and "Liquidity and Capital Resources." All forward-looking statements included in this Form 10-Q and all subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. The forward-looking statements speak only as of the date made and, other than as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

DEFINITIONS

Within this report, the following terms have these specific meanings:

“**BPD**” means the number of barrels per calendar day of crude oil or petroleum products.

“**BPSD**” means the number of barrels per stream day (barrels of capacity in a 24 hour period) of crude oil or petroleum products.

“**Base oil**” is a lubricant grade oil initially produced from refining crude oil or through chemical synthesis that is used in producing lubricant products such as lubricating greases, motor oil and metal processing fluids.

“**Black wax crude oil**” is a low sulfur, low gravity crude oil produced in the Uintah Basin in Eastern Utah that has certain characteristics that require specific facilities to transport, store and refine into transportation fuels.

“**Cracking**” means the process of breaking down larger, heavier and more complex hydrocarbon molecules into simpler and lighter molecules.

“**Crude oil distillation**” means the process of distilling vapor from liquid crudes, usually by heating, and condensing the vapor slightly above atmospheric pressure turning it back to liquid in order to purify, fractionate or form the desired products.

“**FCC**,” or fluid catalytic cracking, means a refinery process that breaks down large complex hydrocarbon molecules into smaller more useful ones using a circulating bed of catalyst at relatively high temperatures.

“**LPG**” means liquid petroleum gases.

“**Lubricant**” or “**lube**” means a solvent neutral paraffinic product used in commercial heavy duty engine oils, passenger car oils and specialty products for industrial applications such as heat transfer, metalworking, rubber and other general process oil.

“**MMBTU**” means one million British thermal units.

“**Refinery gross margin**” means the difference between average net sales price and average cost per barrel sold. This does not include the associated depreciation and amortization costs.

“**Renewable diesel**” means a diesel fuel derived from renewable feedstock such as vegetable oil or animal fats that is produced through various processes, most commonly through hydrotreating, reacting the feedstock with hydrogen under temperatures and pressure in the presence of a catalyst.

“**RINS**” means renewable identification numbers and refers to serial numbers assigned to credits generated from renewable fuel production under the Environmental Protection Agency’s Renewable Fuel Standard regulations, which require blending renewable fuels into the nation’s fuel supply. In lieu of blending, refiners may purchase these transferable credits in order to comply with the regulations.

“**Sour crude oil**” means crude oil containing quantities of sulfur greater than 0.4 percent by weight, while “**sweet crude oil**” means crude oil containing quantities of sulfur equal to or less than 0.4 percent by weight.

“**Vacuum distillation**” means the process of distilling vapor from liquid crudes, usually by heating, and condensing the vapor below atmospheric pressure turning it back to a liquid in order to purify, fractionate or form the desired products.

“**White oil**” is an extremely pure, highly-refined petroleum product that has a wide variety of applications ranging from pharmaceutical to cosmetic products.

“**WTI**” means West Texas Intermediate and is a grade of crude oil used as a common benchmark in oil pricing. WTI is a sweet crude oil and has a relatively low density.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HF SINCLAIR CORPORATION CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	June 30, 2023	December 31, 2022
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents <i>(HEP: \$7,845 and \$10,917, respectively)</i>	\$ 1,614,618	\$ 1,665,066
Accounts receivable: Product, transportation and other <i>(HEP: \$13,570 and \$16,344, respectively)</i>	1,460,850	1,626,199
Crude oil resales	169,769	76,950
	1,630,619	1,703,149
Inventories: Crude oil and refined products	2,878,185	2,853,425
Materials, supplies and other <i>(HEP: \$1,370 and \$1,246, respectively)</i>	380,423	361,103
	3,258,608	3,214,528
Income taxes receivable	111,906	53,563
Prepayments and other <i>(HEP: \$4,564 and \$5,699, respectively)</i>	77,065	112,013
Total current assets	6,692,816	6,748,319
Properties, plants and equipment, at cost <i>(HEP: \$2,200,297 and \$2,173,248, respectively)</i>	10,312,656	10,146,652
Less accumulated depreciation <i>(HEP: \$(804,084) and \$(761,210), respectively)</i>	(3,684,833)	(3,457,747)
	6,627,823	6,688,905
Operating lease right-of-use assets <i>(HEP: \$64,456 and \$66,382, respectively)</i>	318,167	351,068
Other assets: Turnaround costs <i>(HEP: \$22,454 and \$24,154, respectively)</i>	600,782	376,158
Goodwill <i>(HEP: \$431,985 and \$431,985, respectively)</i>	2,978,546	2,978,315
Intangibles and other <i>(HEP: \$349,719 and \$360,768, respectively)</i>	978,871	982,718
	4,558,199	4,337,191
Total assets	\$ 18,197,005	\$ 18,125,483
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable <i>(HEP: \$25,223 and \$27,199, respectively)</i>	\$ 2,001,215	\$ 2,334,107
Income taxes payable	4,203	7,818
Operating lease liabilities <i>(HEP: \$4,090 and \$4,204, respectively)</i>	108,513	109,926
Current debt	307,551	306,959
Accrued liabilities <i>(HEP: \$30,443 and \$39,110, respectively)</i>	466,425	486,719
Total current liabilities	2,887,907	3,245,529
Long-term debt <i>(HEP: \$1,495,442 and \$1,556,334, respectively)</i>	2,888,472	2,948,513
Noncurrent operating lease liabilities <i>(HEP: \$60,736 and \$62,550, respectively)</i>	219,963	254,215
Deferred income taxes <i>(HEP: \$339 and \$374, respectively)</i>	1,323,246	1,262,165
Other long-term liabilities <i>(HEP: \$50,845 and \$55,373, respectively)</i>	386,713	397,489
Equity:		
HF Sinclair stockholders' equity:		
Preferred stock, \$1.00 par value – 5,000,000 shares authorized; none issued	—	—
Common stock \$.01 par value – 320,000,000 shares authorized; 223,231,546 shares issued as of June 30, 2023 and December 31, 2022	2,232	2,232
Additional capital	6,480,581	6,468,775
Retained earnings	4,815,908	4,130,252
Accumulated other comprehensive loss	(13,379)	(22,013)
Common stock held in treasury, at cost – 30,918,109 and 26,152,344 shares as of June 30, 2023 and December 31, 2022, respectively	(1,576,390)	(1,335,431)
Total HF Sinclair stockholders' equity	9,708,952	9,243,815
Noncontrolling interest	781,752	773,757
Total equity	10,490,704	10,017,572
Total liabilities and equity	\$ 18,197,005	\$ 18,125,483

Parenthetical amounts represent asset and liability balances attributable to Holly Energy Partners, L.P. ("HEP") as of June 30, 2023 and December 31, 2022. HEP is a variable interest entity.

See accompanying notes.

HF SINCLAIR CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Sales and other revenues	\$ 7,833,646	\$ 11,162,160	\$ 15,398,788	\$ 18,620,910
Operating costs and expenses:				
Cost of products sold (exclusive of depreciation and amortization):				
Cost of products sold (exclusive of lower of cost or market inventory valuation adjustment)	6,273,605	8,579,915	12,377,662	15,081,927
Lower of cost or market inventory valuation adjustment	(7,863)	34,543	39,734	25,992
	6,265,742	8,614,458	12,417,396	15,107,919
Operating expenses (exclusive of depreciation and amortization)	546,800	606,127	1,186,183	1,083,561
Selling, general and administrative expenses (exclusive of depreciation and amortization)	127,388	110,875	223,301	221,297
Depreciation and amortization	189,360	164,044	363,343	308,645
Total operating costs and expenses	7,129,290	9,495,504	14,190,223	16,721,422
Income from operations	704,356	1,666,656	1,208,565	1,899,488
Other income (expense):				
Earnings of equity method investments	3,545	5,447	7,427	9,073
Interest income	17,591	1,844	37,526	2,841
Interest expense	(46,982)	(38,961)	(92,804)	(73,820)
Gain (loss) on foreign currency transactions	748	(905)	1,618	(766)
Gain on sale of assets and other	1,152	2,320	2,783	6,215
	(23,946)	(30,255)	(43,450)	(56,457)
Income before income taxes	680,410	1,636,401	1,165,115	1,843,031
Income tax expense:				
Current	100,429	342,836	184,824	389,099
Deferred	45,496	40,657	60,801	15,723
	145,925	383,493	245,625	404,822
Net income	534,485	1,252,908	919,490	1,438,209
Less net income attributable to noncontrolling interest	26,824	31,646	58,563	56,973
Net income attributable to HF Sinclair stockholders	\$ 507,661	\$ 1,221,262	\$ 860,927	\$ 1,381,236
Earnings per share:				
Basic	\$ 2.62	\$ 5.43	\$ 4.40	\$ 6.86
Diluted	\$ 2.62	\$ 5.43	\$ 4.40	\$ 6.86
Average number of common shares outstanding:				
Basic	192,348	222,952	193,888	199,149
Diluted	192,348	222,952	193,888	199,149

See accompanying notes.

HF SINCLAIR CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net income	\$ 534,485	\$ 1,252,908	\$ 919,490	\$ 1,438,209
Other comprehensive income (loss):				
Foreign currency translation adjustment	9,852	(17,886)	12,778	(16,165)
Hedging instruments:				
Change in fair value of cash flow hedging instruments	—	—	270	(4,962)
Reclassification adjustments to net income on settlement of cash flow hedging instruments	(271)	—	(270)	5,288
Net unrealized gain (loss) on hedging instruments	(271)	—	—	326
Pension and other post-retirement benefit obligations:				
Pension plans gain reclassified to net income	(45)	(45)	(90)	(90)
Post-retirement healthcare plans gain reclassified to net income	(918)	(870)	(1,836)	(1,740)
Retirement restoration plan loss reclassified to net income	3	9	6	18
Net change in pension and other post-retirement benefit obligations	(960)	(906)	(1,920)	(1,812)
Other comprehensive income (loss) before income taxes	8,621	(18,792)	10,858	(17,651)
Income tax expense (benefit)	1,777	(3,996)	2,224	(3,771)
Other comprehensive income (loss)	6,844	(14,796)	8,634	(13,880)
Total comprehensive income	541,329	1,238,112	928,124	1,424,329
Less noncontrolling interest in comprehensive income	26,824	31,646	58,563	56,973
Comprehensive income attributable to HF Sinclair stockholders	<u>\$ 514,505</u>	<u>\$ 1,206,466</u>	<u>\$ 869,561</u>	<u>\$ 1,367,356</u>

See accompanying notes.

HF SINCLAIR CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six Months Ended June 30,	
	2023	2022
Cash flows from operating activities:		
Net income	\$ 919,490	\$ 1,438,209
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	363,343	308,645
Lower of cost or market inventory valuation adjustment	39,734	25,992
Earnings of equity method investments, inclusive of distributions	3,053	933
Gain on sale of assets	(504)	(2,917)
Deferred income taxes	60,801	15,723
Equity-based compensation expense	14,894	14,882
Change in fair value – derivative instruments	9,270	(12,103)
(Increase) decrease in current assets:		
Accounts receivable	75,586	(581,519)
Inventories	(75,361)	(622,519)
Income taxes receivable	(57,850)	81,137
Prepayments and other	24,475	(2,103)
Increase (decrease) in current liabilities:		
Accounts payable	(319,691)	942,663
Income taxes payable	(3,639)	335,606
Accrued liabilities	(17,498)	92,988
Turnaround expenditures	(347,145)	(70,150)
Other, net	(21,293)	23,925
Net cash provided by operating activities	667,665	1,989,392
Cash flows from investing activities:		
Additions to properties, plants and equipment	(163,986)	(294,494)
Additions to properties, plants and equipment – HEP	(16,264)	(23,246)
Acquisitions, net of cash acquired	—	(231,201)
Proceeds from sale of assets	1,682	3,341
HEP investment in Osage Pipe Line Company LLC	(3,000)	—
Distributions from equity method investments in excess of equity earnings	5,288	6,589
Net cash used for investing activities	(176,280)	(539,011)
Cash flows from financing activities:		
Borrowings under credit agreements	55,000	410,000
Repayments under credit agreements	(117,000)	(529,000)
Proceeds from issuance of senior notes - HEP	—	400,000
Purchase of treasury stock	(248,031)	(110,784)
Dividends	(175,271)	(90,158)
Distributions to noncontrolling interests	(51,285)	(44,900)
Payments on finance leases	(6,206)	(5,668)
Deferred financing costs	—	(9,071)
Other, net	—	(247)
Net cash provided by (used for) financing activities	(542,793)	20,172
Effect of exchange rate on cash flow	960	(2,711)
Cash and cash equivalents:		
Increase (decrease) for the period	(50,448)	1,467,842
Beginning of period	1,665,066	234,444
End of period	\$ 1,614,618	\$ 1,702,286
Supplemental disclosure of cash flow information:		
Cash (paid) received during the period for:		
Interest	\$ (93,748)	\$ (68,942)
Income taxes, net	\$ (249,362)	\$ 21,598
Increase (decrease) in accrued and unpaid capital expenditures	\$ (11,528)	\$ (34,849)

See accompanying notes.

HF SINCLAIR CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)
(In thousands except per share data)

Three Months Ended June 30, 2023

	Common Stock		Additional Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Non-controlling Interest	Total Equity
	Shares	Amount				Shares	Amount		
Balance at March 31, 2023	223,231	\$ 2,232	\$ 6,469,814	\$ 4,395,531	\$ (20,223)	30,924	\$(1,576,689)	\$ 779,862	\$10,050,527
Net income	—	—	—	507,661	—	—	—	26,824	534,485
Dividends (\$0.45 declared per common share)	—	—	—	(87,284)	—	—	—	—	(87,284)
Other comprehensive income, net of tax	—	—	—	—	6,844	—	—	—	6,844
Issuance of common shares under incentive compensation plans	—	—	(436)	—	—	(8)	436	—	—
Equity-based compensation	—	—	11,203	—	—	—	—	366	11,569
Purchase of treasury stock, inclusive of excise tax	—	—	—	—	—	2	(137)	—	(137)
Distributions to noncontrolling interest holders	—	—	—	—	—	—	—	(25,299)	(25,299)
Purchase of HEP units for equity grants	—	—	—	—	—	—	—	(1)	(1)
Balance at June 30, 2023	<u>223,231</u>	<u>\$ 2,232</u>	<u>\$ 6,480,581</u>	<u>\$ 4,815,908</u>	<u>\$ (13,379)</u>	<u>30,918</u>	<u>\$(1,576,390)</u>	<u>\$ 781,752</u>	<u>\$10,490,704</u>

Three Months Ended June 30, 2022

	Common Stock		Additional Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Non-controlling Interest	Total Equity
	Shares	Amount				Shares	Amount		
Balance at March 31, 2022	223,231	\$ 2,232	\$ 6,486,994	\$ 1,623,486	\$ 3,587	2	\$(73)	\$ 760,751	\$ 8,876,977
Net income	—	—	—	1,221,262	—	—	—	31,646	1,252,908
Dividends (\$0.40 declared per common share)	—	—	—	(90,158)	—	—	—	—	(90,158)
Other comprehensive loss, net of tax	—	—	—	—	(14,796)	—	—	—	(14,796)
Issuance of common shares under incentive compensation plans	—	—	(324)	—	—	(12)	324	—	—
Equity-based compensation	—	—	6,431	—	—	—	—	620	7,051
Purchase of treasury stock	—	—	—	—	—	2,733	(132,451)	—	(132,451)
Distributions to noncontrolling interest holders	—	—	—	—	—	—	—	(27,897)	(27,897)
Purchase of HEP units for equity grants	—	—	—	—	—	—	—	(20)	(20)
Equity attributable to HEP common unit issuance, net of tax	—	—	—	—	—	—	—	(79)	(79)
Acquisition of remaining UNEV interests	—	—	3,198	—	—	—	—	177	3,375
Balance at June 30, 2022	<u>223,231</u>	<u>\$ 2,232</u>	<u>\$ 6,496,299</u>	<u>\$ 2,754,590</u>	<u>\$ (11,209)</u>	<u>2,723</u>	<u>\$(132,200)</u>	<u>\$ 765,198</u>	<u>\$ 9,874,910</u>

Six Months Ended June 30, 2023

	Common Stock		Additional Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Non- controlling Interest	Total Equity
	Shares	Amount				Shares	Amount		
Balance at December 31, 2022	223,231	\$ 2,232	\$ 6,468,775	\$4,130,252	\$ (22,013)	26,152	\$(1,335,431)	\$ 773,757	\$10,017,572
Net income	—	—	—	860,927	—	—	—	58,563	919,490
Dividends (\$0.90 declared per common share)	—	—	—	(175,271)	—	—	—	—	(175,271)
Other comprehensive income, net of tax	—	—	—	—	8,634	—	—	—	8,634
Issuance of common shares under incentive compensation plans	—	—	(2,370)	—	—	(46)	2,370	—	—
Equity based compensation	—	—	14,176	—	—	—	—	718	14,894
Purchase of treasury stock, inclusive of excise tax	—	—	—	—	—	4,812	(243,329)	—	(243,329)
Distributions to noncontrolling interest holders	—	—	—	—	—	—	—	(51,285)	(51,285)
Purchase of HEP units for equity grants	—	—	—	—	—	—	—	(1)	(1)
Balance at June 30, 2023	<u>223,231</u>	<u>\$ 2,232</u>	<u>\$ 6,480,581</u>	<u>\$4,815,908</u>	<u>\$ (13,379)</u>	<u>30,918</u>	<u>\$(1,576,390)</u>	<u>\$ 781,752</u>	<u>\$10,490,704</u>

Six Months Ended June 30, 2022

	Common Stock		Additional Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Non- controlling Interest	Total Equity
	Shares	Amount				Shares	Amount		
Balance at December 31, 2021	256,046	\$ 2,560	\$ 4,220,075	\$4,413,836	\$ 2,671	93,045	\$(2,951,257)	\$ 606,580	\$ 6,294,465
Net income	—	—	—	1,381,236	—	—	—	56,973	1,438,209
Dividends (\$0.40 declared per common share)	—	—	—	(90,158)	—	—	—	—	(90,158)
Other comprehensive loss, net of tax	—	—	—	—	(13,880)	—	—	—	(13,880)
Issuance of common shares for HFC Transactions	60,230	602	2,148,406	—	—	—	—	—	2,149,008
Issuance of common shares under incentive compensation plans	—	—	(606)	—	—	(19)	606	—	—
Equity-based compensation	—	—	13,642	—	—	—	—	1,240	14,882
Purchase of treasury stock	—	—	—	—	—	2,742	(132,803)	—	(132,803)
Retirement of treasury stock	(93,045)	(930)	—	(2,950,324)	—	(93,045)	2,951,254	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(44,900)	(44,900)
Purchase of HEP units for equity grants	—	—	—	—	—	—	—	(77)	(77)
Equity attributable to HEP common unit issuance, net of tax	—	—	95,047	—	—	—	—	223,392	318,439
Acquisition of remaining UNEV interests	—	—	19,735	—	—	—	—	(78,010)	(58,275)
Balance at June 30, 2022	<u>223,231</u>	<u>\$ 2,232</u>	<u>\$ 6,496,299</u>	<u>\$2,754,590</u>	<u>\$ (11,209)</u>	<u>2,723</u>	<u>\$ (132,200)</u>	<u>\$ 765,198</u>	<u>\$ 9,874,910</u>

See accompanying notes.

HF SINCLAIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1: Description of Business and Presentation of Financial Statements

On March 14, 2022 (the “Closing Date”), HollyFrontier Corporation (“HollyFrontier”) and Holly Energy Partners, L.P. (“HEP”) announced the establishment of HF Sinclair Corporation, a Delaware corporation (“HF Sinclair”), as the new parent holding company of HollyFrontier and HEP and their subsidiaries, and the completion of their respective acquisitions of Sinclair Oil Corporation (now known as Sinclair Oil LLC) and Sinclair Transportation Company LLC (“STC”) from The Sinclair Companies (now known as REH Company and referred to herein as “REH Company”). On the Closing Date, pursuant to that certain Business Combination Agreement, dated as of August 2, 2021 (as amended on March 14, 2022, the “Business Combination Agreement”), by and among HollyFrontier, HF Sinclair, Hippo Merger Sub, Inc., a wholly owned subsidiary of HF Sinclair (“Parent Merger Sub”), REH Company, and Hippo Holding LLC (now known as Sinclair Holding LLC), a wholly owned subsidiary of REH Company (the “Target Company”), HF Sinclair completed its previously announced acquisition of the Target Company by effecting (a) a holding company merger in accordance with Section 251(g) of the Delaware General Corporation Law whereby HollyFrontier merged with and into Parent Merger Sub, with HollyFrontier surviving such merger as a direct wholly owned subsidiary of HF Sinclair (the “HFC Merger”) and (b) immediately following the HFC Merger, a contribution whereby REH Company contributed all of the equity interests of the Target Company to HF Sinclair in exchange for 60,230,036 shares of HF Sinclair common stock, resulting in the Target Company becoming a direct wholly owned subsidiary of HF Sinclair (the “HFC Transactions”). At the effective time of the HFC Merger, HollyFrontier became a wholly owned subsidiary of HF Sinclair, and all of HollyFrontier’s outstanding shares were automatically converted into equivalent corresponding shares of HF Sinclair. Pursuant to the HFC Merger, HF Sinclair became the successor issuer to HollyFrontier pursuant to Rule 12g-3(a) under the Securities and Exchange Act of 1934, as amended, and replaced HollyFrontier as the public company trading on the New York Stock Exchange under the symbol “DINO.” See Note 2 and Note 4 for additional information.

References herein to HF Sinclair, “we,” “our,” “ours,” and “us” with respect to time periods prior to March 14, 2022 refer to HollyFrontier and its consolidated subsidiaries and do not include Sinclair Holding LLC, STC or their respective consolidated subsidiaries (collectively, the “Acquired Sinclair Businesses”). References herein to HF Sinclair, “we,” “our,” “ours,” and “us” with respect to time periods from and after March 14, 2022 include the operations of the Acquired Sinclair Businesses. Unless otherwise specified, the financial statements included herein include financial information for HF Sinclair, which for the time period from March 14, 2022 to June 30, 2023 includes the combined business operations of HollyFrontier and the Acquired Sinclair Businesses.

In these financial statements, the words “we,” “our,” “ours” and “us” refer only to HF Sinclair and its consolidated subsidiaries or to HF Sinclair or an individual subsidiary and not to any other person, with certain exceptions. Generally, the words “we,” “our,” “ours” and “us” include HEP and its subsidiaries as consolidated subsidiaries of HF Sinclair, unless when used in disclosures of transactions or obligations between HEP and HF Sinclair or its other subsidiaries. These financial statements contain certain disclosures of agreements that are specific to HEP and its consolidated subsidiaries and do not necessarily represent obligations of HF Sinclair. When used in descriptions of agreements and transactions, “HEP” refers to HEP and its consolidated subsidiaries.

We are an independent energy company that produces and markets high-value light products such as gasoline, diesel fuel, jet fuel, renewable diesel and other specialty products. We own and operate refineries located in Kansas, Oklahoma, New Mexico, Wyoming, Washington and Utah and market our refined products principally in the Southwest United States, the Rocky Mountains extending into the Pacific Northwest and in other neighboring Plains states. We supply high-quality fuels to more than 1,500 branded stations and license the use of the Sinclair brand at more than 300 additional locations throughout the country. In addition, our subsidiaries produce and market base oils and other specialized lubricants in the United States, Canada and the Netherlands, and export products to more than 80 countries. Through our subsidiaries, we produce renewable diesel at two of our facilities in Wyoming and our facility in New Mexico. At June 30, 2023, we owned a 47% limited partner interest and a non-economic general partner interest in HEP, a variable interest entity (“VIE”). HEP owns and operates logistic assets consisting of petroleum product and crude oil pipelines, terminals, tankage, loading rack facilities and refinery processing units that principally support our refining and marketing operations in the Mid-Continent, Southwest and Rocky Mountains geographic regions of the United States.

HF SINCLAIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

On May 3, 2023, we submitted a non-binding proposal to acquire all of the outstanding common units (“Common Units”) of HEP not owned by us or our affiliates (the “Proposed HEP Transaction”). The proposal has been made to the board of directors of the ultimate general partner of HEP. The Proposed HEP Transaction is subject to the negotiation and execution of a definitive agreement. There can be no assurance that a definitive agreement will be executed or that any transaction will be approved or consummated.

We have prepared these consolidated financial statements without audit. In management’s opinion, these consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of our consolidated financial position as of June 30, 2023, the consolidated results of income, comprehensive income and statements of equity for the three and six months ended June 30, 2023 and 2022 and consolidated cash flows for the six months ended June 30, 2023 and 2022 in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”). Although certain notes and other information required by generally accepted accounting principles in the United States (“GAAP”) have been condensed or omitted, we believe that the disclosures in these consolidated financial statements are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2022 that has been filed with the SEC.

Accounts Receivable: Our accounts receivable primarily consist of amounts due from customers that are primarily from sales of refined products and renewable diesel. Credit is extended based on our evaluation of the customer’s financial condition, and in certain circumstances collateral, such as letters of credit or guarantees, is required. We reserve for expected credit losses based on our historical loss experience as well as expected credit losses from current economic conditions and management’s expectations of future economic conditions. Credit losses are charged to the allowance for expected credit losses when an account is deemed uncollectible. Our allowance for expected credit losses was \$7.1 million at June 30, 2023 and \$7.7 million at December 31, 2022.

Inventories: Inventories related to our refining operations are stated at the lower of cost, using the last-in, first-out (“LIFO”) method for crude oil and unfinished and finished refined products, or market. Inventories related to our renewables business are stated at the lower of cost, using the LIFO method for feedstock and unfinished and finished renewable products, or market. In periods of rapidly declining prices, LIFO inventories may have to be written down to market value due to the higher costs assigned to LIFO layers in prior periods. In addition, the use of the LIFO inventory method may result in increases or decreases to cost of sales in years that inventory volumes decline as the result of charging cost of sales with LIFO inventory costs generated in prior periods. An actual valuation of inventory under the LIFO method is made at the end of each year based on the inventory levels at that time. Accordingly, interim LIFO calculations are based on management’s estimates of expected year-end inventory levels and are subject to the final year-end LIFO inventory valuation.

Inventories of our Petro-Canada Lubricants and Sonneborn businesses are stated at the lower of cost, using the first-in, first-out (“FIFO”) method, or net realizable value.

Inventories consisting of process chemicals, materials and maintenance supplies and RINs are stated at the lower of weighted-average cost or net realizable value.

Leases: At inception, we determine if an arrangement is or contains a lease. Right-of-use (“ROU”) assets represent our right to use an underlying asset for the lease term and lease liabilities represent our payment obligation under the leasing arrangement. ROU assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. We use our estimated incremental borrowing rate (“IBR”) to determine the present value of lease payments as most of our leases do not contain an implicit rate. Our IBR represents the interest rate which we would pay to borrow, on a collateralized basis, an amount equal to the lease payments over a similar term in a similar economic environment. We use the implicit rate when readily determinable.

Operating leases are recorded in “Operating lease right-of-use assets” and current and noncurrent “Operating lease liabilities” on our consolidated balance sheet. Finance leases are included in “Properties, plants and equipment, at cost” and “Accrued liabilities” and “Other long-term liabilities” on our consolidated balance sheet.

HF SINCLAIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Our lease term includes an option to extend the lease when it is reasonably certain that we will exercise that option. Leases with a term of 12 months or less are not recorded on our balance sheet. For certain equipment leases, we apply a portfolio approach for the operating lease ROU assets and liabilities. Also, as a lessee, we separate non-lease components that are identifiable and exclude them from the determination of net present value of lease payment obligations. In addition, HEP, as a lessor, does not separate the non-lease (service) component for operating leases in contracts in which the lease component is the dominant component. HEP treats these combined components as a lease. HEP bifurcates the consideration received for sales-type lease contracts between lease and service revenue, with the service component accounted for within the scope of Accounting Standards Codification 606.

Revenue Recognition: Revenues on refined product, branded fuel sales, renewable diesel, and excess crude oil sales are recognized when delivered (via pipeline, in-tank or rack) and the customer obtains control of such inventory, which is typically when title passes and the customer is billed. All revenues are reported inclusive of shipping and handling costs billed and exclusive of any taxes billed to customers. Shipping and handling costs incurred are reported as cost of products sold.

Our lubricants and specialty products business has sales agreements with marketers and distributors that provide certain rights of return or provisions for the repurchase of products previously sold to them. Under these agreements, revenues and cost of revenues are deferred until the products have been sold to end customers. Our lubricants and specialty products business also has agreements that create an obligation to deliver products at a future date for which consideration has already been received and recorded as deferred revenue. This revenue is recognized when the products are delivered to the customer.

HEP recognizes revenues as products are shipped through its pipelines and terminals and as other services are rendered. Additionally, HEP has certain throughput agreements that specify minimum volume requirements, whereby HEP bills a customer for a minimum level of shipments in the event a customer ships below their contractual requirements. If there are no future performance obligations, HEP recognizes these deficiency payments as revenue. In certain of these throughput agreements, a customer may later utilize such shortfall billings as credit towards future volume shipments in excess of its minimum levels within its respective contractual shortfall make-up period. Such amounts represent an obligation to perform future services, which may be initially deferred and later recognized as revenue based on estimated future shipping levels, including the likelihood of a customer's ability to utilize such amounts prior to the end of the contractual shortfall make-up period. HEP recognizes the service portion of these deficiency payments as revenue when HEP does not expect it will be required to satisfy these performance obligations in the future based on the pattern of rights exercised by the customer.

Payment terms under our contracts with customers are consistent with industry norms and are typically payable within 30 days of the date of invoice.

Foreign Currency Translation: Assets and liabilities recorded in foreign currencies are translated into U.S. dollars using exchange rates in effect as of the balance sheet date. Revenue and expense accounts are translated using the weighted-average exchange rates during the period presented. Foreign currency translation adjustments are recorded as a component of accumulated other comprehensive income.

We have intercompany notes that were issued to fund certain of our foreign businesses. Remeasurement adjustments resulting from the conversion of intercompany financing amounts to functional currencies are recorded as gains and losses as a component of other income (expense) in the consolidated statements of income. Such adjustments are not recorded to the Lubricants and Specialty Products segment operations, but to Corporate and Other. See Note 15 for additional information on our segments.

Income Taxes: Provisions for income taxes include deferred taxes resulting from temporary differences in income for financial and tax purposes, using the liability method of accounting for income taxes. The liability method requires the effect of tax rate changes on deferred income taxes to be reflected in the period in which the rate change was enacted. The liability method also requires that deferred tax assets be reduced by a valuation allowance unless it is more likely than not that the assets will be realized. We account for U.S. tax on global intangible low-taxed income in the period in which it is incurred.

Potential interest and penalties related to income tax matters are recognized in income tax expense. We believe we have appropriate support for the income tax positions taken and to be taken on our income tax returns and that our accruals for tax liabilities are adequate for all open years based on an assessment of many factors, including past experience and interpretations of tax law applied to the facts of each matter.

HF SINCLAIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

For the six months ended June 30, 2023, we recorded an income tax expense of \$245.6 million compared to \$404.8 million for the six months ended June 30, 2022. This decrease was principally due to lower pre-tax income during the six months ended June 30, 2023 compared to the same period of 2022. Our effective tax rates were 21.1% and 22.0% for the six months ended June 30, 2023 and 2022, respectively. The difference between the U.S. federal statutory rate and the effective tax rate for the six months ended June 30, 2023 is primarily due to the impact of federal tax credits and the relationship between pre-tax results and the earnings attributable to the noncontrolling interest that is not included in income for tax purposes. The difference in the U.S. federal statutory rate and the effective tax rate for the six months ended June 30, 2022 was primarily due to the impact of federal tax credits and the decrease in the state tax rate applied to our deferred tax assets and liabilities as a result of the Sinclair Transactions.

Inventory Repurchase Obligations: We periodically enter into same-party sell / buy transactions, whereby we sell certain refined product inventory and subsequently repurchase the inventory in order to facilitate delivery to certain locations. Such sell / buy transactions are accounted for as inventory repurchase obligations under which proceeds received under the initial sell is recognized as an inventory repurchase obligation that is subsequently reversed when the inventory is repurchased. For the six months ended June 30, 2023 and 2022, we received proceeds of \$12.3 million and \$21.3 million, respectively, and subsequently repaid \$13.4 million and \$21.4 million, respectively, under these sell / buy transactions.

NOTE 2: Acquisitions

On March 14, 2022, pursuant to the Business Combination Agreement, HF Sinclair completed its acquisition of the Target Company by effecting (a) the HFC Merger and (b) immediately following the HFC Merger, a contribution whereby REH Company contributed all of the equity interests of the Target Company to HF Sinclair in exchange for shares of HF Sinclair, resulting in the Target Company becoming a direct wholly owned subsidiary of HF Sinclair.

In connection with the closing of the HFC Transactions, HF Sinclair issued 60,230,036 shares of HF Sinclair common stock, par value \$0.01 per share, to REH Company, representing 27% of the pro forma equity of HF Sinclair with a value of approximately \$2,149 million based on HollyFrontier's fully diluted shares of common stock outstanding and closing stock price on March 11, 2022. Pursuant to the Business Combination Agreement, REH Company made a \$77.5 million cash payment to HF Sinclair, inclusive of final working capital adjustments, which reduced the aggregate transaction value to approximately \$2,072 million. Of the 60,230,036 shares of HF Sinclair common stock, 2,570,000 shares are currently held in escrow to secure REH Company's RINs credit obligations under Section 6.22 of the Business Combination Agreement. Additionally, on the Closing Date, and immediately prior to the consummation of the HFC Transactions, HEP completed its acquisition of STC, REH Company's integrated crude and refined products midstream business, and issued 21,000,000 common limited partner units and paid cash consideration of \$329.0 million, inclusive of final working capital adjustments, to REH Company in exchange for all the outstanding equity interests of STC (the "HEP Transaction" and together with the HFC Transactions, the "Sinclair Transactions"). Of these 21,000,000 common limited partner units, 5,290,000 units were held in escrow and were released to REH Company in April 2023 upon their satisfaction of the corresponding RINs credit obligations to HF Sinclair to secure REH Company's RINs credit obligations under Section 6.22 of the Business Combination Agreement.

The Sinclair Transactions were accounted for as a business combination using the acquisition method of accounting, with the assets acquired and liabilities assumed at their respective acquisition date fair values at the effective date, with the excess consideration recorded as goodwill.

HF SINCLAIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

The following tables present the purchase consideration and final purchase price allocation of the assets acquired and liabilities assumed on March 14, 2022:

Purchase Consideration (in thousands except for per share amounts)	
Shares of HF Sinclair common stock issued	60,230
Closing price per share of HFC common stock ⁽¹⁾	\$ 35.68
Purchase consideration paid in HF Sinclair common stock	2,149,008
Shares of HEP common units issued to Sinclair	21,000
Closing price per share of HEP common units ⁽²⁾	\$ 16.62
Purchase consideration paid in HEP common units	349,020
Total equity consideration	2,498,028
Cash consideration paid by HEP	328,955
Cash consideration received by HF Sinclair	(77,507)
Total cash consideration	251,448
Total purchase consideration	\$ 2,749,476

(1) Based on the HollyFrontier closing stock price on March 11, 2022.

(2) Based on the HEP closing unit price on March 11, 2022.

	(In thousands)
Assets Acquired	
Accounts receivable	\$ 467,530
Inventories: Crude oil and refined products	906,461
Inventories: Materials, supplies and other	39,350
Properties, plants and equipment	1,242,549
Operating lease right-of-use assets	4,585
Other assets: Intangibles and other	495,621
Total assets acquired	\$ 3,156,096
Liabilities Assumed	
Accounts payable	\$ 564,385
Operating lease liabilities	1,030
Accrued liabilities	84,298
Noncurrent operating lease liabilities	3,554
Deferred income taxes	351,189
Other long-term liabilities	88,098
Total liabilities assumed	\$ 1,092,554
Net assets acquired	\$ 2,063,542
Goodwill	\$ 685,934

The final purchase price allocation resulted in the recognition of \$685.9 million in goodwill. Our Refining, Renewables, Marketing and HEP segments recognized \$244.0 million, \$159.0 million, \$163.8 million and \$119.1 million of goodwill, respectively. The goodwill recognized is primarily attributable to operating and administrative synergies and net deferred tax liabilities arising from the differences between the estimated fair values of assets and liabilities and the tax basis of these assets and liabilities. There are qualitative assumptions of long-term factors that this acquisition creates for our stockholders, including increased scale and diversification that is expected to drive growth through the expanded refining and renewables businesses and the addition of an integrated branded wholesale distribution network. This goodwill is not deductible for income tax purposes.

HF SINCLAIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

The fair value measurements for properties, plants and equipment were based on significant inputs that are not observable in the market and, therefore, represent Level 3 measurements.

The fair value of properties, plants and equipment was based on the combination of the cost and market approaches. Key assumptions in the cost approach include determining the replacement cost by evaluating recent published data and adjusting replacement cost for physical deterioration, functional, and economic obsolescence. We used the market approach to measure the value of certain assets through an analysis of recent sales or offerings of comparable properties. The fair value of crude oil and refined products inventory was based on market prices as of the acquisition date.

Intangibles include the Sinclair trade name, fuel agreements and customer relationships totaling \$221.4 million that are being amortized on a straight-line basis over a range of four to twenty-year period. The intangible assets were valued using the income approach.

The fair value of equity method investments totaled \$234.3 million and was based on a combination of valuation methods including discounted cash flows and the guideline public company method.

Accrued liabilities include \$70.6 million of RINs credit obligations, including 2022 obligations through the Closing Date, which were valued based on market prices for RINs at the effective date, a Level 2 input. REH Company is financially responsible for satisfaction of RINs credit obligations for all periods prior to the closing. This receivable totaled \$68.4 million and was valued based on market prices for RINs at the effective date.

During the three months ended June 30, 2023, we purchased RINs for an aggregate amount of \$11.8 million on behalf of REH Company from third parties at applicable market prices in connection with our provision of services to REH Company under the transition services agreement that we and REH Company entered into at the closing of the Sinclair Transactions. We acted as an agent in these RINs transactions and did not recognize sales or cost of products sold as a result. During the three and six months ended June 30, 2023, we recognized sales of \$5.6 million and \$21.2 million, respectively, related to the sale of RINs to REH Company based on applicable market prices.

All other fair values discussed above were based on significant inputs that are not observable in the market and, therefore, represent Level 3 measurements.

The fair values of all other current receivable and payables were equivalent to their carrying values due to their short-term nature.

We incurred \$3.5 million and \$12.5 million for the three months ended June 30, 2023 and 2022, respectively, and \$7.4 million and \$37.5 million for the six months ended June 30, 2023 and 2022, respectively, in incremental direct acquisition and integration costs that principally relate to legal, advisory and other professional fees and are presented as selling, general and administrative expenses in our statements of income.

NOTE 3: Holly Energy Partners

HEP is a publicly held master limited partnership that owns and / or operates logistic and refinery assets consisting of petroleum product and crude oil pipelines, terminals, tankage, loading rack facilities and refinery processing units that principally support our refining and marketing operations, as well as other third-party refineries, in the Mid-Continent, Southwest and Rocky Mountains geographic regions of the United States. Additionally, as of June 30, 2023, HEP owned a 50% ownership interest in each of Osage Pipe Line Company, LLC, the owner of a pipeline running from Cushing, Oklahoma to El Dorado, Kansas (the "Osage Pipeline"); Cheyenne Pipeline, LLC, the owner of a pipeline running from Fort Laramie, Wyoming to Cheyenne, Wyoming (the "Cheyenne Pipeline") and Cushing Connect Pipeline & Terminal LLC ("Cushing Connect"), the owner of a crude oil storage terminal in Cushing, Oklahoma and a pipeline that runs from Cushing, Oklahoma to our Tulsa West and Tulsa East facilities (collectively, the "Tulsa refineries"); a 25.06% ownership interest in Saddle Butte Pipeline III, LLC, the owner of a pipeline from the Powder River Basin to Casper, Wyoming (the "Saddle Butte Pipeline"); and a 49.995% ownership interest in Pioneer Investments Corp., the owner of a pipeline from Sinclair, Wyoming to the North Salt Lake City, Utah Terminal (the "Pioneer Pipeline").

HF SINCLAIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

At June 30, 2023, we owned a 47% limited partner interest and a non-economic general partner interest in HEP. As the general partner of HEP, we have the sole ability to direct the activities that most significantly impact HEP's financial performance, and therefore as HEP's primary beneficiary, we consolidate HEP.

HEP generates revenues by charging tariffs for transporting petroleum products and crude oil through its pipelines, by charging fees for terminalling refined products and other hydrocarbons, and by storing and providing other services at its storage tanks and terminals. Under our long-term transportation agreements with HEP (discussed further below), we accounted for 80% of HEP's total revenues for the six months ended June 30, 2023. We do not provide financial or equity support through any liquidity arrangements and / or debt guarantees to HEP.

HEP has outstanding debt under its senior secured revolving credit agreement and its senior notes. HEP's creditors have no recourse to our assets. Furthermore, our creditors have no recourse to the assets of HEP and its consolidated subsidiaries. See Note 10 for a description of HEP's debt obligations.

HEP has risk associated with its operations. If a major customer of HEP were to terminate its contracts or fail to meet desired shipping or throughput levels for an extended period of time, revenue would be reduced and HEP could suffer substantial losses to the extent that a new customer is not found. In the event that HEP incurs a loss, our operating results will reflect HEP's loss, net of intercompany eliminations, to the extent of our ownership interest in HEP at that point in time.

STC Acquisition

On August 2, 2021, HEP, REH Company and STC, a wholly owned subsidiary of REH Company, entered into a contribution agreement (as amended on March 14, 2022, the "Contribution Agreement"), which closed on March 14, 2022. Pursuant to the Contribution Agreement, HEP acquired all of the outstanding equity interests of STC in exchange for 21,000,000 newly issued common limited partner units of HEP with a value of approximately \$349.0 million based on HEP's fully diluted common limited partner units outstanding and HEP's closing unit price on March 11, 2022, and cash consideration equal to \$329.0 million, inclusive of final working capital adjustments pursuant to the Contribution Agreement for an aggregate transaction value of \$678.0 million.

As a result of this common unit issuance and our resulting HEP ownership change, we adjusted additional capital and equity attributable to HEP's noncontrolling interest holders to reallocate HEP's equity among its unitholders.

As part of HEP's acquisition of STC, HEP acquired the 25.0% non-operated interest of UNEV Pipeline, LLC ("UNEV") not already owned by HEP and as such, UNEV, the owner of a pipeline running from Woods Cross, Utah to Las Vegas, Nevada and associated product terminals, became a wholly owned subsidiary of HEP.

Transportation Agreements

HEP serves our refineries under long-term pipeline, terminal and tankage throughput agreements and refinery processing tolling agreements expiring from 2024 through 2037. Under these agreements, we pay HEP fees to transport, store and process throughput volumes of refined products, crude oil and feedstocks on HEP's pipelines, terminals, tankage, loading rack facilities and refinery processing units that result in minimum annual payments to HEP. Under these agreements, the agreed upon tariff rates are subject to annual tariff rate adjustments on July 1 at a rate based upon the percentage change in Producer Price Index or Federal Energy Regulatory Commission index. As of July 1, 2023, these agreements require minimum annualized payments to HEP of \$496.5 million.

Our transactions with HEP and fees paid under our transportation agreements with HEP are eliminated and have no impact on our consolidated financial statements.

Lessor Accounting

Our consolidated statements of income reflect lease revenue recognized by HEP for contracts with third parties in which HEP is the lessor.

HF SINCLAIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Lease income recognized was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(In thousands)			
Operating lease revenues	\$ 4,462	\$ 3,874	\$ 8,712	\$ 7,157
Sales-type lease interest income	\$ 208	\$ 629	\$ 831	\$ 1,261
Lease revenues relating to variable lease payments not included in measurement of the sales-type lease receivable	\$ 542	\$ 708	\$ 863	\$ 1,069

NOTE 4: Revenues

Substantially all revenue-generating activities relate to sales of refined product, branded fuel, renewable diesel and excess crude oil inventories sold at market prices (variable consideration) under contracts with customers. Additionally, we have revenues attributable to HEP logistics services provided under petroleum product and crude oil pipeline transportation, processing, storage and terminalling agreements with third parties.

Disaggregated revenues were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(In thousands)			
Revenues by type				
Refined product revenues				
Transportation fuels ⁽¹⁾	\$ 4,725,169	\$ 7,783,925	\$ 9,233,063	\$ 13,084,961
Specialty lubricant products ⁽²⁾	635,375	748,099	1,315,237	1,430,140
Asphalt, fuel oil and other products ⁽³⁾	572,520	538,545	1,012,859	977,727
Total refined product revenues	5,933,064	9,070,569	11,561,159	15,492,828
Excess crude oil revenues ⁽⁴⁾	621,750	571,874	1,332,647	1,254,471
Renewable diesel revenues ⁽⁵⁾	175,063	115,939	377,476	144,252
Transportation and logistics services	29,833	25,233	56,249	53,177
Marketing revenues ⁽⁶⁾	1,040,933	1,336,302	1,978,318	1,613,343
Other revenues ⁽⁷⁾	33,003	42,243	92,939	62,839
Total sales and other revenues	\$ 7,833,646	\$ 11,162,160	\$ 15,398,788	\$ 18,620,910

HF SINCLAIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(In thousands)			
Refined product revenues by market				
United States				
Mid-Continent	\$ 2,276,837	\$ 4,145,654	\$ 4,283,993	\$ 7,055,122
Southwest	890,586	1,464,245	1,723,288	2,527,349
Rocky Mountains	2,207,770	2,806,262	4,405,597	4,664,749
Northeast	233,695	274,422	497,599	517,859
Canada	254,952	290,474	505,676	544,433
Europe, Asia and Latin America	69,224	89,512	145,006	183,316
Total refined product revenues	\$ 5,933,064	\$ 9,070,569	\$ 11,561,159	\$ 15,492,828

- (1) Transportation fuels revenues are attributable to our Refining segment wholesale marketing of gasoline, diesel and jet fuel.
- (2) Specialty lubricant products consist of base oil, waxes, finished lubricants and other specialty fluids.
- (3) Asphalt, fuel oil and other products revenues include revenues attributable to our Refining and Lubricants and Specialty Products segments of \$522.2 million and \$50.3 million, respectively, for the three months ended June 30, 2023, \$909.0 million and \$103.8 million, respectively, for the six months ended June 30, 2023, \$443.4 million and \$95.1 million, respectively, for the three months ended June 30, 2022 and \$811.0 million and \$166.7 million, respectively, for the six months ended June 30, 2022.
- (4) Excess crude oil revenues represent sales of purchased crude oil inventory that at times exceeds the supply needs of our refineries.
- (5) Renewable diesel revenues are attributable to our Renewables segment.
- (6) Marketing revenues are primarily attributable to our Marketing segment sales of branded gasoline and diesel fuel.
- (7) Other revenues are principally attributable to our Refining segment.

Our consolidated balance sheets reflect contract liabilities related to unearned revenues attributable to future service obligations under HEP's third-party transportation agreements and production agreements from our Sonneborn operations. The following table presents changes to our contract liabilities:

	Six Months Ended June 30,	
	2023	2022
	(In thousands)	
Balance at January 1	\$ 10,722	\$ 9,278
Increase	9,547	16,209
Recognized as revenue	(10,986)	(15,787)
Balance at June 30	<u>\$ 9,283</u>	<u>\$ 9,700</u>

As of June 30, 2023, we have long-term contracts with customers that specify minimum volumes of gasoline, diesel, lubricants and specialty products to be sold ratably at market prices through 2032. Future prices are subject to market fluctuations and therefore, we have elected the exemption to exclude variable consideration under these contracts under Accounting Standards Codification 606-10-50-14A. Aggregate minimum volumes expected to be sold (future performance obligations) under our long-term product sales contracts with customers are as follows:

	Remainder of 2023	2024	2025	Thereafter	Total
	(In thousands)				
Refined product sales volumes (barrels)	18,859	33,127	24,978	27,714	104,678

HF SINCLAIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Additionally, HEP has long-term contracts with third-party customers that specify minimum volumes of product to be transported through its pipelines and terminals that result in fixed-minimum annual revenues through 2033. Annual minimum revenues attributable to HEP's third-party contracts as of June 30, 2023 are presented below:

	<u>Remainder of 2023</u>	<u>2024</u>	<u>2025</u>	<u>Thereafter</u>	<u>Total</u>
	(In thousands)				
HEP contractual minimum revenues	\$ 9,966	\$ 20,656	\$ 11,097	\$ 50,247	\$ 91,966

NOTE 5: Fair Value Measurements

Our financial instruments measured at fair value on a recurring basis consist of derivative instruments and RINs receivable and credit obligations.

Fair value measurements are derived using inputs (assumptions that market participants would use in pricing an asset or liability, including assumptions about risk). GAAP categorizes inputs used in fair value measurements into three broad levels as follows:

- (Level 1) Quoted prices in active markets for identical assets or liabilities.
- (Level 2) Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, similar assets and liabilities in markets that are not active or can be corroborated by observable market data.
- (Level 3) Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes valuation techniques that involve significant unobservable inputs.

The carrying amounts of derivative instruments and RINs receivable and credit obligations at June 30, 2023 and December 31, 2022 were as follows:

		Fair Value by Input Level			
	Carrying Amount	Level 1	Level 2	Level 3	
		(In thousands)			
June 30, 2023					
Assets:					
NYMEX futures contracts	\$ 276	\$ 276	\$ —	\$ —	
Commodity price swaps	4,383	—	4,383	—	
Commodity forward contracts	464	—	464	—	
RINs receivable ⁽¹⁾	38,013	—	38,013	—	
Foreign currency forward contracts	2,832	—	2,832	—	
Total assets	<u>\$ 45,968</u>	<u>\$ 276</u>	<u>\$ 45,692</u>	<u>\$ —</u>	
Liabilities:					
Commodity collar contracts	\$ 10,626	\$ —	\$ 10,626	\$ —	
Commodity forward contracts	341	—	341	—	
Foreign currency forward contracts	6,377	—	6,377	—	
RINs credit obligations ⁽¹⁾	38,013	—	38,013	—	
Total liabilities	<u>\$ 55,357</u>	<u>\$ —</u>	<u>\$ 55,357</u>	<u>\$ —</u>	

HF SINCLAIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

	Carrying Amount	Fair Value by Input Level		
		Level 1	Level 2	Level 3
(In thousands)				
December 31, 2022				
Assets:				
Commodity price swaps	\$ 342	\$ —	\$ 342	\$ —
Commodity forward contracts	2,949	—	2,949	—
RINs receivable ⁽¹⁾	81,232	—	81,232	—
Foreign currency forward contracts	15,359	—	15,359	—
Total assets	<u>\$ 99,882</u>	<u>\$ —</u>	<u>\$ 99,882</u>	<u>\$ —</u>
Liabilities:				
NYMEX futures contracts	\$ 2,750	\$ 2,750	\$ —	\$ —
Commodity collar contracts	6,275	—	6,275	—
Commodity forward contracts	2,987	—	2,987	—
RINs credit obligations ⁽¹⁾	81,232	—	81,232	—
Total liabilities	<u>\$ 93,244</u>	<u>\$ 2,750</u>	<u>\$ 90,494</u>	<u>\$ —</u>

- (1) REH Company is financially responsible for satisfaction of RINs credit obligations for all periods prior to the closing of the Sinclair Transactions. See Note 2 for additional information on RINs credit obligations assumed in the Sinclair Transactions.

Level 1 Instruments

Our New York Mercantile Exchange (“NYMEX”) futures contracts are exchange traded and are measured and recorded at fair value using quoted market prices, a Level 1 input.

Level 2 Financial Instruments

Derivative instruments consisting of foreign currency forward contracts, commodity price swaps, commodity collar contracts and forward sales and purchase contracts are measured and recorded at fair value using Level 2 inputs. The fair value of the commodity price swap contracts is based on the net present value of expected future cash flows related to both variable and fixed rate legs of the respective swap agreements. The measurements are computed using market-based observable input and quoted forward commodity prices with respect to our commodity price swaps. The fair value of the commodity collar contracts is based on forward natural gas prices. The fair value of the forward sales and purchase contracts is computed using quoted forward commodity prices. The fair value of foreign currency forward contracts is based on values provided by a third party, which were derived using market quotes for similar type instruments, a Level 2 input. RINs credit obligations are valued based on current market RINs prices.

Nonrecurring Fair Value Measurements

During the six months ended June 30, 2023, we recognized assets and liabilities based on fair value measurements for the Sinclair Transactions (see Note 2). The fair value measurements were based on a combination of valuation methods including discounted cash flows, the guideline public company and guideline transaction methods and obsolescence adjusted replacement costs, all of which are Level 3 inputs.

HF SINCLAIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

NOTE 6: Earnings Per Share

Basic earnings per share is calculated as net income attributable to HF Sinclair stockholders, adjusted for participating securities' share in earnings divided by the average number of shares of common stock outstanding. Diluted earnings per share includes the incremental shares resulting from certain share-based awards. The following is a reconciliation of the denominators of the basic and diluted per share computations for net income attributable to HF Sinclair stockholders:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
(In thousands, except per share data)				
Net income attributable to HF Sinclair stockholders	\$ 507,661	\$ 1,221,262	\$ 860,927	\$ 1,381,236
Participating securities' share in earnings ⁽¹⁾	4,411	11,632	7,304	14,888
Net income attributable to common shares	<u>\$ 503,250</u>	<u>\$ 1,209,630</u>	<u>\$ 853,623</u>	<u>\$ 1,366,348</u>
Average number of shares of common stock outstanding	192,348	222,952	193,888	199,149
Average number of shares of common stock outstanding assuming dilution	<u>192,348</u>	<u>222,952</u>	<u>193,888</u>	<u>199,149</u>
Basic earnings per share	<u>\$ 2.62</u>	<u>\$ 5.43</u>	<u>\$ 4.40</u>	<u>\$ 6.86</u>
Diluted earnings per share	<u>\$ 2.62</u>	<u>\$ 5.43</u>	<u>\$ 4.40</u>	<u>\$ 6.86</u>

- (1) Unvested restricted stock unit awards and unvested performance share units that settle in HF Sinclair common stock represent participating securities because they participate in nonforfeitable dividends or distributions with the common stockholders of HF Sinclair. Participating earnings represent the distributed and undistributed earnings of HF Sinclair attributable to the participating securities. Unvested restricted stock unit awards and performance share units do not participate in undistributed net losses as they are not contractually obligated to do so.

NOTE 7: Stock-Based Compensation

We have a principal share-based compensation plan (the HF Sinclair Corporation Amended and Restated 2020 Long Term Incentive Plan, the "2020 Plan"). The 2020 Plan provides for the grant of unrestricted and restricted stock, restricted stock units, other stock-based awards, stock options, performance awards, substitute awards, cash awards and stock appreciation rights. The restricted stock unit awards generally vest over a period of one to three years. Upon vesting, restrictions on the restricted stock units lapse at which time they convert to common shares or cash. The performance share units generally vest over a period of three years and are payable in stock or cash upon meeting certain financial and performance criteria. The number of shares ultimately issued or cash paid for the performance share units can range from zero to 200% of target award amounts. The holders of unvested restricted stock units and performance share units have the right to receive dividends. We also have a stock compensation deferral plan which allows non-employee directors to defer settlement of vested stock granted under our share-based compensation plan.

The compensation cost for these plans was \$11.3 million and \$8.4 million for the three months ended June 30, 2023 and 2022, respectively, and \$14.6 million and \$17.3 million for the six months ended June 30, 2023 and 2022, respectively.

Additionally, HEP maintains an equity-based compensation plan for Holly Logistic Services, L.L.C.'s non-employee directors and certain executives and employees. Compensation cost attributable to HEP's equity-based compensation plan was \$0.4 million and \$0.6 million for the three months ended June 30, 2023 and 2022, respectively, and \$0.7 million and \$1.2 million for the six months ended June 30, 2023 and 2022, respectively.

HF SINCLAIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

A summary of restricted stock unit and performance share unit activity during the six months ended June 30, 2023 is presented below:

	Restricted Stock Units	Performance Share Units
Outstanding at January 1, 2023	1,055,875	771,197
Granted ⁽¹⁾	77,317	49,137
Vested	(11,960)	(3,077)
Forfeited	(42,283)	(13,274)
Performance share units converted to restricted stock units	225,217	(225,217)
Outstanding at June 30, 2023	<u>1,304,166</u>	<u>578,766</u>
(1) Weighted average grant date fair value per unit	\$ 44.51	\$ 73.27

NOTE 8: Inventories

Inventories consist of the following components:

	June 30, 2023	December 31, 2022
	(In thousands)	
Crude oil	\$ 816,868	\$ 818,737
Other raw materials and unfinished products ⁽¹⁾	809,784	842,855
Finished products ⁽²⁾	1,352,418	1,252,984
Lower of cost or market reserve	(100,885)	(61,151)
Process chemicals ⁽³⁾	50,402	53,900
Repair and maintenance supplies and other ⁽⁴⁾	330,021	307,203
Total inventory	<u>\$ 3,258,608</u>	<u>\$ 3,214,528</u>

(1) Other raw materials and unfinished products include feedstocks and blendstocks, other than crude.

(2) Finished products include gasolines, jet fuels, diesels, renewable diesels, lubricants, asphalts, LPG's and residual fuels.

(3) Process chemicals include additives and other chemicals.

(4) Includes RINs.

Our Renewables segment inventories that are valued at the lower of LIFO cost or market reflect a valuation reserve of \$74.0 million and \$61.2 million at June 30, 2023 and December 31, 2022, respectively. A new market reserve of \$74.0 million as of June 30, 2023 was based on market conditions and prices at that time. The effect of the change in the lower of cost or market reserve was a decrease to cost of products sold totaling \$34.7 million for the three months ended June 30, 2023, an increase to cost of products sold totaling \$34.5 million for the three months ended June 30, 2022 and an increase to cost of products sold totaling \$12.9 million and \$26.0 million for the six months ended June 30, 2023 and 2022, respectively.

Our Refining segment inventories that are valued at the lower of LIFO cost or market reflect a new market reserve of \$26.8 million that was established as of June 30, 2023 based on market conditions and prices at that time. The effect of the change in the lower of cost or market reserve was an increase to cost of products sold totaling \$26.8 million for both the three and six months ended June 30, 2023.

At June 30, 2023, the LIFO value of inventory, net of the lower of cost or market reserve, was equal to current costs.

HF SINCLAIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

NOTE 9: Environmental

Environmental costs are charged to operating expenses if they relate to an existing condition caused by past operations and do not contribute to current or future revenue generation. We have ongoing investigations of environmental matters at various locations and routinely assess our recorded environmental obligations, if any, with respect to such matters. Liabilities are recorded when site restoration and environmental remediation, cleanup and other obligations are either known or considered probable and can be reasonably estimated. Such estimates are undiscounted and require judgment with respect to costs, time frame and extent of required remedial and cleanup activities and are subject to periodic adjustments based on currently available information. Recoveries of environmental costs through insurance, indemnification arrangements or other sources are included in other assets to the extent such recoveries are considered probable.

We incurred expense of \$2.2 million and \$0.7 million for the three months ended June 30, 2023 and 2022, respectively, and \$15.4 million and \$2.8 million for the six months ended June 30, 2023 and 2022, respectively, for environmental remediation obligations. The accrued environmental liability reflected on our consolidated balance sheets was \$198.6 million and \$192.3 million at June 30, 2023 and December 31, 2022, respectively, of which \$164.6 million and \$170.0 million, respectively, were classified as other long-term liabilities. These accruals include remediation and monitoring costs expected to be incurred over an extended period of time. Accrued environmental liabilities assumed in the Sinclair Transactions were \$72.2 million at the acquisition date and an associated receivable from third parties of \$21.5 million. Estimated liabilities could increase in the future when the results of ongoing investigations become known, are considered probable and can be reasonably estimated.

NOTE 10: Debt

HF Sinclair Credit Agreement

We have a \$1.65 billion senior unsecured revolving credit facility maturing in April 2026 (the “HF Sinclair Credit Agreement”). The HF Sinclair Credit Agreement may be used for revolving credit loans and letters of credit from time to time and is available to fund general corporate purposes. At June 30, 2023, we were in compliance with all covenants, had no outstanding borrowings and had outstanding letters of credit totaling \$0.3 million under the HF Sinclair Credit Agreement.

Indebtedness under the HF Sinclair Credit Agreement bears interest, at our option, based on the currency of such indebtedness at either (a) a base rate equal to the highest of the Federal Funds Effective Rate (as defined in the HF Sinclair Credit Agreement) plus half of 1%, Spread Adjusted Term SOFR (as defined in the HF Sinclair Credit Agreement) for a one-month interest period plus 1% and the prime rate (as publicly announced from time to time by the administrative agent), as applicable, plus an applicable margin (ranging from 0.25% to 1.125%), (b) the CDOR Rate (as defined in the HF Sinclair Credit Agreement) plus an applicable margin (ranging from 1.25% to 2.125%), (c) the Spread Adjusted Term SOFR (as defined in the HF Sinclair Credit Agreement) plus an applicable margin (ranging from 1.25% to 2.125%) or (d) the Daily Simple RFR (as defined in the HF Sinclair Credit Agreement) plus an applicable margin (ranging from 1.25% to 2.125%). In each case, the applicable margin is based on HF Sinclair’s debt rating assigned by Standard & Poor’s Financial Services LLC and Moody’s Investors Service, Inc.

HEP Credit Agreement

HEP has a \$1.2 billion senior secured revolving credit facility maturing in July 2025 (the “HEP Credit Agreement”). The HEP Credit Agreement is available to fund capital expenditures, investments, acquisitions, distribution payments, working capital and for general partnership purposes. It is also available to fund letters of credit up to a \$50 million sub-limit and has an accordion feature that allows HEP to increase the commitments under the HEP Credit Agreement up to a maximum amount of \$1.7 billion. At June 30, 2023, HEP was in compliance with all of its covenants, had outstanding borrowings of \$606.0 million and no outstanding letters of credit under the HEP Credit Agreement.

Prior to the Investment Grade Date (as defined in the HEP Credit Agreement), indebtedness under the HEP Credit Agreement bears interest, at HEP’s option, at either (a) the Alternate Base Rate (as defined in the HEP Credit Agreement) plus an applicable margin (ranging from 0.75% to 1.75%) or (b) Adjusted Term SOFR (as defined in the HEP Credit Agreement) plus an applicable margin (ranging from 1.75% to 2.75%). In each case, the applicable margin is based upon HEP’s Total Leverage Ratio (as defined in the HEP Credit Agreement). The weighted average interest rate in effect under the HEP Credit Agreement on HEP’s borrowings was 7.20% as of June 30, 2023.

HF SINCLAIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

HEP's obligations under the HEP Credit Agreement are collateralized by substantially all of HEP's assets and are guaranteed by HEP's material wholly owned subsidiaries. Any recourse to the general partner would be limited to the extent of HEP Logistics Holdings, L.P.'s assets, which other than its investment in HEP are not significant. HEP's creditors have no recourse to our other assets. Furthermore, our creditors have no recourse to the assets of HEP and its consolidated subsidiaries.

HollyFrontier and HF Sinclair Senior Notes

At June 30, 2023, our senior notes consisted of the following:

- \$59.637 million in aggregate principal amount of 2.625% senior notes maturing October 2023 (the "HollyFrontier 2.625% Senior Notes"),
- \$202.9 million in aggregate principal amount of 5.875% senior notes maturing April 2026 (the "HollyFrontier 5.875% Senior Notes"), and
- \$74.966 million in aggregate principal amount of 4.500% senior notes maturing October 2030 (the "HollyFrontier 4.500% Senior Notes" and, collectively, the "HollyFrontier Senior Notes").
- \$248.190 million in aggregate principal amount of 2.625% senior notes maturing October 2023 (the "HF Sinclair 2.625% Senior Notes"),
- \$797.1 million in aggregate principal amount of 5.875% senior notes maturing April 2026 (the "HF Sinclair 5.875% Senior Notes"), and
- \$325.034 million in aggregate principal amount of 4.500% senior notes maturing October 2030 (the "HF Sinclair 4.500% Senior Notes" and, collectively, the "HF Sinclair Senior Notes").

The HollyFrontier Senior Notes and HF Sinclair Senior Notes are unsecured and unsubordinated obligations of ours and rank equally with all future unsecured and unsubordinated indebtedness.

Further, we may from time to time seek to retire some or all of our outstanding debt or debt agreements through cash purchases, and/or exchanges, open market purchases, privately negotiated transactions, tender offers or otherwise. Such transactions, if any, may be material and will depend on prevailing market conditions, our liquidity requirements and other factors.

HF Sinclair Financing Arrangements

Certain of our wholly owned subsidiaries entered into financing arrangements whereby such subsidiaries sold a portion of their precious metals catalyst to a financial institution and then leased back the precious metals catalyst in exchange for cash. The volume of the precious metals catalyst and the lease rate are fixed over the term of each lease, and the lease payments are recorded as interest expense. The current leases mature in one year or less. Upon maturity, we must either satisfy the obligation at fair market value or refinance to extend the maturity. These financing arrangements are recorded at a Level 2 fair value totaling \$34.2 million and \$39.8 million at June 30, 2023 and December 31, 2022, respectively, and are included in "Accrued liabilities" on our consolidated balance sheets. See Note 5 for additional information on Level 2 inputs.

HF Sinclair may, from time to time, issue letters of credit pursuant to uncommitted letters of credit facilities with its lenders. At June 30, 2023, there were no letters of credit outstanding under such credit facilities.

HEP Senior Notes

At June 30, 2023, HEP's senior notes consisted of the following:

- \$400.0 million in aggregate principal amount of 6.375% senior notes maturing April 2027 (the "HEP 6.375% Senior Notes"), and
- \$500.0 million in aggregate principal amount of 5.0% HEP senior notes maturing February 2028 (the "HEP 5.0% Senior Notes").

These HEP senior notes (collectively, the "HEP Senior Notes") are unsecured and impose certain restrictive covenants, including limitations on HEP's ability to incur additional indebtedness, make investments, sell assets, incur certain liens, pay distributions, enter into transactions with affiliates, and enter into mergers. HEP was in compliance with the restrictive covenants for the HEP Senior Notes as of June 30, 2023. At any time when the HEP Senior Notes are rated investment grade by either Moody's Investors Service, Inc. or S&P Global Ratings and no default or event of default exists, HEP will not be subject to many of the foregoing covenants. Additionally, HEP has certain redemption rights at varying premiums over face value under the HEP Senior Notes.

HF SINCLAIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Indebtedness under the HEP Senior Notes is guaranteed by certain of HEP's wholly owned subsidiaries. HEP's creditors have no recourse to our assets. Furthermore, our creditors have no recourse to the assets of HEP and its consolidated subsidiaries.

The carrying amounts of long-term debt are as follows:

	June 30, 2023	December 31, 2022
	(In thousands)	
HollyFrontier		
2.625% Senior Notes	\$ 59,637	\$ 59,637
5.875% Senior Notes	202,900	202,900
4.500% Senior Notes	74,966	74,966
	<u>337,503</u>	<u>337,503</u>
HF Sinclair		
2.625% Senior Notes	248,190	248,190
5.875% Senior Notes	797,100	797,100
4.500% Senior Notes	325,034	325,034
	<u>1,370,324</u>	<u>1,370,324</u>
Less current debt ⁽¹⁾	(307,551)	(306,959)
Unamortized discount and debt issuance costs ⁽¹⁾	(7,246)	(8,689)
Total HF Sinclair long-term debt	<u>1,393,030</u>	<u>1,392,179</u>
HEP Credit Agreement	606,000	668,000
HEP		
5.000% Senior Notes	500,000	500,000
6.375% Senior Notes	400,000	400,000
	<u>900,000</u>	<u>900,000</u>
Unamortized discount and debt issuance costs	(10,558)	(11,666)
Total HEP long-term debt	<u>1,495,442</u>	<u>1,556,334</u>
Total long-term debt	<u><u>\$ 2,888,472</u></u>	<u><u>\$ 2,948,513</u></u>

- (1) The HollyFrontier 2.625% Senior Notes and HF Sinclair 2.625% Senior Notes, inclusive of unamortized discount and debt issuance costs of \$0.3 million and \$0.9 million at June 30, 2023 and December 31, 2022, respectively, are due October 2023 and were classified as current debt on our consolidated balance sheets.

The fair values of the senior notes are as follows:

	June 30, 2023	December 31, 2022
	(In thousands)	
HollyFrontier and HF Sinclair Senior Notes	\$ 1,649,440	\$ 1,655,726
HEP Senior Notes	\$ 859,667	\$ 852,658

These fair values are based on a Level 2 input. See Note 5 for additional information on Level 2 inputs.

HF SINCLAIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

We capitalized \$1.2 million for each of the three months ended June 30, 2023 and 2022, and \$2.5 million and \$4.9 million for the six months ended June 30, 2023 and 2022, respectively, of interest attributable to construction projects.

NOTE 11: Derivative Instruments and Hedging Activities

Commodity Price Risk Management

Our primary market risk is commodity price risk. We are exposed to market risks related to the volatility in crude oil and refined products, as well as volatility in the price of natural gas used in our refining operations. We periodically enter into derivative contracts in the form of commodity price swaps, collar contracts, forward purchase and sales and futures contracts to mitigate price exposure with respect to our inventory positions, natural gas purchases, sales prices of refined products and crude oil costs.

Foreign Currency Risk Management

We are exposed to market risk related to the volatility in foreign currency exchange rates. We periodically enter into derivative contracts in the form of foreign exchange forward contracts to mitigate the exposure associated with fluctuations on intercompany notes with our foreign subsidiaries that are not denominated in the U.S. dollar.

Accounting Hedges

We periodically have forward sales contracts that lock in the prices of future sales of crude oil and refined product. These contracts have been designated as accounting hedges and are measured at fair value with offsetting adjustments (gains/losses) recorded directly to other comprehensive income (loss). These fair value adjustments are later reclassified to earnings as the hedging instruments mature.

The following table presents the pre-tax effect on other comprehensive income ("OCI") and earnings due to fair value adjustments and maturities of hedging instruments under hedge accounting:

Derivatives Designated as Cash Flow Hedging Instruments	Net Unrealized Loss Recognized in OCI		Gain Reclassified into Earnings		
	Three Months Ended June 30,		Income Statement Location	Three Months Ended June 30,	
	2023	2022		2023	2022
			(In thousands)		
Commodity contracts	\$ (271)	\$ —	Sales and other revenues	\$ 271	\$ —
Total	<u>\$ (271)</u>	<u>\$ —</u>		<u>\$ 271</u>	<u>\$ —</u>

Derivatives Designated as Cash Flow Hedging Instruments	Net Unrealized Gain Recognized in OCI		Gain (Loss) Reclassified into Earnings		
	Six Months Ended June 30,		Income Statement Location	Six Months Ended June 30,	
	2023	2022		2023	2022
			(In thousands)		
Commodity contracts	\$ —	\$ 326	Sales and other revenues	\$ 270	\$ (5,288)
Total	<u>\$ —</u>	<u>\$ 326</u>		<u>\$ 270</u>	<u>\$ (5,288)</u>

HF SINCLAIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Economic Hedges

We have commodity contracts including NYMEX futures contracts to lock in prices on forecasted purchases and sales of inventory, collar contracts and basis swap contracts to mitigate exposure to natural gas price volatility and forward purchase and sell contracts of refined products that serve as economic hedges (derivatives used for risk management, but not designated as accounting hedges). We also have forward currency contracts to fix the rate of foreign currency. In addition, our catalyst financing arrangements discussed in Note 10 could require repayment under certain conditions based on the future pricing of platinum, which is an embedded derivative. These contracts are measured at fair value with offsetting adjustments (gains/losses) recorded directly to earnings.

The following table presents the pre-tax effect on income due to maturities and fair value adjustments of our economic hedges:

Derivatives Not Designated as Hedging Instruments	Income Statement Location	Gain (Loss) Recognized in Earnings			
		Three Months Ended		Six Months Ended	
		June 30,		June 30,	
		2023	2022	2023	2022
		(In thousands)			
Commodity contracts	Cost of products sold	\$ 13,154	\$ (27,618)	\$ 19,902	\$ (37,406)
	Operating expenses	3,648	—	(10,410)	—
	Interest expense	2,514	4,001	4,920	2,580
Foreign currency contracts	Gain (loss) on foreign currency transactions	(8,716)	12,960	(8,602)	6,530
	Total	\$ 10,600	\$ (10,657)	\$ 5,810	\$ (28,296)

As of June 30, 2023, we have the following notional contract volumes related to outstanding derivative instruments:

	Total Outstanding Notional	Notional Contract Volumes by Year of Maturity		Unit of Measure
		2023	2024	
<i>Derivatives Not Designated as Hedging Instruments</i>				
NYMEX futures (WTI) - short	1,375,000	1,375,000	—	Barrels
Forward gasoline and diesel contracts - long	90,000	90,000	—	Barrels
Foreign currency forward contracts	422,700,406	212,920,406	209,780,000	U.S. dollar
Forward commodity contracts (platinum)	36,969	—	36,969	Troy ounces
Natural gas price swaps (basis spread) - long	2,576,000	2,576,000	—	MMBTU
Natural gas collar contracts	14,720,000	14,720,000	—	MMBTU

HF SINCLAIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

The following table presents the fair value and balance sheet locations of our outstanding derivative instruments. These amounts are presented on a gross basis with offsetting balances that reconcile to a net asset or liability position in our consolidated balance sheets. We present on a net basis to reflect the net settlement of these positions in accordance with provisions of our master netting arrangements.

	Derivatives in Net Asset Position			Derivatives in Net Liability Position		
	Gross Assets	Gross Liabilities Offset in Balance Sheet	Net Assets Recognized in Balance Sheet	Gross Liabilities	Gross Assets Offset in Balance Sheet	Net Liabilities Recognized in Balance Sheet
(In thousands)						
June 30, 2023						
<i>Derivatives not designated as cash flow hedging instruments:</i>						
NYMEX futures contracts	\$ 276	\$ —	\$ 276	\$ —	\$ —	\$ —
Commodity price swap contracts	4,383	—	4,383	—	—	—
Commodity collar contracts	—	—	—	10,626	—	10,626
Commodity forward contracts	464	—	464	341	—	341
Foreign currency forward contracts	2,832	—	2,832	6,377	—	6,377
	<u>\$ 7,955</u>	<u>\$ —</u>	<u>\$ 7,955</u>	<u>\$ 17,344</u>	<u>\$ —</u>	<u>\$ 17,344</u>
Total net balance			<u>\$ 7,955</u>			<u>\$ 17,344</u>
Balance sheet classification:	Prepayment and other		<u>\$ 7,955</u>	Accrued liabilities		<u>\$ 17,344</u>

	Derivatives in Net Asset Position			Derivatives in Net Liability Position		
	Gross Assets	Gross Liabilities Offset in Balance Sheet	Net Assets Recognized in Balance Sheet	Gross Liabilities	Gross Assets Offset in Balance Sheet	Net Liabilities Recognized in Balance Sheet
(In thousands)						
December 31, 2022						
<i>Derivatives not designated as cash flow hedging instruments:</i>						
NYMEX futures contracts	\$ —	\$ —	\$ —	\$ 2,750	\$ —	\$ 2,750
Commodity price swap contracts	342	—	342	—	—	—
Commodity collar contracts	—	—	—	6,275	—	6,275
Commodity forward contracts	2,949	—	2,949	2,987	—	2,987
Foreign currency forward contracts	15,359	—	15,359	—	—	—
	<u>\$ 18,650</u>	<u>\$ —</u>	<u>\$ 18,650</u>	<u>\$ 12,012</u>	<u>\$ —</u>	<u>\$ 12,012</u>
Total net balance			<u>\$ 18,650</u>			<u>\$ 12,012</u>
Balance sheet classification:	Prepayment and other		<u>\$ 18,650</u>	Accrued liabilities		<u>\$ 12,012</u>

HF SINCLAIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

NOTE 12: Equity

In September 2022, our Board of Directors approved a \$1.0 billion share repurchase program, which replaced all existing share repurchase programs, authorizing us to repurchase common stock in the open market or through privately negotiated transactions. Privately negotiated repurchases from REH Company are also authorized under this share repurchase program, subject to REH Company's interest in selling its shares and other limitations. The timing and amount of share repurchases, including those from REH Company, will depend on market conditions and corporate, tax, regulatory and other relevant considerations. This program may be discontinued at any time by our Board of Directors. In addition, we are authorized by our Board of Directors to repurchase shares in an amount sufficient to offset shares issued under our compensation programs.

As of June 30, 2023, we had remaining authorization to repurchase up to \$419.7 million under this share repurchase program.

On July 28, 2023, we entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") with REH Company, pursuant to which we repurchased from REH Company 8,200,000 shares of our outstanding common stock, par value \$0.01 per share, on August 2, 2023 in a privately negotiated transaction under our share repurchase program. The price paid by us under the Stock Purchase Agreement was \$50.07 per share resulting in an aggregate purchase price of \$410.6 million. The purchase price was funded with cash on hand. As of August 2, 2023, we had remaining authorization to repurchase up to \$5.0 million under our share repurchase program.

The following table presents total open market and privately negotiated purchases of shares under our share repurchase programs for the three and six months ended June 30, 2023 and 2022.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Number of shares repurchased ⁽¹⁾	—	2,730,000	4,793,857	2,730,000
Cash paid for shares repurchased (in thousands)	\$ —	\$ 132,282	\$ 240,323	\$ 132,282

(1) During the six months ended June 30, 2023, 1,969,279 shares were repurchased for \$100.0 million pursuant to privately negotiated repurchases from REH Company.

During the six months ended June 30, 2023 and 2022, we withheld 18,349 and 4,990 shares, respectively, of our common stock under the terms of stock-based compensation agreements to provide funds for the payment of payroll and income taxes due at the vesting of share-based awards.

On August 2, 2023, our Board of Directors declared a regular quarterly dividend in the amount of \$0.45 per share, payable on September 6, 2023 to holders of record of common stock on August 17, 2023.

HF SINCLAIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

NOTE 13: Other Comprehensive Income

The components and allocated tax effects of other comprehensive income are as follows:

	<u>Before-Tax</u>	<u>Tax Expense (Benefit)</u>	<u>After-Tax</u>
		(In thousands)	
Three Months Ended June 30, 2023			
Net change in foreign currency translation adjustment	\$ 9,852	\$ 2,076	\$ 7,776
Net unrealized loss on hedging instruments	(271)	(66)	(205)
Net change in pension and other post-retirement benefit obligations	(960)	(233)	(727)
Other comprehensive income attributable to HF Sinclair stockholders	<u>\$ 8,621</u>	<u>\$ 1,777</u>	<u>\$ 6,844</u>
Three Months Ended June 30, 2022			
Net change in foreign currency translation adjustment	\$ (17,886)	\$ (3,775)	\$ (14,111)
Net change in pension and other post-retirement benefit obligations	(906)	(221)	(685)
Other comprehensive loss attributable to HF Sinclair stockholders	<u>\$ (18,792)</u>	<u>\$ (3,996)</u>	<u>\$ (14,796)</u>
Six Months Ended June 30, 2023			
Net change in foreign currency translation adjustment	\$ 12,778	\$ 2,690	\$ 10,088
Net change in pension and other post-retirement benefit obligations	(1,920)	(466)	(1,454)
Other comprehensive income attributable to HF Sinclair stockholders	<u>\$ 10,858</u>	<u>\$ 2,224</u>	<u>\$ 8,634</u>
Six Months Ended June 30, 2022			
Net change in foreign currency translation adjustment	\$ (16,165)	\$ (3,396)	\$ (12,769)
Net unrealized gain on hedging instruments	326	67	259
Net change in pension and other post-retirement benefit obligations	(1,812)	(442)	(1,370)
Other comprehensive loss attributable to HF Sinclair stockholders	<u>\$ (17,651)</u>	<u>\$ (3,771)</u>	<u>\$ (13,880)</u>

HF SINCLAIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

The following table presents the statements of income line item effects for reclassifications out of accumulated other comprehensive income (loss) ("AOCI"):

AOCI Component	Gain (Loss) Reclassified From AOCI		Statement of Income Line Item
	Three Months Ended June 30,		
	2023	2022	
	(In thousands)		
Hedging instruments:			
Commodity price swaps	\$ 271	\$ —	Sales and other revenues
	66	—	Income tax expense
	205	—	Net of tax
Other post-retirement benefit obligations:			
Pension obligations	45	45	Gain on sale of assets and other
	11	11	Income tax expense
	34	34	Net of tax
Post-retirement healthcare obligations	918	870	Gain on sale of assets and other
	223	211	Income tax expense
	695	659	Net of tax
Retirement restoration plan	(3)	(9)	Gain on sale of assets and other
	(1)	(2)	Income tax expense
	(2)	(7)	Net of tax
Total reclassifications for the period	\$ 932	\$ 686	

AOCI Component	Gain (Loss) Reclassified From AOCI		Statement of Income Line Item
	Six Months Ended June 30,		
	2023	2022	
	(In thousands)		
Hedging instruments:			
Commodity price swaps	\$ 270	\$ (5,288)	Sales and other revenues
	65	(1,282)	Income tax expense
	205	(4,006)	Net of tax
Other post-retirement benefit obligations:			
Pension obligations	90	90	Gain on sale of assets and other
	22	22	Income tax expense
	68	68	Net of tax
Post-retirement healthcare obligations	1,836	1,740	Gain on sale of assets and other
	445	422	Income tax expense
	1,391	1,318	Net of tax
Retirement restoration plan	(6)	(18)	Gain on sale of assets and other
	(1)	(4)	Income tax expense
	(5)	(14)	Net of tax
Total reclassifications for the period	\$ 1,659	\$ (2,634)	

HF SINCLAIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

Accumulated other comprehensive loss in the equity section of our consolidated balance sheets includes:

	June 30, 2023	December 31, 2022
	(In thousands)	
Foreign currency translation adjustment	\$ (23,339)	\$ (33,427)
Unrealized loss on pension obligations	(2,751)	(2,661)
Unrealized gain on post-retirement benefit obligations	12,711	14,075
Accumulated other comprehensive loss	<u>\$ (13,379)</u>	<u>\$ (22,013)</u>

NOTE 14: Contingencies

In the ordinary course of business, we may become party to legal, regulatory or administrative proceedings or governmental investigations, including environmental and other matters. Damages or penalties may be sought from us in some matters and certain matters may require years to resolve. While the outcome and impact of these proceedings and investigations on us cannot be predicted with certainty, based on advice of counsel and information currently available to us, management believes that the resolution of these proceedings and investigations through settlement or adverse judgment will not either individually or in the aggregate have a material adverse effect on our financial condition, results of operations or cash flows.

Pursuant to the Business Combination Agreement, all pre-closing RINs obligations of REH Company's subsidiaries (which are now subsidiaries of HF Sinclair as a result of the HFC Transactions) remain with REH Company. REH Company is required to transfer to HF Sinclair the number of each applicable type of RIN required for REH Company to demonstrate compliance for any pre-closing obligations it retained by the deadlines set forth in the Business Combination Agreement. If REH Company does not deliver all the required RINs by the applicable deadline, then, within five days following the delivery of an invoice therefor, REH Company is required to pay to HF Sinclair the amount of all out-of-pocket costs and expenses incurred by HF Sinclair to comply with REH Company's pre-closing obligations prior to such deadline, including the price of any RINs purchased by HF Sinclair. In relation to this, 2,570,000 shares of HF Sinclair common stock, out of the purchase consideration paid to REH Company, are held in escrow to secure REH Company's RINs credit obligations under Section 6.22 of the Business Combination Agreement. The 5,290,000 HEP common units that were also held in escrow to secure REH Company's RINs credit obligations were released to REH Company in April 2023 upon their satisfaction of the RINs credit obligations relating thereto.

HF SINCLAIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

During 2017 and 2019, the EPA granted the Cheyenne, Wyoming refinery (the “Cheyenne Refinery”) and the refinery in Woods Cross, Utah (the “Woods Cross Refinery”) each a one-year small refinery exemption from the Renewable Fuel Standard program requirements for the 2016 and 2018, respectively, compliance years. As a result, the Cheyenne Refinery’s and Woods Cross Refinery’s gasoline and diesel production are not subject to the renewable volume obligation for the respective years. Upon each exemption granted, we increased our inventory of RINs and reduced our cost of products sold. On April 7, 2022, the EPA issued a decision reversing the grant of small refinery exemptions for our Woods Cross and Cheyenne refineries for the 2018 compliance year. On June 3, 2022, the EPA issued a decision reversing the grant of small refinery exemptions for our Woods Cross and Cheyenne refineries for the 2016 compliance year and denying small refinery exemption petitions for our Woods Cross and Cheyenne refineries for the 2019 and 2020 compliance years. Various subsidiaries of HollyFrontier are currently pursuing legal challenges to the EPA’s decisions to reverse its grant of small refinery exemptions for the 2016 and 2018 compliance years. The first lawsuit, filed against the EPA on May 6, 2022 and currently pending before the U.S. Court of Appeals for the DC Circuit, seeks to have the EPA’s reversal of our 2018 small refinery exemption petitions overturned. The second lawsuit, filed against the EPA on August 5, 2022 and currently pending before the U.S. Court of Appeals for the DC Circuit, seeks to have the EPA’s reversal of our 2016 small refinery exemption petitions overturned and to have the EPA’s denial of our 2019 and 2020 small refinery exemption petitions reversed. In addition, for both the 2016 and 2018 compliance years, pursuant to the June 2022 and April 2022 decisions, respectively, the EPA established an alternative compliance demonstration for small refineries pursuant to which the EPA is not imposing any obligations for the small refineries whose exemptions were reversed. On June 24, 2022, Growth Energy filed two lawsuits in the U.S. Court of Appeals for the DC Circuit against the EPA challenging the alternative compliance demonstration for the 2016 and 2018 compliance years. On July 25, 2022, various subsidiaries of HollyFrontier intervened on behalf of the EPA to aid the defense of the EPA’s alternative compliance demonstration decision. It is too early to predict the outcome of these matters. We are unable to estimate the costs we may incur, if any, at this time.

NOTE 15: Segment Information

Our operations are organized into five reportable segments, Refining, Renewables, Marketing, Lubricants and Specialty Products and HEP. Our operations that are not included in one of these five reportable segments are included in Corporate and Other. Intersegment transactions are eliminated in our consolidated financial statements and are included in Eliminations. Corporate and Other and Eliminations are aggregated and presented under the Corporate, Other and Eliminations column.

The Refining segment represents the operations of our El Dorado, Tulsa, Navajo, Woods Cross and Puget Sound refineries and HF Sinclair Asphalt Company LLC (“Asphalt”). Effective with the Sinclair Transactions that closed on March 14, 2022, the Refining segment includes our Parco and Casper refineries. Refining activities involve the purchase and refining of crude oil and wholesale marketing of refined products, such as gasoline, diesel fuel and jet fuel. These petroleum products are primarily marketed in the Mid-Continent, Southwest and Rocky Mountains extending into the Pacific Northwest geographic regions of the United States. Asphalt operates various asphalt terminals in Arizona, New Mexico and Oklahoma.

The Renewables segment represents the operations of our Cheyenne renewable diesel unit (“RDU”), which was mechanically complete in the fourth quarter of 2021 and operational in the first quarter of 2022, the pre-treatment unit at our Artesia, New Mexico facility, which was completed and operational in the first quarter of 2022 and the Artesia RDU, which was completed and operational in the second quarter of 2022. Also, effective with the Sinclair Transactions that closed on March 14, 2022, the Renewables segment includes the Sinclair RDU.

Effective with the Sinclair Transactions that closed on March 14, 2022, the Marketing segment represents branded fuel sales to Sinclair branded sites in the United States and licensing fees for the use of the Sinclair brand at additional locations throughout the country. The Marketing segment also includes branded fuel sales to non-Sinclair branded sites from legacy HollyFrontier agreements and revenues from other marketing activities. Our branded sites are located in several states across the United States with the highest concentration of the sites located in our West and Mid-Continent regions.

HF SINCLAIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

The Lubricants and Specialty Products segment represents Petro-Canada Lubricants Inc.'s production operations, located in Mississauga, Ontario, that includes lubricant products such as base oils, white oils, specialty products and finished lubricants, and the operations of our Petro-Canada Lubricants business that includes the marketing of products to both retail and wholesale outlets through a global sales network with locations in Canada, the United States and Europe. Additionally, the Lubricants and Specialty Products segment includes specialty lubricant products produced at our Tulsa refineries that are marketed throughout North America and are distributed in Central and South America and the operations of Red Giant Oil Company LLC, one of the largest suppliers of locomotive engine oil in North America. Also, the Lubricants and Specialty Products segment includes Sonneborn, a producer of specialty hydrocarbon chemicals such as white oils, petrolatums and waxes with manufacturing facilities in the United States and Europe.

The HEP segment includes all of the operations of HEP, which owns and operates logistics and refinery assets consisting of petroleum product and crude oil pipelines, terminals, tankage, loading rack facilities and refinery processing units in the Mid-Continent, Southwest and Rocky Mountains geographic regions of the United States. The HEP segment also includes 50% ownership interests in each of the Osage Pipeline, the Cheyenne Pipeline and Cushing Connect, and effective with the Sinclair Transactions that closed March 14, 2022, a 25.06% ownership interest in the Saddle Butte Pipeline and a 49.995% ownership interest in the Pioneer Pipeline. Revenues from the HEP segment are earned through transactions with unaffiliated parties for pipeline transportation, rental and terminalling operations as well as revenues relating to pipeline transportation services provided for our refining operations. Due to certain basis differences, our reported amounts for the HEP segment may not agree to amounts reported in HEP's periodic public filings.

The accounting policies for our segments are the same as those described in the summary of significant accounting policies in our Annual Report on Form 10-K for the year ended December 31, 2022.

HF SINCLAIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

	Refining	Renewables	Marketing	Lubricants and Specialty Products	HEP	Corporate, Other and Eliminations	Consolidated Total
	(In thousands)						
Three Months Ended June 30, 2023							
Sales and other revenues:							
Revenues from external customers	\$ 5,901,713	\$ 175,063	\$ 1,040,933	\$ 686,104	\$ 29,833	\$ —	\$ 7,833,646
Intersegment revenues	1,137,669	98,122	—	4,529	109,922	(1,350,242)	—
	\$ 7,039,382	\$ 273,185	\$ 1,040,933	\$ 690,633	\$ 139,755	\$ (1,350,242)	\$ 7,833,646
Cost of products sold (exclusive of lower of cost or market inventory)	\$ 5,829,898	\$ 258,806	\$ 1,008,306	\$ 509,724	\$ —	\$ (1,333,129)	\$ 6,273,605
Lower of cost or market inventory valuation adjustment	\$ 26,842	\$ (34,705)	\$ —	\$ —	\$ —	\$ —	\$ (7,863)
Operating expenses	\$ 426,942	\$ 24,373	\$ —	\$ 64,034	\$ 53,142	\$ (21,691)	\$ 546,800
Selling, general and administrative expenses	\$ 53,038	\$ 1,336	\$ 8,127	\$ 44,914	\$ 5,512	\$ 14,461	\$ 127,388
Depreciation and amortization	\$ 112,877	\$ 18,968	\$ 6,016	\$ 20,544	\$ 26,540	\$ 4,415	\$ 189,360
Income (loss) from operations	\$ 589,785	\$ 4,407	\$ 18,484	\$ 51,417	\$ 54,561	\$ (14,298)	\$ 704,356
Earnings of equity method investments	\$ —	\$ —	\$ —	\$ —	\$ 3,545	\$ —	\$ 3,545
Capital expenditures	\$ 45,187	\$ 3,537	\$ 6,200	\$ 5,734	\$ 8,650	\$ 10,873	\$ 80,181
Three Months Ended June 30, 2022							
Sales and other revenues:							
Revenues from external customers	\$ 8,839,662	\$ 115,939	\$ 1,336,302	\$ 845,024	\$ 25,233	\$ —	\$ 11,162,160
Intersegment revenues	1,448,919	78,639	—	4,917	110,537	(1,643,012)	—
	\$10,288,581	\$ 194,578	\$ 1,336,302	\$ 849,941	\$ 135,770	\$ (1,643,012)	\$ 11,162,160
Cost of products sold (exclusive of lower of cost or market inventory)	\$ 8,119,285	\$ 192,662	\$ 1,311,333	\$ 576,428	\$ —	\$ (1,619,793)	\$ 8,579,915
Lower of cost or market inventory valuation adjustment	\$ —	\$ 34,543		\$ —	\$ —	\$ —	\$ 34,543
Operating expenses	\$ 469,304	\$ 29,273	\$ —	\$ 74,470	\$ 53,899	\$ (20,819)	\$ 606,127
Selling, general and administrative expenses	\$ 39,123	\$ 1,001	\$ 1,049	\$ 43,555	\$ 4,683	\$ 21,464	\$ 110,875
Depreciation and amortization	\$ 102,780	\$ 10,371	\$ 4,418	\$ 20,605	\$ 26,371	\$ (501)	\$ 164,044
Income (loss) from operations	\$ 1,558,089	\$ (73,272)	\$ 19,502	\$ 134,883	\$ 50,817	\$ (23,363)	\$ 1,666,656
Earnings of equity method investments	\$ —	\$ —	\$ —	\$ —	\$ 5,447	\$ —	\$ 5,447
Capital expenditures	\$ 36,711	\$ 87,525	\$ 5,309	\$ 8,026	\$ 9,100	\$ 12,773	\$ 159,444

HF SINCLAIR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited) Continued

	<u>Refining</u>	<u>Renewables</u>	<u>Marketing</u>	<u>Lubricants and Specialty Products</u>		<u>HEP</u>	<u>Corporate, Other and Eliminations</u>	<u>Consolidated Total</u>
				(In thousands)				
Six Months Ended June 30, 2023								
Sales and other revenues:								
Revenues from external customers	\$11,566,927	\$ 377,476	\$ 1,978,318	\$ 1,419,818	\$ 56,249	\$ —	\$ 15,398,788	
Intersegment revenues	2,191,070	193,725	—	10,325	226,800	(2,621,920)	—	
	<u>\$13,757,997</u>	<u>\$ 571,201</u>	<u>\$ 1,978,318</u>	<u>\$ 1,430,143</u>	<u>\$ 283,049</u>	<u>\$ (2,621,920)</u>	<u>\$ 15,398,788</u>	
Cost of products sold (exclusive of lower of cost or market inventory)	\$11,447,809	\$ 521,544	\$ 1,932,355	\$ 1,047,727	\$ —	\$ (2,571,773)	\$ 12,377,662	
Lower of cost or market inventory valuation adjustment	\$ 26,842	\$ 12,892	\$ —	\$ —	\$ —	\$ —	\$ 39,734	
Operating expenses	\$ 944,762	\$ 55,744	\$ —	\$ 127,627	\$ 105,284	\$ (47,234)	\$ 1,186,183	
Selling, general and administrative expenses	\$ 92,116	\$ 2,251	\$ 15,090	\$ 84,178	\$ 10,147	\$ 19,519	\$ 223,301	
Depreciation and amortization	\$ 216,000	\$ 38,942	\$ 11,887	\$ 40,454	\$ 51,005	\$ 5,055	\$ 363,343	
Income (loss) from operations	\$ 1,030,468	\$ (60,172)	\$ 18,986	\$ 130,157	\$ 116,613	\$ (27,487)	\$ 1,208,565	
Earnings of equity method investments	\$ —	\$ —	\$ —	\$ —	\$ 7,427	\$ —	\$ 7,427	
Capital expenditures	\$ 112,961	\$ 8,381	\$ 11,455	\$ 14,383	\$ 16,264	\$ 16,806	\$ 180,250	
Six Months Ended June 30, 2022								
Sales and other revenues:								
Revenues from external customers	\$15,211,556	\$ 144,252	\$ 1,613,343	\$ 1,598,582	\$ 53,177	\$ —	\$ 18,620,910	
Intersegment revenues	1,583,192	97,693	—	6,368	202,791	(1,890,044)	—	
	<u>\$16,794,748</u>	<u>\$ 241,945</u>	<u>\$ 1,613,343</u>	<u>\$ 1,604,950</u>	<u>\$ 255,968</u>	<u>\$ (1,890,044)</u>	<u>\$ 18,620,910</u>	
Cost of products sold (exclusive of lower of cost or market inventory)	\$14,028,895	\$ 236,933	\$ 1,582,464	\$ 1,081,005	\$ —	\$ (1,847,370)	\$ 15,081,927	
Lower of cost or market inventory valuation adjustment	\$ —	\$ 25,992	\$ —	\$ —	\$ —	\$ —	\$ 25,992	
Operating expenses	\$ 824,276	\$ 56,369	\$ —	\$ 140,471	\$ 96,523	\$ (34,078)	\$ 1,083,561	
Selling, general and administrative expenses	\$ 73,005	\$ 1,873	\$ 1,189	\$ 85,304	\$ 8,995	\$ 50,931	\$ 221,297	
Depreciation and amortization	\$ 197,461	\$ 16,171	\$ 4,919	\$ 41,199	\$ 47,957	\$ 938	\$ 308,645	
Income (loss) from operations	\$ 1,671,111	\$ (95,393)	\$ 24,771	\$ 256,971	\$ 102,493	\$ (60,465)	\$ 1,899,488	
Earnings of equity method investments	\$ —	\$ —	\$ —	\$ —	\$ 9,073	\$ —	\$ 9,073	
Capital expenditures	\$ 66,631	\$ 186,294	\$ 5,309	\$ 14,395	\$ 23,246	\$ 21,865	\$ 317,740	

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

This Item 2 contains “forward-looking” statements. See “Forward-Looking Statements” at the beginning of Part I of this Quarterly Report on Form 10-Q. In this document, the words “we,” “our,” “ours” and “us” refer only to HF Sinclair Corporation (“HF Sinclair”) and its consolidated subsidiaries or to HF Sinclair or an individual subsidiary and not to any other person with certain exceptions. Generally, the words “we,” “our,” “ours” and “us” include Holly Energy Partners, L.P. (“HEP”) and its subsidiaries as consolidated subsidiaries of HF Sinclair, unless when used in disclosures of transactions or obligations between HEP and HF Sinclair or its other subsidiaries. This document contains certain disclosures of agreements that are specific to HEP and its consolidated subsidiaries and do not necessarily represent obligations of HF Sinclair. When used in descriptions of agreements and transactions, “HEP” refers to HEP and its consolidated subsidiaries. References herein to HF Sinclair, “we,” “our,” “ours,” and “us” with respect to time periods prior to March 14, 2022 refer to HollyFrontier Corporation (“HollyFrontier”) and its consolidated subsidiaries and do not include Hippo Holding LLC (now known as Sinclair Holding LLC), the parent company of Sinclair Oil LLC, Sinclair Transportation Company LLC or their respective consolidated subsidiaries (collectively, the “Acquired Sinclair Businesses”). References herein to HF Sinclair, “we,” “our,” “ours,” and “us” with respect to time periods from and after March 14, 2022 include the operations of the Acquired Sinclair Businesses. Unless otherwise specified, the financial statements included herein include financial information for HF Sinclair, which for the time period from March 14, 2022 to June 30, 2023 includes the combined business operations of HollyFrontier and the Acquired Sinclair Businesses.

OVERVIEW

We are an independent energy company that produces and markets high-value light products such as gasoline, diesel fuel, jet fuel, renewable diesel and other specialty products. We own and operate refineries located in Kansas, Oklahoma, New Mexico, Washington, Utah and Wyoming. We market our refined products principally in the Southwest United States, the Rocky Mountains extending into the Pacific Northwest and in other neighboring Plains states. We supply high-quality fuels to more than 1,500 branded stations and license the use of the Sinclair brand at more than 300 additional locations throughout the country. In addition, our subsidiaries produce and market base oils and other specialized lubricants in the United States, Canada and the Netherlands, and export products to more than 80 countries. Through our subsidiaries, we produce renewable diesel at two of our facilities in Wyoming and our facility in New Mexico. We also own a 47% limited partner interest and a non-economic general partner interest in HEP, a master limited partnership that provides petroleum product and crude oil transportation, terminalling, storage and throughput services to the petroleum industry, including HF Sinclair subsidiaries.

For the three months ended June 30, 2023, net income attributable to HF Sinclair stockholders was \$507.7 million compared to \$1,221.3 million for the three months ended June 30, 2022. For the six months ended June 30, 2023, net income attributable to HF Sinclair stockholders was \$860.9 million compared to \$1,381.2 million for the six months ended June 30, 2022. Our results for the second quarter of 2023 were favorably impacted by healthy demand for transportation fuels, lubricants and transportation and terminal services, favorable crude spreads and constrained refined product supply. We continue to adjust our operational plans to the evolving market conditions. The extent to which our future results are affected by volatile regional and global economic conditions will depend on various factors and consequences beyond our control.

In the Refining segment, we saw healthy refining margins in both the West and Mid-continent regions as a result of steady demand, tight supply and favorable crude spreads. The first half of 2023 included a significant number of turnarounds; with turnarounds completed at our Puget Sound, El Dorado and Woods Cross refineries in the first quarter and at our Parco and Navajo refineries during the second quarter. These turnarounds have also provided us the opportunity to execute maintenance strategies focused on improving operational reliability.

In the Renewables segment, we continued to optimize the operation of our assets and reliability.

In the Marketing segment, we continued to see strong value in the Sinclair brand as the marketing business provides a consistent sales channel with margin uplift for our produced fuels.

In the Lubricants segment, effective the first quarter of 2023, management views the Lubricants and Specialty Products segment as an integrated business of processing feedstocks into base oils and processing base oils into finished lubricant products along with the packaging, distribution and sales to customers. We successfully completed turnaround at our Mississauga plant and continued to see strong performance (excluding FIFO) driven by product mix optimization.

HEP Proposal

On May 3, 2023, we submitted a non-binding proposal to acquire all of the outstanding common units of HEP not owned by us or our affiliates (the “Proposed HEP Transaction”). The proposal has been made to the board of directors of the ultimate general partner of HEP. The Proposed HEP Transaction is subject to the negotiation and execution of a definitive agreement. There can be no assurance that a definitive agreement will be executed or that any transaction will be approved or consummated.

Sinclair Acquisition

On March 14, 2022, HollyFrontier and HEP announced the establishment of HF Sinclair as the new parent holding company of HollyFrontier and HEP and their subsidiaries, and the completion of their respective acquisitions (the “Sinclair Transactions”) of Sinclair Oil Corporation (now known as Sinclair Oil LLC, “Sinclair Oil”) and Sinclair Transportation Company LLC (“STC”) from The Sinclair Companies (now known as REH Company and referred to herein as “REH Company”). See Note 2 “Acquisitions” and Note 3 “Holly Energy Partners” in the Notes to Consolidated Financial Statements for additional information.

Renewable Fuel Standard Regulations

Pursuant to the 2007 Energy Independence and Security Act, the Environmental Protection Agency (“EPA”) promulgated the Renewable Fuel Standard (“RFS”) regulations, which increased the volume of renewable fuels mandated to be blended into the nation’s fuel supply. The regulations, in part, require refiners to add annually increasing amounts of “renewable fuels” to their petroleum products or purchase credits, known as RINs, in lieu of such blending. Compliance with RFS regulations significantly increases our cost of products sold, with RINs costs totaling \$200.8 million and \$358.3 million for the three and six months ended June 30, 2023. At June 30, 2023, our open RINs credit obligations were \$38.0 million. See Note 2 “Acquisitions” in the Notes to Consolidated Financial Statements for additional information on RINs credit obligations assumed in the Sinclair Transactions.

Recent U.S. Tax Legislation

On August 16, 2022, the U.S. government enacted the Inflation Reduction Act of 2022 (the “Inflation Reduction Act”) into law. As part of this Inflation Reduction Act, an excise tax of 1% tax was imposed on the fair market value of net stock repurchases made after December 31, 2022, which has been reflected in our financials.

OUTLOOK

Within our Refining segment, for the third quarter of 2023, we expect to run between 585,000 – 615,000 barrels per day of crude oil. This guidance reflects planned maintenance activities at our Casper and Tulsa refineries during the period. Refined product margins are expected to remain healthy driven by seasonal demand from the summer driving season.

Within our Renewables segment, despite weakening macroeconomic factors during the third quarter of 2023, we expect to continue to increase throughputs by optimizing our operations with the target of achieving normalized run rates by the end of 2023.

Within our Marketing segment, we expect to see 5% or more annual growth in the number of sites.

Within our Lubricants and Specialty Products segment, we expect favorable product mix, seasonal improvement for transportation lubricants demand, offset by softness in certain finished products into the third quarter of 2023. We continue to look for ways to optimize the business.

Subject to the final negotiated terms of a definitive agreement on the Proposed HEP Transaction and the discretion of the board of directors of the ultimate general partner of HEP to declare distributions, HEP expects its future cash distribution will continue as long as it remains a public company.

In September 2022, our Board of Directors authorized a new \$1.0 billion share repurchase program. The timing and amount of share repurchases, including those from REH Company, will depend on market conditions and corporate, tax, regulatory and other relevant considerations. On August 2, 2023, our Board of Directors declared a regular quarterly dividend in the amount of \$0.45 per share. The dividend is payable on September 6, 2023 to holders of record of common stock on August 17, 2023.

A more detailed discussion of our financial and operating results for the three and six months ended June 30, 2023 and 2022 is presented in the following sections.

RESULTS OF OPERATIONS

Financial Data

	Three Months Ended June 30,		Change from 2022	
	2023	2022	Change	Percent
(In thousands, except per share data)				
Sales and other revenues	\$ 7,833,646	\$ 11,162,160	\$ (3,328,514)	(30)%
Operating costs and expenses:				
Cost of products sold (exclusive of depreciation and amortization):				
Cost of products sold (exclusive of lower of cost or market inventory valuation adjustment)	6,273,605	8,579,915	(2,306,310)	(27)
Lower of cost or market inventory valuation adjustment	(7,863)	34,543	(42,406)	(123)
	6,265,742	8,614,458	(2,348,716)	(27)
Operating expenses (exclusive of depreciation and amortization)	546,800	606,127	(59,327)	(10)
Selling, general and administrative expenses (exclusive of depreciation and amortization)	127,388	110,875	16,513	15
Depreciation and amortization	189,360	164,044	25,316	15
Total operating costs and expenses	7,129,290	9,495,504	(2,366,214)	(25)
Income from operations	704,356	1,666,656	(962,300)	(58)
Other income (expense):				
Earnings of equity method investments	3,545	5,447	(1,902)	(35)
Interest income	17,591	1,844	15,747	854
Interest expense	(46,982)	(38,961)	(8,021)	21
Gain (loss) on foreign currency transactions	748	(905)	1,653	(183)
Gain on sale of assets and other	1,152	2,320	(1,168)	(50)
	(23,946)	(30,255)	6,309	(21)
Income before income taxes	680,410	1,636,401	(955,991)	(58)
Income tax expense	145,925	383,493	(237,568)	(62)
Net income	534,485	1,252,908	(718,423)	(57)
Less net income attributable to noncontrolling interest	26,824	31,646	(4,822)	(15)
Net income attributable to HF Sinclair stockholders	\$ 507,661	\$ 1,221,262	\$ (713,601)	(58)%
Earnings per share attributable to HF Sinclair stockholders:				
Basic	\$ 2.62	\$ 5.43	\$ (2.81)	(52)%
Diluted	\$ 2.62	\$ 5.43	\$ (2.81)	(52)%
Cash dividends declared per common share	\$ 0.45	\$ 0.40	\$ 0.05	13 %
Average number of common shares outstanding:				
Basic	192,348	222,952	(30,604)	(14)%
Diluted	192,348	222,952	(30,604)	(14)%

	Six Months Ended June 30,		Change from 2022	
	2023	2022	Change	Percent
(In thousands, except per share data)				
Sales and other revenues	\$ 15,398,788	\$ 18,620,910	(3,222,122)	(17)%
Operating costs and expenses:				
Cost of products sold (exclusive of depreciation and amortization):				
Cost of products sold (exclusive of lower of cost or market inventory valuation adjustment)	12,377,662	15,081,927	(2,704,265)	(18)
Lower of cost or market inventory valuation adjustment	39,734	25,992	13,742	53
	12,417,396	15,107,919	(2,690,523)	(18)
Operating expenses (exclusive of depreciation and amortization)	1,186,183	1,083,561	102,622	9
Selling, general and administrative expenses (exclusive of depreciation and amortization)	223,301	221,297	2,004	1
Depreciation and amortization	363,343	308,645	54,698	18
Total operating costs and expenses	14,190,223	16,721,422	(2,531,199)	(15)
Income from operations	1,208,565	1,899,488	(690,923)	(36)
Other income (expense):				
Earnings of equity method investments	7,427	9,073	(1,646)	(18)
Interest income	37,526	2,841	34,685	1,221
Interest expense	(92,804)	(73,820)	(18,984)	26
Gain (loss) on foreign currency transactions	1,618	(766)	2,384	(311)
Gain on sale of assets and other	2,783	6,215	(3,432)	(55)
	(43,450)	(56,457)	13,007	(23)
Income before income taxes	1,165,115	1,843,031	(677,916)	(37)
Income tax expense	245,625	404,822	(159,197)	(39)
Net income	919,490	1,438,209	(518,719)	(36)
Less net income attributable to noncontrolling interest	58,563	56,973	1,590	3
Net income attributable to HollyFrontier stockholders	\$ 860,927	\$ 1,381,236	\$ (520,309)	(38)%
Earnings per share attributable to HollyFrontier stockholders:				
Basic	\$ 4.40	\$ 6.86	\$ (2.46)	(36)%
Diluted	\$ 4.40	\$ 6.86	\$ (2.46)	(36)%
Cash dividends declared per common share	\$ 0.90	\$ 0.40	\$ 0.50	125 %
Average number of common shares outstanding:				
Basic	193,888	199,149	(5,261)	(3)%
Diluted	193,888	199,149	(5,261)	(3)%

Balance Sheet Data

	June 30, 2023	December 31, 2022
	(Unaudited)	
(In thousands)		
Cash and cash equivalents	\$ 1,614,618	\$ 1,665,066
Working capital	\$ 3,804,909	\$ 3,502,790
Total assets	\$ 18,197,005	\$ 18,125,483
Total debt	\$ 3,196,023	\$ 3,255,472
Total equity	\$ 10,490,704	\$ 10,017,572

Other Financial Data

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
(In thousands)				
Net cash provided by operating activities	\$ 489,960	\$ 1,528,356	\$ 667,665	\$ 1,989,392
Net cash used for investing activities	\$ (76,043)	\$ (153,835)	\$ (176,280)	\$ (539,011)
Net cash provided by (used for) financing activities	\$ (163,683)	\$ (261,214)	\$ (542,793)	\$ 20,172
Capital expenditures	\$ 80,181	\$ 159,444	\$ 180,250	\$ 317,740
EBITDA ⁽¹⁾	\$ 872,337	\$ 1,805,916	\$ 1,525,173	\$ 2,165,682

- (1) Earnings before interest, taxes, depreciation and amortization, which we refer to as “EBITDA,” is calculated as net income attributable to HF Sinclair stockholders plus (i) interest expense, net of interest income, (ii) income tax provision, and (iii) depreciation and amortization. EBITDA is not a calculation provided for under GAAP; however, the amounts included in the EBITDA calculation are derived from amounts included in our consolidated financial statements. EBITDA should not be considered as an alternative to net income or operating income as an indication of our operating performance or as an alternative to operating cash flow as a measure of liquidity. EBITDA is not necessarily comparable to similarly titled measures of other companies. EBITDA is presented here because it is a widely used financial indicator used by investors and analysts to measure performance. EBITDA is also used by our management for internal analysis and as a basis for financial covenants. EBITDA presented above is reconciled to net income under “Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles” following Item 3 of Part I of this Form 10-Q.

Segment Operating Data

Our operations are organized into five reportable segments, Refining, Renewables, Marketing, Lubricants and Specialty Products and HEP. See Note 15 “Segment Information” in the Notes to Consolidated Financial Statements for additional information on our reportable segments.

Refining Segment Operating Data

The disaggregation of our refining geographic operating data is presented in two regions, Mid-Continent and West, to best reflect the economic drivers of our refining operations. The Mid-Continent region is comprised of the El Dorado and Tulsa refineries. The West region is comprised of the Puget Sound, Navajo, Woods Cross, Parco and Casper refineries. The refinery operations of the Parco and Casper refineries are included for the period March 14, 2022 (date of acquisition) through June 30, 2023. The following tables set forth information, including non-GAAP performance measures, about our consolidated refinery operations. The refinery gross and net operating margins do not include the non-cash effects of lower of cost or market inventory valuation adjustments and depreciation and amortization. Reconciliations to amounts reported under GAAP are provided under “Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles” following Item 3 of Part I of this Form 10-Q.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022 ⁽⁸⁾
Mid-Continent Region				
Crude charge (BPD) ⁽¹⁾	228,300	277,930	219,890	284,030
Refinery throughput (BPD) ⁽²⁾	246,570	292,570	238,960	298,950
Sales of produced refined products (BPD) ⁽³⁾	240,550	279,170	222,880	279,710
Refinery utilization ⁽⁴⁾	87.8 %	106.9 %	84.6 %	109.2 %
Average per produced barrel ⁽⁵⁾				
Refinery gross margin	\$ 19.55	\$ 32.53	\$ 19.91	\$ 20.96
Refinery operating expenses ⁽⁶⁾	6.51	6.21	7.82	6.11
Net operating margin	\$ 13.04	\$ 26.32	\$ 12.09	\$ 14.85
Refinery operating expenses per throughput barrel ⁽⁷⁾	\$ 6.35	\$ 5.92	\$ 7.30	\$ 5.72

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022 ⁽⁸⁾
Mid-Continent Region				
Feedstocks:				
Sweet crude oil	59 %	54 %	62 %	58 %
Sour crude oil	17 %	22 %	16 %	18 %
Heavy sour crude oil	16 %	19 %	14 %	19 %
Other feedstocks and blends	8 %	5 %	8 %	5 %
Total	100 %	100 %	100 %	100 %
Sales of produced refined products:				
Gasolines	49 %	49 %	49 %	50 %
Diesel fuels	31 %	35 %	30 %	34 %
Jet fuels	6 %	5 %	7 %	6 %
Fuel oil	1 %	1 %	1 %	1 %
Asphalt	5 %	4 %	4 %	3 %
Base oils	4 %	4 %	5 %	4 %
LPG and other	4 %	2 %	4 %	2 %
Total	100 %	100 %	100 %	100 %
West Region				
Crude charge (BPD) ⁽¹⁾	325,640	349,380	306,480	292,450
Refinery throughput (BPD) ⁽²⁾	352,400	370,740	339,710	315,350
Sales of produced refined products (BPD) ⁽³⁾	357,630	376,400	334,420	309,530
Refinery utilization ⁽⁴⁾	77.9 %	83.6 %	73.3 %	77.6 %
Average per produced barrel ⁽⁵⁾				
Refinery gross margin	\$ 24.01	\$ 39.21	\$ 24.90	\$ 30.42
Refinery operating expenses ⁽⁶⁾	8.74	9.10	10.40	9.19
Net operating margin	\$ 15.27	\$ 30.11	\$ 14.50	\$ 21.23
Refinery operating expenses per throughput barrel ⁽⁷⁾	\$ 8.87	\$ 9.24	\$ 10.23	\$ 9.02
Feedstocks:				
Sweet crude oil	30 %	33 %	31 %	29 %
Sour crude oil	44 %	46 %	42 %	50 %
Heavy sour crude oil	13 %	10 %	11 %	9 %
Black wax crude oil	6 %	5 %	6 %	5 %
Other feedstocks and blends	7 %	6 %	10 %	7 %
Total	100 %	100 %	100 %	100 %
Sales of produced refined products:				
Gasolines	54 %	53 %	55 %	53 %
Diesel fuels	28 %	33 %	30 %	31 %
Jet fuels	6 %	5 %	5 %	5 %
Fuel oil	1 %	2 %	2 %	5 %
Asphalt	3 %	3 %	2 %	2 %
LPG and other	8 %	4 %	6 %	4 %
Total	100 %	100 %	100 %	100 %

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022 ⁽⁸⁾
Consolidated				
Crude charge (BPD) ⁽¹⁾	553,940	627,310	526,370	576,480
Refinery throughput (BPD) ⁽²⁾	598,970	663,310	578,670	614,300
Sales of produced refined products (BPD) ⁽³⁾	598,180	655,570	557,300	589,240
Refinery utilization ⁽⁴⁾	81.7 %	92.5 %	77.6 %	90.5 %
Average per produced barrel ⁽⁵⁾				
Refinery gross margin	\$ 22.22	\$ 36.36	\$ 22.90	\$ 25.93
Refinery operating expenses ⁽⁶⁾	7.84	7.87	9.37	7.73
Net operating margin	<u>\$ 14.38</u>	<u>\$ 28.49</u>	<u>\$ 13.53</u>	<u>\$ 18.20</u>
Refinery operating expenses per throughput barrel ⁽⁷⁾	\$ 7.83	\$ 7.77	\$ 9.02	\$ 8.25
Feedstocks:				
Sweet crude oil	42 %	42 %	44 %	43 %
Sour crude oil	33 %	36 %	32 %	34 %
Heavy sour crude oil	14 %	14 %	12 %	14 %
Black wax crude oil	3 %	3 %	3 %	3 %
Other feedstocks and blends	8 %	5 %	9 %	6 %
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>
Sales of produced refined products:				
Gasolines	52 %	51 %	53 %	51 %
Diesel fuels	29 %	34 %	30 %	32 %
Jet fuels	6 %	5 %	6 %	6 %
Fuel oil	1 %	2 %	1 %	3 %
Asphalt	4 %	3 %	3 %	3 %
Base oils	2 %	2 %	2 %	2 %
LPG and other	6 %	3 %	5 %	3 %
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

- (1) Crude charge represents the barrels per day of crude oil processed at our refineries.
- (2) Refinery throughput represents the barrels per day of crude and other refinery feedstocks input to the crude units and other conversion units at our refineries.
- (3) Represents barrels sold of refined products produced at our refineries (including Asphalt and intersegment sales) and does not include volumes of refined products purchased for resale or volumes of excess crude oil sold.
- (4) Represents crude charge divided by total crude capacity (BPSD). Our consolidated crude capacity is 678,000 BPSD.
- (5) Represents average amount per produced barrel sold, which is a non-GAAP measure. Reconciliations to amounts reported under GAAP are provided under “Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles” following Item 3 of Part I of this Form 10-Q.
- (6) Represents total Refining segment operating expenses, exclusive of depreciation and amortization, divided by sales volumes of refined products produced at our refineries.
- (7) Represents total Refining segment operating expenses, exclusive of depreciation and amortization, divided by refinery throughput.
- (8) We acquired the Parco and Casper refineries on March 14, 2022. Refining operating data for the six months ended June 30, 2022 includes crude oil and feedstocks processed and refined products sold at our Parco and Casper refineries for the period March 14, 2022 through June 30, 2022 only, averaged over the 181 days in the six months ended June 30, 2022.

Renewables Segment Operating Data

The following table sets forth information, including non-GAAP performance measures, about our renewables operations and includes our Sinclair RDU for the period March 14, 2022 (the date of acquisition) through June 30, 2023. The renewables gross and net operating margins do not include the non-cash effects of lower of cost or market inventory valuation adjustments and depreciation and amortization. Reconciliations to amounts reported under GAAP are provided under “Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles” following Item 3 of Part I of this Form 10-Q.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Renewables				
Sales volumes (in thousand gallons)	50,159	25,688	97,987	30,632
Average per produced gallon ⁽¹⁾				
Renewables gross margin	\$ 0.29	\$ 0.07	\$ 0.51	\$ 0.16
Renewables operating expenses ⁽²⁾	0.49	1.14	0.57	1.84
Net operating margin	<u>\$ (0.20)</u>	<u>\$ (1.07)</u>	<u>\$ (0.06)</u>	<u>\$ (1.68)</u>

- (1) Represents average amount per produced gallon sold, which is a non-GAAP measure. Reconciliations to amounts reported under GAAP are provided under “Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles” following Item 3 of Part I of this Form 10-Q.
- (2) Represents total Renewables segment operating expenses, exclusive of depreciation and amortization, divided by sales volumes of renewable diesel produced at our renewable diesel units.

Marketing Segment Operating Data

The following table sets forth information, including non-GAAP performance measures, about our marketing operations and includes our Sinclair branded fuel business for the period March 14, 2022 (the date of acquisition) through June 30, 2023. The marketing gross margin does not include the non-cash effects of depreciation and amortization. Reconciliations to amounts reported under GAAP are provided under “Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles” following Item 3 of Part I of this Form 10-Q.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023 ⁽¹⁾	2022	2023 ⁽¹⁾	2022
Marketing				
Number of branded sites at period end	1,520	1,329	1,520	1,329
Sales volumes (in thousand gallons)	364,409	335,106	692,816	420,019
Gross margin per gallon of sales ⁽²⁾	\$ 0.09	\$ 0.07	\$ 0.07	\$ 0.07

- (1) Includes non-Sinclair branded sites from legacy HollyFrontier agreements.
- (2) Represents average amount per gallon sold, which is a non-GAAP measure. Reconciliations to amounts reported under GAAP are provided under “Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles” following Item 3 of Part I of this Form 10-Q.

Lubricants and Specialty Products Segment Operating Data

The following table sets forth information about our lubricants and specialty products operations.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Lubricants and Specialty Products				
Sales of produced refined products (BPD)	29,140	34,000	30,460	34,510
Sales of produced refined products:				
Finished products	53 %	53 %	52 %	52 %
Base oils	26 %	27 %	27 %	29 %
Other	21 %	20 %	21 %	19 %
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

Effective the first quarter of 2023, management views the Lubricants and Specialty Products segment as an integrated business of processing feedstocks into base oils and processing base oils into finished lubricant products along with the packaging, distribution and sales to customers.

Results of Operations – Three Months Ended June 30, 2023 Compared to Three Months Ended June 30, 2022

Summary

Net income attributable to HF Sinclair stockholders for the three months ended June 30, 2023 was \$507.7 million (\$2.62 per basic and diluted share), a \$713.6 million decrease compared to net income of \$1,221.3 million (\$5.43 per basic and diluted share) for the three months ended June 30, 2022. The decrease in net income was principally driven by lower refinery gross margins and lower refined product sales volumes. Lower of cost or market inventory reserve adjustments related to our refining and renewables inventories increased pre-tax earnings by \$7.9 million for the three months ended June 30, 2023 and decreased pre-tax earnings by \$34.5 million for the three months ended June 30, 2022. Refinery gross margins for the three months ended June 30, 2023 decreased to \$22.22 per produced barrel sold from \$36.36 for the three months ended June 30, 2022.

Sales and Other Revenues

Sales and other revenues decreased 30% from \$11,162.2 million for the three months ended June 30, 2022 to \$7,833.6 million for the three months ended June 30, 2023 principally due to decreased refined product sales prices and lower refined product sales volumes. Sales and other revenues included \$1,040.9 million, \$686.1 million and \$175.1 million in unaffiliated revenues related to our Marketing, Lubricants and Specialty Products and Renewables segments, respectively, for the three months ended June 30, 2023. Sales and other revenues included \$1,336.3 million, \$845.0 million and \$115.9 million in unaffiliated revenues related to our Marketing, Lubricants and Specialty Products and Renewables segments, respectively, for the three months ended June 30, 2022.

Cost of Products Sold

Total cost of products sold decreased 27% from \$8,614.5 million for the three months ended June 30, 2022 to \$6,265.7 million for the three months ended June 30, 2023 principally due to lower crude oil costs and lower refined product sales volumes. During the second quarter of 2023, we recognized a lower of cost or market inventory valuation adjustment charge related to our Refining segment inventories of \$26.8 million. Also during the second quarter of 2023, we recognized a lower of cost or market inventory valuation adjustment benefit related to our Renewables segment inventories of \$34.7 million as compared to a charge of \$34.5 million for the three months ended June 30, 2022. Within our Lubricants and Specialty Products segment, FIFO impact was a benefit of \$0.5 million and \$71.0 million for the three months ended June 30, 2023 and 2022, respectively.

Gross Refinery Margins

Gross refinery margin per produced barrel sold decreased 39% from \$36.36 for the three months ended June 30, 2022 to \$22.22 for the three months ended June 30, 2023. The decrease was due to lower average per barrel sold sales prices, partially offset by lower crude oil and feedstock prices during the three months ended June 30, 2023. Gross refinery margin per barrel does not include the non-cash effects of lower of cost or market inventory valuation adjustments or depreciation and amortization. See “Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles” following Item 3 of Part I of this Form 10-Q for a reconciliation to the income statement of sale prices of products sold and cost of products purchased.

Operating Expenses

Operating expenses, exclusive of depreciation and amortization, decreased 10% from \$606.1 million for the three months ended June 30, 2022 to \$546.8 million for the three months ended June 30, 2023 primarily due to lower natural gas costs during the three months ended June 30, 2023.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 15% from \$110.9 million for the three months ended June 30, 2022 to \$127.4 million for the three months ended June 30, 2023 primarily due to higher costs related to information technology services as compared to the prior period. We incurred \$3.5 million and \$12.5 million in acquisition integration and regulatory costs during the three months ended June 30, 2023 and 2022, respectively.

Depreciation and Amortization Expenses

Depreciation and amortization increased 15% from \$164.0 million for the three months ended June 30, 2022 to \$189.4 million for the three months ended June 30, 2023. This increase was due principally to depreciation and amortization attributable to capitalized improvement projects and capitalized refinery turnaround costs during the three months ended June 30, 2023.

Interest Income

Interest income was \$17.6 million for the three months ended June 30, 2023 compared to \$1.8 million for the three months ended June 30, 2022. The increase in interest income was primarily due to higher interest rates on cash investments during the three months ended June 30, 2023.

Interest Expense

Interest expense was \$47.0 million for the three months ended June 30, 2023 compared to \$39.0 million for the three months ended June 30, 2022. This increase was primarily due to higher market interest rates on HEP's revolving credit facility during the three months ended June 30, 2023.

For the three months ended June 30, 2023 and 2022, interest expense attributable to our HEP segment was \$26.4 million and \$20.4 million, respectively.

Gain (Loss) on Foreign Currency Transactions

Remeasurement adjustments resulting from the foreign currency conversion of the intercompany financing notes payable by Petro-Canada Lubricants Inc. net of mark-to-market valuations on foreign exchange forward contracts with banks which hedge the foreign currency exposure on these intercompany notes was a net gain of \$0.7 million and a net loss of \$0.9 million for the three months ended June 30, 2023 and 2022, respectively. For the three months ended June 30, 2023 and 2022, gain / loss on foreign currency transactions included a loss of \$8.7 million and a gain of \$13.0 million, respectively, on foreign exchange forward contracts (utilized as an economic hedge).

Income Taxes

For the three months ended June 30, 2023, we recorded income tax expense of \$145.9 million compared to \$383.5 million for the three months ended June 30, 2022. This decrease was principally due to lower pre-tax income during the three months ended June 30, 2023 compared to the same period of 2022. Our effective tax rates were 21.4% and 23.4% for the three months ended June 30, 2023 and 2022, respectively. The difference between the U.S. federal statutory rate and the effective tax rate for the three months ended June 30, 2023 is primarily due to the impact of federal tax credits and the relationship between pre-tax results and the earnings attributable to the noncontrolling interest that is not included in income for tax purposes. The difference in the U.S. federal statutory rate and the effective tax rate for the three months ended June 30, 2022 was primarily due to the impact of federal tax credits and the decrease in the state tax rate applied to our deferred tax assets and liabilities as a result of the Sinclair Transactions.

Results of Operations – Six Months Ended June 30, 2023 Compared to Six Months Ended June 30, 2022

Summary

Net income attributable to HF Sinclair stockholders for the six months ended June 30, 2023 was \$860.9 million (\$4.40 per basic and diluted share), a \$520.3 million decrease compared to net income of \$1,381.2 million (\$6.86 per basic and diluted share) for the six months ended June 30, 2022. The decrease in net income was principally driven by lower refinery gross margins and lower refined product sales volumes. Lower of cost or market inventory reserve adjustments related to our Refining and Renewables segments inventories decreased pre-tax earnings by \$39.7 million and \$26.0 million for the six months ended June 30, 2023 and 2022, respectively. Refinery gross margins for the six months ended June 30, 2023 decreased to \$22.90 per barrel sold from \$25.93 for the six months ended June 30, 2022.

Sales and Other Revenues

Sales and other revenues decreased 17% from \$18,620.9 million for the six months ended June 30, 2022 to \$15,398.8 million for the six months ended June 30, 2023 principally due to decreased refined product sales prices and lower refined product sales volumes. Sales and other revenues included \$1,978.3 million, \$1,419.8 million and \$377.5 million in unaffiliated revenues related to our Marketing, Lubricants and Specialty Products and Renewables segments, respectively, for the six months ended June 30, 2023. Sales and other revenues included \$1,613.3 million, \$1,598.6 million and \$144.3 million in unaffiliated revenues related to our Marketing, Lubricants and Specialty Products and Renewables segments, respectively, for the six months ended June 30, 2022.

Cost of Products Sold

Total cost of products sold decreased 18% from \$15,107.9 million for the six months ended June 30, 2022 to \$12,417.4 million for the six months ended June 30, 2023 principally due to lower crude oil costs and lower refined product sales volumes. During the six months ended June 30, 2023, we recognized a lower of cost or market inventory valuation adjustment charge related to our Refining segment inventories of \$26.8 million. In addition, during the six months ended June 30, 2023 and 2022, we recognized a lower of cost or market inventory valuation adjustment charge related to our Renewables segment inventories of \$12.9 million and \$26.0 million, respectively. Within our Lubricants and Specialty Products segment, FIFO impact was a charge of \$13.4 million and a benefit of \$129.3 million for the six months ended June 30, 2023 and 2022, respectively.

Gross Refinery Margins

Gross refinery margin per barrel sold decreased 12% from \$25.93 for the six months ended June 30, 2022 to \$22.90 for the six months ended June 30, 2023 principally due to lower average per barrel sold sales prices, partially offset by lower crude oil and feedstock prices during the six months ended June 30, 2023. Gross refinery margin per barrel does not include the non-cash effects of lower of cost or market inventory valuation adjustments or depreciation and amortization. See “Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles” following Item 3 of Part I of this Form 10-Q for a reconciliation to the income statement of sales prices of products sold and cost of products purchased.

Operating Expenses

Operating expenses, exclusive of depreciation and amortization, increased 9% from \$1,083.6 million for the six months ended June 30, 2022 to \$1,186.2 million for the six months ended June 30, 2023 primarily due to our acquisition of the Acquired Sinclair Businesses.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 1% from \$221.3 million for the six months ended June 30, 2022 to \$223.3 million for the six months ended June 30, 2023 primarily due to our acquisition of the Acquired Sinclair Businesses, partially offset by a decrease in acquisition integration and regulatory costs. We incurred \$7.4 million and \$37.5 million in acquisition integration and regulatory costs during the six months ended June 30, 2023 and 2022, respectively.

Depreciation and Amortization Expenses

Depreciation and amortization increased 18% from \$308.6 million for the six months ended June 30, 2022 to \$363.3 million for the six months ended June 30, 2023. This increase was due principally to depreciation and amortization attributable to the Acquired Sinclair Businesses, capitalized improvement projects and capitalized refinery turnaround costs.

Interest Income

Interest income was \$37.5 million for the six months ended June 30, 2023 compared to \$2.8 million for the six months ended June 30, 2022. The increase in interest income was primarily due to the increase in the average cash balance and higher interest rates on cash investments.

Interest Expense

Interest expense was \$92.8 million for the six months ended June 30, 2023 compared to \$73.8 million for the six months ended June 30, 2022. This increase was primarily due to the April 2022 issuance of \$400 million in aggregate principal amount of HEP’s 6.375% senior notes maturing in April 2027 and higher market interest rates on HEP’s revolving credit facility during the six months ended June 30, 2023.

For the six months ended June 30, 2023 and 2022, interest expense attributable to our HEP Segment was \$52.4 million and \$34.0 million, respectively.

Gain (Loss) on Foreign Currency Transactions

Remeasurement adjustments resulting from the foreign currency conversion of the intercompany financing notes payable by Petro-Canada Lubricants Inc. net of mark-to-market valuations on foreign exchange forward contracts with banks which hedge the foreign currency exposure on these intercompany notes were a net gain of \$1.6 million and a net loss of \$0.8 million for the six months ended June 30, 2023 and 2022, respectively. For the six months ended June 30, 2023 and 2022, gain / loss on foreign currency transactions included a loss of \$8.6 million and a gain of \$6.5 million, respectively, on foreign exchange forward contracts (utilized as an economic hedge).

Income Taxes

For the six months ended June 30, 2023, we recorded income tax expense of \$245.6 million compared to \$404.8 million for the six months ended June 30, 2022. This decrease was principally due to lower pre-tax income during the six months ended June 30, 2023 compared to the same period of 2022. Our effective tax rates were 21.1% and 22.0% for the six months ended June 30, 2023 and 2022, respectively. The difference between the U.S. federal statutory rate and the effective tax rate for the six months ended June 30, 2023 is primarily due to the impact of federal tax credits and the relationship between pre-tax results and the earnings attributable to the noncontrolling interest that is not included in income for tax purposes. The difference in the U.S. federal statutory rate and the effective tax rate for the six months ended June 30, 2022 was primarily due to the impact of federal tax credits and the decrease in the state tax rate applied to our deferred tax assets and liabilities as a result of the Sinclair Transactions.

LIQUIDITY AND CAPITAL RESOURCES

HF Sinclair Credit Agreement

We have a \$1.65 billion senior unsecured revolving credit facility maturing in April 2026 (the “HF Sinclair Credit Agreement”). The HF Sinclair Credit Agreement may be used for revolving credit loans and letters of credit from time to time and is available to fund general corporate purposes. At June 30, 2023, we were in compliance with all covenants, had no outstanding borrowings and had outstanding letters of credit totaling \$0.3 million under the HF Sinclair Credit Agreement.

HF Sinclair Financing Arrangements

Certain of our wholly owned subsidiaries entered into financing arrangements whereby such subsidiaries sold a portion of their precious metals catalyst to a financial institution and then leased back the precious metals catalyst in exchange for cash. The volume of the precious metals catalyst and the lease rate are fixed over the term of each lease, and the lease payments are recorded as interest expense. The current leases mature in one year or less. Upon maturity, we must either satisfy the obligation at fair market value or refinance to extend the maturity.

HF Sinclair may, from time to time, issue letters of credit pursuant to uncommitted letters of credit facilities with its lenders. At June 30, 2023, there were no letters of credit outstanding under such facilities.

HEP Credit Agreement

HEP has a \$1.2 billion senior secured revolving credit facility maturing in July 2025 (the “HEP Credit Agreement”). The HEP Credit Agreement is available to fund capital expenditures, investments, acquisitions, distribution payments, working capital and for general partnership purposes. It is also available to fund letters of credit up to a \$50 million sub-limit and has an accordion feature that allows HEP to increase the commitments under the HEP Credit Agreement up to a maximum amount of \$1.7 billion. During the six months ended June 30, 2023, HEP had net repayments of \$62.0 million under the HEP Credit Agreement. At June 30, 2023, HEP was in compliance with all of its covenants, had outstanding borrowings of \$606.0 million and no outstanding letters of credit under the HEP Credit Agreement.

See Note 10 “Debt” in the Notes to Consolidated Financial Statements for additional information on our debt instruments.

Liquidity

We believe our current cash and cash equivalents, along with future internally generated cash flow and funds available under our credit facilities, will provide sufficient resources to fund currently planned capital projects and our liquidity needs for the foreseeable future. We expect that, to the extent necessary, we can raise additional funds from time to time through equity or debt financings in the public and private capital markets. Further, we may from time to time seek to retire some or all of our outstanding debt or debt agreements through cash purchases, and/or exchanges, open market purchases, privately negotiated transactions, tender offers or otherwise. Such transactions, if any, may be material and will depend on prevailing market conditions, our liquidity requirements and other factors. In addition, components of our long-term growth strategy include the optimization of existing units at our facilities and selective acquisition of complementary assets for our operations intended to increase earnings and cash flow. We also expect to use cash for payment of cash dividends, which are at the discretion of our Board of Directors, and for the repurchase of common stock under our share repurchase program.

Our standalone (excluding HEP) liquidity was approximately \$3.26 billion at June 30, 2023, consisting of cash and cash equivalents of \$1.61 billion and an undrawn \$1.65 billion credit facility.

We consider all highly-liquid instruments with a maturity of three months or less at the time of purchase to be cash equivalents. These primarily consist of investments in conservative, highly-rated instruments issued by financial institutions, government and corporate entities with strong credit standings and money market funds. Cash equivalents are stated at cost, which approximates market value.

In September 2022, our Board of Directors approved a \$1.0 billion share repurchase program, which replaced all existing share repurchase programs, authorizing us to repurchase common stock in the open market or through privately negotiated transactions. Privately negotiated repurchases from REH Company are also authorized under this share repurchase program, subject to REH Company's interest in selling its shares and other limitations. The timing and amount of share repurchases, including those from REH Company, will depend on market conditions and corporate, tax, regulatory and other relevant considerations. This program may be discontinued at any time by our Board of Directors.

During the six months ended June 30, 2023, we made open market and privately negotiated purchases of 4,793,857 shares for \$240.3 million under our share repurchase program, of which 1,969,279 shares were repurchased for \$100.0 million pursuant to privately negotiated repurchases from REH Company. As of June 30, 2023, we had remaining authorization to repurchase up to \$419.7 million under this share repurchase program.

On July 28, 2023, we entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") with REH Company, pursuant to which we repurchased from REH Company 8,200,000 shares of our outstanding common stock, par value \$0.01 per share, on August 2, 2023 in a privately negotiated transaction under our share repurchase program. The price paid by us under the Stock Purchase Agreement was \$50.07 per share resulting in an aggregate purchase price of \$410.6 million. The purchase price was funded with cash on hand. As of August 2, 2023, we had remaining authorization to repurchase up to \$5.0 million under our share repurchase program.

Cash Flows – Operating Activities

Six Months Ended June 30, 2023 Compared to Six Months Ended June 30, 2022

Net cash flows provided by operating activities were \$667.7 million for the six months ended June 30, 2023 compared to \$1,989.4 million for the six months ended June 30, 2022, a decrease of \$1,321.7 million primarily driven by lower income from operations combined with higher turnaround spend during the six months ended June 30, 2023. Changes in working capital decreased operating cash flows by \$374.0 million for the six months ended June 30, 2023 and increased operating cash flows by \$246.3 million for the six months ended June 30, 2022. Additionally, for the six months ended June 30, 2023, turnaround expenditures were \$347.1 million compared to \$70.2 million for the six months ended June 30, 2022.

Cash Flows – Investing Activities and Planned Capital Expenditures

Six Months Ended June 30, 2023 Compared to Six Months Ended June 30, 2022

For the six months ended June 30, 2023, our net cash flows used for investing activities were \$176.3 million. Cash expenditures for properties, plants and equipment for the six months ended June 30, 2023 were \$180.3 million, which include HEP capital expenditures of \$16.3 million for the six months ended June 30, 2023.

For the six months ended June 30, 2022, our net cash flows used for investing activities were \$539.0 million. On March 14, 2022, we closed the Sinclair Transactions and paid cash of \$231.2 million. The remainder of the purchase consideration was funded with the issuance of HF Sinclair common stock and HEP common units. See Note 2 "Acquisitions" in the Notes to Consolidated Financial Statements for additional information on the Sinclair Transactions. Cash expenditures for properties, plants and equipment for the six months of ended June 30, 2022 were \$317.7 million primarily due to expenditures related to our renewable diesel units. Cash expenditures for properties, plants and equipment include HEP capital expenditures of \$23.2 million for the six months ended June 30, 2022.

HF Sinclair Corporation

Each year our Board of Directors approves our annual capital budget which includes specific projects that management is authorized to undertake. When conditions warrant or as new opportunities arise, additional projects may be approved. The funds appropriated for a particular capital project may be expended over a period of several years, depending on the time required to complete the project. Therefore, our planned capital expenditures for a given year consist of expenditures appropriated in that year's capital budget plus expenditures for projects appropriated in prior years which have not yet been completed. Refinery turnaround spending is amortized over the useful life of the turnaround.

The refining industry is capital intensive and requires on-going investments to sustain our refining operations. This includes replacement of, or rebuilding, refinery units and components that extend the useful life. We also invest in projects that improve operational reliability and profitability via enhancements that improve refinery processing capabilities as well as production yield and flexibility. Our capital expenditures also include projects related to renewable diesel, environmental, health and safety compliance and include initiatives as a result of federal and state mandates.

Our refinery operations and related emissions are highly regulated at both federal and state levels, and we invest in our facilities as needed to remain in compliance with these standards. Additionally, when faced with new emissions or fuels standards, we seek to execute projects that facilitate compliance and also improve the operating costs and / or yields of associated refining processes.

HEP

Each year the Holly Logistic Services, L.L.C. board of directors approves HEP's annual capital budget, which specifies capital projects that HEP management is authorized to undertake. Additionally, at times when conditions warrant or as new opportunities arise, special projects may be approved. The funds allocated for a particular capital project may be expended over a period in excess of a year, depending on the time required to complete the project. Therefore, HEP's planned capital expenditures for a given year consist of expenditures approved for capital projects included in its current year capital budget as well as, in certain cases, expenditures approved for capital projects in capital budgets for prior years. In addition, HEP may spend funds periodically to perform capital upgrades or additions to its assets where a customer reimburses HEP for such costs. The upgrades or additions would generally benefit the customer over the remaining life of the related service agreements.

Expected capital and turnaround cash spending for 2023 is as follows.

	Expected Cash Spending Range	
	(In millions)	
HF Sinclair Capital Expenditures		
Refining	\$ 250.0	\$ 270.0
Renewables	25.0	30.0
Lubricants and Specialty Products	35.0	45.0
Marketing	20.0	30.0
Corporate	40.0	60.0
Turnarounds and catalyst	500.0	585.0
Total HF Sinclair	870.0	1,020.0
HEP		
Maintenance	25.0	30.0
Expansion and joint venture investment	5.0	10.0
Total HEP	30.0	40.0
Total	\$ 900.0	\$ 1,060.0

Cash Flows – Financing Activities

Six Months Ended June 30, 2023 Compared to Six Months Ended June 30, 2022

For the six months ended June 30, 2023, our net cash flows used for financing activities were \$542.8 million. During the six months ended June 30, 2023, we repurchased \$248.0 million of our common stock and paid \$175.3 million in dividends. During the six months ended June 30, 2023, HEP had net repayments of \$62.0 million under the HEP Credit Agreement and paid distributions of \$51.3 million to noncontrolling interests.

For the six months ended June 30, 2022, our net cash flows provided by financing activities were \$20.2 million. During the six months ended June 30, 2022, we repurchased \$110.8 million of our common stock and paid \$90.2 million in dividends. During the six months ended June 30, 2022, HEP received \$400.0 million in proceeds from the issuance of the HEP 6.375% senior notes, had net repayments of \$119.0 million under the HEP Credit Agreement and paid distributions of \$44.9 million to noncontrolling interests.

Contractual Obligations and Commitments

HF Sinclair Corporation

There were no significant changes to our long-term contractual obligations during the six months ended June 30, 2023.

HEP

During the six months ended June 30, 2023, HEP had net repayments of \$62.0 million resulting in \$606.0 million of outstanding borrowings under the HEP Credit Agreement at June 30, 2023.

There were no other significant changes to HEP's long-term contractual obligations during this period.

CRITICAL ACCOUNTING ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities as of the date of the financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Our significant accounting policies are described in "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates" in our Annual Report on Form 10-K for the year ended December 31, 2022. Certain critical accounting policies that materially affect the amounts recorded in our consolidated financial statements include the use of the last-in, first-out ("LIFO") method of valuing certain inventories, assessing the possible impairment of certain long-lived assets and goodwill, and assessing contingent liabilities for probable losses.

Inventory Valuation

Inventories related to our refining operations are stated at the lower of cost, using the LIFO method for crude oil and unfinished and finished refined products, or market. In periods of rapidly declining prices, LIFO inventories may have to be written down to market value due to the higher costs assigned to LIFO layers in prior periods. In addition, the use of the LIFO inventory method may result in increases or decreases to cost of sales in years that inventory volumes decline as the result of charging cost of sales with LIFO inventory costs generated in prior periods. An actual valuation of inventory under the LIFO method is made at the end of each year based on the inventory levels at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels and are subject to the final year-end LIFO inventory valuation.

At June 30, 2023, our lower of cost or market inventory valuation reserve was \$100.9 million. This amount, or a portion thereof, is subject to reversal as a reduction to cost of products sold in subsequent periods as inventories giving rise to the reserve are sold, and a new reserve is established.

Inventories consisting of process chemicals, materials and maintenance supplies and RINs are stated at the lower of weighted-average cost or net realizable value. Inventories of our Petro-Canada Lubricants and Sonneborn businesses are stated at the lower of cost, using the first-in, first-out method, or net realizable value.

Valuation of Business Combinations

We recognize and measure the assets acquired and liabilities assumed in a business combination based on their estimated fair values at the acquisition date. Any excess or surplus of the purchase consideration when compared to the fair value of the net tangible assets acquired, if any, is recorded as goodwill or gain from a bargain purchase. The fair value of assets and liabilities as of the acquisition date are often estimated using a combination of approaches, including the income approach, which requires us to project future cash flows and apply an appropriate discount rate; the cost approach, which requires estimates of replacement costs and depreciation and obsolescence estimates; and the market approach which uses market data and adjusts for entity-specific differences. We use all available information to make these fair value determinations and engage third-party consultants for valuation assistance. The estimates used in determining fair values are based on assumptions believed to be reasonable but which are inherently uncertain. Accordingly, actual results may differ materially from the projected results used to determine fair value.

Contingencies

We are subject to proceedings, lawsuits and other claims related to environmental, labor, product and other matters. We are required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for these contingencies is made after careful analysis of each individual issue. The required reserves may change in the future due to new developments in each matter or changes in approach such as a change in settlement strategy in dealing with these matters.

RISK MANAGEMENT

We use certain strategies to reduce some commodity price and operational risks. We do not attempt to eliminate all market risk exposures when we believe that the exposure relating to such risk would not be significant to our future earnings, financial position, capital resources or liquidity or that the cost of eliminating the exposure would outweigh the benefit.

Commodity Price Risk Management

Our primary market risk is commodity price risk. We are exposed to market risks related to the volatility in crude oil and refined products, as well as volatility in the price of natural gas used in our refining operations. We periodically enter into derivative contracts in the form of commodity price swaps, collar contracts, forward purchase and sales and futures contracts to mitigate price exposure with respect to our inventory positions, natural gas purchases, sales prices of refined products and crude oil costs.

Foreign Currency Risk Management

We are exposed to market risk related to the volatility in foreign currency exchange rates. We periodically enter into derivative contracts in the form of foreign exchange forward contracts to mitigate the exposure associated with fluctuations on intercompany notes with our foreign subsidiaries that are not denominated in the U.S. dollar.

As of June 30, 2023, we have the following notional contract volumes related to all outstanding derivative instruments used to mitigate commodity price and foreign currency risk:

Derivative Instrument	Total Outstanding Notional	Notional Contract Volumes by Year of Maturity		Unit of Measure
		2023	2024	
NYMEX futures (WTI) - short	1,375,000	1,375,000	—	Barrels
Forward gasoline contracts - long	90,000	90,000	—	Barrels
Foreign currency forward contracts	422,700,406	212,920,406	209,780,000	U.S. dollar
Forward commodity contracts (platinum) ⁽¹⁾	36,969	—	36,969	Troy ounces
Natural gas price swaps (basis spread) - long	2,576,000	2,576,000	—	MMBTU
Natural gas collar contracts	14,720,000	14,720,000	—	MMBTU

- (1) Represents an embedded derivative within our catalyst financing arrangements, which may be refinanced or require repayment under certain conditions. See Note 10 “Debt” in the Notes to Consolidated Financial Statements for additional information on these financing arrangements.

The following sensitivity analysis provides the hypothetical effects of market price fluctuations to the commodity hedged under our derivative contracts:

	Derivative Fair Value Gain (Loss) at June 30,	
	2023	2022
	(In thousands)	
10% increase in underlying commodity prices	\$ (7,561)	\$ (12,948)
10% decrease in underlying commodity prices	\$ 7,179	\$ 12,948

Interest Rate Risk Management

The market risk inherent in our fixed-rate debt is the potential change arising from increases or decreases in interest rates as discussed below.

For the fixed rate HF Sinclair Senior Notes, HollyFrontier Senior Notes and HEP Senior Notes, changes in interest rates will generally affect fair value of the debt, but not earnings or cash flows. The outstanding principal, estimated fair value and estimated change in fair value (assuming a hypothetical 10% change in the yield-to-maturity rates) for this debt as of June 30, 2023 is presented below:

	Outstanding Principal	Estimated Fair Value	Estimated Change in Fair Value
	(In thousands)		
HollyFrontier and HF Sinclair Senior Notes	\$ 1,707,827	\$ 1,649,440	\$ 30,150
HEP Senior Notes	\$ 900,000	\$ 859,667	\$ 21,816

For the variable rate HEP Credit Agreement, changes in interest rates would affect cash flows, but not the fair value. At June 30, 2023, outstanding borrowings under the HEP Credit Agreement were \$606.0 million. A hypothetical 10% change in interest rates applicable to the HEP Credit Agreement would not materially affect cash flows.

Our operations are subject to catastrophic losses, operational hazards and unforeseen interruptions, including but not limited to fire, explosion, releases or spills, cyberattacks, weather-related perils, vandalism, power failures, mechanical failures and other events beyond our control. We maintain various insurance coverages, including general liability, property damage, business interruption and cyber insurance, subject to certain deductibles and insurance policy terms and conditions. We are not fully insured against certain risks because such risks are not fully insurable, coverage is unavailable, or premium costs, in our judgment, do not justify such expenditures.

Financial information is reviewed on the counterparties in order to review and monitor their financial stability and assess their ongoing ability to honor their commitments under the derivative contracts. We have not experienced, nor do we expect to experience, any difficulty in the counterparties honoring their commitments.

We have a risk management oversight committee consisting of members from our senior management. This committee oversees our risk enterprise program, monitors our risk environment and provides direction for activities to mitigate identified risks that may adversely affect the achievement of our goals.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See “Risk Management” under “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Reconciliations to Amounts Reported Under Generally Accepted Accounting Principles

Reconciliations of earnings before interest, taxes, depreciation and amortization (“EBITDA”) to amounts reported under generally accepted accounting principles in financial statements.

Earnings before interest, taxes, depreciation and amortization, which we refer to as EBITDA, is calculated as net income attributable to HF Sinclair stockholders plus (i) interest expense, net of interest income, (ii) income tax provision, and (iii) depreciation and amortization. EBITDA is not a calculation provided for under GAAP; however, the amounts included in the EBITDA calculation are derived from amounts included in our consolidated financial statements. EBITDA should not be considered as an alternative to net income or operating income as an indication of our operating performance or as an alternative to operating cash flow as a measure of liquidity. EBITDA is not necessarily comparable to similarly titled measures of other companies. EBITDA is presented here because it is a widely used financial indicator used by investors and analysts to measure performance. EBITDA is also used by our management for internal analysis and as a basis for financial covenants.

Set forth below is our calculation of EBITDA.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(In thousands)			
Net income attributable to HF Sinclair stockholders	\$ 507,661	\$ 1,221,262	\$ 860,927	\$ 1,381,236
Add interest expense	46,982	38,961	92,804	73,820
Subtract interest income	(17,591)	(1,844)	(37,526)	(2,841)
Add income tax expense	145,925	383,493	245,625	404,822
Add depreciation and amortization	189,360	164,044	363,343	308,645
EBITDA	<u>\$ 872,337</u>	<u>\$ 1,805,916</u>	<u>\$ 1,525,173</u>	<u>\$ 2,165,682</u>

Reconciliations of refinery operating information (non-GAAP performance measures) to amounts reported under generally accepted accounting principles in financial statements.

Refinery gross margin and net operating margin are non-GAAP performance measures that are used by our management and others to compare our refining performance to that of other companies in our industry. We believe these margin measures are helpful to investors in evaluating our refining performance on a relative and absolute basis. Refinery gross margin per produced barrel sold is total Refining segment revenues less total Refining segment cost of products sold, exclusive of lower of cost or market inventory valuation adjustments, divided by sales volumes of produced refined products sold. Net operating margin per barrel sold is the difference between refinery gross margin and refinery operating expenses per produced barrel sold. These two margins do not include the non-cash effects of lower of cost or market inventory valuation adjustments and depreciation and amortization. Each of these component performance measures can be reconciled directly to our consolidated statements of income. Other companies in our industry may not calculate these performance measures in the same manner.

Below are reconciliations to our consolidated statements of income for refinery net operating and gross margin and operating expenses, in each case averaged per produced barrel sold. Due to rounding of reported numbers, some amounts may not calculate exactly.

Reconciliation of average refining net operating margin per produced barrel sold to refinery gross margin to refining sales and other revenues

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
(Dollars in thousands, except per barrel amounts)				
Consolidated				
Refining segment sales and other revenues	\$ 7,039,382	\$ 10,288,581	\$ 13,757,997	\$ 16,794,748
Refining segment cost of products sold (exclusive of lower of cost or market inventory adjustment)	5,829,898	8,119,285	11,447,809	14,028,895
Lower of cost or market inventory adjustment	26,842	—	26,842	—
	1,182,642	2,169,296	2,283,346	2,765,853
Add lower of cost or market inventory adjustment	26,842	—	26,842	—
Refinery gross margin	<u>\$ 1,209,484</u>	<u>\$ 2,169,296</u>	<u>\$ 2,310,188</u>	<u>\$ 2,765,853</u>
Refining segment operating expenses	\$ 426,942	\$ 469,304	\$ 944,762	\$ 824,276
Produced barrels sold (BPD)	598,180	655,570	557,300	589,240
Refinery gross margin per produced barrel sold	\$ 22.22	\$ 36.36	\$ 22.90	\$ 25.93
Less average refinery operating expenses per produced barrel sold	7.84	7.87	9.37	7.73
Net operating margin per produced barrel sold	<u>\$ 14.38</u>	<u>\$ 28.49</u>	<u>\$ 13.53</u>	<u>\$ 18.20</u>

Reconciliation of renewables operating information (non-GAAP performance measures) to amounts reported under generally accepted accounting principles in financial statements.

Renewables gross margin and net operating margin are non-GAAP performance measures that are used by our management and others to compare our renewables performance to that of other companies in our industry. We believe these margin measures are helpful to investors in evaluating our renewables performance on a relative and absolute basis. Renewables gross margin per produced gallon sold is total Renewables segment revenues less total Renewables segment cost of products sold, exclusive of lower of cost or market inventory valuation adjustments, divided by sales volumes of produced renewables products sold. Net operating margin per produced gallon sold is the difference between renewables gross margin and renewables operating expenses per produced gallon sold. These two margins do not include the non-cash effects of lower of cost or market inventory valuation adjustments and depreciation and amortization. Each of these component performance measures can be reconciled directly to our consolidated statements of income. Other companies in our industry may not calculate these performance measures in the same manner.

Reconciliation of renewables gross margin and operating expenses to gross margin per produced gallon sold and net operating margin per produced gallon sold

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(In thousands, except for per gallon amounts)			
Renewables segment sales and other revenues	\$ 273,185	\$ 194,578	\$ 571,201	\$ 241,945
Renewables segment cost of products sold (exclusive of lower of cost or market inventory adjustment)	258,806	192,662	521,544	236,933
Lower of cost or market inventory adjustment	(34,705)	34,543	12,892	25,992
	49,084	(32,627)	36,765	(20,980)
Add (subtract) lower of cost or market inventory adjustment	(34,705)	34,543	12,892	25,992
Renewables gross margin	<u>\$ 14,379</u>	<u>\$ 1,916</u>	<u>\$ 49,657</u>	<u>\$ 5,012</u>
Renewables segment operating expense	\$ 24,373	\$ 29,273	\$ 55,744	\$ 56,369
Produced gallons sold (in thousand gallons)	50,159	25,688	97,987	30,632
Renewables gross margin per produced gallon sold	\$ 0.29	\$ 0.07	\$ 0.51	\$ 0.16
Less average renewables operating expense per produced gallon sold	0.49	1.14	0.57	1.84
Net operating margin per produced gallon sold	<u>\$ (0.20)</u>	<u>\$ (1.07)</u>	<u>\$ (0.06)</u>	<u>\$ (1.68)</u>

Reconciliation of marketing operating information (non-GAAP performance measures) to amounts reported under generally accepted accounting principles in financial statements.

Marketing gross margin is a non-GAAP performance measure that is used by our management and others to compare our marketing performance to that of other companies in our industry. We believe this margin measure is helpful to investors in evaluating our marketing performance on a relative and absolute basis. Marketing gross margin per gallon sold is total Marketing segment revenues less total Marketing segment cost of products sold divided by sales volumes of marketing products sold. This margin does not include the non-cash effects of depreciation and amortization. This component performance measure can be reconciled directly to our consolidated statements of income. Other companies in our industry may not calculate these performance measures in the same manner.

Reconciliation of marketing gross margin to gross margin per gallon sold

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(In thousands, except for per gallon amounts)			
Marketing segment sales and other revenues	\$ 1,040,933	\$ 1,336,302	\$ 1,978,318	\$ 1,613,343
Marketing segment cost of products sold	1,008,306	1,311,333	1,932,355	1,582,464
Marketing gross margin	<u>\$ 32,627</u>	<u>\$ 24,969</u>	<u>\$ 45,963</u>	<u>\$ 30,879</u>
Sales volumes (in thousand gallons)	364,409	335,106	692,816	420,019
Marketing segment gross margin per gallon sold	\$ 0.09	\$ 0.07	\$ 0.07	\$ 0.07

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures. Our principal executive officer and principal financial officer have evaluated, as required by Rule 13a-15(b) under the Securities Exchange Act of 1934 (the “Exchange Act”), our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) under the Exchange Act as of the end of the period covered by this Quarterly Report on Form 10-Q. Our disclosure controls and procedures are designed to provide reasonable assurance that the information we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Based upon the evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2023.

Changes in internal control over financial reporting. There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during our last fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Commitment and Contingency Reserves

In the ordinary course of business, we may become party to legal, regulatory or administrative proceedings or governmental investigations, including environmental and other matters. Damages or penalties may be sought from us in some matters and certain matters may require years to resolve. While the outcome and impact of these proceedings and investigations on us cannot be predicted with certainty, based on advice of counsel and information currently available to us, management believes that the resolution of these proceedings and investigations through settlement or adverse judgment will not either individually or in the aggregate have a material adverse effect on our financial condition, results of operations or cash flows.

The environmental proceedings are reported to comply with SEC regulations which require us to disclose proceedings arising under provisions regulating the discharge of materials into the environment or protecting the environment when a governmental authority is party to the proceedings and such proceedings involve potential monetary sanctions that we reasonably believe could exceed \$300,000 or more.

Environmental Matters

Navajo

HollyFrontier Navajo Refining LLC (now known as HF Sinclair Navajo Refining LLC (“HFS Navajo”)) has been engaged in discussions with, and has responded to document requests from, the EPA, the DOJ and the New Mexico Environment Department (“NMED”) (collectively, the “Agencies”) regarding HFS Navajo’s compliance with the Clean Air Act (“CAA”) and underlying regulations, and similar New Mexico laws and regulations, at its Artesia and Lovington, New Mexico refineries. The discussions have included the following topics: (a) alleged noncompliance with CAA’s National Emission Standards for Hazardous Air Pollutants (“NESHAP”) and New Source Performance Standards (“NSPS”) at the Artesia refinery, which were set forth in a Notice of Violation (“May 2020 NOV”) issued by the EPA in May 2020; (b) a Post Inspection Notice issued in June 2020 by the NMED, alleging noncompliance issues similar to those alleged by the EPA in its May 2020 NOV as well as alleged noncompliance with the State Implementation Plan (“SIP”) and the Title V permit operating programs; (c) an information request issued in September 2020 by the EPA, pursuant to CAA Section 114, related to benzene fenceline monitoring, flare fuel gas, leak detection and repair, storage vessels and tanks, and other information regarding the Artesia refinery; (d) an information request issued by the EPA in May 2021, pursuant to CAA Section 114, requesting additional information and testing related to certain tanks at the Artesia refinery; and (e) informal information requests related to, among other things, the Artesia refinery’s wastewater treatment plant, oil water separators and heat exchangers. In April 2022 and June 2023, the EPA alleged additional CAA noncompliance at the Artesia refinery beyond the allegations in the May 2020 NOV, including alleged noncompliance with NESHAP, NSPS, SIP, Title V and other requirements.

Beginning in the spring of 2021, HFS Navajo and the Agencies began monthly meetings to discuss potential injunctive relief measures to address the alleged noncompliance at the Artesia refinery. In September 2021, the EPA presented to HFS Navajo potential claims for stipulated penalties for alleged noncompliance with a 2002 consent decree.

HFS Navajo continues to work with the Agencies to resolve these issues. At this time, no penalties have been demanded, and it is too early to predict the outcome of this matter.

Port of Seattle

In October 2017, Sinclair Oil received a Notice of Claim from the Port of Seattle alleging Sinclair Oil’s responsibility for the clean-up of 12.5 million gallons of bunker fuel improperly disposed of at a facility in the Port of Seattle from 1977 to 1980. Sinclair Oil responded that it did sell bunker fuel for use as a fuel for ships at the Port of Seattle during this time frame but not for disposal as is being alleged. In late 2018, Sinclair Oil received a demand letter from the Port of Seattle. Sinclair Oil and the Port of Seattle entered into a tolling agreement in mid-2019. The parties have exchanged offers, and Sinclair Oil is awaiting a response to its last offer made in August 2020. It is too early to predict the outcome of this matter.

Renewable Fuel Standard

On April 7, 2022, the EPA issued a decision reversing the grant of small refinery exemptions for our Woods Cross and Cheyenne refineries for the 2018 compliance year. On June 3, 2022, the EPA issued a decision reversing the grant of small refinery exemptions for our Woods Cross and Cheyenne refineries for the 2016 compliance year and denying small refinery exemption petitions for our Woods Cross and Cheyenne refineries for the 2019 and 2020 compliance years.

Various subsidiaries of HollyFrontier are currently pursuing legal challenges to the EPA's decisions to reverse its grant of small refinery exemptions for the 2016 and 2018 compliance years. The first lawsuit, filed against the EPA on May 6, 2022 and currently pending before the U.S. Court of Appeals for the DC Circuit, seeks to have the EPA's reversal of our 2018 small refinery exemption petitions overturned. The second lawsuit, filed against the EPA on August 5, 2022 and currently pending before the U.S. Court of Appeals for the DC Circuit, seeks to have the EPA's reversal of our 2016 small refinery exemption petitions overturned and to have the EPA's denial of our 2019 and 2020 small refinery exemption petitions reversed.

In addition, for both the 2016 and 2018 compliance years, pursuant to the June 2022 and April 2022 decisions, respectively, the EPA established an alternative compliance demonstration for small refineries pursuant to which the EPA is not imposing any obligations for the small refineries whose exemptions were reversed. On June 24, 2022, Growth Energy filed two lawsuits in the U.S. Court of Appeals for the DC Circuit against the EPA challenging the alternative compliance demonstration for the 2016 and 2018 compliance years. On July 25, 2022, various subsidiaries of HollyFrontier intervened on behalf of the EPA to aid the defense of the EPA's alternative compliance demonstration decision.

It is too early to predict the outcome of these matters.

Other

We are a party to various other litigation and proceedings that we believe, based on advice of counsel, will not either individually or in the aggregate have a materially adverse impact on our financial condition, results of operations or cash flows.

Item 1A. Risk Factors

There have been no material changes in our risk factors as previously disclosed in Part I, "Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 and in Part II, "Item 1A. Risk Factors" of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2023. You should carefully consider the risk factors discussed in our 2022 Form 10-K and March 31, 2023 Form 10-Q, which could materially affect our business, financial condition or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Common Stock Repurchases Made in the Quarter

The following table discloses purchases of shares of our common stock made by us during the second quarter of 2023.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
April 2023	—	\$ —	—	\$ 419,766,383
May 2023	—	\$ —	—	\$ 419,766,383
June 2023	—	\$ —	—	\$ 419,727,130
Total for April to June 2023	—	—	—	—

- (1) In September 2022, our Board of Directors approved a \$1.0 billion share repurchase program, which replaced all existing share repurchase programs, authorizing us to repurchase common stock in the open market or through privately negotiated transactions. Privately negotiated repurchases from REH Company are also authorized under the share repurchase program, subject to REH Company's interest in selling its shares and other limitations. The timing and amount of share repurchases, including those from REH Company, will depend on market conditions and corporate, tax, regulatory and other relevant considerations. This program may be discontinued at any time by our Board of Directors.

Although no purchases were made during the second quarter, on July 28, 2023, we entered into a Stock Purchase Agreement (the “Stock Purchase Agreement”) with REH Company, pursuant to which we repurchased from REH Company 8,200,000 shares of our outstanding common stock, par value \$0.01 per share, on August 2, 2023 in a privately negotiated transaction under our share repurchase program. The price paid by us under the Stock Purchase Agreement was \$50.07 per share resulting in an aggregate purchase price of \$410.6 million. The purchase price was funded with cash on hand. As of August 2, 2023, we had remaining authorization to repurchase up to \$5.0 million under our share repurchase program.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of HF Sinclair Corporation (incorporated by reference to Exhibit 3.1 of Registrant's Current Report on Form 8-K12B filed March 14, 2022, File No. 1-41325).
3.2	Second Amended and Restated By-Laws of HF Sinclair Corporation (incorporated by reference to Exhibit 3.1 of Registrant's Current Report on Form 8-K filed February 17, 2023, File No. 1-41325).
10.1	Third Amendment to Amended and Restated Master Tolling Agreement (Operating Assets), by and between HF Sinclair El Dorado Refining LLC, HF Sinclair Woods Cross Refining LLC and Holly Energy Partners - Operating L.P., dated effective January 1, 2023 (incorporated by reference to Exhibit 10.4 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended March 31, 2023, File No. 1-41325).
10.2	Stock Purchase Agreement, dated as of July 28, 2023, by and among HF Sinclair Corporation and REH Company (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed July 31, 2023, File No. 1-41325).
31.1*	Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.
101++	The following financial information from HF Sinclair Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2023, formatted as inline XBRL (Inline Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Cash Flows, and (v) Notes to the Consolidated Financial Statements. The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
104++	Cover page Interactive Data File (formatted as inline XBRL and contained in exhibit 101).

* Filed herewith.

** Furnished herewith.

++ Filed electronically herewith.

SIGNATURES

Pursuant to the requirements 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.

HF SINCLAIR CORPORATION

(Registrant)

Date: August 3, 2023

/s/ Atanas H. Atanasov

Atanas H. Atanasov

Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: August 3, 2023

/s/ Indira Agarwal

Indira Agarwal

Vice President, Chief Accounting Officer and Controller
(Principal Accounting Officer)