**United States**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# FORM 10-Q

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

**For the quarterly period ended September 30, 2024**
**or**

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

**For the transition period from to**

**Commission File Number: 001-37822**

# ARQ, INC.

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **27-5472457** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **8051 E. Maplewood Ave., Ste. 210, Greenwood Village, CO** | **80111** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**(720) 598-3500**
**(Registrant's telephone number, including area code)**

**Not Applicable**
**(Former name, former address and former fiscal year, if changed since last report)**

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

| Title of each class | Trading Symbol | Name of each exchange on which registered |
|---|---|---|
| Common stock, par value $0.001 per share | ARQ | Nasdaq Global Market |

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 ☒

As of November 5, 2024, there were 42,032,086 outstanding shares of Arq, Inc. common stock, par value $0.001 per share.

# INDEX

## Part I. – FINANCIAL INFORMATION

### Item 1. Condensed Consolidated Financial Statements

**Arq, Inc. and Subsidiaries**
**Condensed Consolidated Balance Sheets**
***(Unaudited)***

| *(in thousands, except share data)* | As of September 30, 2024 | As of December 31, 2023 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash | $ 48,662 | $ 45,361 |
| Receivables, net | 16,590 | 16,192 |
| Inventories, net | 18,487 | 19,693 |
| Prepaid expenses and other current assets | 3,530 | 5,215 |
| Total current assets | 87,269 | 86,461 |
| Restricted cash, long-term | 8,718 | 8,792 |
| Property, plant and equipment, net of accumulated depreciation of $25,146 and $19,293, respectively | 139,137 | 94,649 |
| Other long-term assets, net | 44,841 | 45,600 |
| Total Assets | $ 279,965 | $ 235,502 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 20,191 | $ 14,603 |
| Current portion of debt obligations | 2,324 | 2,653 |
| Other current liabilities | 7,671 | 5,792 |
| Total current liabilities | 30,186 | 23,048 |
| Long-term debt obligations, net of current portion | 17,634 | 18,274 |
| Other long-term liabilities | 14,029 | 15,780 |
| Total Liabilities | 61,849 | 57,102 |
| Commitments and contingencies (Note 7) | | |
| Stockholders' equity: | | |
| Preferred stock: par value of $0.001 per share, 50,000,000 shares authorized, none issued or outstanding | — | — |
| Common stock: par value of $0.001 per share, 100,000,000 shares authorized, 46,652,061 and 37,791,084 shares issued, and 42,033,915 and 33,172,938 shares outstanding at September 30, 2024 and December 31, 2023, respectively | 47 | 38 |
| Treasury stock, at cost: 4,618,146 and 4,618,146 shares as of September 30, 2024 and December 31, 2023, respectively | (47,692) | (47,692) |
| Additional paid-in capital | 197,988 | 154,511 |
| Retained earnings | 67,773 | 71,543 |
| Total Stockholders' Equity | 218,116 | 178,400 |
| Total Liabilities and Stockholders' Equity | $ 279,965 | $ 235,502 |

See Notes to the Condensed Consolidated Financial Statements

**Arq, Inc. and Subsidiaries**
**Condensed Consolidated Statements of Operations**
***(Unaudited)***

| *(in thousands, except per share data)* | Three Months Ended September 30, 2024 | Three Months Ended September 30, 2023 | Nine Months Ended September 30, 2024 | Nine Months Ended September 30, 2023 |
|---|---|---|---|---|
| Revenue | $ 34,774 | $ 29,829 | $ 81,919 | $ 71,079 |
| Cost of revenue, exclusive of depreciation and amortization | 21,339 | 20,707 | 52,279 | 53,218 |
| Operating expenses: | | | | |
| Selling, general and administrative | 8,058 | 8,297 | 22,735 | 27,574 |
| Research and development | 787 | 639 | 3,341 | 2,145 |
| Depreciation, amortization, depletion and accretion | 2,716 | 2,711 | 6,090 | 7,276 |
| Gain on sale of assets | (154) | — | (154) | (2,695) |
| Total operating expenses | 11,407 | 11,647 | 32,012 | 34,300 |
| Operating income (loss) | 2,028 | (2,525) | (2,372) | (16,439) |
| Other (expense) income: | | | | |
| Earnings from equity method investments | 127 | 412 | 127 | 1,512 |
| Interest expense | (806) | (787) | (2,426) | (2,155) |
| Other | 268 | 725 | 931 | 1,510 |
| Total other (expense) income | (411) | 350 | (1,368) | 867 |
| Income (loss) before income taxes | 1,617 | (2,175) | (3,740) | (15,572) |
| Income tax (expense) benefit | — | — | (30) | 33 |
| Net income (loss) | $ 1,617 | $ (2,175) | $ (3,770) | $ (15,539) |
| Income (loss) per common share (Note 1): | | | | |
| Basic | $ 0.04 | $ (0.07) | $ (0.11) | $ (0.56) |
| Diluted | $ 0.04 | $ (0.07) | $ (0.11) | $ (0.56) |
| Weighted-average number of common shares outstanding: | | | | |
| Basic | 36,124 | 31,807 | 34,085 | 27,894 |
| Diluted | 37,442 | 31,807 | 34,085 | 27,894 |

See Notes to the Condensed Consolidated Financial Statements.

**Arq, Inc. and Subsidiaries**
**Condensed Consolidated Statements of Changes in Stockholders' Equity**
***(Unaudited)***

| | Common Stock | | Treasury Stock | | | | |
|---|---|---|---|---|---|---|---|
| *(Amounts in thousands, except share data)* | Shares | Amount | Shares | Amount | Additional Paid-in Capital | Retained Earnings | Total Stockholders' Equity |
| Balances, January 1, 2024 | 37,791,084 | $ 38 | (4,618,146) | $ (47,692) | $ 154,511 | $ 71,543 | $ 178,400 |
| Stock-based compensation | 81,253 | — | — | — | 782 | — | 782 |
| Repurchase of common shares to satisfy minimum tax withholdings | (104,163) | — | — | — | (599) | — | (599) |
| Exercise of warrant, net | 324,955 | — | — | — | — | — | — |
| Net loss | — | — | — | — | — | (3,419) | (3,419) |
| Balances, March 31, 2024 | 38,093,129 | $ 38 | (4,618,146) | $ (47,692) | $ 154,694 | $ 68,124 | $ 175,164 |
| Stock-based compensation | (43,566) | — | — | — | 653 | — | 653 |
| Issuance of common stock related to private placement transaction, net of offering costs | 2,142,858 | 2 | — | — | 14,949 | — | 14,951 |
| Issuance of common stock to related party | 422,221 | 1 | — | — | 799 | — | 800 |
| Net loss | — | — | — | — | — | (1,968) | (1,968) |
| Balances, June 30, 2024 | 40,614,642 | $ 41 | (4,618,146) | $ (47,692) | $ 171,095 | $ 66,156 | $ 189,600 |
| Stock-based compensation | 580,826 | 1 | — | — | 749 | — | 750 |
| Issuance of common stock in public offering, net of offering costs | 5,485,500 | 5 | — | — | 26,654 | — | 26,659 |
| Repurchase of common shares to satisfy minimum tax withholdings | (28,907) | — | — | — | (510) | — | (510) |
| Net income | — | — | — | — | — | 1,617 | 1,617 |
| Balances, September 30, 2024 | 46,652,061 | $ 47 | (4,618,146) | $ (47,692) | $ 197,988 | $ 67,773 | $ 218,116 |

**Arq, Inc. and Subsidiaries**
**Condensed Consolidated Statements of Changes in Stockholders' Equity**
***(Unaudited)***

| *(Amounts in thousands, except share data)* | Common Stock Shares | Common Stock Amount | Treasury Stock Shares | Treasury Stock Amount | Additional Paid-in Capital | Retained Earnings | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|
| Balances, January 1, 2023 | 23,788,319 | $ 24 | (4,618,146) | $ (47,692) | $ 103,698 | $ 83,949 | $ 139,979 |
| Stock-based compensation | 483,242 | — | — | — | 563 | — | 563 |
| Issuance of common stock pursuant to Arq Acquisition, net of offering costs | 3,814,864 | 4 | — | — | 12,433 | — | 12,437 |
| Issuance of common stock related to private placement transaction, net of offering costs | 3,842,315 | 4 | — | — | 15,216 | — | 15,220 |
| Issuance of warrant | — | — | — | — | 826 | — | 826 |
| Repurchase of common shares to satisfy minimum tax withholdings | (74,104) | — | — | — | (146) | — | (146) |
| Preferred stock dividends declared on redeemable preferred stock | — | — | — | — | — | (157) | (157) |
| Net loss | — | — | — | — | — | (7,508) | (7,508) |
| Balances, March 31, 2023 | 31,854,636 | $ 32 | (4,618,146) | $ (47,692) | $ 132,590 | $ 76,284 | $ 161,214 |
| Stock-based compensation | (16,430) | — | — | — | 545 | — | 545 |
| Issuance of common stock upon conversion of preferred stock | 5,362,926 | 5 | — | — | 18,921 | — | 18,926 |
| Repurchase of common shares to satisfy minimum tax withholdings | (6,973) | — | — | — | (14) | — | (14) |
| Net loss | — | — | — | — | — | (5,856) | (5,856) |
| Balances, June 30, 2023 | 37,194,159 | $ 37 | (4,618,146) | $ (47,692) | $ 152,042 | $ 70,428 | $ 174,815 |
| Stock-based compensation | 105,244 | — | — | — | 702 | — | 702 |
| Issuance of common stock to related party | 527,779 | 1 | — | — | 999 | — | 1,000 |
| Repurchase of common shares to satisfy minimum tax withholdings | (28,129) | — | — | — | (48) | — | (48) |
| Net loss | — | — | — | — | — | (2,175) | (2,175) |
| Balances, September 30, 2023 | 37,799,053 | $ 38 | (4,618,146) | $ (47,692) | $ 153,695 | $ 68,253 | $ 174,294 |

See Notes to the Condensed Consolidated Financial Statements.

**Arq, Inc. and Subsidiaries**
**Condensed Consolidated Statements of Cash Flows**
***(Unaudited)***

| *(in thousands)* | Nine Months Ended September 30, 2024 | Nine Months Ended September 30, 2023 |
|---|---|---|
| Cash flows from operating activities | | |
| Net loss | $ (3,770) | $ (15,539) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation, amortization, depletion and accretion | 6,090 | 7,276 |
| Stock-based compensation expense | 2,185 | 1,810 |
| Operating lease expense | 1,518 | 2,061 |
| Amortization of debt discount and debt issuance costs | 450 | 395 |
| Gain on sale of assets | (154) | (2,695) |
| Earnings from equity method investments | (127) | (1,512) |
| Other non-cash items, net | (113) | — |
| Changes in operating assets and liabilities: | | |
| Receivables and related party receivables | (399) | (359) |
| Prepaid expenses and other assets | 1,812 | 3,595 |
| Inventories, net | 2,486 | (811) |
| Other long-term assets, net | (1,366) | (3,646) |
| Accounts payable and accrued expenses | (2,611) | (12,033) |
| Other current liabilities | 1,467 | 148 |
| Operating lease liabilities | (1,255) | (140) |
| Other long-term liabilities | (945) | 305 |
| Net cash provided by (used in) operating activities | 5,268 | (21,145) |
| Cash flows from investing activities | | |
| Acquisition of property, plant, equipment, and intangible assets, net | (42,210) | (17,008) |
| Acquisition of mine development costs | (167) | (1,856) |
| Proceeds from sale of property and equipment | 150 | — |
| Distributions from equity method investees in excess of cumulative earnings | 127 | 1,512 |
| Cash and restricted cash acquired in business acquisition | — | 2,225 |
| Payment for disposal of Marshall Mine, LLC | — | (2,177) |
| Net cash used in investing activities | (42,100) | (17,304) |
| Cash flows from financing activities | | |
| Net proceeds from common stock issued in public offering | 26,659 | — |
| Net proceeds from common stock issued in private placement transactions | 14,951 | 15,220 |
| Repurchase of common stock to satisfy tax withholdings | (1,109) | (208) |
| Principal payments on finance lease obligations | (838) | (855) |
| Net proceeds from common stock issued to related party | 800 | 1,000 |
| Principal payments on notes payable | (404) | (341) |
| Net proceeds from CFG Loan, related party, net of discount and issuance costs | — | 8,522 |
| Net cash provided by financing activities | 40,059 | 23,338 |
| Increase (decrease) in Cash and Restricted Cash | 3,227 | (15,111) |
| Cash and Restricted Cash, beginning of period | 54,153 | 76,432 |
| Cash and Restricted Cash, end of period | $ 57,380 | $ 61,321 |
| Supplemental disclosure of non-cash investing and financing activities: | | |
| Change in accrued purchases for property and equipment | $ 8,199 | $ 255 |
| Purchase of property and equipment through note payable | $ 258 | $ — |
| Equity issued as consideration for acquisition of business | $ — | $ 31,206 |
| Paid-in-kind dividend on Series A Preferred Stock | $ — | $ 157 |

See Notes to the Condensed Consolidated Financial Statements.

## Note 1 - Organization and Basis of Presentation

Arq, Inc. ("Arq" or the "Company"), is an environmental technology company that is principally engaged in the sale of consumable air, water, and soil treatment solutions including activated carbon ("AC") and chemical technologies. The Company's proprietary AC products enable customers to reduce air, water, and soil contaminants, including mercury, per and polyfluoroalkyl substances ("PFAS") and other pollutants, to help our customers meet the challenges of existing and pending air quality and water regulations. The Company manufactures and sells AC and other chemicals used to capture and remove contaminants for coal-fired power generation, industrial, municipal water and air, water, and soil treatment and remediation markets (collectively, the advanced purification technologies or "APT" market).

The Company's primary products are comprised of AC, which is produced from a variety of carbonaceous raw materials. The Company's AC products include both powdered activated carbon ("PAC") and granular activated carbon ("GAC"). Additionally, the Company owns the Five Forks Mine, a lignite mine that currently supplies the primary raw material for the manufacturing of the Company's products.

The Company, formerly known as Advanced Emissions Solutions, Inc., is a Delaware corporation with its principal office located in Greenwood Village, Colorado, manufacturing, mining and logistics operations located in Louisiana and coal waste recovery and manufacturing operations located in Kentucky.

In February 2023, the Company acquired 100% of the equity of the subsidiaries of Arq Limited (the "Arq Acquisition," and hereafter the Arq Limited subsidiaries are referred to as "Legacy Arq") to secure access to a feedstock, a manufacturing facility and certain patented processes as a means to manufacture additional GAC products for sale into the APT and other markets. With the Arq Acquisition, the Company now controls bituminous coal waste reserves and owns a manufacturing facility, both located in Corbin, Kentucky (the "Corbin Facility"), and a process to recover and purify the bituminous coal waste for sale or further conversion to GAC products. Using the Corbin Facility's manufacturing process, the Company is converting bituminous coal waste into a purified, microfine carbon powder known as Arq powder™ ("Arq Powder"). See further discussion of the Arq Acquisition in Note 2.

*Basis of Presentation*

The accompanying Condensed Consolidated Financial Statements of Arq are unaudited and have been prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") and with Article 10 of Regulation S-X of the Securities and Exchange Commission. In compliance with those instructions, certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted.

The unaudited Condensed Consolidated Financial Statements of Arq in this quarterly report ("Quarterly Report") are presented on a consolidated basis and include Arq and its wholly-owned subsidiaries (collectively, the "Company"). Also included within the unaudited Condensed Consolidated Financial Statements are the Company's unconsolidated equity investments, Tinuum Group and Tinuum Services, which are accounted for under the equity method of accounting, and Highview Enterprises Limited (the "Highview Investment"), which is accounted for in accordance with U.S. GAAP applicable to equity investments that do not qualify for the equity method of accounting.

Results of operations and cash flows for the interim periods are not necessarily indicative of the results that may be expected for the entire year. All significant intercompany transactions and accounts were eliminated in consolidation for all periods presented in this Quarterly Report.

In the opinion of management, these Condensed Consolidated Financial Statements include all normal and recurring adjustments considered necessary for a fair presentation of the results of operations, financial position, stockholders' equity and cash flows for the interim periods presented. These Condensed Consolidated Financial Statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2023 (the "2023 Form 10-K"). Significant accounting policies disclosed therein have not changed.

*Earnings (Loss) Per Share*

Basic earnings (loss) per share is computed using the weighted-average number of shares of the Company's common stock outstanding during the reporting period. Diluted earnings (loss) per share is computed in a manner consistent with that of basic earnings per share, while considering other potentially dilutive securities.

For the three and nine months ended September 30, 2024 and September 30, 2023, potentially dilutive securities consist of unvested restricted stock awards ("RSAs"), stock options and contingent performance stock units ("PSUs").

The following table sets forth the calculations of basic and diluted loss per share:

| *(in thousands, except per share amounts)* | Three Months Ended September 30, 2024 | Three Months Ended September 30, 2023 | Nine Months Ended September 30, 2024 | Nine Months Ended September 30, 2023 |
|---|---|---|---|---|
| Net income (loss) | $ 1,617 | $ (2,175) | $ (3,770) | $ (15,539) |
| Less: Dividends declared on redeemable preferred stock | — | — | — | 157 |
| Income (loss) attributable to common stockholders | $ 1,617 | $ (2,175) | $ (3,770) | $ (15,696) |
| | | | | |
| Basic weighted-average common shares outstanding | 36,124 | 31,807 | 34,085 | 27,894 |
| Add: dilutive effect of equity instruments | 1,318 | — | — | — |
| Diluted weighted-average shares outstanding | 37,442 | 31,807 | 34,085 | 27,894 |
| Earnings (loss) per share - basic | $ 0.04 | $ (0.07) | $ (0.11) | $ (0.56) |
| Earnings (loss) per share - diluted | $ 0.04 | $ (0.07) | $ (0.11) | $ (0.56) |

For the three and nine months ended September 30, 2024 and 2023, potentially dilutive securities of 0.3 million and 2.3 million and 2.5 million and 1.4 million shares of common stock, respectively, are outstanding but are not included in the calculation of diluted net loss per share because the effect would be anti-dilutive.

*Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. There have been no changes in the Company's critical accounting estimates from those that were disclosed in the 2023 Form 10-K. Actual results could differ from these estimates.

*Fair value measurements*

The carrying amounts of our cash, restricted cash, accounts receivable, accounts payable and other current liabilities approximate fair value as recorded due to the short-term nature of these instruments.

*Seasonality*

The timing of the sale of consumable products is dependent upon several factors. Power generation is weather dependent, with electricity and steam production varying in response to heating and cooling demands. As a result, the Company's revenue is generally higher in our first and third fiscal quarters during the warmer and colder months of the year, respectively. Abnormally high and low temperatures during the summer and winter months, respectively, may significantly increase coal consumption for electricity generation and cause increased impurities within various municipalities' water sources, and thus increase the demand for the Company's products. Additionally, power generating units routinely schedule maintenance outages in the spring and/or fall depending on the operation of their boilers. During the period in which an outage may occur, which may range from one week to over a month, the Company's product sales may decrease.

Also, the Company's revenue and sales volumes are highly dependent upon the level of coal consumption at coal-fired power plants, which in turn is significantly affected by the prices of competing power generation sources, such as natural gas and renewables. During periods of low natural gas prices, natural gas provides a competitive alternative to coal-fired power generation and therefore, coal consumption for power generation may be reduced, which in turn reduces the demand for the Company's products. In contrast, during periods of higher prices for competing power generation sources, coal consumption generally increases, which generally increases demand for the Company's products.

In the sale of water purification products, demand is driven largely from municipal water treatment facilities. Depending on weather conditions and other environmental factors, the summer months historically have the highest demand for the Company's products used in water treatment. One of the major uses for PAC is for the treatment of taste and odor episodes caused by increased degradation of organic contaminants and natural materials in water that occurs during the summer months. Additionally, the rainy season generally results in more demand from water municipalities due to rain run-offs and contaminant dilution.

*Reclassifications*

Certain balances have been reclassified from the prior year to conform to the current year presentation. Such reclassifications had no effect on the Company’s results of operations or financial position in any of the periods presented.

*New Accounting Standards*

In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures* ("ASU 2023-07"). ASU 2023-07 is intended to improve reportable segment disclosures and to enhance disclosures of reportable segment expenses. This ASU is effective for annual reporting periods beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. ASU 2023-07 is required to be applied retrospectively to all prior periods presented in the financial statements. Because the amendments do not change the methodology for the identification of operating segments, the aggregation of those operating segments or the application of the quantitative thresholds to determine reportable segments, we do not expect the guidance to have a material effect on our financial position or results of operations.

In December 2023, the FASB issued Accounting Standards Update 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. ("ASU 2023-09"). ASU 2023-09 requires entities to disclose: (1) consistent categories and greater disaggregation of information in the rate reconciliation and (2) the disaggregation of income taxes paid by jurisdiction. This update also makes several other changes to the income tax disclosure requirements. For public entities, the amendments in ASU 2023-09 are effective for fiscal years beginning after December 15, 2024, with early adoption permitted, and is required to be applied prospectively, but retrospective application is permitted. The Company is currently evaluating the impact of ASU 2023-09 on its income tax disclosures.

## Note 2 - Arq Acquisition

On February 1, 2023 (the "Acquisition Date"), the Company entered into a securities purchase agreement (the "Purchase Agreement") with Arq Limited ("Arq Ltd.") to acquire 100% of the equity of Legacy Arq in exchange for consideration (the "Purchase Consideration") totaling $31.2 million, and consisting of (i) 3,814,864 shares of the Company's common stock and (ii) 5,294,462 shares of the Company's Series A Convertible Preferred Stock, par value $0.001 per share (the "Series A Preferred Stock" or the "Preferred Shares").

The Company accounted for the Arq Acquisition as an acquisition of a business, and the total Purchase Consideration of $31.2 million was allocated to the acquired assets and assumed liabilities of Legacy Arq based on their estimated fair values as of the Acquisition Date. The Purchase Consideration was comprised of the fair values as of the Acquisition Date of 3,814,864 shares of the Company's common stock, valued at $12.4 million, and 5,294,462 Preferred Shares, valued at $18.8 million. The Company also incurred $8.7 million in acquisition-related costs, which were expensed as incurred during fiscal years 2022 and 2023 and included in the "Selling, general and administrative" line item in the Statements of Operations for those years.

Legacy Arq's principal location is in Corbin, Kentucky where it operates the Corbin Facility, which processes bituminous coal waste into Arq Powder. Arq Powder can be used in high value applications, such as for a raw material to produce GAC products or as an additive in other applications. With the completion of the Arq Acquisition, the Company intends to use Arq Powder as a feedstock to produce high-quality AC for use in water and air purification markets. The Company expects to begin using Arq Powder to produce GAC products during the first quarter of 2025.

The following table provides the final purchase price allocation to the assets acquired and liabilities assumed as of the Acquisition Date:

| ***(in thousands)*** | **Purchase Price Allocation** |
|---|---|
| **Fair value of assets acquired:** | |
| Cash | $ 1,411 |
| Prepaid expenses and other current assets | 2,229 |
| Restricted cash, long-term | 814 |
| Property, plant and equipment, net | 39,159 |
| Other long-term assets, net | 11,717 |
| Amount attributable to assets acquired | 55,330 |
| | |
| **Fair Value of liabilities assumed:** | |
| Accounts payable and accrued expenses | 9,806 |
| Current portion of long-term debt | 494 |
| Other current liabilities | 103 |
| Long-term debt, net of current portion | 9,199 |
| Other long-term liabilities | 4,523 |
| Amount attributable to liabilities assumed | 24,125 |
| | |
| Net assets acquired | $ 31,205 |

The following represents the intangible asset identified as part of the Arq Acquisition and which is included in "Other long-term-assets, net" in the table above:

| *(in thousands)* | **Amount** | **Weighted Average Useful Life (years)** |
|---|---|---|
| Developed technology | $ 7,700 | 20 |

<u>*Series A Preferred Stock*</u>

In connection with the issuance of the Series A Preferred Stock pursuant to the Purchase Agreement, the Company filed the Certificate of Designations of Preferred Stock for the Series A Preferred Stock (the "Certificate of Designations") with the Secretary of State of the State of Delaware. Under the Certificate of Designations, 8.9 million preferred shares were designated as Series A Preferred Stock.

Of the total Preferred Shares issued in the Arq Acquisition, 833,914 were held in escrow (the "Escrow Shares") based on a contingent redemption feature. The fair value of the Preferred Shares issued was determined to be $3.46 per Preferred Share on the Acquisition Date plus the value of the contingent redemption feature related to the Escrow Shares. The Escrow Shares were converted into shares of the Company's common stock (the "Escrow Common Shares") on the Conversion Date, as defined below.

Pursuant to the terms of the Series A Preferred Stock, on March 31, 2023, the Company declared a dividend of 68,464 Series A paid-in kind shares (the "PIK Dividend") with respect to the accrued dividends on the Preferred Shares for the first quarter of 2023. The PIK Dividend was recorded at the estimated fair value of $0.2 million as of March 31, 2023 and was paid on April 21, 2023.

On June 13, 2023 (the "Conversion Date"), the Company's stockholders approved the conversion of all of the outstanding shares of Series A Preferred Stock, including the Escrow Shares, and the corresponding issuance of shares of the Company's common stock. Upon such approval, each outstanding share of Series A Preferred Stock was automatically converted into the number of shares of the Company's common stock described below. Each share of Series A Preferred Stock was deemed to have an original issue price of $4.00 per share (the "Original Issue Amount"). The number of shares of the Company's common stock issued upon conversion of each share of Series A Preferred Stock was equal to the product of (i) the sum of (A) the Original Issue Amount plus (B) an amount equal to the cumulative amount of the accrued and unpaid dividends on such share at such time divided by (ii) the Original Issue Amount, subject to adjustment.

The Escrow Common Shares were withheld pending a determination by the United States Internal Revenue Service (the "IRS") that no tax withholding was required by Arq Ltd. on the Purchase Consideration issued to Arq Ltd. (the "Arq Ltd. Tax Liability"). The Company estimated the fair value of the potential Arq Ltd. Tax Liability at $3.3 million. In the event that the IRS determined that no withholding was required by Arq Ltd., all of the Escrow Common Shares would be released and delivered to Arq Ltd. In the event that the IRS determined that any amount of withholding was required by Arq Ltd., the Company agreed to redeem a sufficient number of Escrow Common Shares to fund the required payment to the IRS, and that number of Escrow Common Shares would be returned to the Company. In April 2024, the Company received notice from Arq Ltd. that the IRS had approved its filing for no tax withholding on the Purchase Consideration. Accordingly, in April 2024, the Company instructed its stock transfer agent to release the Escrow Common Shares to the Arq Ltd. stockholders.

*Equity Financing*

On February 1, 2023, and pursuant to the Arq Acquisition, the Company entered into Subscription Agreements (the "Subscription Agreements") with certain persons (the "Subscribers"), which included existing shareholders of Arq Ltd., three of which were appointed to the Company's Board of Directors (the "Board"), pursuant to which the Subscribers subscribed for and purchased shares of the Company's common stock for an aggregate purchase price of $15.4 million and at a price per share of $4.00 (such transaction, the "PIPE Investment").

*Unaudited Pro Forma Financial Information*

The following represents the pro forma effects for the nine months ended September 30, 2023 of the Arq Acquisition as if it had occurred on January 1, 2023. The pro forma net loss for the period presented has been calculated after applying the Company’s accounting policies in effect for that period. In addition, pro forma net loss includes: (1) a decrease in depreciation and amortization of $0.2 million resulting from fair value adjustments to Property, plant, equipment; (2) an increase in amortization of $0.1 million resulting from fair value adjustments to intangible assets; and (3) increases to interest expense of $0.2 million for: (a) the issuance of the CFG Loan (as defined below) including stated interest and the amortization of the CFG Loan's discount and issuance costs and (b) amortization of debt discount related to a fair value adjustment to the CTB Loan (as defined below), which was assumed by the Company on the Acquisition Date; together with the income tax effects on (1) through (3). Since Legacy Arq had no revenues for the nine months ended September 30, 2023, pro forma revenues are the same as the Company's reported revenues for that period.

| *(in thousands)* | | Nine Months Ended September 30, 2023 |
|---|---|---|
| Revenues | $ | 71,079 |
| Net loss | $ | (12,100) |

**Note 3 - Revenue**

For the three and nine months ended September 30, 2024 and 2023, all material performance obligations related to revenue recognized were satisfied at a point in time. For the three and nine months ended September 30, 2024, approximately 5% and 7%, respectively, of total revenue was generated in Canada, and all other revenues were generated in the U.S. For the three and nine months ended September 30, 2023, 7% and 8%, respectively, of total revenue was generated in Canada, and all other revenues were generated in the U.S.

*Trade receivables*

Trade receivables represent an unconditional right to consideration in exchange for goods or services transferred to a customer. The Company invoices its customers in accordance with the terms of the contract. Credit terms are generally net 30 - 45 days from the date of invoice. The timing between the satisfaction of performance obligations and when payment is due from the customer is generally not significant.

*Contract assets*

Contract assets are comprised of unbilled receivables from customers and are included in Receivables, net in the Consolidated Balance Sheets. Unbilled receivables represent a conditional right to consideration in exchange for goods or services transferred to a customer.

The following table shows the components of the Company's Receivables, net:

| *(in thousands)* | As of September 30, 2024 | As of December 31, 2023 |
|---|---|---|
| Trade and other receivables, net | $ 16,465 | $ 11,330 |
| Unbilled receivables | 125 | 4,862 |
| Receivables, net | $ 16,590 | $ 16,192 |

*Contract liabilities*

Contract liabilities are comprised of deferred revenue, which represents an obligation to transfer goods or services to a customer for which the Company has received consideration from the customer and, if deliverable within one year or less, are included in "Other current liabilities" in the Condensed Consolidated Balance Sheets and, if deliverable outside of one year, are included in "Other long-term liabilities" in the Condensed Consolidated Balance Sheets.

**Note 4 - Inventories, net**

The following table summarizes the Company's inventories as of September 30, 2024 and December 31, 2023:

| *(in thousands)* | As of September 30, 2024 | As of December 31, 2023 |
|---|---|---|
| Product inventory, net | $ 11,498 | $ 9,524 |
| Raw material inventory | 6,989 | 10,169 |
| Total inventories, net | $ 18,487 | $ 19,693 |

**Note 5 - Debt Obligations**

| *(in thousands)* | As of September 30, 2024 | As of December 31, 2023 |
|---|---|---|
| CFG Loan due February 2027, related party | $ 10,000 | $ 10,000 |
| CTB Loan due January 2036 | 9,123 | 9,527 |
| Finance lease obligations | 2,192 | 3,465 |
| Other | 258 | — |
| | 21,573 | 22,992 |
| Unamortized debt discounts | (623) | (815) |
| Unamortized debt issuance costs | (992) | (1,250) |
| | 19,958 | 20,927 |
| Less: Current maturities | (2,324) | (2,653) |
| Total long-term debt obligations | $ 17,634 | $ 18,274 |

*CFG Loan*

As required under the Purchase Agreement, and on February 1, 2023 (the "Closing Date"), the Company, as borrower, certain of its subsidiaries, as guarantors, and CF Global ("CFG"), a related party, as administrative agent and lender, entered into a term loan (the "CFG Loan") in the amount of $10.0 million, less original issue discount ("OID") of $0.2 million, upon execution of a Term Loan and Security Agreement (the "CFG Loan Agreement"). The Company received net cash proceeds of $8.5 million after deducting the OID and debt issuance costs of $1.3 million. One of the Company's directors is a principal with CFG.

The CFG Loan Agreement also required the issuance of a warrant (the "Warrant") to CFG to purchase 325,457 shares of the Company's common stock at an exercise price of $0.01 per share. The Warrant had a term of 7 years and contained a cashless exercise provision. On March 29, 2024, CFG exercised the warrant in full and the Company issued CFG 324,955 shares of its common stock, net of shares representing the exercise price of the warrant.

The CFG Loan matures on February 1, 2027 and bears interest at a rate equal to either (a) Adjusted Term SOFR (subject to a 1.00% floor and a cap of 2.00%) plus a margin of 9.00% paid in cash and 5.00% paid in kind or (b) Base Rate (as defined in the CFG Loan Agreement) plus a margin of 8.00% paid in cash and 5.00% paid in kind, which interest on the CFG Loan in each case shall be payable (or capitalized, in the case of in kind interest) quarterly in arrears.

The Company may prepay the CFG Loan at any time subject to the following prepayment premium: (i) prior to the twelve month anniversary of the Closing Date, the Make-Whole Amount (as defined below), (ii) thereafter but prior to the thirty-six month anniversary of the Closing Date, 2.00% of the outstanding principal amount of the CFG Loan being repaid or prepaid or (iii) thereafter until the maturity date, 1.00% of the outstanding principal amount of the CFG Loan being repaid or prepaid. The "Make-Whole Amount," with respect to any repayment or prepayment, is (i) an amount equal to all required interest payable (except for currently accrued and unpaid interest) on the aggregate principal amount of the CFG Loan subject to such prepayment or repayment from the date of such prepayment or repayment through but excluding the date that is the first anniversary of the Closing Date calculated using an interest rate equal to (x) Adjusted Term SOFR for an interest period of one month in effect on the third U.S. Government Securities Business Day prior to such prepayment or repayment plus (y) 14.00% per annum and assuming all interest was paid in cash, plus (ii) a prepayment premium of 2.00% on the aggregate principal amount of the CFG Loan subject to such prepayment or repayment.

The CFG Loan is secured by substantially all of the assets of the Company and its subsidiaries (including those acquired in the Acquisition, but excluding those pledged as collateral (the "CTB Loan Assets") under the CTB Loan, as defined and described below), subject to customary exceptions. The CFG Loan Agreement includes, among others, the following covenants: (1) a minimum unrestricted balance of $5.0 million as of the end of each fiscal quarter; (2) (x) as of December 31, 2024, for the fiscal year then ended, the Company must have a minimum annual revenue, on a consolidated basis, of $85.0 million and (y) for any fiscal year thereafter, the Company must have a minimum annual revenue, on a consolidated basis, of $100.0 million; (3) (x) as of December 31, 2024, for the fiscal year then ended, the Company must have a minimum Consolidated EBITDA of $3.0 million and (y) for any fiscal year thereafter, the Company must have a minimum Consolidated EBITDA of $16.0 million; and (4) during a period including a LTV Trigger Event (as defined in the CFG Loan Agreement), the Company must not exceed a loan to value ratio of 0.40:1.00 (based on the consolidated total assets of the Company and its subsidiaries, but excluding the CTB Loan Assets).

The Company allocated the cash proceeds of the CFG Loan to both the CFG Loan and the Warrant based on their relative fair values. The amount allocated to the Warrant was recorded as a debt discount and is amortized to interest expense over the term of the CFG Loan. The standalone fair value of the CFG Loan was based on a comparison of borrowings and associated credit ratings consistent with those of the Company. As the Warrant was exercisable for $0.01 per share, the fair value was deemed to be equal to the fair value of the underlying shares, and accordingly, the fair value of the Warrant was determined as the number of shares issuable from the exercise of the Warrant (based on 1.0% of post-transaction fully diluted share capital, as defined in the Purchase Agreement) multiplied by the closing share price of the Company's common stock on the Acquisition Date.

*CTB Loan*

Upon completion of the Arq Acquisition, the Company assumed a term loan (the "CTB Loan") held by certain Arq subsidiaries as set out in the CTB Loan (the "Arq Subsidiaries") with a financial institution ("CTB") in the principal amount of $10.0 million. The Company recorded the CTB Loan on the Acquisition Date at its estimated fair value of $9.7 million, with the difference of $0.3 million between the estimated fair value and the principal amount recorded as a debt discount and recognized as interest expense over the term of the CTB Loan.

The CTB Loan was originally entered into on January 27, 2021 and is comprised of two promissory notes (the "Notes"): (1) "Note A" in the principal amount of $8.0 million, which is guaranteed by the U.S. Department of Agriculture; and (2) "Note B" in the principal amount of $2.0 million. The Notes mature on January 27, 2036 and bear interest at 6.0% per annum through January 2026 and at the prime rate plus 2.75% thereafter. The Company is required to make combined interest and principal payments monthly in the fixed amount of $0.1 million. Interest is computed and payable on the outstanding principal as of the end of the prior month and the balance of the fixed monthly payment amount is applied to the outstanding principal. The Notes carry a prepayment penalty of 3.0% of the outstanding principal if paid prior to January 27, 2024, 2.0% of the outstanding principal if paid prior to January 27, 2025 and 1.0% of the outstanding principal if paid prior to January 27, 2026. Thereafter, the Notes may be prepaid without penalty.

On June 2, 2023 (the "Amendment Date"), certain of the Arq Subsidiaries, which included Corbin Project LLC, Arq Projects Holding Company LLC, Arq St. Rose LLC, Arq Corbin LLC and Arq Corbin Land LLC (collectively, the "Borrowers") and CTB entered into a loan modification agreement (the "CTB Loan Modification Agreement") to the CTB Loan, as amended by that certain letter agreement by and among CTB and Borrowers dated January 21, 2022, and as otherwise amended, modified and/or extended by the parties from time to time (collectively, the "CTB Loan Agreement"). As consideration for CTB entering into the CTB Loan Modification Agreement, the Borrowers agreed to pay a fee of $50,000 plus additional fees incurred by CTB and were required to deposit an additional $0.7 million into a deposit account (the "Interest Reserve Account" as defined in the CTB Loan Agreement), where the Interest Reserve Account is held as collateral by CTB. The Borrowers may withdraw funds from the Interest Reserve Account beginning one year from the Amendment Date, subject to restrictions as stated in the CTB Loan Modification Agreement.

The CTB Loan Modification Agreement clarified and modified certain terms under the CTB Loan Agreement. The principal clarifications and modifications in effect are as follows:

- The Borrowers are not entitled to any further disbursements of proceeds under those promissory notes described in the CTB Loan Modification Agreement;
- CTB agreed to waive certain required financial covenants required as of December 31, 2023; and
- CTB is authorized to amend and/or amend and restate its then-current security instruments to include additional collateral represented by the Borrowers' acquisition of any equipment or other fixed and/or operating assets in which CTB does not then hold a lien or security interest.

The CTB Loan is secured by substantially all assets of the Borrowers and includes among others, the following covenants with respect to the Borrowers, which are tested annually (Capitalized terms are defined in the CTB Loan Agreement): (a) Total Indebtedness to Net Worth greater than 4 to 1; (b) Balance Sheet Equity greater than or equal to 20% of the book value of all assets of the Borrowers; (c) (i) net income plus interest, taxes, depreciation and amortization divided by (ii) interest expense plus current maturities on long-term debt greater than or equal to 1.25 to 1.

The carrying values of both the CFG Loan and the CTB Loan approximate their fair values as both instruments bear interest at rates indexed to market rates for similar instruments.

## Note 6 - Leases

The Company's operating and finance lease right-of-use ("ROU") assets and liabilities as of September 30, 2024 and December 31, 2023 consisted of the following items (in thousands):

| | As of | |
|---|---|---|
| **Leases** | **September 30, 2024** | **December 31, 2023** |
| **Operating Leases** | | |
| Operating lease right-of-use assets, net of accumulated amortization [1] | $ 9,331 | $ 10,592 |
| | | |
| Operating lease obligations, current | $ 1,991 | $ 1,944 |
| Long-term operating lease obligations | 7,569 | 8,870 |
| Total operating lease obligation | $ 9,560 | $ 10,814 |
| | | |
| **Finance Leases** | | |
| Finance lease right-of-use assets, net of accumulated amortization [2] | $ 975 | $ 1,694 |
| | | |
| Finance lease obligations, current | $ 1,699 | $ 2,131 |
| Long-term finance lease obligations | 493 | 1,334 |
| Total finance lease obligations | $ 2,192 | $ 3,465 |

(1) Operating lease ROU assets are reported net of accumulated amortization of $4.0 million and $5.1 million as of September 30, 2024 and December 31, 2023, respectively.

(2) Finance lease ROU assets are reported net of accumulated amortization of $3.0 million and $2.7 million as of September 30, 2024 and December 31, 2023, respectively.

Operating leases

ROU assets under operating leases and operating lease liabilities are included in the "Other long-term assets" and "Other current liabilities" and "Other long-term liabilities" line items, respectively, in the Condensed Consolidated Balance Sheets as of September 30, 2024 and December 31, 2023.

Lease expense for operating leases for the three and nine months ended September 30, 2024 was $1.3 million and $4.0 million, respectively, of which $0.9 million and $2.9 million, respectively, is included in the "Cost of revenue, exclusive of depreciation and amortization" line item, and $0.4 million and $1.1 million, respectively, is included in the "Selling, general and administrative" line item in the Condensed Consolidated Statements of Operations for those periods.

Lease expense for operating leases for the three and nine months ended September 30, 2023 was $1.6 million and $4.3 million, respectively, of which $1.2 million and $3.4 million, respectively, is included in the "Cost of revenue, exclusive of depreciation and amortization" line item, and $0.4 million and $0.9 million, respectively, is included in the "Selling, general and administrative" line item in the Condensed Consolidated Statements of Operations for those periods.

Finance leases

ROU assets under finance leases are included in the "Property, plant and equipment" line item in the Condensed Consolidated Balance Sheets as of September 30, 2024 and December 31, 2023. Interest expense related to finance lease obligations and amortization of ROU assets under finance leases are included in the "Interest expense" and "Depreciation, amortization, depletion and accretion" line items, respectively, in the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2024 and 2023.

Lease financial information as of and for the three and nine months ended September 30, 2024 and 2023 is provided in the following table:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(in thousands)* | 2024 | 2023 | 2024 | 2023 |
| Finance lease cost: | | | | |
| Amortization of right-of-use assets | $ 46 | $ 215 | $ 466 | $ 661 |
| Interest on lease liabilities | 50 | 59 | 149 | 190 |
| Operating lease cost | 773 | 1,000 | 2,448 | 3,017 |
| Short-term lease cost | 437 | 481 | 1,220 | 1,132 |
| Variable lease cost [(1)] | 104 | 81 | 313 | 145 |
| Total lease cost | $ 1,410 | $ 1,836 | $ 4,596 | $ 5,145 |
| | | | | |
| Other Information: | | | | |
| Cash paid for amounts included in the measurement of lease liabilities: | | | | |
| Operating cash flows for finance leases | | | $ 149 | $ 190 |
| Operating cash flows for operating leases | | | $ 1,512 | $ 2,087 |
| Financing cash flows for finance leases | | | $ 838 | $ 855 |
| Right-of-use assets obtained in exchange for new finance lease liabilities | | | $ — | $ — |
| Right-of-use assets obtained in exchange for new operating lease liabilities | | | $ 257 | $ 1,947 |
| Weighted-average remaining lease term - finance leases | | | 1.2 years | 2.1 years |
| Weighted-average remaining lease term - operating leases | | | 7.4 years | 7.8 years |
| Weighted-average discount rate - finance leases | | | 6.4 % | 5.9 % |
| Weighted-average discount rate - operating leases | | | 12.4 % | 12.7 % |

(1) Primarily includes common area maintenance, property taxes and insurance payable to lessors.

## Note 7 - Commitments and Contingencies

*Surety Bonds and Restricted Cash*

As the owner of the Five Forks Mine, the Company is required to post a surety bond with a regulatory commission related to performance requirements associated with the Five Forks Mine. As of September 30, 2024, the amount of this surety bond was $7.5 million.

The Company leases land adjacent to the Corbin Facility and is required to post surety bonds with a regulatory commission for reclamation. As of September 30, 2024, the amount of these surety bonds was $3.0 million.

The Company holds permits for an abandoned mine in West Virginia ("Mine 4") and is required to post a surety bond with a regulatory commission for reclamation. As of September 30, 2024, the amount of this surety bond was $0.7 million.

As of September 30, 2024 and December 31, 2023, the Company posted cash collateral of $8.5 million and $8.5 million, respectively, as required by the Company's surety bond providers, which is reported as long-term restricted cash in the Condensed Consolidated Balance Sheets. As of September 30, 2024, the Company holds a deposit of $0.4 million with a third party for collateral as required under a bonding arrangement for Mine 4. This deposit is included in "Other long-term assets, net" in the Condensed Consolidated Balance Sheet as of September 30, 2024.

The Company has a customer supply agreement that requires the Company to post a performance bond in an amount equal to the annual contract value of $3.7 million. As of September 30, 2024, the remaining commitment under this customer contract, which expires on December 31, 2024, was approximately $1.3 million.

*Red River Plant Construction Contract*

In January 2024, the Company executed a contract with a third-party contractor for the construction of a GAC facility at the Red River Plant, and immediately commenced construction operations. The Company terminated the contract in September 2024, and anticipates completing construction and commissioning with internal resources fulfilling the role of the third-party contractor. The Company expects to complete its first deliveries in the first quarter of 2025 and estimates that total construction costs will be in the range of $75.0 - $80.0 million.

*Tinuum Group*

The Company has certain limited obligations contingent upon future events in connection with the activities of Tinuum Group. The Company, NexGen Refined Coal, LLC ("NexGen") and two entities affiliated with NexGen have provided another Tinuum Group owner with limited guarantees (the "Tinuum Group Party Guarantees") related to certain losses it may suffer as a result of inaccuracies or breach of representations and covenants. The Company also is a party to a contribution agreement with NexGen under which any party called upon to pay on a Tinuum Group Party Guaranty is entitled to receive contribution from the other party equal to 50% of the amount paid. No liability or expense provision has been recorded by the Company related to this contingent obligation as the Company believes that it is not probable that a loss will occur with respect to Tinuum Group Party Guarantees.

As of September 30, 2024 and December 31, 2023, the Company has a contractual obligation (the "Tinuum Group Obligation") of $1.7 million for its share of certain contingent liabilities of Tinuum Group as required under the Distribution and Repayment Agreement (the "Repayment Agreement") that was executed in December 2022 by the Company and certain owners of Tinuum Group. The Tinuum Group Obligation is included in the "Other current liabilities" line item in the Consolidated Balance Sheet.

*Legal Proceedings*

The Company is from time to time subject to various pending or threatened legal actions and proceedings, including those that arise in the ordinary course of its business. Such matters are subject to many uncertainties and outcomes, the financial impacts of which are not predictable with assurance and that may not be known for extended periods of time. The Company records a liability in its consolidated financial statements for costs related to claims, settlements and judgments where management has assessed that a loss is probable and an amount can be reasonably estimated. As of September 30, 2024, there were no material pending legal proceedings to which the Company is a party.

## Note 8 - Supplemental Financial Information

*Supplemental Balance Sheet Information*

The following table summarizes the components of Prepaid expenses and other current assets, and Other long-term assets, net as presented in the Condensed Consolidated Balance Sheets:

| | As of | |
|---|---|---|
| *(in thousands)* | **September 30, 2024** | **December 31, 2023** |
| Prepaid expenses and other current assets: | | |
| Prepaid expenses | $ 1,317 | $ 2,430 |
| Prepaid income taxes and income tax refunds | 192 | 349 |
| Other | 2,021 | 2,436 |
| Total prepaid expenses and other current assets | $ 3,530 | $ 5,215 |
| | | |
| Other long-term assets, net: | | |
| Spare parts, net | $ 10,753 | $ 9,147 |
| Right of use assets, operating leases, net | 9,331 | 10,592 |
| Intangible assets, net | 7,644 | 7,899 |
| Mine development costs, net | 7,125 | 7,377 |
| Upfront Customer Consideration (1) | 5,586 | 5,967 |
| Mine reclamation asset, net | 1,856 | 1,955 |
| Other | 2,546 | 2,663 |
| Total other long-term assets, net | $ 44,841 | $ 45,600 |

(1) Represents remaining balance on consideration paid to a customer under a supply contract executed in 2020. This asset is being amortized as a reduction to revenue on a straight-line basis over the expected 15-year contractual period of the contract.

Spare parts include critical spares required to support plant operations.

Mine development costs include acquisition costs, the cost of other development work and mitigation costs related to the Five Forks Mine and are depleted over the estimated life of the related mine reserves.

Mine reclamation asset, net represents an asset retirement obligation ("ARO") asset related to the Five Forks Mine and is depreciated over its estimated life.

As of September 30, 2024 and December 31, 2023, Other includes the Highview Investment in the amount of $0.6 million that is carried at cost, less impairment, plus or minus observable changes in price for identical or similar investments of the same issuer.

The following table details the components of Other current liabilities and Other long-term liabilities as presented in the Condensed Consolidated Balance Sheets:

| *(in thousands)* | As of September 30, 2024 | As of December 31, 2023 |
|---|---|---|
| Other current liabilities: | | |
| Current portion of operating lease obligations | $ 1,991 | $ 1,944 |
| Sales, use and other taxes payable | 1,719 | 948 |
| Current portion of asset retirement obligations | 1,259 | 182 |
| Other[1] | 2,702 | 2,718 |
| Total other current liabilities | $ 7,671 | $ 5,792 |
| | | |
| Other long-term liabilities: | | |
| Operating lease obligations, long-term | $ 7,569 | $ 8,870 |
| Asset retirement obligations | 5,335 | 5,981 |
| Other | 1,125 | 929 |
| Total other long-term liabilities | $ 14,029 | $ 15,780 |

[1] Included in Other current liabilities as of September 30, 2024 and December 31, 2023 is $1.7 million for the Tinuum Group Obligation as discussed in Note 7.

As of September 30, 2024 and December 31, 2023, the ARO related to the Five Forks Mine is included in Other long-term liabilities.

The Mine reclamation liabilities represent AROs. Changes in the AROs were as follows:

| *(in thousands)* | As of September 30, 2024 | As of December 31, 2023 |
|---|---|---|
| Asset retirement obligations, beginning of period | $ 6,163 | $ 8,533 |
| Asset retirement obligations assumed[1] | — | 1,500 |
| Accretion | 496 | 582 |
| Liabilities settled[2] | (65) | (4,866) |
| Changes due to scope and timing of reclamation | — | 414 |
| Asset retirement obligations, end of period | 6,594 | 6,163 |
| Less current portion | 1,259 | 182 |
| Asset retirement obligations, long-term | $ 5,335 | $ 5,981 |

[1] Represents the Corbin ARO and Mine 4 ARO in the amounts of $0.5 million and $1.0 million, respectively, assumed during the period ended December 31, 2023.

[2] Included in liabilities settled during the period ended December 31, 2023 is $4.7 million related to the removal of the ARO associated with Marshall Mine, LLC as a result of the sale of Marshall Mine, LLC in March 2023.

*Supplemental Income Statement Information*

*Tinuum Group, LLC*

As of September 30, 2024 and December 31, 2023, the Company's ownership interest in Tinuum Group, an equity method investment, was 42.5%. For the three and nine months ended September 30, 2024, the Company recognized earnings from Tinuum Group of $0.1 million. For the three and nine months ended September 30, 2023, the Company recognized earnings from Tinuum Group of $0.2 million and $1.1 million, respectively. In 2024, Tinuum Group, LLC has continued to wind down its operations.

For the three and nine months ended September 30, 2024, the Company recognized expense of $0.2 million and $0.7 million, respectively, in Cost of revenue, exclusive of depreciation and amortization, related to royalties owed to Tinuum Group under an agreement for certain of the Company's sales of M-Prove™ products. For the three and nine months ended September 30, 2023, the Company recognized expense of $0.2 million and $0.6 million, respectively, in Cost of revenue, exclusive of depreciation and amortization, related to royalties owed to Tinuum Group under an agreement for certain of the Company's sales of M-Prove™ products.

## Note 9 - Stockholders' Equity

*Common Stock Transactions*

In April 2024, the Company received $0.8 million in cash and issued 422,221 shares of its common stock pursuant to a subscription agreement between the Company and its CEO executed in July 2023.

In May 2024, the Company entered into a securities purchase agreement (the "SPA") with certain accredited investors for the sale of an aggregate of 2,142,858 shares of the Company’s common stock, at a selling price of $7.00 per share (the "Private Placement"). After deducting offering costs, the Company raised net cash proceeds of $15.0 million from the Private Placement.

In September 2024, the Company entered into an underwriting agreement (the "Underwriting Agreement") with certain underwriters, relating to the issuance and sale of 4,770,000 shares of the Company's common stock at a price to the public of $5.25 per share, as well as an overallotment option to purchase an additional 715,500 shares within 30 days following the date of the Underwriting Agreement (the "Public Offering"). The Company issued a total of 5,485,500 shares, inclusive of 715,500 shares issued pursuant to the underwriters' fully exercised overallotment option, and received net proceeds, after deducting offering costs, of approximately $26.7 million from the Public Offering.

Stock Repurchase Program

As of September 30, 2024, the Company had $7.0 million remaining under a stock repurchase program, which will remain in effect until all amounts are utilized or is otherwise modified by the Board. The Company did not repurchase any shares during the three and nine months ended September 30, 2024 or 2023.

*Tax Asset Protection Plan*

U.S. federal income tax rules, and Section 382 of the Internal Revenue Code in particular, could substantially limit the use of net operating losses and tax credits if the Company experiences an "ownership change" (as defined in the Internal Revenue Code). In general, an ownership change occurs if there is a cumulative change in the ownership of the Company by "5 percent stockholders" that exceeds 50 percentage points over a rolling three-year period.

An entity that experiences an ownership change generally will be subject to an annual limitation on its pre-ownership change tax loss and credit carryforwards equal to the equity value of the entity immediately before the ownership change, multiplied by the long-term, tax-exempt rate posted monthly by the Internal Revenue Service (subject to certain adjustments). The annual limitation would be increased each year to the extent that there is an unused limitation in a prior year.

On May 5, 2017, the Board approved the declaration of a dividend of rights to purchase Series B Junior Participating Preferred Stock for each outstanding share of common stock as part of a tax asset protection plan (the "TAPP"), which is designed to protect the Company’s ability to utilize its net operating losses and tax credits. The TAPP is intended to act as a deterrent to any person acquiring beneficial ownership of 4.99% or more of the Company’s outstanding common stock.

On April 12, 2024, the Board approved the Seventh Amendment to the TAPP (the "Seventh Amendment"), which amends the TAPP, as previously amended by the First, Second, Third, Fourth, Fifth and Sixth Amendments that were approved by the Board on April 6, 2018, April 5, 2019, April 9, 2020, April 9, 2021, March 15, 2022, and April 13, 2023, respectively. The Seventh Amendment amends the definition of "Final Expiration Date" under the TAPP to extend the duration of the TAPP and makes associated changes in connection therewith. Pursuant to the Seventh Amendment, the Final Expiration Date shall be the close of business on the earlier of (i) December 31, 2025 or (ii) December 31, 2024 if stockholder approval of the Seventh Amendment has not been obtained prior to such date. At the Company's 2024 Annual Meeting of Stockholders held on June 10, 2024, the Company's stockholders approved the Seventh Amendment, thus the final expiration date will be the close of business on December 31, 2025.

## Note 10 - Stock-Based Compensation

The Company grants equity-based awards to employees, non-employee directors and consultants that may include, but are not limited to, RSAs, PSUs, restricted stock units and stock options. Stock-based compensation expense related to manufacturing employees and administrative employees is included in the "Cost of revenue" and "Selling, general and administrative" line items, respectively, in the Condensed Consolidated Statements of Operations. Stock-based compensation expense related to non-employee directors and consultants is included in the "Selling, general and administrative" line item in the Condensed Consolidated Statements of Operations.

Total stock-based compensation expense for the three and nine months ended September 30, 2024 and 2023 was as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(in thousands)* | 2024 | 2023 | 2024 | 2023 |
| RSA expense | $ 483 | $ 501 | $ 1,268 | $ 1,405 |
| PSU expense | 206 | 151 | 735 | 355 |
| Stock option expense | 61 | 50 | 182 | 50 |
| Total stock-based compensation expense | $ 750 | $ 702 | $ 2,185 | $ 1,810 |

The amount of unrecognized compensation cost as of September 30, 2024, and the expected weighted-average period over which the cost will be recognized is as follows:

| | As of September 30, 2024 | |
|---|---|---|
| *(in thousands, expect years)* | Unrecognized Compensation Cost | Expected Weighted-Average Period of Recognition (in years) |
| RSA expense | $ 3,414 | 1.82 |
| PSU expense | 1,400 | 1.09 |
| Stock option expense | 435 | 1.79 |
| Total unrecognized stock-based compensation expense | $ 5,249 | 1.62 |

*Restricted Stock Awards*

RSAs are typically granted with vesting terms of three years. The fair value of RSAs is determined based on the closing price of the Company's common stock on the authorization date of the grant multiplied by the number of shares subject to the stock award. Compensation expense for RSAs is generally recognized on a straight-line basis over the entire vesting period.

A summary of RSA activity under the Company's various stock compensation plans for the nine months ended September 30, 2024 is presented below:

| | Restricted Stock | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Non-vested at January 1, 2024 | 790,005 | $ 3.10 |
| Granted | 577,159 | $ 5.79 |
| Vested | (541,166) | $ 3.34 |
| Forfeited | (55,197) | $ 2.82 |
| Non-vested at September 30, 2024 | 770,801 | $ 4.99 |

*Performance Share Units*

Compensation expense for PSUs is recognized on a straight-line basis over the applicable service period, which is generally three years, based on the estimated fair value at the date of grant. The estimated fair value at the date of grant is determined using a Monte Carlo simulation model for those PSUs with market-based performance conditions. A summary of PSU activity for the nine months ended September 30, 2024 is presented below:

| | Units | Weighted-Average Grant Date Fair Value | Aggregate Intrinsic Value (in thousands) | Weighted-Average Remaining Contractual Term (in years) |
|---|---|---|---|---|
| PSUs outstanding, January 1, 2024 | 968,918 | $ 2.06 | | |
| Granted | 115,877 | $ 10.94 | | |
| Vested / Settled[(1)] | (150,000) | $ 2.28 | | |
| Forfeited / Canceled | (57,750) | $ 5.90 | | |
| PSUs outstanding, September 30, 2024 | 877,045 | $ 2.94 | $ 5,148 | 1.09 |

(1) The number of units shown in the table above are based on target performance. The final number of shares of common stock issued may vary depending on the achievement of market or performance conditions established within the awards, which could result in the actual number of shares issued ranging from zero to a maximum of two times the number of units shown in the above table. For the three and nine months ended September 30, 2024, 150,000 shares of common stock were issued upon vesting of PSUs.

<u>*Stock Options*</u>

Stock options vest over three years and have a contractual limit of ten years from the date of grant to exercise. The fair value of stock options granted is determined on the date of grant using the Black-Scholes option pricing model, and the related expense is recognized on a straight-line basis over the entire vesting period. The determination of the grant date fair value of stock options issued is affected by a number of variables, including the fair value of the Company's common stock, the expected common stock price volatility over the expected term of the stock option, the expected term of the stock option, risk-free interest rates, and the expected dividend yield of the Company's common stock.

*Risk-free interest rate* - The risk-free interest rate for stock options granted was determined by using a zero-coupon U.S. Treasury rate for the periods that coincided with the expected term of the options.

*Dividend yield* - An expected dividend yield of zero was included in the calculations, as the Company does not currently pay nor does it anticipate paying dividends on its common stock as of the grant date of the stock options.

*Expected volatility* - To calculate expected volatility, the historical volatility of the Company's common stock was used.

*Expected term* - The Company's expected term of stock options was calculated using a simplified method whereby the midpoint between the vesting date and the end of the contractual term is utilized to compute the expected term, as the Company does not have sufficient historical data for options with similar vesting and contractual terms.

The Company did not grant any stock options during the three and nine months ended September 30, 2024. The Company granted 1,000,000 stock options during the three and nine months ended September 30, 2023. A summary of stock option activity for the nine months ended September 30, 2024 is presented below:

| | Number of Options Outstanding and Exercisable | Weighted-Average Exercise Price | Aggregate Intrinsic Value (in thousands) | Weighted-Average Remaining Contractual Term (in years) |
|---|---|---|---|---|
| Options outstanding, January 1, 2024 | 1,000,000 | $ 3.00 | | |
| Options granted | — | — | | |
| Options exercised | — | — | | |
| Options expired / forfeited | — | — | | |
| Options outstanding, September 30, 2024 | 1,000,000 | $ 3.00 | $ 2,870 | 8.79 |
| Options vested and exercisable, September 30, 2024 | 333,333 | $ 3.00 | $ 957 | 8.79 |

## Note 11 - Income Taxes

For the three and nine months ended September 30, 2024 and 2023, the Company's income tax (expense) benefit and effective tax rates are presented below:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(in thousands, except for rate)* | 2024 | 2023 | 2024 | 2023 |
| Income tax (expense) benefit | $ — | $ — | $ (30) | $ 33 |
| Effective tax rate | — % | — % | 1 % | — % |

The Company incurred pretax loss for the nine months ended September 30, 2024 and expects to incur pretax loss for the year ending December 31, 2024. As a result, the effective rate for the three and nine months ended September 30, 2024 would be zero as the resultant tax benefit was offset by a valuation allowance recorded as of September 30, 2024, However, the Company recorded out of period state income tax expense for the nine months ended September 30, 2024 resulting in the effective tax rate of 1% for this period.

The Company assesses a valuation allowance recorded against deferred tax assets at each reporting date. The determination of whether a valuation allowance for deferred tax assets is appropriate requires the evaluation of positive and negative evidence that can be objectively verified. Consideration must be given to all sources of taxable income available to realize deferred tax assets, including, as applicable, the future reversal of existing temporary differences, future taxable income forecasts exclusive of the reversal of temporary differences and carryforwards, taxable income in carryback years and tax planning strategies. In estimating income taxes, the Company assesses the relative merits and risks of the appropriate income tax treatment of transactions taking into account statutory, judicial and regulatory guidance.

## Note 12 - Marshall Mine

On March 27, 2023, (the "MM Closing Date"), the Company completed the sale of all of its membership interests in Marshall Mine, LLC to a third party (the "Buyer") in exchange for a cash payment of $2.2 million (the "MM Purchase Price") made by the Company to the Buyer and the assumption by the Buyer of certain liabilities of Marshall Mine, LLC. As of the MM Closing Date, Marshall Mine, LLC had outstanding liabilities of approximately $4.9 million that were discharged upon payment of the MM Purchase Price by the Company, and the Company recognized a gain of approximately $2.7 million in the Statement of Operations for the nine months ended September 30, 2023.

## Note 13 - Subsequent Events

Unless disclosed elsewhere in the notes to the Condensed Consolidated Financial Statements, there were no significant matters that occurred subsequent to September 30, 2024.

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

The following discussion and analysis of our financial condition and results of our operations should be read together with the unaudited Condensed Consolidated Financial Statements and notes of Arq, Inc. ("Arq" or the "Company") included elsewhere in Item 1 of Part I ("Item 1") of this Quarterly Report and with the audited consolidated financial statements and the related notes of Arq included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 (the "2023 Form 10-K").

The results of operations discussed in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" are those of Arq, Inc. and its consolidated subsidiaries, collectively, the "Company," "we," "our" or "us."

### Overview

We are an environmental technology company that is principally engaged in the sale of consumable air and water treatment solutions primarily based on Activated Carbon ("AC"). Our proprietary AC products enable customers to reduce air, water, and soil contaminants, including mercury, per- and polyfluoroalkyl substances ("PFAS") and other pollutants, to help our customers maximize effectiveness and to improve operating efficiencies to meet the challenges of existing and pending air quality, soil, and water regulations. We manufacture and sell AC and other chemicals used to capture and remove contaminants for coal-fired power generation, industrial and water treatment markets, which we collectively refer to as the advanced purification technologies ("APT") market.

Our primary products are comprised of AC, which is produced from a variety of carbonaceous raw materials. Our AC products include both powdered activated carbon ("PAC") and granular activated carbon ("GAC"). Additionally, we own the Five Forks Mine, a lignite mine that currently supplies the primary raw material for the manufacturing of our products.

In February 2023, we acquired 100% of the equity of the subsidiaries of Arq Limited (the "Arq Acquisition," and hereafter the Arq Limited subsidiaries are referred to as "Legacy Arq") to secure access to a feedstock, a manufacturing facility and certain patented processes as a means to manufacture additional GAC products for sale into the APT market and other markets. With the Arq Acquisition, we now control bituminous coal waste reserves and own a manufacturing facility, both located in Corbin, Kentucky (the "Corbin Facility"), and a process to recover and purify the bituminous coal fines for sale or further conversion to GAC products. Using the Corbin Facility's manufacturing process, we convert coal waste into a purified, microfine carbon powder known as Arq powder™ ("Arq Powder"). We expect to begin using Arq Powder as a feedstock to manufacture high-quality GAC products for sale in the APT and other markets during the first quarter of 2025.

We believe Arq Powder has additional potential for us to access new markets and applications. We expect to secure customer interest in Arq Powder as an additive into other markets, such as components for asphalt. These products utilizing Arq Powder are expected to have a lower carbon footprint compared to similar products utilizing conventional materials. These applications are currently in various stages of proof of concept testing or preliminary customer testing.

In February 2024, as part of a larger rebranding, we changed our name to Arq, Inc., and on February 1, 2024, our common stock commenced trading under the ticker symbol, "ARQ".

### Drivers of Demand and Key Factors Affecting Profitability

Drivers of demand and current key factors affecting our profitability are sales of our AC products to the APT market. Our operating results are influenced by: (1) changes in our manufacturing production and sales volumes; (2) changes in price and product mix; (3) changes in coal-fired dispatch and electricity power generation sources and (4) changes in demand for contaminant removal within water treatment facilities.

For the three and nine months ended September 30, 2024, we experienced a decrease in demand for our products from certain coal-fired dispatch and electricity power generation customers compared to the same periods in 2023. This was primarily due to lower natural gas prices, resulting in several large utility customers opting to use natural gas versus coal as a primary source for power generation, and the year to date impact of mild temperatures during the winter and spring seasons, resulting in lower demand for power generation compared to 2023. We expect that natural gas prices will remain relatively consistent through 2024 due to surplus natural gas reserves in storage, which, we expect, will negatively impact sales of our products even with higher than average summer temperatures.

On April 10, 2024, the United States Environmental Protection Agency ("EPA") issued its first nationally enforceable PFAS National Primary Drinking Water Regulation, confirming a material tightening to an existing framework of guidance and regulations relating to the control and limitation of PFAS in municipal water. The regulatory changes are anticipated to phase in over an approximate five-year period. We expect the implementation of the announced regulations will drive a material increase in GAC demand in the water purification market.

## Results of Operations

For the three and nine months ended September 30, 2024, we recognized net income of $1.6 million and net loss of $3.8 million, respectively, compared to net loss of $2.2 million and $15.5 million for the three and nine months ended September 30, 2023. The most significant factor impacting results for the three months ended September 30, 2024 was higher revenue as a result of increased average selling price, which was partially offset by a decrease in demand for our AC and chemical products with power generation customers, when compared to the three months ended September 30, 2023. The decrease in demand from our power generation customers was primarily driven by continued low prices of alternative energy sources for power generation. These factors also impacted our results for the nine months ended September 30, 2024 as compared to the nine months ended September 30, 2023. Additionally, during the nine months ended September 30, 2023, we recorded expenses related to the Arq Acquisition that did not occur in 2024.

The following sections provide additional information regarding these comparable periods. For comparability purposes, the following tables set forth our results of operations for the periods presented in the Condensed Consolidated Financial Statements included in Item 1 of this Quarterly Report. The current year period to prior year period comparisons of financial results may not be indicative of financial results to be achieved in future periods.

### Comparison of the Three Months Ended September 30, 2024 and 2023

### Revenue and Cost of revenue

A summary of the components of our Revenue and Cost of revenue for the three months ended September 30, 2024 and 2023 is as follows:

| | Three Months Ended September 30, | | Change | |
|---|---|---|---|---|
| *(in thousands, except percentages)* | 2024 | 2023 | ($) | (%) |
| Revenue | $ 34,774 | $ 29,829 | $ 4,945 | 17 % |
| Cost of revenue, exclusive of depreciation and amortization | $ 21,339 | $ 20,707 | $ 632 | 3 % |

*Revenue and Cost of revenue*

For the three months ended September 30, 2024, revenue increased from the comparable quarter in 2023 primarily driven by overall favorable product mix and higher pricing of approximately $2.7 million and $1.2 million, respectively. The increase from favorable product mix was primarily driven by sales to municipal water customers and a large non-power generation customer. Also contributing to an increase in revenue between periods was $0.2 million attributable to volumes sold, despite lower natural gas prices compared to the same quarter in 2023, which contributed to decreased utilization of coal-fired generation and decreased demand for our products by customers in the power generation market. The average Henry Hub natural gas spot prices ($/MMBtu) for the three months ended September 30, 2024 and 2023 were $2.11 and $2.59, respectively.

Gross margin, exclusive of depreciation and amortization, increased for the three months ended September 30, 2024 compared to the corresponding quarter in 2023. The increase in gross margin was primarily due to favorable product mix as described above, as well as lower fixed costs as a percentage of total cost of revenue due to higher production volumes for the three months ended September 30, 2024 compared to the corresponding quarter in 2023.

We expect that revenue and gross margin will continue to be positively impacted by our product price increases and our efforts to move our product mix to higher margin products. We anticipate that the product price increases will help offset decreases in volumes due to prices of alternative energy sources impacting the demand for our AC and chemical products related to power generation.

Revenue continues to be affected by electricity demand driven by seasonal weather and related power generation needs, as well as competitor prices related to alternative power generation sources such as natural gas and renewables.

**Operating Expenses**

A summary of the components of our operating expenses for the three months ended September 30, 2024 and 2023 is as follows:

| | Three Months Ended September 30, | | Change | |
|---|---|---|---|---|
| *(in thousands, except percentages)* | 2024 | 2023 | ($) | (%) |
| Operating expenses: | | | | |
| Selling, general and administrative | $ 8,058 | $ 8,297 | $ (239) | (3)% |
| Research and development | 787 | 639 | 148 | 23 % |
| Depreciation, amortization, depletion and accretion | 2,716 | 2,711 | 5 | — % |
| Gain on sale of assets | (154) | — | (154) | * |
| | $ 11,407 | $ 11,647 | $ (240) | (2)% |

* Percent change in excess of 100% not considered meaningful.

**Selling, General and Administrative**

A summary of the components of selling, general and administrative expenses for the three months ended September 30, 2024 and 2023, exclusive of cost of revenue items (presented above), is as follows:

| | Three Months Ended September 30, | | Change | |
|---|---|---|---|---|
| *(in thousands, except percentages)* | 2024 | 2023 | ($) | (%) |
| Payroll and benefits | $ 2,843 | $ 3,875 | $ (1,032) | (27)% |
| Legal and professional fees | 1,430 | 1,631 | (201) | (12)% |
| General and administrative | 3,785 | 2,791 | 994 | 36 % |
| Total Selling, general and administrative | $ 8,058 | $ 8,297 | $ (239) | (3)% |

*Payroll and benefits*

Payroll and benefits, which represent costs related to selling, general and administrative personnel, decreased for the three months ended September 30, 2024 compared to the corresponding quarter in 2023 primarily due to severance related costs of $1.0 million associated with the termination of an executive officer during the three months ended September 30, 2023, and decreased salaries and wages in the current quarter primarily from lower executive compensation, which was a result of personnel changes implemented in 2023.

*Legal and professional fees*

Legal and professional fees decreased for the three months ended September 30, 2024 compared to the corresponding quarter in 2023 primarily from legal and accounting costs incurred related to the Arq Acquisition during the period ended September 30, 2023, partially offset by increased consulting fees.

*General and administrative*

General and administrative expenses increased for the three months ended September 30, 2024 compared to the corresponding quarter in 2023 by approximately $1.0 million, primarily due to an increase in rent and occupancy expenses, third-party services at the Corbin Facility, and franchise taxes.

**Research and development**

Research and development expense increased for the three months ended September 30, 2024 compared to the corresponding quarter in 2023, primarily due to conducting product qualification testing with potential lead-adopters as part of our ongoing GAC contracting process, and increased research and development payroll costs.

**Depreciation, amortization, depletion and accretion**

Depreciation, amortization depletion and accretion expense remained flat for the three months ended September 30, 2024 compared to the corresponding quarter in 2023.

**Gain on sale of assets**

Gain on sale of assets for the three months ended September 30, 2024 primarily relates to a gain on the sale of equipment.

**Other (Expense) Income, net**

A summary of the components of other (expense) income, net for the three months ended September 30, 2024 and 2023 is as follows:

| | Three Months Ended September 30, | | Change | |
|---|---|---|---|---|
| *(in thousands, except percentages)* | 2024 | 2023 | ($) | (%) |
| Other (expense) income: | | | | |
| Earnings from equity method investments | $ 127 | $ 412 | $ (285) | (69)% |
| Interest expense | (806) | (787) | (19) | 2 % |
| Other | 268 | 725 | (457) | (63)% |
| Total other (expense) income | $ (411) | $ 350 | $ (761) | * |

* Percent change in excess of 100% not considered meaningful.

*Earnings from equity method investments*

Earnings from equity method investments for the three months ended September 30, 2024 represented cash distributions from Tinuum Group. Earnings from equity method investments for the three months ended September 30, 2023 represented cash distributions from both Tinuum Group and Tinuum Services. Tinuum Group continues to wind down their services into 2024. We do not expect further distributions from Tinuum Services as Tinuum Services has completed its wind-down.

*Interest expense*

Interest expense remained flat for the three months ended September 30, 2024 compared to the corresponding quarter in 2023.

*Other*

The decrease in Other for the three months ended September 30, 2024 as compared to the corresponding quarter in 2023 was primarily driven by a decrease in interest income of $0.4 million due to lower average balances in the Company's cash sweep accounts during the current quarter compared to the prior year quarter.

**Income tax expense**

For the three months ended September 30, 2024 and 2023, we had pretax income of $1.6 million and pretax loss of $2.2 million, respectively. For the three months ended September 30, 2024, we recorded no income tax expense as we expect to incur pretax loss for the year ending December 31, 2024. For the three months ended September 30, 2023, we recorded no income tax benefit for the pretax loss due to the recording of a full valuation allowance based on our forecast of pretax loss for the year ended December 31, 2023.

**Comparison of the Nine Months Ended September 30, 2024 and 2023**

**Total Revenue and Cost of Revenue**

A summary of the components of our revenues and cost of revenue for the nine months ended September 30, 2024 and 2023 is as follows:

| | Nine Months Ended September 30, | | Change | |
|---|---|---|---|---|
| *(in thousands, except percentages)* | 2024 | 2023 | ($) | (%) |
| Revenue | $ 81,919 | $ 71,079 | $ 10,840 | 15 % |
| Cost of revenue, exclusive of depreciation and amortization | $ 52,279 | $ 53,218 | $ (939) | (2)% |

*Revenue and Cost of revenue*

For the nine months ended September 30, 2024, revenue increased from the comparable period in 2023 primarily driven by overall favorable product mix and higher pricing of approximately $5.4 million and $3.9 million, respectively. The increase from favorable product mix was primarily driven by sales to municipal water customers and a large non-power generation customer. These increases to revenue were partially offset by approximately $0.4 million attributable to lower volumes sold. Product sale volumes were lower among power generation customers primarily due to lower natural gas prices compared to the same period in 2023, which contributed to decreased utilization of coal-fired generation and decreased demand for our products. The average Henry Hub natural gas spot prices ($/MMBtu) for the nine months ended September 30, 2024 and 2023 were $2.11 and $2.47, respectively.

Gross margin, exclusive of depreciation and amortization, increased for the nine months ended September 30, 2024 compared to the corresponding period in 2023. The increase in gross margin was primarily due to favorable product mix and pricing as described above.

**Operating Expenses**

A summary of the components of our operating expense for the nine months ended September 30, 2024 and 2023 is as follows:

| | Nine Months Ended September 30, | | Change | |
|---|---|---|---|---|
| *(in thousands, except percentages)* | 2024 | 2023 | ($) | (%) |
| Operating expenses: | | | | |
| Selling, general and administrative | $ 22,735 | $ 27,574 | $ (4,839) | (18)% |
| Research and development | 3,341 | 2,145 | 1,196 | 56 % |
| Depreciation, amortization, depletion and accretion | 6,090 | 7,276 | (1,186) | (16)% |
| Gain on sale of assets | (154) | (2,695) | 2,541 | (94)% |
| | $ 32,012 | $ 34,300 | $ (2,288) | (7)% |

**Selling, General and Administrative**

A summary of the components of selling, general and administrative expenses for the nine months ended September 30, 2024 and 2023, exclusive of cost of revenue items (presented above), is as follows:

| | Nine Months Ended September 30, | | Change | |
|---|---|---|---|---|
| *(in thousands, except percentages)* | 2024 | 2023 | ($) | (%) |
| Payroll and benefits | $ 8,171 | $ 11,277 | $ (3,106) | (28)% |
| Legal and professional fees | 4,436 | 7,950 | (3,514) | (44)% |
| General and administrative | 10,128 | 8,347 | 1,781 | 21 % |
| Total Selling, general and administrative | $ 22,735 | $ 27,574 | $ (4,839) | (18)% |

*Payroll and benefits*

Payroll and benefits decreased for the nine months ended September 30, 2024 compared to the corresponding period in 2023 primarily due to $1.1 million related to severance expense of former executives of Arq Limited and $1.0 million of severance related costs associated with the termination of an executive officer incurred during the nine months ended September 30, 2023, as well as decreased salaries and wages in the current year primarily from lower executive compensation, which was a result of personnel changes implemented in 2023.

*Legal and professional fees*

Legal and professional fees decreased for the nine months ended September 30, 2024 compared to the corresponding period in 2023 primarily from decreased consulting, legal, and accounting costs incurred related to the Arq Acquisition during the nine months ended September 30, 2023.

*General and administrative*

General and administrative expenses increased for the nine months ended September 30, 2024 compared to the corresponding period in 2023 by approximately $1.8 million, primarily due to increases in rent and occupancy expenses, franchise tax expenses, outside construction-related labor and license and fee expenses.

**Research and development**

Research and development expense increased for the nine months ended September 30, 2024 compared to the corresponding period in 2023, primarily due to conducting product qualification testing with potential lead-adopters as part of our ongoing GAC contracting process, and increased research and development payroll costs.

**Depreciation, amortization, depletion and accretion**

Depreciation, amortization, depletion and accretion expense decreased by approximately $1.2 million for the nine months ended September 30, 2024 compared to the corresponding period in 2023, primarily due to increased absorption in inventory of $1.4 million, decreased amortization of leasehold improvements, customer relationships and developed technology of $0.5 million, and decreased depletion of $0.2 million, partially offset by increased depreciation expense, primarily related to Legacy Arq assets purchased in February 2023.

**Gain on sale of assets**

On March 27, 2023, we completed the sale of all of our membership interests in Marshall Mine, LLC to a third party. During the nine months ended September 30, 2023, we recognized a gain of $2.7 million on the sale of Marshall Mine, LLC. Gain on sale of assets for the nine months ended September 30, 2024 was primarily due to a gain on the sale of equipment.

**Other Income (Expense), net**

A summary of the components of other income (expense), net for the nine months ended September 30, 2024 and 2023 is as follows:

| | Nine Months Ended September 30, | | Change | |
|---|---|---|---|---|
| *(in thousands, except percentages)* | 2024 | 2023 | ($) | (%) |
| Other (expense) income: | | | | |
| Earnings from equity method investments | $ 127 | $ 1,512 | $ (1,385) | (92)% |
| Interest expense | (2,426) | (2,155) | (271) | 13 % |
| Other | 931 | 1,510 | (579) | (38)% |
| Total other (expense) income | $ (1,368) | $ 867 | $ (2,235) | * |

* Percent change in excess of 100% not considered meaningful.

*Earnings from equity method investments*

Earnings from equity method investments for the nine months ended September 30, 2024 represented cash distributions from Tinuum Group. During the nine months ended September 30, 2023, the amount represented cash distributions from both Tinuum Group and Tinuum Services. Tinuum Group continues to wind down their services into 2024. We do not expect further distributions from Tinuum Services as Tinuum Services has completed its wind-down.

*Interest expense*

Interest expense increased for the nine months ended September 30, 2024 compared to the corresponding period in 2023 primarily due to higher interest expense of $0.3 million related to the CFG Loan incurred for the nine months ended September 30, 2024. This increase was due to a higher principal balance from the accrual of interest payable upon the termination date of the CFG Loan.

*Other*

The decrease in Other for the nine months ended September 30, 2024 was primarily driven by a decrease in interest income of $0.5 million due to lower balances in the Company's cash sweep accounts during the current period compared to the prior year period.

**Income tax expense**

For the nine months ended September 30, 2024 and 2023, we had pretax losses of $3.7 million and $15.6 million, respectively, and recorded no income tax benefit for the pretax losses due to the recording of a full valuation allowance based on our forecast of pretax losses for the year ending December 31, 2024 and the year ended December 31, 2023. For the nine months ended September 30, 2024, we recorded out of period state income tax expense related to a state assessment.

**Non-GAAP Financial Measures**

To supplement our financial information presented in accordance with U.S. Generally Accepted Accounting Principles ("U.S. GAAP"), we provide certain supplemental financial measures, including EBITDA and Adjusted EBITDA, which are measurements that are not calculated in accordance with U.S. GAAP. EBITDA is defined as earnings before interest, taxes, depreciation and amortization, and Adjusted EBITDA is defined as EBITDA reduced by the non-cash impact of equity earnings from equity method investments and other non-cash gains, increased by cash distributions from equity method investments, other non-cash losses and non-recurring costs and fees. EBITDA and Adjusted EBITDA should be considered in addition to, and not as a substitute for, net income (loss) in accordance with U.S. GAAP as a measure of performance. See below for a reconciliation from net income (loss), the nearest U.S. GAAP financial measure, to EBITDA and Adjusted EBITDA.

We believe that the EBITDA and Adjusted EBITDA measures are less susceptible to variances that affect the Company's operating performance. We include these non-GAAP measures because management uses them in the evaluation of our operating performance, and believe they help to facilitate comparison of operating results between periods. We believe the non-GAAP measures provide useful information to both management and users of the financial statements by excluding certain expenses, gains, and losses which can vary widely across different industries or among companies within the same industry and may not be indicative of core operating results and business outlook.

**EBITDA and Adjusted EBITDA:**

The following table reconciles net income (loss), our most directly comparable as-reported financial measure calculated in accordance with U.S. GAAP, to EBITDA (loss) and Adjusted EBITDA (loss).

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(in thousands)* | 2024 | 2023 | 2024 | 2023 |
| Net income (loss) [1] | $ 1,617 | $ (2,175) | $ (3,770) | $ (15,539) |
| Depreciation, amortization, depletion and accretion | 2,716 | 2,711 | 6,090 | 7,276 |
| Amortization of Upfront Customer Consideration | 127 | 127 | 381 | 381 |
| Interest expense, net | 600 | 224 | 1,638 | 822 |
| Income tax expense (benefit) | — | — | 30 | (33) |
| EBITDA (loss) | 5,060 | 887 | 4,369 | (7,093) |
| Cash distributions from equity method investees | 127 | 412 | 127 | 1,512 |
| Equity earnings | (127) | (412) | (127) | (1,512) |
| Gain on sale of assets | (154) | — | (154) | (2,695) |
| Financing costs | 228 | — | 228 | — |
| Adjusted EBITDA (loss) | $ 5,134 | $ 887 | $ 4,443 | $ (9,788) |

[1] Included in Net loss for the three and nine months ended September 30, 2023 are zero and $4.9 million, respectively of transaction and integration costs incurred related to the Arq Acquisition. Additionally, for the three and nine months ended September 30, 2023, Net loss included $2.5 million and $4.2 million of Legacy Arq payroll and benefit costs. Further included in Net Loss for the three and nine months ended September 30, 2023 is $1.3 million of severance expense related to two executive employees.

## Liquidity and Capital Resources

### *Current Resources and Factors Affecting Our Liquidity*

As of September 30, 2024, our principal sources of liquidity included:

- cash on hand of $48.7 million, excluding $8.7 million of restricted cash, including net proceeds received from issuance and sale of our common stock of $42.4 million in the current year; and
- cash from operations.

As of September 30, 2024, our principal uses of liquidity included:

- capital expenditures, including those related to the Red River Plant expansion and commissioning of the Corbin Facility;
- our business operating expenses;
- payments on our lease obligations; and
- payments on our debt obligations.

### *Cash Flows*

### *Nine Months Ended September 30, 2024 vs. Nine Months Ended September 30, 2023*

Cash and restricted cash increased from $54.2 million as of December 31, 2023 to $57.4 million as of September 30, 2024. The following table summarizes our cash flows for the nine months ended September 30, 2024 and 2023, respectively:

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| *(in thousands)* | 2024 | 2023 | Change |
| Cash and restricted cash provided by (used in): | | | |
| Operating activities | $ 5,268 | $ (21,145) | $ 26,413 |
| Investing activities | (42,100) | (17,304) | (24,796) |
| Financing activities | 40,059 | 23,338 | 16,721 |
| Net change in cash and restricted cash | $ 3,227 | $ (15,111) | $ 18,338 |

**Cash flow from operating activities**

Cash flow from operating activities for the nine months ended September 30, 2024 were $5.3 million and represented a net increase of $26.4 million from cash used in operating activities for the nine months ended September 30, 2023 of $21.1 million. The net increase was primarily attributable to a decrease in cash payments on accounts payable and accrued expenses of $9.4 million, primarily due to payments made in 2023 of Legacy Arq assumed liabilities, comprised of accrued employee-related compensation and accrued transaction costs related to the Arq Acquisition in 2023; a decrease in net loss of $11.8 million; and a decrease in non-cash items primarily from a gain of $2.7 million recognized from the sale of Marshall Mine, LLC for the nine months ended September 30, 2023.

**Cash flow from investing activities**

Cash flows used in investing activities increased for the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023 increased by $24.8 million primarily as a result of an increase in property, plant and equipment additions of $25.2 million from construction activities related to the expansion of our Red River Plant; $2.2 million of cash acquired in the Arq Acquisition during the prior year; and a decrease in distributions from equity earnings in excess of cumulative earnings of $1.4 million. Partially offsetting the net increase in cash flows used in investing activities were a cash payment of $2.2 million made in the prior year required in the sale of Marshall Mine, LLC, a decrease in expenditures on mine development costs of $1.7 million, and cash received in 2024 of $0.2 million from the sale of equipment.

**Cash flow from financing activities**

Cash flows provided by financing activities for the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023 increased by $16.7 million primarily due to proceeds of $42.4 million, net of offering costs, we received related to issuance and sale of our common stock in both the Public Offering and the Private Placement, including $0.8 million received in April 2024 pursuant to a subscription agreement between the Company and its CEO executed in July 2023. During the nine months ended September 30, 2023, cash flows from financing activities included the receipt of proceeds of $15.2 million, net, from the PIPE Investment and proceeds from the CFG Loan of $8.5 million, net of debt issuance costs paid.

**Material Cash Requirements**

Our ability to continue to generate sufficient cash flow required to meet ongoing operational needs and obligations depends upon several factors. These include executing on our contracts and initiatives and increasing our share of the market for APT consumables, including expanding our overall AC business into additional adjacent markets and increasing our gross margin by improving our customer and product mix.

We expect that our cash on hand as of September 30, 2024 and proceeds from additional debt financing, if needed, will provide sufficient liquidity to fund operations for the next 12 months while maintaining the cadence of our capital expenditures.

*Capital expenditures*

We have targeted the first quarter of 2025 for our first GAC deliveries. To meet this target, we need to incur substantial capital spend for additional equipment, labor, and project costs. We expect to finance the timely completion of the project with cash on hand, cash generation from operations, ongoing cost reduction initiatives, potential customer prepayments for GAC contracts, and an anticipated refinancing and expansion of the CFG Loan.

During 2024, we expect to spend between $60 and $70 million on construction and commissioning of our plants, depending on the pace of the project. Capital expenditures planned for 2024 are dependent on many factors, which may impact the timing and amount of capital expenditures, with $20 to $25 million expected to be spent in the fourth quarter of 2024.

*Surety Bonds*

As of September 30, 2024, we had outstanding surety bonds with regulatory commissions totaling $11.2 million primarily related to the Five Forks Mine and the Corbin Facility. As of September 30, 2024, and as required by our surety bond provider, we held restricted cash of $8.5 million pledged as collateral related to performance requirements required under a reclamation contract for the Five Forks Mine and the Corbin Facility. We expect that the obligations secured by these surety bonds will be performed in the ordinary course of business and in accordance with the applicable contractual terms. To the extent that the obligations are performed, the related surety bonds may be released and collateral requirements may be reduced. However, in the event any surety bond is called, our indemnity obligations could require us to reimburse the surety bond provider.

*Long Term Requirements*

For a discussion of our long-term cash requirements, which relate primarily to our obligations under the CFG Loan and CTB Loan, see Note 5 of the Condensed Consolidated Financial Statements included in Item 1 of this Quarterly Report.

**Critical Accounting Policies and Estimates**

Our critical accounting policies and estimates have not changed from those reported in Part II, Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2023 Form 10-K.

**Recently Issued Accounting Standards**

Refer to Note 1 of the Condensed Consolidated Financial Statements included in Item 1 of this Quarterly Report for information regarding recently issued accounting standards applicable to us.

**Forward-Looking Statements Found in this Quarterly Report**

This Quarterly Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") that involve risks and uncertainties. Words or phrases such as "anticipates," "believes," "expects," "intends," "plans," "estimates," "predicts," the negative expressions of such words, or similar expressions are used in this Quarterly Report to identify forward-looking statements, and such forward-looking statements include, but are not limited to, statements or expectations regarding:

(a) the anticipated effects from an increase in pricing of our AC products;

(b) the anticipated effects from an increase in costs of our AC products and related cost increases in supply and logistics;

(c) expected supply and demand for our AC products and services;

(d) the ability to successfully integrate Legacy Arq's business;

(e) the ability to develop and utilize Legacy Arq’s products and technology and the anticipated timing for bringing such products to market;

(f) the ability to make Legacy Arq's products commercially viable;

(g) the expected future demand of Legacy Arq's products;

(h) future level of research and development activities;

(i) future plant capacity expansions and site development projects, including the GAC facility at our Red River Plant;

(j) the effectiveness of our technologies and the benefits they provide;

(k) the timing of awards of, and work and related testing under, our contracts and agreements and their value;

(l) the timing and amounts of, or changes in, future revenues, funding for our business and projects, margins, expenses, earnings, tax rates, cash flows, working capital, liquidity and other financial and accounting measures;

(m) the performance of obligations secured by our surety bonds;

(n) the amount and timing of future capital expenditures needed for our business plan;

(o) the amount, timing, and favorability of terms related to additional required financing;

(p) the adoption and scope of regulations to control certain chemicals in drinking water and other environmental concerns;

(q) opportunities to effectively provide solutions to U.S. coal-related businesses to comply with regulations, improve efficiency, lower costs and maintain reliability; and

(r) the impact of prices of competing power generation sources such as natural gas and renewable energy on demand for our products.

The forward-looking statements included in this Quarterly Report involve risks and uncertainties. Actual events or results could differ materially from those discussed in the forward-looking statements as a result of various factors including, but not limited to, timing and scope of new and pending regulations and any legal challenges to or extensions of compliance dates of them; the U.S. government's failure to promulgate regulations that benefit our business; changes in laws and regulations, accounting rules, prices, economic conditions and market demand; impact of competition; availability, cost of and demand for alternative energy sources and other technologies; technical, start up and operational difficulties; competition within the industries in which we operate; our inability to commercialize our products on favorable terms; our inability to effectively and efficiently commercialize new products; changes in construction costs or availability of construction materials; our inability to effectively manage construction and startup of the GAC facility at our Red River Plant or Corbin Facility; our inability to obtain required financing or financing on terms that are favorable to us; our inability to ramp up our operations to effectively address recent and expected growth in our business; loss of key personnel; ongoing effects of inflation and macroeconomic uncertainty, including from the ongoing armed conflicts around the world, and such uncertainty's effect on market demand and input costs; availability of materials and equipment for our business; intellectual property infringement claims from third parties; pending litigation; other factors relating to our business strategy, goals and expectations concerning the Arq Acquisition (including future operations, future performance or results); our ability to maintain relationships with customers, suppliers and others with whom we do business and meet supply requirements, or our results of operations and business generally; risks related to diverting management's attention from our ongoing business operations; costs related to the Arq Acquisition; opportunities for additional sales of our AC products and end-market diversification; our ability to meet customer supply requirements; the rate of coal-fired power generation in the U.S.; the timing and cost of capital expenditures and the resultant impact to our liquidity and cash flows; and the other risk factors described in our other filings with the SEC, including the 2023 Form 10-K. You are cautioned not to place undue reliance on the forward-looking statements made in this Quarterly Report and to consult filings we have made and will make with the SEC for additional discussion concerning risks and uncertainties that may apply to our business and the ownership of our securities. The forward-looking statements contained in this Quarterly Report are presented as of the date hereof, and we disclaim any duty to update such statements unless required by law.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The information under this Item is not required to be provided by smaller reporting companies.

## Item 4. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Exchange Act, we have evaluated, under the supervision of and with the participation of our management, including our principal executive officer and principal financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Based upon this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2024.

### Changes in Internal Control Over Financial Reporting

On February 1, 2023, we acquired Legacy Arq and, as permitted by Securities and Exchange Commission Staff interpretative guidance for newly acquired businesses, management excluded Legacy Arq from our assessment of internal control over financial reporting as of December 31, 2023. We are in the process of documenting and testing Legacy Arq's internal controls over financial reporting and will incorporate Legacy Arq into our annual report on internal control over financial reporting for the year ending December 31, 2024.

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended September 30, 2024 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

From time to time, we are involved in litigation, claims and other proceedings related to the conduct of our business. Information with respect to this item may be found in Note 7 "Commitments and Contingencies" to the Condensed Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report.

### Item 1A. Risk Factors

There have been no material updates to our risk factors as disclosed in the 2023 Form 10-K.

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

*Share Repurchases*

We maintain a program to repurchase up to $20.0 million of shares of our common stock under a stock repurchase program through open market transactions at prevailing market prices, of which $7.0 million remained available as of September 30, 2024. No repurchases were made during the three months ended September 30, 2024.

*Tax Withholding*

The following table contains information about common shares that we withheld from delivering to employees during the third quarter of 2024 to satisfy their respective tax obligations related to stock-based awards.

| Period | Total Number of Common Shares Purchased | Average Price Paid per Common Share | Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Dollar Value) of Common Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| July 1 to July 31, 2024 | 26,878 | $ 5.46 | N/A | N/A |
| August 1 to August 31, 2024 | — | $ — | N/A | N/A |
| September 1 to September 30, 2024 | 2,029 | $ 6.11 | N/A | N/A |

### Item 4. Mine Safety Disclosures

The information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 CFR 229.104) is included in Exhibit 95.1 to this Quarterly Report.

### Item 5. Other Information

During the three months ended September 30, 2024, no director or officer of the Company adopted or terminated a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement, as each term is defined in Item 408(a) of Regulation S-K.

## Item 6. Exhibits

| Exhibit No. | Description | Form | File No. | Incorporated by Reference Exhibit | Filing Date |
|---|---|---|---|---|---|
| 3.1 | Amended and Restated Bylaws of Arq, Inc., as amended | 10-Q | 001-37822 | 3.1 | May 8, 2024 |
| 3.2 | Second Amended and Restated Certificate of Incorporation of Advanced Emissions Solutions, Inc. | 10-Q | 000-54992 | 3.1 | August 9, 2013 |
| 3.3 | Certificate of Amendment to the Amended and Restated Certificate of Incorporation, effective February 1, 2024 | 8-K | 001-37822 | 3.1 | January 31, 2024 |
| 3.4 | Certificate of Designations of Series A Preferred Stock | 8-K | 001-37822 | 3.1 | February 1, 2023 |
| 3.5 | Certificate of Designation, Preferences, and Rights of Series B Junior Participating Preferred Stock of Advanced Emissions Solutions, Inc. | 8-K | 001-37822 | 3.1 | May 8, 2017 |
| 10.1 | Underwriting Agreement, dated September 20, 2024, by and between the Company and Canaccord Genuity LLC as representative of the underwriters named therein. | 8-K | 001-37822 | 1.1 | September 20, 2024 |
| 31.1 | Certification of Principal Executive Officer of Arq, Inc. Pursuant to 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a)* | | | | |
| 31.2 | Certification of Principal Financial Officer of Arq, Inc. Pursuant to 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a)* | | | | |
| 32.1 | Certification of Principal Executive Officer and Principal Financial Officer of Arq, Inc. Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002* | | | | |
| 95.1 | Mine Safety Disclosure Exhibit* | | | | |
| 101.SCH | XBRL Schema Document* | | | | |
| 101.CAL | XBRL Calculation Linkbase Document* | | | | |
| 101.LAB | XBRL Label Linkbase Document* | | | | |
| 101.PRE | XBRL Presentation Linkbase Document* | | | | |
| 101.DEF | Taxonomy Extension Definition Linkbase Document* | | | | |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)* | | | | |

Notes:
* Filed herewith.

Filings for the Company were made under the name ADA-ES, Inc. (File No. 000-50216) prior to July 1, 2013, the effective date of our reorganization, and under the name Advanced Emissions Solutions, Inc. (File No. 000-54992) starting on July 1, 2013. Filings for the Company were made under the name Advanced Emissions Solutions, Inc. (File No. 001-37822) starting on July 6, 2016. On February 1, 2024, the Company changed its name to Arq, Inc.

**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.

Arq, Inc.
(Registrant)

| | | |
|---|---|---|
| November 7, 2024 | By: | /s/ Robert Rasmus |
| | | Robert Rasmus<br>Chief Executive Officer<br>(Principal Executive Officer) |
| November 7, 2024 | By: | /s/ Stacia Hansen |
| | | Stacia Hansen<br>Chief Accounting Officer<br>(Principal Financial Officer) |

**Exhibit 31.1**

**Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as Amended**

I, Robert Rasmus, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Arq, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2024

/s/ Robert Rasmus

Robert Rasmus
Chief Executive Officer
(Principal Executive Officer)

**Exhibit 31.2**

**Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as Amended**

I, Stacia Hansen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Arq, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2024

/s/ Stacia Hansen

Stacia Hansen
Chief Accounting Officer
(Principal Financial Officer)

**Exhibit 32.1**

**Certification**

**Pursuant to**

**18 U.S.C. Section 1350,**

**as Adopted Pursuant to**

**Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Arq, Inc. (the "Company") for the quarterly period ended September 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Robert Rasmus, as the Principal Executive Officer of the Company, and Stacia Hansen, as the Principal Financial Officer of the Company, each hereby certifies, pursuant to and solely for the purpose of 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, to the best of their knowledge and belief, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert Rasmus

Robert Rasmus
Chief Executive Officer

November 7, 2024

/s/ Stacia Hansen

Stacia Hansen
Chief Accounting Officer

November 7, 2024

**EXHIBIT 95.1**

**Mine Safety and Health Administration Safety Data**

We are committed to maintaining a safe work environment and working to ensure environmental compliance across all of our operations. The health and safety of our employees and limiting the impact to communities in which we operate are critical to our long-term success. We employ practices and conduct training to help ensure that our employees work safely. Furthermore, we utilize processes for managing, monitoring and improving safety and environmental performance.

The following disclosures are provided pursuant to Securities and Exchange Commission (SEC) regulations, which require certain disclosures by companies required to file periodic reports under the Securities Exchange Act of 1934, as amended, that operate coal mines regulated under the Federal Mine Safety and Health Act of 1977 (the "Mine Act"). The disclosures reflect United States (U.S.) mining operations only.

*Mine Safety Information.* Whenever the Mine Safety and Health Administration (MSHA) believes that a violation of the Mine Act, any health or safety standard, or any regulation has occurred, it may issue a violation which describes the associated condition or practice and designates a time frame within which the operator must abate the violation. In some situations, such as when MSHA believes that conditions pose a hazard to miners, MSHA may issue an order removing miners from the area of the mine affected by the condition until hazards are corrected. Whenever MSHA issues a citation or order, it generally proposes a civil penalty, or fine, as a result of the violation that the operator is ordered to pay. Citations and orders can be contested and appealed and, as part of that process, are often reduced in severity and amount, and are sometimes vacated. The number of citations, orders and proposed assessments vary depending on the size and type (underground or surface) of the company and mine.

We are required to report citations and orders issued to us by MSHA during the three months ended September 30, 2024, as reflected in our systems. Our required disclosure covers only those mines that were issued orders or citations during the period presented and, commensurate with SEC regulations, does not reflect orders or citations issued to independent contractors working at our mines. Due to timing and other factors, our data may not agree with the mine data retrieval system maintained by MSHA. The proposed assessments for the three months ended September 30, 2024 were taken from the MSHA system as of November 4, 2024.

Additional information about MSHA references we are required to report is as follows:

- *Section 104 S&S Violations*: The total number of violations received from MSHA under section 104(a) of the Mine Act that could significantly and substantially contribute to a serious injury if left unabated.
- *Section 104(b)Orders*: The total number of orders issued by MSHA under section 104(b) of the Mine Act, which represents a failure to abate a citation under section 104(a) within the period of time prescribed by MSHA. This results in an order of immediate withdrawal from the area of the mine affected by the condition until MSHA determines that the violation has been abated.
- *Section 104(d) Citations and Orders*: The total number of citations and orders issued by MSHA under section 104(d) of the Mine Act for unwarrantable failure to comply with mandatory health or safety standards.
- *Section 104(e) Notices*: The total number of notices issued by MSHA under section 104(e) of the Mine Act for a pattern of violations that could contribute to mine health or safety hazards.
- *Section 110(b)(2)Violations*: The total number of flagrant violations issued by MSHA under section 110(b)(2) of the Mine Act.
- *Section 107(a) Orders*: The total number of orders issued by MSHA under section 107(a) of the Mine Act for situations in which MSHA determined an imminent danger existed.
- *Proposed MSHA Assessments*: The total dollar value of proposed assessments from MSHA.
- *Fatalities*: The total number of mining-related fatalities.

Our first mine is located in the Gulf Coast Lignite Region, in Natchitoches Parish, Louisiana (the "Five Forks Mine"). For the three months ended September 30, 2024, there were no reportable citations or orders issued to the Five Forks Mine. Our second mine is located in Knox, Kentucky ("Corbin Project"). For the three months ended September 30, 2024, there were no reportable citations or orders issued to Corbin Project. Our third mine is located in Mingo, West Virginia ("Mine Four"). For the three months ended September 30, 2024, there were no reportable citations or orders issued to Mine Four.

*Pending Legal Actions.* The Federal Mine Safety and Health Review Commission (the Commission) is an independent adjudicative agency that provides administrative trial and appellate review of legal disputes arising under the Mine Act. These cases may involve, among other questions, challenges by operators to citations, orders and penalties they have received from MSHA, or complaints of discrimination by miners under section 105 of the Mine Act. The following is a brief description of the types of legal actions that may be brought before the Commission.

- *Contests of Citations and Orders*: A contest proceeding may be filed with the Commission by operators, miners or miners' representatives to challenge the issuance of a citation or order issued by MSHA, including citations related to disputed provisions of operators' emergency response plans.
- *Contests of Proposed Penalties (Petitions for Assessment of Penalties)*: A contest of a proposed penalty is an administrative proceeding before the Commission challenging a civil penalty that MSHA has proposed for the violation. Such proceedings may also involve appeals of judges' decisions or orders to the Commission on proposed penalties, including petitions for discretionary review and review by the Commission on its own motion.
- *Complaints for Compensation*: A complaint for compensation may be filed with the Commission by miners entitled to compensation when a mine is closed by certain withdrawal orders issued by MSHA. The purpose of the proceeding is to determine the amount of compensation, if any, due miners idled by the orders.
- *Complaints of Discharge, Discrimination or Interference*: A discrimination proceeding is a case that involves a miner's allegation that he or she has suffered a wrong by the operator because he or she engaged in some type of activity protected under the Mine Act, such as making a safety complaint. This category includes temporary reinstatement proceedings, which involve cases in which a miner has filed a complaint with MSHA stating he or she has suffered discrimination and the miner has lost his or her position.
- *Applications for Temporary Relief:* An application for temporary relief from any modification or termination of any order or from any order issued under certain subparts of section 104 of the Mine Act may be filed with the Commission at any time before such order becomes final.
- *Appeals of Judges' Decisions or Orders.*

For the three months ended September 30, 2024, there were no pending or legal actions before the Commission at Five Forks Mine, Corbin Project or Mine Four.