
**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 March 31, 2018

OR

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

For the Transition Period from ___ to ___

Commission file number 001-37936

SMART SAND, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

45-2809926
(I.R.S. Employer
Identification Number)

1725 Hughes Landing Blvd, Suite 800
The Woodlands, Texas 77380
(Address of principal executive offices) (Zip Code)
(281) 231-2660
(Registrant's telephone number)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging Growth Company
(do not check if a smaller reporting 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 Act). Yes No

Number of shares of Common Stock outstanding, par value \$0.001 per share, as of May 3, 2018: 41,379,232

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SMART SAND, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2018 (unaudited)	December 31, 2017
(in thousands, except share amounts)		
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,135	\$ 34,740
Restricted cash	487	487
Accounts receivable	27,691	23,377
Unbilled receivables	206	1,192
Inventories	5,272	9,092
Prepaid expenses and other current assets	4,992	3,849
Total current assets	40,783	72,737
Property, plant and equipment, net	210,037	172,202
Deferred financing costs, net	400	892
Other assets	3,414	971
Total assets	\$ 254,634	\$ 246,802
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 12,243	\$ 26,123
Accrued and other expenses	11,819	7,576
Deferred revenue	872	—
Current portion of equipment financing obligations	502	572
Current portion of notes payable	288	288
Total current liabilities	25,724	34,559
Revolving credit facility, net	15,624	—
Deferred tax liabilities, long-term, net	13,546	13,239
Asset retirement obligation	8,117	8,982
Total liabilities	63,011	56,780
Commitments and contingencies (Note 18)		
Stockholders' equity		
Common stock, \$0.001 par value, 350,000,000 shares authorized; 40,580,437 issued and 40,490,563 outstanding at March 31, 2018; 40,474,085 issued and 40,393,033 outstanding at December 31, 2017	40	40
Treasury stock, at cost, 89,874 and 81,052 shares at March 31, 2018 and December 31, 2017, respectively	(720)	(666)
Additional paid-in capital	159,739	159,059
Retained earnings	32,564	31,589
Total stockholders' equity	191,623	190,022
Total liabilities and stockholders' equity	\$ 254,634	\$ 246,802

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

SMART SAND, INC.

CONDENSED CONSOLIDATED INCOME STATEMENTS
(UNAUDITED)

	Three Months Ended March 31,	
	2018	2017
	(in thousands, except per share amounts)	
Revenues	\$ 42,628	\$ 25,059
Cost of goods sold	35,413	19,662
Gross profit	7,215	5,397
Operating expenses:		
Salaries, benefits and payroll taxes	2,573	1,697
Depreciation and amortization	188	108
Selling, general and administrative	3,101	2,034
Total operating expenses	5,862	3,839
Operating income	1,353	1,558
Other income (expenses):		
Other interest expense, net	(180)	(111)
Other income	34	37
Total other expenses, net	(146)	(74)
Income before income tax expense	1,207	1,484
Income tax expense	232	515
Net income	\$ 975	\$ 969
Net income per common share:		
Basic	\$ 0.02	\$ 0.02
Diluted	\$ 0.02	\$ 0.02
Weighted-average number of common shares:		
Basic	40,412	39,697
Diluted	40,441	39,874

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

SMART SAND, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)

	Common Stock		Treasury Stock		Additional	Retained	Total
	Outstanding Shares	Par Value	Shares	Amount	Paid-in Capital	Earnings	Stockholders' Equity
	(in thousands, except share amounts)						
Balance at December 31, 2017	40,393,033	\$ 40	81,052	\$ (666)	\$ 159,059	\$ 31,589	\$ 190,022
Vesting of restricted stock	96,713	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	610	—	610
Employee stock purchase plan compensation	9,639	—	—	—	70	—	70
Restricted stock buy back	(8,822)	—	8,822	(54)	—	—	(54)
Net income	—	—	—	—	—	975	975
Balance at March 31, 2018	<u>40,490,563</u>	<u>\$ 40</u>	<u>89,874</u>	<u>\$ (720)</u>	<u>\$ 159,739</u>	<u>\$ 32,564</u>	<u>\$ 191,623</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

SMART SAND, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Operating activities:		
Net income	\$ 975	\$ 969
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and accretion of asset retirement obligation	3,294	1,687
Asset retirement obligation settlement	(1,249)	—
(Gain) on disposal of assets	—	(37)
Amortization of deferred financing cost	60	106
Accretion of debt discount	56	—
Deferred income taxes	307	324
Stock-based compensation	610	176
Changes in assets and liabilities:		
Accounts receivable	(4,314)	(4,101)
Unbilled receivables	986	(953)
Inventories	3,820	4,308
Prepaid expenses and other assets	(3,586)	(181)
Deferred revenue	872	(1,615)
Accounts payable	(7,587)	77
Accrued and other expenses	4,144	2,893
Income taxes payable	—	191
Net cash (used in) provided by operating activities	(1,612)	3,844
Investing activities:		
Purchases of property, plant and equipment	(46,869)	(1,623)
Proceeds from disposal of assets	—	14
Net cash used in investing activities	(46,869)	(1,609)
Financing activities:		
Repayments of notes payable	—	(4)
Payments under equipment financing obligations	(70)	(102)
Payment of deferred financing costs	—	(188)
Proceeds from revolving credit facility	16,000	—
Proceeds from equity issuance	—	26,251
Payment of equity transaction costs	—	(2,083)
Purchase of treasury stock	(54)	—
Net cash provided by financing activities	15,876	23,874
Net (decrease) increase in cash, cash equivalents and restricted cash	(32,605)	26,109
Cash and cash equivalents and restricted cash at beginning of year	35,227	47,534
Cash and cash equivalents and restricted cash at end of period	\$ 2,622	\$ 73,643
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 95	\$ 15
Cash paid for taxes	\$ 207	\$ 29
Non-cash investing activities:		
Asset retirement obligation	\$ 250	\$ —
Non-cash financing activities:		
Capitalized expenditures in accounts payable and accrued expenses	\$ 11,488	\$ 500

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

SMART SAND, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

1. Organization and Nature of Business

Smart Sand, Inc. and its subsidiaries (collectively, the “Company”) are headquartered in The Woodlands, Texas. The Company was incorporated in July 2011, and is engaged in the excavation, processing and sale of industrial sand, or proppant, for use in hydraulic fracturing operations for the oil and gas industry. The Company completed construction of the first phase of its primary facility in Oakdale, Wisconsin and commenced operations in July 2012, subsequently expanded its operations in 2014 and 2015 and is currently expanding its operations again from 3.3 million tons of annual processing capacity to 5.5 million tons of annual processing capacity. This expansion is anticipated to be completed and operational in the second quarter of 2018.

2. Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements (“interim statements”) of the Company have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), issued by the SEC. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments and disclosures necessary for a fair presentation of these interim statements have been included. The results reported in these interim statements are not necessarily indicative of the results that may be reported for the entire year. The consolidated balance sheet as of December 31, 2017 was derived from the audited consolidated financial statements as of and for the year ended December 31, 2017. These interim statements should be read in conjunction with the Company’s consolidated financial statements for the year ended December 31, 2017.

3. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates used in the preparation of these financial statements include, but are not limited to, the sand reserves and its impact on calculating the depletion expense under the units-of-production method, the depreciation associated with property and equipment, impairment considerations of those assets, estimated cost of future asset retirement obligations, stock-based compensation, recoverability of deferred tax assets, inventory reserve, and collectability of receivables and certain liabilities. Actual results could differ from management’s best estimates as additional information or actual results become available in the future, and those differences could be material.

Revenue Recognition

On January 1, 2018, the Company adopted new accounting standard ASC 606, “Revenue from Contracts with Customers and all the related amendments” (“ASC 606”) in relation to all contracts that were not completed or expired as of January 1, 2018, using the modified retrospective method. There was no adjustment made to the opening balance of retained earnings as a result of applying the new revenue standard. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while the comparative information is not restated and will continue to be reported under the accounting standards in effect for those periods.

With the adoption of the standard, the consolidated financial statements are supplemented by new disclosure requirements. Areas of focus and updated presentation requirements include disclosures surrounding contracts with customers, disaggregation of revenue, contract balances, performance obligations, significant judgments used in the application of the guidance and transaction price allocation to remaining performance obligations.

Revenue Recognition

Revenues are recognized when control of the promised goods or services is transferred to our customers, the amount of which reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

SMART SAND, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

Sand Sales Revenue

The Company derives its revenue by mining and processing sand. Its revenues are primarily a function of the price per ton realized and the volumes sold. The Company's sales are generally free carrier ("FCA"), payment made at the origination point at the Company's facility, with title passing as the product is loaded into railcars hired by the customer or provided by the Company and revenue being recognized when title transfers at the Company's facility. For sand delivered in-Basin to certain contract and spot-rate customers, the Company recognizes the revenue when title passes at the destination.

Prices under our long-term agreements with customers are generally indexed to the Average Cushing Oklahoma WTI Spot Prices and contain provisions allowing for adjustments including: (i) annual percentage price increases; and/or (ii) market factor increases, including a natural gas surcharge/reduction and a propane surcharge/reduction which are applied if the Average Natural Gas Price or the Average Quarterly Mont Belvieu TX Propane Spot Price, respectively, as listed by the U.S. Energy Information Administration, are above or below the applicable benchmark set in the contract for the preceding calendar quarter.

Shortfall Payments

The Company's shortfall revenues are based on negotiated contract terms and are recognized when rights of use are expired. The Company recognizes revenue to the extent of the unfulfilled minimum contracted quantity at the shortfall price per ton as stated in the contract once payment is received or probable. For the three months ended March 31, 2018 and 2017, the Company recognized no revenue for shortfall payments relating to minimum commitments under take-or-pay contracts.

Railcar Rental

Railcar rentals consists of revenue derived from the leasing of the Company's railcars to customers under long-term contracts or on an as-used basis. Based on the customer contract, the Company either recognizes revenue on the leasing of railcars based on when the terms of the agreement state that the railcar is available to the customer for use, or based on a specified price per ton shipped. The Company recognizes revenue from leasing in accordance with ASC 840, as leasing revenue does not meet the criteria of ASC 606. For the three months ended March 31, 2018 and 2017, the Company recognized \$1,819 and \$1,683, respectively, of railcar revenue.

Transportation Revenue

Transportation revenue consists of primarily railway transportation and revenue to deliver products to customers. The Company's transportation revenue fluctuates based on many factors, including the volume of product it transports and the distance between its plant and customers. Revenue generated from transportation was \$11,893 and \$6,604, respectively, for the three months ended March 31, 2018 and 2017.

Contract Balances

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables and deferred revenue on the consolidated balance sheet. For the Company's sand sales, amounts are billed as sand is loaded on the railcars to fill customer orders for free carrier origination point sales or when sand is received at the destination for free carrier destination point sales and recorded as accounts receivable. For the Company's freight revenue, amounts billed depend on the shipping terms and are recorded as receivables accordingly. Generally, billing occurs subsequent to revenue recognition, resulting in contract assets. In addition, the Company sometimes receives shortfall payments from its customers and recognizes the revenue once the rights of use are expired. Changes in the contract asset and liability balances during the three months ended March 31, 2018 were not materially impacted by any other factors.

SMART SAND, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
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Deferred Revenues

The Company receives advance payments from certain customers in order to secure and procure a reliable provision and delivery of product. The Company classifies such advances as current or noncurrent liabilities depending upon the anticipated timing of delivery of the supplied product. Revenue is recognized upon the delivery of the product.

The Company may receive an advance payment from a customer, based on the terms of the customer's long-term contract, for a certain volume of product to be delivered. Revenue is recognized as product is delivered and the deferred revenue is reduced.

Revenue recognized for the three months ended March 31, 2018 that was included in the contract liability balance at the beginning of the year was \$0. The deferred revenue balance at March 31, 2018 and December 31, 2017 was \$872 and \$0, respectively, and classified as a current liability in the accompanying condensed consolidated balance sheets.

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in accordance with ASC 606. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Generally, the Company's contracts include a single performance obligation that is separately identifiable, and therefore, distinct. Under ASC 606, the allocation of transaction price is not necessary if only one performance obligation is identified. The Company expects to recognize approximately 42% of this remaining performance obligation as revenue throughout the remainder of 2018 and expects to recognize the remaining 58% as revenue by 2021.

Revenue from sand sales are recognized at a point in time, either upon shipment or upon delivery, and accounted for 68% and 67% of the Company's revenue for the three months ended March 31, 2018 and 2017, respectively. Revenue from railcar rental and transportation is recognized at a point in time, upon shipment, and accounted for 32% and 33% of revenue for the three months ended March 31, 2018 and 2017, respectively.

Significant Judgments

Accounting for long-term contracts involves the use of various techniques to estimate total contract revenue, costs and satisfaction of performance obligation. The Company satisfies its performance obligation and subsequently recognizes revenue, at a point in time, upon shipment of the products as the customer obtains control over the goods once the sand is loaded into the railcars or sand is delivered to the customer's destination. In the case of frac sand being delivered to customers, the transaction price is variable in nature and is directly tied to the Average Cushing Oklahoma WTI Spot Prices per barrel. There were no changes to the significant judgments used by the Company to determine the timing of satisfaction of the performance obligation under ASC 606.

Costs to Obtain or Fulfill Contract

The Company's costs to fulfill or obtain contracts with customers primarily consist of commissions and legal costs. Under take-or-pay contracts, the Company provides sales team members with commissions at set per ton prices. These commissions are paid on a monthly basis, when and if the sand is taken by the customer. Although sales commissions are incremental in nature and are only incurred when a contract is obtained, there is no up-front commission paid on the satisfactory obtainment of a contract, resulting in no sales commissions being capitalized at March 31, 2018. The Company also incurs legal costs relating to the drafting and negotiating of contracts with select customers. Because legal costs are not incremental in nature and are incurred regardless of whether a contract is ultimately obtained, there were no legal costs capitalized as of March 31, 2018. As a result, the Company did not record amortization of costs incurred to obtain the contract or any impairment losses for the period ended March 31, 2018.

SMART SAND, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

Accounts Receivable and Unbilled Receivables

Accounts receivable represents customer transactions that have been invoiced as of the balance sheet date; unbilled receivables represent customer transactions that have not yet been invoiced as of the balance sheet date. Accounts receivable are due within 30 days from the date of invoice, or in accordance with terms agreed upon with customers, and are stated at amounts due from customers net of any allowance for doubtful accounts. The Company considers accounts outstanding longer than the payment terms are past due. The Company determines the allowance by considering a number of factors, including the length of time trade accounts receivable are past due, previous loss history, the customer's current ability to pay its obligation, and the condition of the general economy and the industry as a whole. Accounts receivable are written off when they are deemed uncollectible, and payments subsequently received on such receivables are credited to bad debt expense. As of March 31, 2018 and December 31, 2017, the Company determined no allowance for doubtful accounts was necessary. As of March 31, 2018 and December 31, 2017, no portion of unbilled revenue represents transactions included in deferred revenue.

Transportation

Transportation costs are classified as cost of goods sold. Transportation costs consist of railway transportation and transload costs to deliver products to customers. Cost of sales generated from transportation was \$14,315 and \$7,302 for the three months ended March 31, 2018 and 2017, respectively.

Inventories

The Company's sand inventory consists of raw material (sand that has been excavated but not processed), work-in-progress (sand that has undergone some but not all processing) and finished goods (sand that has been completely processed and is ready for sale). The spare parts inventory consists of critical spare parts.

Sand inventory is stated at the lower of cost or net realizable value using the average cost method. For the three months ended March 31, 2018 and 2017, the Company had no write-down of inventory as a result of any lower of cost or net realizable value assessment. Costs applied to the inventory include direct excavation costs, processing costs, overhead allocation, depreciation and depletion. Stockpile tonnages are calculated by measuring the number of tons added and removed from the stockpile. Costs are calculated on a per ton basis and are applied to the stockpiles based on the number of tons in the stockpile. The Company performs monthly physical inventory measurements to verify the quantity of inventory on hand. Due to variation in sand density and moisture content and production processes utilized to manufacture the Company's products, physical inventories will not necessarily detect all variances. To mitigate this risk, the Company recognizes a yield adjustment on its inventories.

Spare parts inventory is accounted for on a first-in, first-out basis at the lower of cost or net realizable value.

Deferred Financing Charges

Direct costs incurred in connection with the Facility (as defined below) have been capitalized and are being amortized using the straight-line method, which approximates the effective interest method, over the term of the debt. Fees attributable to the lender and third parties of \$1,372 were presented as components of deferred financing charges since there was no outstanding balance on the Facility as of December 31, 2017. As of March 31, 2018, fees attributable to the lender of \$668 are presented as a discount to the carrying value of the debt and the unamortized amount is presented as a reduction of long-term debt on the consolidated balance sheets.

Amortization expense of the deferred financing charges of \$60 and \$106 is included in interest expense for the three months ended March 31, 2018 and 2017, respectively.

Accretion of debt discount costs of \$56 and \$0 is included in interest expense for the three months ended March 31, 2018 and 2017, respectively.

SMART SAND, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

Financial Instruments

The carrying value of the Company's financial instruments, consisting of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, approximates their fair value due to the short maturity of such instruments. Financial instruments also consist of debt for which fair value approximates carrying values as the debt bears interest at a variable rate which is reflective of current rates otherwise available to the Company. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Costs related to researching, surveying, drilling, and related activities are recorded at cost and capitalized once a determination has been made that the Company's property has proven and probable reserves. Capitalized mining costs are depleted using the units-of-production method. Construction in progress is primarily comprised of machinery and equipment which has not been placed in service and is not depreciated until the related assets or improvements are ready to be placed in service. Depreciation is calculated using the straight-line method over the estimated useful lives of the property, plant and equipment, which are:

	Years
Land improvements	10
Plant and buildings	5-15
Real estate properties	10-40
Railroad and sidings	30
Vehicles	3-5
Machinery, equipment and tooling	3-15
Furniture and fixtures	3-10
Deferred mining costs	3

Expenditures for maintenance and repairs are charged against income as incurred; betterments that increase the value or materially extend the life of the related assets are capitalized. Upon sale or disposition of property and equipment, the cost and related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is recognized in the consolidated income statements.

Acquisitions

In accordance with the guidance for business combinations, the Company determines whether a transaction or other event is a business combination, which requires that the assets acquired and liabilities assumed constitute a business. Each business combination is then accounted for by applying the acquisition method. If the assets acquired are not a business, the Company accounts for the transaction or other event as an asset acquisition. Under both methods, the Company recognizes the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquired entity. In addition, for transactions that are business combinations, the Company evaluates the existence of goodwill or a gain from a bargain purchase. The Company capitalizes acquisition-related costs and fees associated with asset acquisitions and immediately expense acquisition-related costs and fees associated with business combinations.

SMART SAND, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

Fair Value Measurements

The Company's financial assets and liabilities are to be measured using inputs from the three levels of the fair value hierarchy, of which the first two are considered observable and the last unobservable, which are as follows:

- Level 1—Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date;
- Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active or other inputs corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3—Unobservable inputs that reflect the Company's assumptions that market participants would use in pricing assets or liabilities based on the best information available.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with the provisions of Accounting Standards Codification ("ASC") - 718, "Compensation-Stock Compensation" ("ASC 718"), which requires the recognition of expense related to the fair value of stock-based compensation awards in the consolidated income statements.

For restricted stock issued to employees and members of the board of directors of the Company (the "Board") for their services on the Board, the Company estimates the grant date fair value of each share of restricted stock at issuance. For awards subject to service-based vesting conditions, the Company recognizes stock-based compensation expense, net of estimated forfeitures, equal to the grant date fair value of the award on a straight-line basis over the requisite service period, which is generally the vesting term. For awards subject to both performance and service-based vesting conditions, the Company recognizes stock-based compensation expense using the straight-line recognition method when it is probable that the performance condition will be achieved. Forfeitures are required to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Share-based payments issued to non-employees are recorded at their fair values, and are periodically revalued as the equity instruments vest and are recognized as expense over the related service period in accordance with the provisions of ASC 718 and ASC Topic 505, "Equity". Once the Company's shares became publicly traded on November 4, 2016, the Company began to use the actual market price of its shares as the grant date fair value for restricted stock awards.

Income Taxes

On December 22, 2017, the U.S. Tax Cuts and Jobs Act (the "Tax Reform Act") was signed into law. Pursuant to the Securities and Exchange Commission Staff Accounting Bulletin No. 118, "Income Tax Accounting Implications of the Tax Cuts and Jobs Act", given the amount and complexity of the changes in tax law resulting from the Tax Reform Act, the Company has not finalized the accounting for the income tax effects of the Tax Reform Act. This includes the re-measurement of deferred taxes. The impact of the Tax Reform Act may differ from this estimate during the one-year measurement period due to, among other things, further refinement of the Company's calculations, changes in interpretations and assumptions the Company has made, guidance that may be issued and future actions the Company may take as a result of the Tax Reform Act. As a result of the Tax Reform Act, the Company recorded a tax benefit of approximately \$8.5 million due to a re-measurement of deferred tax assets and liabilities in the fourth quarter of 2017.

The Company applies the provisions of ASC Topic 740, Income Taxes ("ASC 740"), which principally utilizes a balance sheet approach to provide for income taxes. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of net operating loss carryforwards and temporary differences between the carrying amounts and the tax bases of assets and liabilities.

ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. The impact of an uncertain income tax position on the income tax returns must be recognized at the largest amount that is more-likely-than-not to be required to be recognized upon audit by the relevant taxing authority. This standard also provides guidance on de-recognition, measurement, classification, interest and penalties, accounting for interim periods, disclosure and transition issues with respect to tax positions. The Company includes interest and penalties as a component of income tax expense in the consolidated income statements. For the periods presented, no interest and penalties were recorded.

SMART SAND, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

Environmental Matters

The Company is subject to various federal, state and local laws and regulations relating to the protection of the environment. Management has established procedures for the ongoing evaluation of the Company's operations, to identify potential environmental exposures and to comply with regulatory policies and procedures. Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and do not contribute to current or future revenue generation are expensed as incurred. Liabilities are recorded when environmental costs are probable, and the costs can be reasonably estimated. The Company maintains insurance which may cover in whole or in part certain environmental expenditures. As of March 31, 2018 and December 31, 2017, there were no probable environmental matters.

Comprehensive Income

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income was equal to net income for all periods presented.

Segment Information

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions on how to allocate resources and assess performance. The Company's chief operating decision maker is the Chief Executive Officer. The Company and the Chief Executive Officer view the Company's operations and manage its business as one operating segment. All long-lived assets of the Company reside in the United States.

Basic and Diluted Net Income Per Share of Common Stock

Basic net income per share of common stock is computed by dividing net income attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period, excluding the dilutive effects of restricted stock. Diluted net income per share of common stock is computed by dividing the net income attributable to common stockholders by the sum of the weighted-average number of shares of common stock outstanding during the period plus the potential dilutive effects of restricted stock outstanding during the period calculated in accordance with the treasury stock method, although restricted stock is excluded if their effect is anti-dilutive. The number of shares underlying equity-based awards that were excluded from the calculation of diluted earnings per share as their effect would be anti-dilutive was 252 and 10 for each of the three months ended March 31, 2018 and 2017, respectively.

The following table reconciles the weighted-average common shares outstanding used in the calculation of basic net income per share to the weighted average common shares outstanding used in the calculation of diluted net income per share:

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Determination of Shares		
Weighted average common shares outstanding	40,412	39,697
Assumed conversion of restricted stock	29	177
Diluted weighted average common stock outstanding	<u>40,441</u>	<u>39,874</u>

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Recent Accounting Pronouncements

In August 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-12 “Derivatives and Hedging (Topic 815) Targeted Improvements to Accounting for Hedging Activities. ASU 2017-12 eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The guidance also eases certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. The guidance is effective for the Company beginning after December 15, 2018, although early adoption is permitted. The Company is currently evaluating the effects of ASU 2017-12 on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805) Clarifying the Definition of a Business. The amendments in this update is to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company adopted this standard on January 1, 2018.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”). ASU 2016-15 eliminates the diversity in practice related to the classification of certain cash receipts and payments for debt prepayment or extinguishment costs, the maturing of a zero-coupon bond, the settlement of contingent liabilities arising from a business combination, proceeds from insurance settlements, distributions from certain equity method investees and beneficial interests obtained in a financial asset securitization. ASU 2016-15 designates the appropriate cash flow classification, including requirements to allocate certain components of these cash receipts and payments among operating, investing and financing activities. The guidance is effective for the Company beginning after December 15, 2017, although early adoption is permitted. The Company adopted this guidance effective January 1, 2018. The adoption of this guidance did not have a material effect on the Company’s financial position, results of operation or cash flows.

In February 2016, the FASB issued ASU 2016-2, “Leases” (ASC 842) (“ASU 2016-2”), which replaces the existing guidance in ASC 840, “Leases.” ASC 842 requires lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right of use assets. The new lease standard does not substantially change lessor accounting. The new standard is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Company is currently in the process of evaluating the impact of the adoption on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”). The objective of ASU 2014-09 is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most of the existing revenue recognition guidance, including industry specific guidance. The core principle of ASU 2014-09 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the new guidance, an entity will: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the contract’s performance obligations; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 applies to all contracts with customers except those that are within the scope of other topics in the FASB ASC. In April and May 2016, the FASB issued ASU 2016-10, “Revenue from Contracts with Customers - Identifying Performance Obligations and Licensing”, ASU 2016-11, “Revenue Recognition and Derivatives and Hedging - Recession of SEC Guidance”, ASU 2016-12, “Revenue from Contracts with Customers - Narrow-Scope Improvements and Practical Expedients”, and ASU 2016-20, “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers”. These ASUs each affect the guidance of the new revenue recognition standard in ASU 2014-09 and related subsequent ASUs. The new guidance is effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2017 for public companies. Early adoption is only permitted as of annual reporting periods beginning after December 15, 2016. The Company adopted this standard on January 1, 2018.

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4. Cash, Cash Equivalents and Restricted Cash

Cash

The Company considers all highly liquid money market instruments to be cash equivalents. Cash is maintained at financial institutions and, at times, balances may exceed federally insured limits of \$250 at each financial institution. The Company has not experienced any losses related to these balances.

Restricted Cash

Restricted cash represents cash held as collateral relating to an outstanding short-term bond assuring performance under an agreement with a pipeline common carrier. As of April 13, 2018, the Company no longer has any restrictions on cash.

5. Inventories

Inventories consisted of the following:

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Raw material	\$ 297	\$ 298
Work in progress	3,742	7,825
Finished goods	1,001	832
Spare parts	232	137
Total inventory	<u>5,272</u>	<u>9,092</u>

6. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets were comprised of the following:

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Prepaid insurance	\$ 589	\$ 551
Prepaid expenses	1,342	1,112
Prepaid income taxes	1,458	1,382
Rail rebate receivables	952	776
Other receivables	651	28
Total prepaid expenses and other current assets	<u>\$ 4,992</u>	<u>\$ 3,849</u>

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7. Property, Plant and Equipment, net

Net property, plant and equipment consisted of:

	March 31, 2018	December 31, 2017
Machinery, equipment and tooling	\$ 10,529	\$ 8,242
Vehicles	1,544	1,546
Furniture and fixtures	730	720
Plant and building	83,057	81,561
Real estate properties	4,432	4,432
Railroad and sidings	25,286	10,254
Land improvements	23,156	16,378
Asset retirement obligation	8,657	8,408
Mineral properties	9,879	9,878
Deferred mining costs	657	657
Construction in progress	71,639	56,493
	<u>239,566</u>	<u>198,569</u>
Less: accumulated depreciation and depletion	29,529	26,367
Total property, plant and equipment, net	<u>\$ 210,037</u>	<u>\$ 172,202</u>

Depreciation expense was \$3,158 and \$1,662 for the three months ended March 31, 2018 and 2017, respectively. Depletion expense was \$2 and \$5 for the three months ended March 31, 2018 and 2017, respectively.

The Company capitalized no interest expense associated with the construction of new plant and equipment for the three months ended March 31, 2018 and 2017.

8. Asset Acquisition

The acquisition of the assets of Van Hook Crude, LLC occurred on March 15, 2018. The Company acquired all of the rights, title, and interest in certain properties and assigned contracts (collectively, the “Assets”) for a total consideration of \$15,549 in cash.

The acquisition cost has been allocated over the Assets acquired in accordance with the guidance set forth in ASC 805, Business Combinations.

	March 31, 2018
Machinery, equipment and tooling	\$ 1,478
Plant and building	1,407
Railroad and sidings	9,926
Land improvements	2,738
Total assets acquired	<u>\$ 15,549</u>

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9. Accrued and Other Expenses

Accrued and other expenses were comprised of the following:

	March 31, 2018	December 31, 2017
Employee related expenses	\$ 1,242	\$ 667
Accrued construction related expenses	2,726	2,197
Accrued legal expenses	81	90
Accrued professional fees	289	529
Accrued royalties	622	206
Accrued freight and delivery charges	4,167	2,197
Accrued real estate tax	244	—
Accrued utilities	378	—
Deferred rent	824	861
Other accrued liabilities	1,246	829
Total accrued liabilities	\$ 11,819	\$ 7,576

10. Credit Facility

On December 8, 2016, the Company entered into a \$45 million three-year senior secured revolving credit facility (the “Facility”) under a revolving credit agreement with Jefferies Finance LLC as administrative and collateral agent (the “Credit Agreement”). Substantially all of the assets of the Company are pledged as collateral under the Facility. The Facility expires on December 8, 2019. On April 8, 2018, the Facility was amended to increase the Company's total borrowing capacity under the Facility to \$60 million.

The Facility contains various reporting requirements, negative covenants and restrictive provisions and requires maintenance of financial covenants, including a fixed charge coverage ratio and a leverage ratio (each as defined in the Credit Agreement). As of March 31, 2018 and December 31, 2017, \$16 million and \$0 million, respectively, were outstanding under the Facility and the Company was in compliance with all covenants. As of March 31, 2018, the total undrawn availability was \$29 million.

As of March 31, 2018, fees attributable to the lender of \$668 are presented as a discount to the carrying value of the debt and the unamortized amount is presented as a reduction of long-term debt on the balance sheet.

	March 31, 2018	December 31, 2017
Revolving credit facility	\$ 16,000	\$ —
Less: debt discount	(376)	—
Revolving credit facility, net	\$ 15,624	\$ —

11. Equipment Lease Obligations

The Company entered into various lease arrangements to lease equipment. The equipment with a cost of \$1,484 has been capitalized and included in the Company's property, plant and equipment as of both March 31, 2018 and December 31, 2017. Depreciation expense under lease assets was approximately \$55 and \$73 for the three months ended March 31, 2018 and 2017, respectively.

As of March 31, 2018, the remaining minimum lease payment for equipment lease obligations is \$502, which is due within one year.

12. Notes Payable

The Company financed certain land purchases by entering into various debt agreements. The interest rate on these notes is 4.00%, and the remaining balance of \$288 is due within one year.

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13. Asset Retirement Obligation

The Company had a post-closure reclamation and site restoration obligation of \$8,117 as of March 31, 2018. The following is a reconciliation of the total reclamation liability for asset retirement obligations:

Balance at December 31, 2017	\$	8,982
Additions and revisions of prior estimates		250
Accretion expense		134
Settlement of liability		(1,249)
Balance at March 31, 2018	\$	<u>8,117</u>

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14. Stock-Based Compensation

Equity Incentive Plan

In May 2012, the Board approved the 2012 Equity Incentive Plan (“2012 Plan”), which provides for the issuance of Awards (as defined in the 2012 Plan) of up to a maximum of 440 shares of the Company’s common stock to employees, non-employee members of the Board, and consultants of the Company. During 2014, the 2012 Plan was amended to provide for the issuance of Awards of up to 880 shares of the Company’s common stock. The awards can be issued in the form of incentive stock options, non-qualified stock options or restricted stock, and have expiration dates of 5 or 10 years after issuance, depending on whether the recipient already holds above 10% of the voting power of all classes of the Company’s shares. The exercise price will be based on the fair market value of the share on the date of issuance; vesting periods will be determined by the board upon issuance of the Award. Subsequent to the Company’s initial public offering, no additional Awards were made under the 2012 Plan.

In November 2016, in connection with its initial public offering, the Company adopted the 2016 Omnibus Incentive Plan (“2016 Plan”) which provides for the issuance of Awards (as defined in the 2016 Plan) of up to a maximum of 3,911 shares of the Company’s common stock to employees, non-employee members of the board and consultants of the Company. Together the 2012 Plan and the 2016 Plan are referenced to as the Plans.

During the three months ended March 31, 2018 and 2017, 20 and 266 shares of restricted stock were issued under the Plans, respectively. The grant date fair value per share of all the outstanding restricted stock was \$3.03 - \$19.00. The shares vest over one to five years from their respective grant dates. For Awards issued under the 2016 Plan, the grant date fair value was the either the actual market price of the Company’s shares or an adjusted price using a Monte Carlo simulation for awards subject to the Company’s performance as compared to a defined peer group. For Awards issued under the 2012 Plan, the grant date fair value was calculated based on a weighted analysis of (i) publicly-traded companies in a similar line of business to the Company (market comparable method)—Level 2 inputs, and (ii) discounted cash flows of the Company—Level 3 inputs. The Company recognized, in operating expenses on the consolidated income statements, \$590 and \$176 of compensation expense for the restricted stock during the three months ended March 31, 2018 and 2017, respectively. At March 31, 2018, the Company had unrecognized compensation expense of \$3,833 related to granted but unvested stock awards. That expense is to be recognized as follows:

2019	\$	1,768
2020		1,309
2021		678
2022		78
	<u>\$</u>	<u>3,833</u>

The following table summarizes restricted stock activity under the Plans from December 31, 2017 through March 31, 2018:

	Number of Shares	Weighted Average
Unvested, December 31, 2017	534	\$ 11.27
Granted	20	14.55
Vested	(97)	(14.48)
Forfeiture	—	—
Unvested, March 31, 2018	<u>457</u>	<u>\$ 11.29</u>

Employee Stock Purchase Plan

Shares of the Company’s common stock may be purchased by eligible employees under the Company’s 2016 Employee Stock Purchase Plan in six-month intervals at a purchase price equal to at least 85% of the lesser of the fair market value of the Company’s common stock on either the first day or the last day of each six-month offering period. Employee purchases may not exceed 20% of their gross compensation during an offering period.

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15. Income Taxes

The Company calculates its interim income tax provision in accordance with ASC 740. At the end of each interim period, the Company makes an estimate of the annual expected effective tax rate and applies that rate to its ordinary year to date earnings or loss. In addition, the effect of changes in enacted tax laws, rates or tax status is recognized in the interim period in which the change occurs.

For the three months ended March 31, 2018 and 2017, the effective tax rate was approximately 19.2% and 34.7%, respectively, based on the annual effective tax rate net of discrete federal and state taxes. The Company's effective tax rate for the three months ended March 31, 2018 benefited from the decrease in the U.S. statutory tax rate from 35.0% in the prior year to 21.0% in the current period as a result of the Tax Reform Act that was enacted on December 22, 2017. The computation of the effective tax rate includes modifications from the statutory rate such as depletion deduction and tax credits among other items. The difference in the effective tax rate relative to the statutory rate was primarily due to the change in the forecasted pretax income between quarters relative to the projected modifications to the tax rate during the three months ended March 31, 2018 and a benefit related to the domestic production activities deduction ("DPAD") and share-based compensation during the three months ended March 31, 2017.

The Company has evaluated its tax provisions taken as of March 31, 2018 and December 31, 2017 and believes all positions taken would be upheld under examination from income taxing authorities. Therefore, no liability for the effects of uncertain tax positions has been recorded in the accompanying consolidated balance sheets as of March 31, 2018 and December 31, 2017. The Company is open to examination by taxing authorities since incorporation.

16. Concentrations

As of March 31, 2018, four customers accounted for 79% of the Company's total accounts receivable. As of December 31, 2017, three customers accounted for 49% of the Company's total accounts receivable.

During the three months ended March 31, 2018, 67% of the Company's revenues were earned from four customers. During the three months ended March 31, 2017, 81% of the Company's revenues were earned from four customers.

As of March 31, 2018, three vendors accounted for 44% of the Company's accounts payable. As of December 31, 2017, two vendors accounted for 28% of the Company's accounts payable.

During the three months ended March 31, 2018, one supplier accounted for 37% of the company's cost of goods sold. During the three months ended March 31, 2017, one supplier accounted for 11% of the Company's cost of goods sold.

Currently, the Company's inventory and operations are primarily located in Wisconsin. There is a risk of loss if there are significant environmental, legal or economic changes to this geographic area. The Company currently primarily utilizes one third-party rail company to ship its products to customers from its plant. There is a risk of business loss if there are significant impacts to this third party's operations.

17. Related Party Transactions

For the three months ended March 31, 2018 and 2017, the Company reimbursed Clearlake Capital Partners II (Master), L.P. \$20 and \$7, respectively, for certain out of pocket and other expenses in connection with certain management and administrative support services provided.

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18. Commitments and Contingencies

Leases

The Company is obligated under certain operating leases, minimum royalty payments for our leased properties in West Texas, and rental agreements for railcars, office space, and other equipment. Future minimum annual commitments under such operating leases at March 31, 2018 are as follows:

2019	\$	14,907
2020		10,813
2021		7,657
2022		6,329
2023		3,818
Thereafter		37,699

Expense related to operating leases and rental agreements was \$2,705 and \$1,975 for three months ended March 31, 2018 and 2017, respectively.

Lease expense related to rail cars are included in cost of goods sold in the condensed consolidated income statements.

Litigation

The Company is periodically involved in litigation and claims incidental to its operation. Management believes that any pending litigation will not have a material impact the Company's financial position.

Required Capital

As of March 31, 2018, the Company has commitments related to its Oakdale facility as well as future expansion projects of approximately \$18,900.

Consulting Agreements

On August 1, 2010, the Company entered into a consulting agreement related to the purchase of land with a third party. The third party acted as an agent for the Company to obtain options to purchase certain identified real property in Wisconsin, as well as obtain permits and approvals necessary to open, construct and operate a sand mining and processing facility on such real property. The third party's compensation, which continues indefinitely, consists of reimbursement of certain expenses and \$1,000 per each acre purchased as a closing fee. For the three months ended March 31, 2018 and 2017, the Company incurred \$60 and \$3 of closing costs and expense reimbursements, respectively.

The closing costs have been capitalized in property and equipment in the accompanying consolidated balance sheets when they relate to the acquisition of land.

In addition to the aforementioned fees, the third-party agreement provides for tonnage fees based upon mining operations. The payment of \$0.50 per sold ton of certain grades of sand that have been mined and sold from the properties acquired under the consulting agreement continues indefinitely. The minimum annual tonnage fee is \$200 per contract year, which runs from August 1 to July 31. During the three months ended March 31, 2018 and 2017, the Company incurred \$164 and \$117 related to tonnage fees, respectively.

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Bonds

The Company entered into a performance bond with Jackson County, Wisconsin and Monroe County, Wisconsin for \$4,400 and \$900, respectively. The Company provided a performance bond to assure performance under the reclamation plan filed with each respective county. The Company entered into permit bonds amounting to \$1,350 with certain towns and counties in which it operates to use designated town and county roadways. The Company provided these permit bonds to assure maintenance and restoration of the roadways. The Company has an outstanding \$1,943 bond to assure performance under its agreement with a pipeline common carrier. As of March 31, 2018 and December 31, 2017, \$487 of cash is being held as collateral related to the bond and is presented as restricted cash on the consolidated balance sheets. As of April 13, 2018, the Company no longer has any restrictions on cash.

19. Subsequent Events

The Company has evaluated events and transactions subsequent to the balance sheet date and through the date the financial statements were available to be issued. On May 8, 2018, the Company entered into an asset purchase agreement to acquire Quickthree Solutions, a manufacturer of portable vertical frac sand storage solutions at the wellsite, in the amount of \$42.75 million, consisting of \$30 million payable at closing and up to \$12.75 million in potential earnout payments as systems are built and made available for sale or lease over a three-year period. This acquisition is currently expected to close by the end of May 2018. Based on this evaluation, except as disclosed in Note 10 and Note 4 and above, the Company is not aware of any other events or transactions that occurred subsequent to March 31, 2018 that would require recognition or disclosures in the consolidated financial statements.

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

The following discussion and analysis summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity and cash flows of our company as of and for the periods presented below. The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and related information contained herein and our audited financial statements as of December 31, 2017. This discussion contains forward-looking statements that are based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. Actual results could differ materially from those discussed in or implied by forward-looking statements as a result of various factors, including those discussed herein and in the section entitled "Risk Factors" in our Form 10-K for the year ended December 31, 2017. We use EBITDA, Adjusted EBITDA and production costs herein as non-GAAP measures of our financial performance. For further discussion of EBITDA, Adjusted EBITDA and production costs, see "EBITDA and Adjusted EBITDA" and "Production Costs." We define various terms to simplify the presentation of information in this Report. References to "we," "us," "our" or the "Company" are to Smart Sand, Inc. and its consolidated subsidiaries. All share amounts are presented in thousands.

Overview

We are a pure-play, low-cost producer of high quality Northern White raw frac sand, which is a preferred proppant used to enhance hydrocarbon recovery rates in the hydraulic fracturing of oil and natural gas wells. We sell our products primarily to oil and natural gas exploration and production companies and oilfield service companies under a combination of long-term take-or-pay contracts and spot sales in the open market. We believe that the size and favorable geologic characteristics of our sand reserves, the strategic location and logistical advantages of our facilities and the industry experience of our senior management team have positioned us as a highly attractive source of raw frac sand to the oil and natural gas industry.

We own and operate a raw frac sand mine and related processing facility near Oakdale, Wisconsin, at which we have approximately 321 million tons of proven recoverable sand reserves as of December 31, 2017. We began operations with 1.1 million tons of annual nameplate processing capacity in July 2012, expanded to 2.2 million tons of annual processing capacity in August 2014, and increased to 3.3 million tons of annual nameplate processing capacity in September 2015. Our integrated Oakdale facility, with onsite rail infrastructure and wet and dry sand processing facilities, has access to two Class I rail lines and enables us to process and cost effectively deliver up to approximately 3.3 million tons of raw frac sand per year. Based on our assessment of increased demand for our products, we are increasing the wet and dry plant processing capacity at our Oakdale facility to approximately 5.5 million tons of raw frac sand per year. We are in the process of commissioning the new processing equipment and expect this expansion to be completed in the second quarter of 2018.

Recent Developments

On March 15, 2018, we acquired the rights to operate a unit train capable transloading terminal in Van Hook, North Dakota to service the Bakken Formation. We paid consideration of approximately \$15.5 million to acquire certain assets at the Van Hook terminal, and have entered into a long-term lease agreement in connection with the transaction. As part of this transaction, we entered into a long-term agreement with Canadian Pacific Railway to service the Van Hook terminal directly along with the other key oil and gas exploration and production basins of North America. The Van Hook terminal became operational in April 2018. We believe this new terminal provides us with an opportunity to expand our customer base and offer more efficient delivery options to customers operating in the Williston Basin.

Market Trends

From late 2014 through early 2016, the demand for frac sand products declined due to the steep decrease in the market prices for crude oil and refined products. However, commodity prices began to stabilize in the middle of 2016, leading to an improvement in drilling and completions activity during the second half of 2016. Drilling and completions activity has continued to show improvement through the first quarter of 2018, and should oil and natural gas prices remain at or improve from current trading levels, we anticipate that drilling and completions activity will remain stable or improve throughout the remainder of 2018.

Note Regarding Non-GAAP Financial Measures

Production costs, EBITDA and Adjusted EBITDA are not financial measures presented in accordance with accounting principles generally accepted in the United States (“GAAP”). We believe that the presentation of these non-GAAP financial measures will provide useful information to investors in assessing our financial condition and results of operations. Costs of goods sold is the GAAP measure most directly comparable to production costs and net income is the GAAP measure most directly comparable to EBITDA and Adjusted EBITDA. Our non-GAAP financial measures should not be considered as alternatives to the most directly comparable GAAP financial measure. Each of these non-GAAP financial measures has important limitations as analytical tools because they exclude some but not all items that affect the most directly comparable GAAP financial measures. You should not consider production costs, EBITDA or Adjusted EBITDA in isolation or as substitutes for an analysis of our results as reported under GAAP. Because production costs, EBITDA and Adjusted EBITDA may be defined differently by other companies in our industry, our definitions of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

EBITDA and Adjusted EBITDA

We define EBITDA as our net income, plus: (i) depreciation, depletion and amortization expense; (ii) income tax expense (benefit); (iii) interest expense; and (iv) franchise taxes. We define Adjusted EBITDA as EBITDA, plus: (i) gain or loss on sale of fixed assets or discontinued operations; (ii) integration and transition costs associated with specified transactions, including our initial public offering; (iii) equity compensation; (iv) development costs; (v) non-recurring cash charges related to restructuring, retention and other similar actions; (vi) earn-out and contingent consideration obligations; and (vii) non-cash charges and unusual or non-recurring charges. Adjusted EBITDA is used as a supplemental financial measure by management and by external users of our financial statements, such as investors and commercial banks, to assess:

- the financial performance of our assets without regard to the impact of financing methods, capital structure or historical cost basis of our assets;
- the viability of capital expenditure projects and the overall rates of return on alternative investment opportunities;
- our ability to incur and service debt and fund capital expenditures;
- our operating performance as compared to those of other companies in our industry without regard to the impact of financing methods and capital structure; and
- our debt covenant compliance, as Adjusted EBITDA is a key component of critical covenants to our existing credit facility (as defined below).

We believe that our presentation of EBITDA and Adjusted EBITDA will provide useful information to investors in assessing our financial condition and results of operations. Net income is the GAAP measure most directly comparable to EBITDA and Adjusted EBITDA. EBITDA and Adjusted EBITDA should not be considered alternatives to net income presented in accordance with GAAP. Because EBITDA and Adjusted EBITDA may be defined differently by other companies in our industry, our definitions of EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures of other companies, thereby diminishing their utility. The following table presents a reconciliation of EBITDA and Adjusted EBITDA to net income for each of the periods indicated.

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Net income	\$ 975	\$ 969
Depreciation and depletion	3,160	1,667
Income tax expense	232	515
Interest expense	219	173
Franchise taxes	220	228
EBITDA	\$ 4,806	\$ 3,552
(Gain) on sale of fixed assets (1)	—	(39)
Equity compensation (2)	490	176
Development costs (3)	328	—
Cash charges related to restructuring and retention (4)	94	—
Non-cash charges (5)	134	20
Adjusted EBITDA	\$ 5,852	\$ 3,709

(1) Includes gains related to the sale and disposal of certain assets in property, plant and equipment.

(2) Represents the non-cash expenses for stock-based awards issued to our employees and employee stock purchase plan compensation expense.

(3) Represents costs incurred related to current development project activities.

(4) Represents costs associated with the retention and relocation of employees.

(5) Represents accretion of asset retirement obligations.

Production Costs

We also use production costs, which we define as costs of goods sold, excluding depreciation, depletion, accretion of asset retirement obligations and freight charges, to measure our financial performance. Freight charges consist of shipping costs and rail car rental and storage expenses. Shipping costs consist of railway transportation and transload costs to deliver products to customers. A portion of these freight charges are passed through to our customers and are, therefore, included in revenue. Rail car rental and storage expenses are associated with our long-term rail car operating agreements with certain customers. We believe production costs is a meaningful measure to management and external users of our financial statements, such as investors and commercial banks, because it provides a measure of operating performance that is unaffected by historical cost basis. Cost of goods sold is the GAAP measure most directly comparable to production costs. Production costs should not be considered an alternative to cost of goods sold presented in accordance with GAAP. Because production costs may be defined differently by other companies in our industry, our definition of production costs may not be comparable to similarly titled measures of other companies, thereby diminishing its utility. The following table presents a reconciliation of production costs to cost of goods sold.

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Cost of goods sold	\$ 35,413	\$ 19,662
Depreciation, depletion, and accretion of asset retirement obligations	(3,106)	(1,579)
Freight charges	(17,158)	(9,228)
Production costs	\$ 15,149	\$ 8,855
Production costs per ton	\$ 20.95	\$ 15.84
Total tons sold	723	559

Results of Operations

The following table summarizes our revenue and expenses for the periods indicated.

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Revenues	\$ 42,628	\$ 25,059
Cost of goods sold	35,413	19,662
Gross profit	7,215	5,397
Operating expenses:		
Salaries, benefits and payroll taxes	2,573	1,697
Depreciation and amortization	188	108
Selling, general and administrative	3,101	2,034
Total operating expenses	5,862	3,839
Operating income	1,353	1,558
Other income (expenses):		
Other interest expense, net	(180)	(111)
Other income	34	37
Total other expenses, net	(146)	(74)
Income before income tax expense	1,207	1,484
Income tax expense	232	515
Net income	\$ 975	\$ 969

Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017

Revenue

Revenue was \$42.6 million for the three months ended March 31, 2018, during which time we sold approximately 723,000 tons of sand. Total revenue for the three months ended March 31, 2017 was \$25.1 million, during which time we sold approximately 559,000 tons of sand. Revenue increased for the three months ended March 31, 2018 as compared to the three months ended March 31, 2017 as a result of higher sales volumes, including spot sales, and higher average selling prices.

The key factors contributing to the increase in revenues for the three months ended March 31, 2018 as compared to the three months ended March 31, 2017 were as follows:

- Sand sales revenue increased to \$28.9 million for the three months ended March 31, 2018 compared to \$16.7 million for the three months ended March 31, 2017 due to increased sales volumes and higher average selling prices. Tons sold increased by approximately 29% due to increased exploration and production activity in the oil and natural gas industry through the first quarter of 2018, compared to the same period in 2017.
- Average selling price per ton increased to \$39.99 for the three months ended March 31, 2018 from \$29.98 for the three months ended March 31, 2017 due to increased volumes and favorable pricing trends, particularly in the spot market.
- Contractual shortfall revenue was \$0 million for each of the three months ended March 31, 2018 and 2017. Our customer contracts dictate whether customers are invoiced quarterly or at the end of their respective contract year for shortfall payments. We recognize revenue to the extent of the unfulfilled minimum contracted quantity at the shortfall price per ton as stated in the contract once payment is received or reasonably assured.
- Transportation revenue, which includes railcar rental, was approximately \$13.7 million for the three months ended March 31, 2018 compared to \$8.3 million for the three months ended March 31, 2017. The increase in transportation revenue was due to the increased sales volume in the quarter as compared to the first quarter of 2017. Railcar rental revenue was \$1.8 million for the three months ended March 31, 2018, compared to \$1.7 million for the three months ended March 31, 2017. The increase in railcar rental revenue was due to an increase in the number of railcars rented to our customers under long-term contracts. We incur transportation costs and recurring railcar rental expenses under our long-term railcar operating agreements. Our transportation revenues primarily represent the pass through of these costs to our customers; therefore, these revenues do not have a material impact on our gross profit.

Cost of Goods Sold and Production Costs

Cost of goods sold was \$35.4 million and \$19.7 million, or \$48.98 and \$35.17 per ton sold, for the three months ended March 31, 2018 and 2017, respectively. Of this amount, production costs were \$15.1 million and \$8.9 million, or \$20.95 and \$15.84 per ton sold, and freight charges, which consist of transportation costs and railcar rental and storage expense, were \$17.2 million and \$9.2 million for the three months ended March 31, 2018 and 2017, respectively. Cost of goods sold and per ton cost of goods sold increased for the three months ended March 31, 2018 as compared to the same period in 2017 due to higher sales volumes, which led to increased staffing, utilities and equipment expenses, and increased railcar rental and railway freight costs for customer pass-through freight. Additionally, labor expense was higher in the quarter due the ramp up of additional staffing to support the expansion of the facility. Depreciation, depletion and accretion of asset retirement obligation included in cost of goods sold were \$3.1 million and \$1.6 million for the three months ended March 31, 2018 and 2017, respectively. For the definition of production costs and a reconciliation to its most directly comparable financial measure calculated and presented in accordance with GAAP, please read "Note Regarding Non-GAAP Financial Measures."

Gross Profit

Gross profit equals revenues less cost of goods sold. Gross profit was \$7.2 million and \$5.4 million for the three months ended March 31, 2018 and 2017, respectively. The increase in gross profit was primarily due to the increased sales volumes and favorable pricing trends, particularly in the spot market, in the first quarter of 2018 as compared to the same period in the prior year.

Operating Expenses

Operating expenses were \$5.9 million and \$3.8 million for the three months ended March 31, 2018 and 2017, respectively. Operating expenses are comprised primarily of wages and benefits, professional services fees and other administrative expenses. Salaries, benefits and payroll taxes were \$2.6 million and \$1.7 million for the three months ended March 31, 2018 and 2017, respectively. The approximate \$0.9 million increase was primarily due to additional headcount in the first quarter of 2018 as compared to the same period in 2017.

Interest Expense

We incurred \$0.2 million and \$0.1 million of interest expense for the three months ended March 31, 2018 and 2017, respectively. The increase in interest expense for the three months ended March 31, 2018 was primarily due to borrowing under the Facility (as defined below) in March 2018.

Income Tax Expense

For the three months ended March 31, 2018 and 2017, our effective tax rate was approximately 19.2% and 34.7%, respectively, based on the annual effective tax rate net of discrete federal and state taxes. Our effective tax rate for the three months ended March 31, 2018 benefited from the decrease in the U.S. statutory tax rate from 35.0% in the prior year to 21.0% in the current period as a result of the Tax Reform Act that was enacted on December 22, 2017. The computation of the effective tax rate includes modifications for depletion deduction and income tax credits among other items. The computation for the three months ended March 31, 2017 also included a benefit related to share-based compensation and the DPAD, which was repealed for tax years beginning after January 1, 2018 under the Tax Reform Act. The primary drivers of the difference between 2018 and 2017 were the change in the forecasted pretax income between quarters relative to the projected modifications to the tax rate, as well as the repeal of the DPAD.

Net Income and Adjusted EBITDA

Net income was \$1.0 million for the three months ended March 31, 2018 and 2017. Adjusted EBITDA was \$5.9 million for the three months ended March 31, 2018 compared to \$3.7 million for the three months ended March 31, 2017. The increase in net income and Adjusted EBITDA resulted from an increase in gross profit due to higher volumes sold and higher average prices, offset by increased production costs, transportation expenses, and salaries due to higher headcount. For the definition of Adjusted EBITDA and a reconciliation to its most directly comparable financial measure calculated and presented in accordance with GAAP, please read "Note Regarding Non-GAAP Financial Measures."

Working Capital

The following table presents the components of our working capital as of March 31, 2018 compared to December 31, 2017.

	<u>March 31,</u>	<u>December 31,</u>
	<u>2018</u>	<u>2017</u>
	(in thousands)	
Total current assets	\$ 40,783	\$ 72,737
Total current liabilities	25,724	34,559
Working capital	<u>\$ 15,059</u>	<u>\$ 38,178</u>

March 31, 2018 Compared to December 31, 2017

Our working capital surplus was \$15.1 million at March 31, 2018 compared to a working capital surplus of \$38.2 million at December 31, 2017. The decrease in our working capital surplus was primarily due to ongoing capital expenditure projects which resulted in depletion of cash during the three months ended March 31, 2018.

Liquidity and Capital Resources

Sources of Liquidity

Our primary sources of liquidity are funds generated through operations and the Facility (as defined below).

Summary Cash Flows for the Three Months Ended March 31, 2018 and 2017:

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Net cash (used in) provided by operating activities	\$ (1,612)	\$ 3,844
Net cash used in investing activities	\$ (46,869)	\$ (1,609)
Net cash provided by financing activities	\$ 15,876	\$ 23,874

Cash (Used in) Provided by Operating Activities

Net cash used in operating activities was \$1.6 million for the three months ended March 31, 2018, compared to \$3.8 million provided by operating activities for the three months ended March 31, 2017. Operating cash flows include net income of \$1.0 million and \$1.0 million in net earnings generated from the sale of raw frac sand to our customers in the three months ended March 31, 2018 and 2017, respectively, offset by production costs, general and administrative expenses and cash interest expense, adjusted for changes in working capital to the extent they are positive or negative.

Cash Used in Investing Activities

Net cash used in investing activities was \$46.9 million for the three months ended March 31, 2018 compared to \$1.6 million used for the three months ended March 31, 2017. The \$45.3 million increase was primarily the result of an increase in capital expenditures related primarily to the expansion of our processing facilities in Oakdale, Wisconsin.

Cash Provided by Financing Activities

Net cash provided by financing activities was \$15.9 million for the three months ended March 31, 2018, which consisted primarily of proceeds from borrowings of \$16.0 million under the Facility (as defined below) in March 2018, offset by \$0.1 million in payments on equipment financing obligations and notes payable.

Net cash provided by financing activities was \$23.9 million for the three months ended March 31, 2017, which included net proceeds from an equity issuance of approximately \$24.2 million, offset by \$0.1 million in payments on our existing equipment financing obligations and notes payable and \$0.2 million in deferred financing fees.

Credit Facility

On December 8, 2016, we entered into a \$45 million 3-year senior secured revolving credit facility (the “Facility”) under a revolving credit agreement with Jefferies Finance LLC as administrative and collateral agent (the “Credit Agreement”). Substantially all of our assets are pledged as collateral under the Credit Agreement. The Facility expires on December 8, 2019. As of March 31, 2018, the total undrawn availability under the Facility was \$29 million. On April 8, 2018, the Facility was amended to increase the Company's total borrowing capacity under the Facility to \$60 million, and we currently have \$45 million in total undrawn availability under the Facility.

The Facility contains various reporting requirements, negative covenants and restrictive provisions and requires maintenance of financial covenants, including a fixed charge coverage ratio and a leverage ratio (each as defined in the Credit Agreement).

Capital Requirements

As of March 31, 2018, we had commitments related to certain expansion and replacement capital projects of approximately \$18.9 million. We expect to spend approximately \$85 to \$95 million during 2018 in expansion and replacement capital expenditures. Expansion capital expenditures are anticipated to support incremental growth and efficiency initiatives. These projects are expected to provide efficiencies in our plant operations and improve our logistics capabilities to further position us to capitalize upon growth opportunities that we anticipate will continue to develop with both current and potential new customers. We expect to fund these expansion capital expenditures with cash from operations and potential borrowings under the Facility.

Environmental Matters

We are subject to various federal, state and local laws and regulations governing, among other things, hazardous materials, air and water emissions, environmental contamination and reclamation and the protection of the environment and natural resources. We have made, and expect to make in the future, expenditures to comply with such laws and regulations, but cannot predict the full amount of such future expenditures.

Contractual Obligations

As of March 31, 2018, we had contractual obligations for the Facility, equipment lease obligations, notes payable, operating leases, capital expenditures and asset retirement obligations. Operating leases are primarily for railcars and operating equipment.

In the three months ended March 31, 2018, we entered into certain long-term land leases for potential development in Texas.

Off-Balance Sheet Arrangements

We had outstanding performance bonds of \$8.6 million at March 31, 2018 and December 31, 2017.

Seasonality

Our business is affected to some extent by seasonal fluctuations in weather that impact the production levels at our wet processing plant. While our dry plants are able to process finished product volumes evenly throughout the year, our excavation and our wet sand processing activities are limited to non-winter months. As a consequence, we experience lower cash operating costs in the first and fourth quarter of each calendar year. We may also sell raw frac sand for use in oil and natural gas producing basins where severe weather conditions may curtail drilling activities and, as a result, our sales volumes to those areas may be reduced during such severe weather periods.

Customer Concentration

For the three months ended March 31, 2018, sales to Rice Energy, Liberty, and WPX Energy accounted for 21.4%, 20.1%, and 14.7%, respectively, of total revenue. For the three months ended March 31, 2017, sales to Rice Energy, Weatherford, and US Well Services accounted for 38.6%, 18.1%, and 14.5%, respectively, of total revenue. The Weatherford contract has now been assigned to Schlumberger Technology Corp.

Critical Accounting Policies and Estimates

There have been no material changes in our critical accounting policies and procedures during the three months ended March 31, 2018. For more information, please read our disclosure of critical accounting policies in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the United States Securities and Exchange Commission (the “SEC”) on March 15, 2018.

Forward-Looking Statements

This Report contains estimates and forward-looking statements, principally in “Part I. Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Our estimates and forward-looking statements are mainly based on our current expectations and estimates of future events and trends, which affect or may affect our businesses and operations. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to several risks and uncertainties and are made in light of information currently available to us. Important factors, in addition to the factors described in this quarterly report, may adversely affect our results as indicated in forward-looking statements. You should read this quarterly report and the documents that we have filed as exhibits hereto completely and with the understanding that our actual future results may be materially different from what we expect. The words “may,” “will,” “should,” “could,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “intend,” “potential,” “might,” “would,” “continue” or the negative of these terms or other comparable terminology and similar words are intended to identify estimates and forward-looking statements. Estimates and forward-looking statements speak only as of the date they were made, and, except to the extent required by law, we undertake no obligation to update, to revise or to review any estimate and/or forward-looking statement because of new information, future events or other factors. Estimates and forward-looking statements involve risks and uncertainties and are not guarantees of future performance. As a result of the risks and uncertainties described above, the estimates and forward-looking statements discussed in this quarterly report might not occur and our future results, level of activity, performance or achievements may differ materially from those expressed in these forward-looking statements due to, including, but not limited to, the factors mentioned above, and the differences may be material and adverse. Because of these uncertainties, you should not place undue reliance on these forward-looking statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss arising from adverse changes in market rates and prices. Historically, our risks have been predominantly related to potential changes in the fair value of our long-term debt due to fluctuations in applicable market interest rates. Going forward our market risk exposure generally will be limited to those risks that arise in the normal course of business, as we do not engage in speculative, non-operating transactions, nor do we utilize financial instruments or derivative instruments for trading purposes.

Commodity Price Risk

The market for proppant is indirectly exposed to fluctuations in the prices of crude oil and natural gas to the extent such fluctuations impact drilling and completion activity levels and thus impact the activity levels of our customers in the oilfield services and exploration and production industries. However, because we generate the substantial majority of our revenues under long-term take-or-pay contracts, we believe we have only limited exposure to short-term fluctuations in the prices of crude oil and natural gas. We do not currently intend to hedge our indirect exposure to commodity price risk.

Interest Rate Risk

As of March 31, 2018, we had \$16.0 million outstanding under the Facility, which bears interest at our option at either:

- LIBOR plus an applicable margin of 3.00% - 4.00% depending on the leverage ratio; or
- ABR (as defined in the Credit Agreement), plus an applicable margin of 2.00% - 3.00%, depending on the leverage ratio.

The Facility expires on December 8, 2019. The Facility contains various reporting requirements, negative covenants and restrictive provisions and requires maintenance of financial covenants, including a fixed charge coverage ratio and a leverage ratio (each as defined in the Credit Agreement). As of March 31, 2018 and December 31, 2017, we had \$16.0 million and \$0 million, respectively, outstanding under the Facility, and we were in compliance with the financial covenants under the Facility on such dates.

We are exposed to interest rate risk resulting from changes in interest rates. Assuming no change in the balance outstanding, an increase of 100 basis points in the LIBOR interest rate curve would have an immaterial impact on interest expense for the year.

Credit Risk

Substantially all of our revenue for the three months ended March 31, 2018 was generated through long-term take-or-pay contracts with four customers. Our customers are oil and natural gas producers and oilfield service providers, all of which were negatively impacted by the downturn in activity in the oil and natural gas industry in recent years, and may be impacted again in the future if the oil and natural gas industry faces another activity downturn. This concentration of counterparties operating in a single industry may increase our overall exposure to credit risk, in that the counterparties may be similarly affected by changes in economic, regulatory or other conditions. If a customer defaults, or if any of our contracts expires in accordance with its terms, and we are unable to renew or replace these contracts, our gross profit and cash flows may be adversely affected.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There have been no changes in internal control over financial reporting for the quarter ended March 31, 2018 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 may be involved in litigation relating to claims arising out of our operations in the normal course of business. We are not currently a party to any legal proceedings that we believe would have a material adverse effect on our financial position, results of operations or cash flows and are not aware of any material legal proceedings contemplated by governmental authorities.

ITEM 1A. RISK FACTORS

As of the date of this Report, there have been no material changes in the risk factors previously included in the section entitled “Risk Factors,” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Our operations are subject to the Federal Mine Safety and Health Act of 1977, as amended by the Mine Improvement and New Emergency Response Act of 2006, which imposes stringent health and safety standards on numerous aspects of mineral extraction and processing operations, including the training of personnel, operating procedures, operating equipment and other matters. Enforcement actions alleging noncompliance with such standards, or changes in such standards or the interpretation or enforcement thereof, could have a material adverse effect on our business and financial condition or otherwise impose significant restrictions on our ability to conduct mineral extraction and processing operations. Following passage of The Mine Improvement and New Emergency Response Act of 2006, the Mine Safety and Health Administration significantly increased the dollar penalties assessed and, for many operations, the numbers of citations and orders charged against mining operations. 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 Report.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

3.1	<u>Second Amended and Restated Certificate of Incorporation of Smart Sand, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on November 15, 2016)</u>
3.2	<u>Second Amended and Restated Bylaws of Smart Sand, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on November 15, 2016)</u>
10.1*†	<u>Master Product Purchase Agreement, dated February 13, 2018, by and between Hess Corporation and Smart Sand, Inc.</u>
31.1*	<u>Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2*	<u>Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1+	<u>Certification Pursuant to 18 U.S.C. adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
32.2+	<u>Certification Pursuant to 18 U.S.C. adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
95.1*	<u>Mine Safety Disclosure Exhibit</u>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

* Filed Herewith.

† Certain portions have been omitted pursuant to a confidential treatment request. Omitted information has been separately filed with the SEC.

+ This certification is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

Signatures

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

Smart Sand Inc.

May 10, 2018

By: /s/ Charles E. Young

Charles E. Young, Chief Executive Officer
(Principal Executive Officer)

Smart Sand Inc.

May 10, 2018

By: /s/ Lee E. Beckelman

Lee E. Beckelman, Chief Financial Officer
(Principal Financial Officer)

SPECIFIC TERMS IN THIS EXHIBIT HAVE BEEN REDACTED BECAUSE CONFIDENTIAL TREATMENT OF THOSE TERMS HAS BEEN REQUESTED. THE REDACTED MATERIAL HAS BEEN SEPARATELY SUBMITTED TO THE SECURITIES AND EXCHANGE COMMISSION, AND THE TERMS HAVE BEEN MARKED AT THE APPROPRIATE PLACE WITH THREE ASTERISKS (***)

MASTER PRODUCT PURCHASE AGREEMENT

This Master Product Purchase Agreement (this “**Agreement**”) is made and entered into this 13th day of February, 2018 (the “**Execution Date**”), by and between Smart Sand, Inc. a Delaware corporation, or its designee, with a place of business at 1000 Floral Vale Boulevard, Suite 225, Yardley, Pennsylvania 19067 (“**Smart Sand**”) and Hess Corporation, a Delaware corporation, with a place of business at 1501 McKinney Street, Houston, Texas 77010 (“**Buyer**”).

RECITALS

- A. Whereas, Smart Sand mines, processes and sells certain industrial sand products; and
- B. Whereas, Smart Sand and Buyer desire to provide for the terms under which Smart Sand will sell such products to Buyer, based on firm quarterly and yearly commitments as more particularly described herein.

AGREEMENT

Now therefore, in consideration of the mutual covenants herein, the parties hereto agree as follows:

1. Products, Forecasts and Quantity Commitments

1.1 Subject to the terms and conditions of this Agreement, during the Term (as defined in Section 7.1), Smart Sand agrees to sell and deliver to Buyer, and Buyer agrees to purchase and accept from Smart Sand, frac sand products based on the specifications (the “**Specifications**”) set forth in Appendix A attached hereto and incorporated by reference (each a “**Product**” and collectively, the “**Products**”), in the product mix specified in Appendix B attached hereto and incorporated by reference, and in quantities at least equal to the following minimum annual and quarterly tonnage requirements (the “**Minimum Tons per Year**” and “**Minimum Tons per Quarter**,” as applicable):

Contract Year	Minimum Tons per Year	Minimum Tons per Quarter
1	***	***
2	***	***
3	***	***
4	***	***

1.2 For purposes of this Agreement, a “**Contract Year**” shall mean each twelve-month period in which Buyer is required to satisfy its Minimum Tons per Year purchase obligations hereunder. Contract Year 1 shall commence on April 1, 2018 (subject to adjustment as set forth in Section 7.2(b)) (such date of commencement, the “**Commencement Date**”), and shall end at 11:59 p.m. on the day immediately preceding the one-year anniversary of the Commencement Date. All other Contract Years shall commence upon expiration of the immediately preceding Contract Year and shall end at 11:59 p.m. on the day immediately preceding the one-year anniversary of such commencement. For the avoidance of doubt, if the Commencement Date is April 1, 2018, then Contract Year 1 shall be April 1, 2018 through March 31, 2019, Contract Year 2 shall be April 1, 2019 through March 31, 2020, and continuing in this manner until the end of the Term. Smart Sand shall provide written notice (the “**Commencement Notice**”) to Buyer on or before March 15, 2018 which indicates whether (A) that certain basin facility located in Van Hook, North Dakota (the “**Van Hook Basin Facility**”) is (or will be on or before April 1, 2018) operational, and (B) Smart Sand has (or will have on or before April 1, 2018) sufficient railcars available for the shipment of Products from its Oakdale facility to the Van Hook Basin Facility, as determined by Smart Sand in its sole discretion.

Buyer shall provide to Smart Sand a non-binding forecast for all Product requirements in each quarter at least thirty (30) days prior to the first day of the first month of the applicable quarter.

1.3 In no event will Smart Sand be required to provide to Buyer, in any given month during the Term, an aggregate amount exceeding *** tons of Products (the “**Monthly Maximum**”). Notwithstanding the foregoing, upon providing at least thirty (30) days prior written notice, Buyer may request that Smart Sand sell to Buyer an amount of Products in excess of the Monthly Maximum (the “**Excess Tons**”). Smart Sand is free to accept or reject Buyer’s request in its sole discretion and Smart Sand shall have no obligation to sell Excess Tons during any particular month unless such change is memorialized in a writing signed by Smart Sand. If Smart Sand agrees to sell Excess Tons during any particular month, such Excess Tons, and Smart Sand’s and Buyer’s respective obligations related thereto, shall be subject to the terms and conditions of this Agreement (including, without limitation, Section 4.2, Section 5 and Section 6).

1.4 So long as all Quarterly Prepayments have been (and continue to be) paid in full, Buyer may defer (to no later than the end of the Term) the purchase of up to *** tons of Products (“**Deferred Tons**”), and an amount equal to the product of the number of Deferred Tons multiplied by the then-applicable Contract Price shall be applied as a credit towards the purchase of such Deferred Tons in the future (such credit, the “**Deferral Balance**”). If Buyer purchases less than the Minimum Tons per Quarter (i.e. *** tons) in any given quarter, then, subject to the maximum amount of Deferred Tons set forth in the first sentence of this Section, the difference between the Minimum Tons per Quarter and the tons purchased during such quarter shall automatically become Deferred Tons, and the Deferral Balance shall increase by an amount equal to the product of such newly designated Deferred Tons multiplied by the then-applicable Contract Price. If Buyer purchases more than the Minimum Tons per Quarter in any given quarter when there are Deferred Tons outstanding, then (i) the outstanding Deferred Tons shall automatically decrease (on a first-in, first-out basis) by such excess amount of Products purchased (but in no event shall the Deferred Tons be decreased to below ***), and (ii) the outstanding Deferral Balance shall be reduced (on a first-in, first out-basis) by an amount equal to the product of the applicable Contract Price for the Products that are applied to decrease the Deferred Tons multiplied by such excess amount of Products purchased (but in no event shall the Deferral Balance be decreased to below \$***). Notwithstanding the foregoing, after Buyer has purchased (and paid for in full) the Minimum Tons per Year in any given Contract Year, the portion of the Quarterly Prepayment that has not been used towards

the purchase of Products during such Contract Year, if any (the “**Unused Quarterly Prepayment**”), shall be credited towards the payment of the Quarterly Prepayment in the first quarter of the immediately following Contract Year; provided, however, that if Buyer purchases in excess of the Minimum Tons per Year in the final Contract Year, any Unused Quarterly Prepayment shall be credited (i) first towards any amounts due or to become due to Smart Sand, and (ii) second, towards the Deferment Payment (as defined below), and any remaining Unused Quarterly Prepayment shall be refunded to Buyer by Smart Sand. Within *** after completion of the Term or earlier termination of this Agreement (the “**Determination Date**”), Buyer shall pay to Smart Sand (the “**Deferment Payment**”) an amount equal to the product of the outstanding Deferred Tons as of the Determination Date multiplied by the Contract Price in effect at the end of the Term, minus the Deferral Balance (i.e. Deferment Payment = (outstanding Deferred Tons * current Contract Price) – Deferral Balance).

Within *** of receiving the Deferment Payment, Smart Sand shall deliver to Buyer, in one or more shipments to be determined in Smart Sand’s sole discretion, the Deferred Tons. Buyer may, at its option, choose to not take delivery of some or all of the Deferred Tons; provided, however, that if Buyer chooses to not take delivery of such Products, Buyer shall not be entitled to any refund of any portion of the Deferment Payment or any portion of any Quarterly Prepayments paid to Smart Sand. Buyer’s choice to not take delivery shall be irrevocable and Buyer shall forfeit any title to or right to receive the Products that Buyer has chosen not to receive.

If Buyer purchases less than the Minimum Tons per Quarter in any quarter, as adjusted by application of Deferred Tons (the “**Shortfall Amount**”), Smart Sand shall have no obligation to deliver to Buyer all or any portion of any Shortfall Amount.

If there is a Shortfall Amount in any quarter, Smart Sand shall retain \$*** per ton of the Quarterly Prepayment applicable to such Shortfall Amount (or be entitled to payment of \$*** per ton of the Shortfall Amount in the event the applicable Quarterly Prepayment was not paid), which amount shall be non-refundable to Buyer and non-creditable toward future purchases (the “**Nonrefundable Shortfall Payment**”). So long as all Quarterly Prepayments have been (and continue to be) paid in full, Buyer shall receive a credit on future sand invoices equal to the Shortfall Amount multiplied by the difference between the applicable Base Price and the Nonrefundable Shortfall Payment (i.e. Credit = Shortfall Amount * (Base Price – Nonrefundable Shortfall Payment)).

1.5 Buyer shall issue purchase orders to Smart Sand setting forth the quantities of Products, applicable prices, requested ship dates, destination of shipment and other details related to a specific order.

1.6 The terms and conditions of this Agreement are the controlling terms and conditions for the purchase of Products by Buyer. The printed terms and conditions of any purchase order, acknowledgment form, invoice or other business form of Buyer and Smart Sand shall not apply to any order. Buyer and Smart Sand agree that any purchase order issued by Buyer is for quantity and timing purposes only, and such purchase order does not amend the terms of this Agreement.

2. Price and Payment Terms

2.1 The pricing for each of the Products for each Contract Year shall be as set forth on Appendix C attached hereto and incorporated by reference (“**Contract Price**”). The parties agree that all Products ordered by Buyer will be loaded onto Buyer supplied trucks and shipped as specified in the purchase order, provided, however, that (i) Buyer and Smart Sand shall coordinate in good faith on all

freight scheduling mechanisms and timeframes, (ii) Buyer shall place orders in a reasonably consistent manner so as to avoid late month backlogs, (iii) all trucks supplied by Buyer will be set up to receive unpackaged Products, and (iv) delivery of the Products shall occur upon the transfer of Products into the applicable truck via a delivery chute at Smart Sand's Van Hook Basin Facility, or such other facility as determined by Smart Sand in its sole discretion. Delivery will be, and all prices are quoted, DAT Smart Sand's Van Hook Basin Facility, Incoterms 2010. The Contract Price shall be subject to adjustments implemented during the Term in accordance with the terms set forth in Appendix C.

2.2 Intentionally Omitted.

2.3 Subject to Section 2.7, commencing on the Commencement Date, and continuing on or about the first day of each quarter during the Term, Smart Sand will invoice Buyer for a prepayment equal to *** (a "**Quarterly Prepayment**"), which shall be paid by Buyer within *** after the date of each such invoice. The Quarterly Prepayment shall be payable regardless of whether Buyer purchases any Products during any quarter during the Term. Each Quarterly Prepayment shall be applied to the amount payable by Buyer for Products ordered in the applicable quarter for which such Quarterly Prepayment relates. If Buyer expects to purchase in excess of the Minimum Tons per Quarter in any quarter, Buyer may request Smart Sand to provide an invoice in excess of the Quarterly Prepayment based upon Buyer's good faith estimate of its expected purchases during the quarter, and if Buyer purchases Products below the expected purchases covered by such increased prepayment, the Quarterly Prepayment in the immediately following quarter shall be credited by an amount equal to the difference between the amount prepaid in excess of the Quarterly Prepayment and the amount of such excess prepayment applied to purchases of Products during the quarter. For any Products purchased by Buyer that are not prepaid and for all other amounts due hereunder, Smart Sand shall invoice Buyer upon shipment of Products or upon the accrual of such other amounts due hereunder, and payment by Buyer shall be due and payable within *** after the date of such invoice. Notwithstanding the foregoing, Smart Sand reserves the right, exercisable in its sole discretion, to require payment by Buyer of the portion of the Contract Prices attributable to rail and shipping costs, fees, expenses and/or charges including, without limitation, transloading charges (including transloader related switching fees), diversion charges, demurrage charges, insurance costs, rail fuel surcharges, and delivery point switch fees, within *** after the date of invoice. Past due invoices are subject to a monthly service charge at a rate equal to *** per month or the maximum rate from time to time permitted by applicable law.

2.4 In the event Buyer does not timely pay any amounts due and payable hereunder, Smart Sand's Credit Department may revoke credit approval at any time and require credit enhancements such as a prepayment or a letter of credit posted by Buyer to continue performing under this Agreement. Buyer shall reimburse Smart Sand for reasonable attorneys' fees, court costs, and other expenses incurred by Smart Sand to collect any amounts due hereunder or enforce the terms and conditions stated herein.

2.5 Smart Sand shall comply with the invoicing requirements that are mutually agreed to in writing by Smart Sand and Buyer from time to time.

2.6 Buyer must use an electronic process for executing business transactions. In such a case, Smart Sand must: (i) provide contractual pricing information via an electronic catalog; (ii) accept purchase orders and present field tickets, bills of lading, and invoices via Buyer's preferred web portal or transactional hub; and (iii) comply with such other requirements regarding such process as communicated in writing by Buyer to Smart Sand. Buyer reserves the right to modify the process at any time.

2.7 Smart Sand shall not submit an invoice for the first Quarterly Prepayment until at least *** after the date in which Smart Sand sends the Commencement Notice or Cure Notice, as applicable.

3. **Specifications**

In the event Buyer desires to change the Specifications, a request for change shall be submitted to Smart Sand in writing. Smart Sand is free to accept or reject any requested changes to Specifications in its sole discretion and no change in Specifications shall be operative unless such changes are memorialized in a writing signed by Smart Sand. Smart Sand shall notify Buyer of any adjustment to the Contract Price resulting from the changes to the Specifications requested by Buyer. Buyer must agree to the adjustment to the Contract Price in writing prior to any changes to the Specifications.

4. **Delivery**

4.1 The Products shall be delivered in accordance with Section 2.1 of this Agreement. Buyer shall not store any trucks at the Van Hook Basin Facility without Smart Sand's prior written consent.

4.2 In the event that Smart Sand is unable to supply Buyer's orders (which orders shall not exceed the Monthly Maximum and Excess Tons, if any, set forth in Section 1.3, and shall be made in compliance with Section 2.1) of up to the Minimum Tons per Year, Buyer shall have the right to purchase replacement Products ("**Replacement Products**") from alternative sources (which amount of Replacement Products shall not exceed the amount of Products contained in such orders that Smart Sand is unable to supply) after receipt of notification from Smart Sand of Smart Sand's failure or inability to supply. Except to the extent Smart Sand's inability to supply is the result of an excusable delay set forth in Section 9: (i) all Replacement Products purchased by Buyer shall count towards meeting Buyer's purchase obligations set forth in Section 1.1 above (subject to the Monthly Maximum and Excess Tons, if any, set forth in Section 1.3); (ii) Smart Sand shall refund that portion of the Quarterly Prepayment equal to the product of (A) the tons of Replacement Products purchased and (B) the then-applicable Contract Price; and (iii) if the Replacement Products are purchased by Buyer at a price that is higher than the then-applicable Contract Price, Smart Sand shall pay Buyer an amount equal to the difference between the Contract Price and the price of the Replacement Products (subject to the maximum dollar amount set forth in the immediately following sentence), which shall be paid by Smart Sand within *** of Buyer's notification to Smart Sand of the amounts so owed. Notwithstanding the foregoing, in no event shall Smart Sand's liability under subsection (iii) above exceed *** per ton of Replacement Products purchased by Buyer.

5. **Inspection**

Smart Sand shall test the Products in accordance with the testing procedures set forth on Appendix D attached hereto and incorporated by reference for compliance with the Specifications. Smart Sand shall retain all testing records for a period of *** and shall, at Buyer's request, supply to Buyer a copy of Smart Sand's test sheets, certified by Smart Sand to be a true copy. Any inspection by Buyer shall be made at the point of railcar loading at Smart Sand's Oakdale facility; provided, however, that Buyer may conduct a sieve analysis in accordance with industry standard procedures at the Van Hook Basin Facility. Buyer may, at its expense, have a representative at Smart Sand's Oakdale facility or Van Hook Basin Facility, as the case may be, for the purpose of such inspection and analysis. Smart Sand retains the right to test companion samples of any testing samples taken by Buyer for purposes of confirming the results of Buyer's inspections, and Buyer shall provide to Smart Sand all test sheets and other testing records related to any Products that it rejects for noncompliance with the Specifications.

Buyer does not have the right to reject any Products that are in compliance with the Specifications, as determined by Smart Sand or Buyer, as the case may be, pursuant to their respective testing procedures, and Buyer agrees to pay Smart Sand in full for any Products that are wrongfully rejected by Buyer. Any use of any of Products (except for reasonable tests and inspection quantities) by Buyer, even if such Products do not comply with the Specifications, shall constitute an unqualified acceptance of such Products and a waiver by Buyer of all claims with respect thereto.

6. Warranty

6.1 Smart Sand warrants to Buyer that Smart Sand shall have complied in all material respects with the testing procedures set forth on Appendix D with respect to each Product. Subject to Section 6.2, Smart Sand shall be responsible for replacing any Product that does not comply with Specifications.

6.2 Buyer acknowledges that Products may become damaged by improper handling after delivery to the rail carrier and Buyer shall pay one-half of the applicable Base Price for any Products used to replace such damaged Products.

6.3 THIS WARRANTY IS EXPRESSLY IN LIEU OF ALL OTHER WARRANTIES. SMART SAND MAKES NO OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE WITH RESPECT TO ANY PRODUCTS.

7. Term and Termination

7.1 This Agreement shall be effective on the Execution Date and shall expire at 11:59 p.m. the last day of Contract Year 4 (the “**Term**”), unless sooner terminated as provided herein.

7.2 (a) Either party may terminate this Agreement, immediately upon written notice to the other party (i) if such other party is in material breach of any of its obligations under the Agreement and fails to cure such breach within thirty (30) business days (twenty (20) business days for any breach relating to the nonpayment of money) after written notice thereof to such other party, or (ii) if such other party is insolvent or makes any arrangement with its creditors generally, or has a receiver appointed for all or a substantial part of its business of properties, or an insolvency, bankruptcy or similar proceeding is brought by or against such other party and involving such other party which is not dismissed within sixty (60) business days of its institution, or if such other party goes into liquidation or otherwise ceases to function as a going concern.

(b) Notwithstanding Section 7.2(a), in the event that Smart Sand fails to provide the Commencement Notice on or before March 15, 2018, or such Commencement Notice states that (i) the Van Hook Basin Facility will not be operational on or before April 1, 2018, or (ii) Smart Sand will not have on or before April 1, 2018 sufficient railcars available for the shipment of Products from its Oakdale facility to the Van Hook Basin Facility, Buyer may terminate this Agreement effective ***after providing written notice of such termination to Smart Sand; provided, however, that if Smart Sand provides written notice (the “**Cure Notice**”) to Buyer during such *** notice period that the Van Hook Basin is operational and/or Smart Sand has obtained sufficient railcars, as the case may be, such termination shall be deemed null and void and this Agreement shall continue in full force and effect, and the Commencement Date shall be automatically (and without further notice or consent of Smart Sand or Buyer) adjusted from April 1, 2018 to the date that the Cure Notice is sent to Buyer. The termination right set forth in this Section

7.2(b) shall be Buyer's sole and exclusive remedy in the event that (1) Smart Sand fails to provide the Commencement Notice on or before March 15, 2018, or (2) on or before April 1, 2018, the Van Hook Basin Facility is not operational or Smart Sand does not have sufficient railcars available for the shipment of Products from its Oakdale facility to the Van Hook Basin Facility, in each case subject to cure as set forth in this Section 7.2(b). Except as set forth in Section 7.4(b), neither Smart Sand nor Buyer shall incur any penalty or have any liability whatsoever for termination pursuant to this Section 7.2(b).

(c) If an excusable delay set forth in Section 9 continues for a period of at least ***, then the party not claiming excusable delay may, at its option, immediately upon written notice to the other party, elect to terminate this Agreement.

(d) Either party may terminate this Agreement at any time and for any reason upon providing at least 90 days prior written notice to the other party.

(e) Notwithstanding Section 7.2(a), if Buyer purchases in excess of *** of Replacement Products under Section 4.2 during the first half or the second half of any given Contract Year due solely to shipment delays caused by Smart Sand's willful misconduct or gross negligence, then Buyer may, at its option, immediately upon written notice to Smart Sand, elect to terminate this Agreement. The termination right set forth in this Section 7.2(e) shall be Buyer's sole and exclusive remedy with respect to the foregoing shipment delays. Except as set forth in Section 7.4(b), neither Smart Sand nor Buyer shall incur any penalty or have any liability whatsoever for termination pursuant to this Section 7.2(e).

(f) After Buyer has purchased (and paid for in full) at least *** under this Agreement, Buyer may terminate this Agreement at any time upon providing at least 30 days prior written notice to Smart Sand.

7.3 Subject to Section 7.4 below, in the event of termination of this Agreement as provided in Section 7.2, this Agreement shall immediately become void and there shall be no liability or obligation on the part of any party hereto; provided, that (i) any such termination shall not relieve any party from liability for any willful breach of this Agreement or any fraud, (ii) the provisions of this Section 7.3 (Effect of Termination) and Sections 1.4 (Deferrals), 2.3 (Payments), 2.4 (Credit/Collections), 7.3 (Survival), 7.4 (Termination Payments), 7.5 (Damages), 8 (Confidentiality), 10 (Limitation of Liability), 12 (Notices), 13 (Resolution of Disputes), 15 (Taxes) and 16 (Miscellaneous) of this Agreement shall remain in full force and effect and survive any termination of this Agreement. Upon termination, Smart Sand shall have no further obligations to pay any costs for any Replacement Products.

7.4 Notwithstanding anything to the contrary in Section 7.3:

(a) In the event Buyer terminates this Agreement pursuant to Section 7.2(a) or Section 7.2(f), Buyer shall pay to Smart Sand, within thirty (30) days of the effective date of termination, all amounts due and owing to Smart Sand for Products delivered by Smart Sand prior to the effective date of termination, all other amounts due and owing to Smart Sand under this Agreement (including without limitation all railcar usage and storage costs, taxes, transportation costs, rail charges, fuel surcharges, collection costs (including court costs and expenses related thereto), attorneys' fees and expenses, and interest) and all other amounts payable by Buyer that have accrued but remain unpaid at the effective date of termination, net of any Quarterly Prepayments and other prepayments invoiced and paid during all Contract Years of the Term that have not been applied towards reducing the amount payable by Buyer for any Products;

(b) In the event Buyer terminates this Agreement pursuant to Section 7.2(b) or Section 7.2(e), Buyer shall pay to Smart Sand, within thirty (30) days of the effective date of termination, all amounts due and owing to Smart Sand for Products delivered by Smart Sand prior to the effective date of termination, all other amounts due and owing to Smart Sand under this Agreement (including without limitation all railcar usage and storage costs, taxes, transportation costs, rail charges, fuel surcharges, collection costs (including court costs and expenses related thereto), attorneys' fees and expenses, and interest) and all other amounts payable by Buyer that have accrued but remain unpaid at the effective date of termination.

(c) In the event Buyer terminates this Agreement pursuant to Section 7.2(d), then Buyer shall pay to Smart Sand, within thirty (30) days of the effective date of termination, an amount equal to:

- (i) all amounts due and owing to Smart Sand, including without limitation, amounts due for Products delivered by Smart Sand prior to the effective date of termination, railcar usage and storage costs, taxes, transportation costs, rail charges, fuel surcharges, collection costs (including court costs and expenses related thereto), attorneys' fees and expenses, interest, and all other amounts payable by Buyer that have accrued but remain unpaid at the effective date of termination; plus
- (ii) an amount equal to:

In the event Buyer has purchased an amount of Products under this Agreement during the period commencing on the Commencement Date and ending on the last day of the quarter in which the effective date of termination occurs (the "Purchase Period") in excess of the aggregate amount of Products required to be purchased under this Agreement during the Purchase Period, then the amount set forth in Section 7.4(c)(ii)(D) shall be automatically reduced by an amount equal to \$*** multiplied by the positive difference between the amount of Products purchased during the Purchase Period and *** .

(d) In the event Smart Sand terminates this Agreement pursuant to Section 7.2(a), Buyer shall pay to Smart Sand, within thirty (30) days of the effective date of termination, an amount equal to:

- (i) all amounts due and owing to Smart Sand, including without limitation, amounts due for Products delivered by Smart Sand prior to the effective date of termination, railcar usage and storage costs, taxes, transportation costs, rail charges, fuel surcharges, collection costs (including court costs and expenses related thereto), attorneys' fees and expenses, interest, and all other amounts payable by Buyer that have accrued but remain unpaid at the effective date of termination; plus
- (ii) an amount equal to:

In the event Buyer has purchased an amount of Products under this Agreement during the Purchase Period in excess of the aggregate amount of Products required to be purchased under this Agreement during the Purchase Period, then the amount set forth in Section 7.4(d)(ii)(D) shall be

automatically reduced by an amount equal to \$*** multiplied by the positive difference between the amount of Products purchased during the Purchase Period and ***

(e) In the event that either party terminates this Agreement pursuant to Section 7.2(c), Buyer shall pay to Smart Sand, within thirty (30) days of the effective date of termination, all amounts due and owing to Smart Sand, including without limitation, amounts due for Products delivered by Smart Sand prior to the effective date of termination, railcar usage and storage costs, taxes, transportation costs, rail charges, fuel surcharges, collection costs (including court costs and expenses related thereto), attorneys' fees and expenses, interest, and all other amounts payable by Buyer that have accrued but remain unpaid at the effective date of termination.

(f) In the event Smart Sand terminates this Agreement pursuant to Section 7.2(d), Smart Sand shall pay to Buyer, within thirty (30) days of the effective date of termination, an amount equal to the difference between (i)

and

(ii) all amounts due and owing to Smart Sand under this Agreement (including without limitation all railcar usage and storage costs, taxes, transportation costs, rail charges, fuel surcharges, collection costs (including court costs and expenses related thereto), attorneys' fees and expenses, and interest) and all other amounts payable by Buyer that have accrued but remain unpaid at the effective date of termination, net of any Quarterly Prepayments and other prepayments invoiced and paid during all Contract Years of the Term that have not been applied towards reducing the amount payable by Buyer for any Products; provided, however, that to the extent that the amount of Quarterly Prepayments and other prepayments invoiced and paid during all Contract Years of the Term that have not been applied towards reducing the amount payable by Buyer for any Products exceeds all other amounts due and owing to Smart Sand under this Section 7.4(f)(ii) (the "**Excess Prepayment**"), then, in addition to paying the amount set forth in Section 7.4(f)(i), Smart Sand shall pay to Buyer the Excess Prepayment.

In the event Buyer has purchased an amount of Products under this Agreement during the Purchase Period in excess of the aggregate amount of Products required to be purchased under this Agreement during the Purchase Period, then the amount set forth in Section 7.4(f)(i)(D) shall be automatically reduced by an amount equal to \$*** multiplied by the positive difference between the amount of Products purchased during the Purchase Period and ***

7.5 The parties agree that quantifying losses arising from termination of this Agreement are inherently difficult to measure and have therefore negotiated the provisions set forth above for the express purpose of avoiding any later disagreement regarding the quantum of damages. The parties further stipulate that the agreed mechanism for calculating damages is not a penalty, but rather a reasonable measure or forecast of damages based upon the parties' experience in the frac sand industry and given the nature of the losses that may result from a breach or termination of this Agreement.

8. Confidentiality

8.1 The parties acknowledge that either party may disclose (orally or in writing) to the other confidential and proprietary information relating to the Products or each party's business (together with the terms of this Agreement relating to product mix, pricing, volume, payments, and product

specifications, the “**Confidential Information**”). Each party agrees that it will keep the Confidential Information of the other party disclosed to it in confidence by using at least the same degree of care to prevent unauthorized disclosure or use thereof as such party uses to protect its own confidential information of like nature, and that it will not use for its own benefit or disclose, directly or indirectly, any item of Confidential Information to any person, without the prior written consent of the disclosing party, except (i) only to those of the recipient’s affiliates, employees or advisors who need to know the same in the performance of their duties for the recipient in connection with this Agreement; or (ii) to comply with any law, rule, regulation, or legal or regulatory process (including without limitation in connection with any Securities and Exchange Commission (“SEC”) or stock exchange review process or filing requirements) applicable to such party; provided, that such party shall use reasonable best efforts to obtain confidential treatment from the SEC or any other court or governmental authority with respect to the disclosure of such Confidential Information. Notwithstanding the foregoing, (i) Buyer may disclose to each of its field services contractors certain information related to scheduling, product mix and forecasts solely relating to individual shipments so long as such contractor agrees to keep such information confidential in the manner described above and not use such information for its own benefit, it being understood that Buyer shall be liable to Smart Sand for any breach by any of Buyer’s contractors of such confidentiality obligations, and (ii) Smart Sand may, in its sole discretion, issue a press release upon entering into this Agreement, provided that such press release shall not contain any pricing or volume information contained herein.

8.2 The parties’ non-use and non-disclosure restrictions hereunder shall continue with respect to any item of Confidential Information until the earlier of the expiration of two (2) years following the termination of this Agreement for any reason, or until such item: (a) is or has become publicly available; or (b) was lawfully in the possession of, or known by, the recipient that was not under an obligation to keep it confidential; or (c) has been disclosed to the recipient by an unrelated third party, without an obligation to keep it confidential; or (d) has been independently developed by the recipient without regard to the Confidential Information.

9. Excusable Delay

Neither party shall be liable for any delay or failure to perform to the extent caused by fire, flood, adverse weather conditions, explosion, war, riot, embargo, unavoidable delay in rail transportation, shortages in railcar availability (not caused by Smart Sand’s unwillingness to pay reasonable railcar acquisition charges), shortage of utilities, compliance with any laws, regulations, orders, acts or requirements from the government, civil or military authorities of which the party was unaware at the Execution Date, acts of God or the public enemy, or any act or event of any nature reasonably beyond such party’s control; provided, however, that, for the avoidance of doubt, a party’s failure to perform due to a general economic downturn, industry specific downturn, or any change in a party’s financial condition or results of operations not directly caused by any of the causes set forth in this sentence or any similar cause shall not constitute an excusable delay hereunder. In such circumstances, Buyer or Smart Sand may cancel the portion of any order subject to such delay by giving prompt written notice, provided that such cancellation shall apply only to that portion of the order effected by the foregoing circumstances and the balance of the order shall continue in full force and effect. If Smart Sand’s production capacity is impaired as a result of any of the foregoing circumstances, then (i) Smart Sand will allocate to Buyer a pro rata portion of Smart Sand’s total remaining capacity taking into account Smart Sand’s impaired production capacity, Buyer’s requirements pursuant to the forecast provided by Buyer in accordance with Section 1.2, and Smart Sand’s aggregate requirements for Products under purchase agreements with other customers, and (ii) the Minimum Tons per Year for the Contract Year(s) in which the event(s) of force majeure occur shall be reduced by an amount equal to the Minimum Tons Per Year divided by 365

multiplied by the number of days in the Contract Year that Smart Sand's production capacity is impaired as a result of such event(s) of force majeure, less any Products sold by Smart Sand to Buyer during the force majeure period (i.e. Reduction = ((Minimum Tons per Year/365) * Force Majeure Period) – Products Sold).

10. LIMITATION OF LIABILITY.

NEITHER PARTY SHALL BE LIABLE FOR ANY SPECIAL, INDIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES OF ANY KIND OR NATURE WHATSOEVER, INCLUDING, WITHOUT LIMITATION, LOST GOODWILL, LOST PROFITS, WORK STOPPAGE OR IMPAIRMENT OF OTHER GOODS, AND WHETHER ARISING OUT OF BREACH OF ANY EXPRESS OR IMPLIED WARRANTY, BREACH OF CONTRACT, TORT (INCLUDING NEGLIGENCE), STRICT LIABILITY OR OTHERWISE, EVEN IF ADVISED OF THE POSSIBILITY OF SUCH DAMAGE OR IF SUCH DAMAGE COULD HAVE BEEN REASONABLY FORESEEN.

11. PRODUCT NOTIFICATION

WARNING! MATERIAL SOLD PURSUANT TO THIS AGREEMENT MAY CONTAIN FREE SILICA – IN SUCH CIRCUMSTANCES, SEE MATERIAL WARNINGS AND DO NOT BREATHE DUST OR USE FOR SANDBLASTING. IF YOU BREATHE FINE SILICA DUST POSSIBLY CONTAINED IN PRODUCTS YOU CAN SUFFER SEVERE, IRREVERSIBLE LUNG DAMAGE AND DEATH. SOME MEDICAL REPORTS STATE INHALATION OF SILICA DUST MAY CAUSE LUNG CANCER. MEDICAL REPORTS ALSO LINK BREATHING SILICA DUST TO CRIPPLING ARTHRITIS AND SKIN AND EYE IRRITATION. NEVER USE PRODUCTS CONTAINING SILICA DUST WITHOUT NIOSH/MSHA APPROVED RESPIRATORY PROTECTIVE EQUIPMENT.

Buyer acknowledges the above warning and assumes responsibility and shall be liable for communicating this warning and providing to its employees, contractors and/or agents any equipment necessary for their protection.

12. Notice

Any notice or other communication hereunder shall be in writing and shall be deemed given and effective when delivered personally, by fax (and confirmed by certified or registered mail, postage prepaid, return receipt requested), or by overnight carrier, addressed to a party at its address stated below or to such other address as such party may designate by written notice to the other party in accordance with the provisions of this Section.

To Smart Sand:

Smart Sand, Inc.
1000 Floral Vale Boulevard, Suite 225
Yardley, Pennsylvania 19067
Attention: James D. Young
Facsimile: 215.295.7911

With a copy to: Fox Rothschild LLP

997 Lenox Drive, 3rd Floor
Lawrenceville, New Jersey 08648
Attn: Vincent A. Vietti
Facsimile: 609.896.1469

To Buyer: Hess Corporation
1501 McKinney Street
Houston, Texas 77010
Attn: Legal Department
Facsimile: 713.496.8034

13. Resolution of Disputes

13.1 EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY THAT MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES AND, THEREFORE, EACH SUCH PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LEGAL ACTION ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

13.2 It is the intent of the parties to exclude the application of the United Nations Convention on Contracts for the International Sale of Goods (1980). Nothing herein shall prohibit a party from availing itself of a court of competent jurisdiction for the purpose of injunctive relief. The parties acknowledge and agree that the respective parties may have available to them laws or remedies available under applicable local legislation; it is the intent of the parties to have the terms of this Agreement apply in every instance, including, without limitation, the choice of law and forum provisions and the respective parties agree not to avail themselves of such alternate local legislation or remedies available thereunder. The parties acknowledge that this is a fundamental foundation for the risk allocation undertaken in this Agreement and should this provision be breached it would deny the other party the full benefit of its risk allocation and the agreed pricing structure. Accordingly, should a party avail itself of local legislation that conflicts or negates the risk allocation contained in this Agreement, then such party shall be liable to the non-breaching party for all damages arising therefrom.

14. Compliance with Law

14.1 Subject to the limitations of this Agreement, it is agreed that in the performance of this Agreement all matters shall be conducted in compliance in all material respects with any and all applicable federal, state, provincial and local (including tribal) laws, rules and regulations in the area(s) in which the matters are being conducted. Any performance obligation arising under this Agreement is contingent on the prior receipt of all necessary government authorizations. If either party is required to pay any fine or penalty, or is subject to a claim from the other party's failure to comply with applicable laws, rules or regulations, the party failing to comply shall defend, indemnify and hold harmless the other party for all damages, fees and/or fines for such failure to comply to the extent of the indemnifying party's allocable share of the failure to comply.

14.2 **Notwithstanding anything to the contrary, neither party shall be required to take any action or be required to refrain from taking any action prohibited, penalized or required, as applicable, under the laws of the United States, including, without limitation, the U.S. antiboycott laws.**

15. Taxes.

15.1 Payment of Taxes. Smart Sand shall promptly and timely pay directly to the appropriate governmental authority all claims for taxes, levies, and assessments, together with any fines, penalties, interest, or other fees assessed in connection therewith, imposed on Smart Sand by any governmental authority (including any political subdivision thereof) having or claiming jurisdiction in the areas in which the Product is purchased or otherwise arising out of or in connection with Smart Sand's performance under this Agreement, including corporate and/or personal income, withholding, sales, employment, property, social insurance, transfer, remittance, capital, net worth, stamp, business privilege, value added taxes, licenses, permits, or any other tax or levy on, or in connection with, operations, or transactions (collectively the "Taxes"). Buyer shall advise Smart Sand if Buyer is exempt from sales, excise, use or compensating, and/or value added taxes that might otherwise be imposed on it in respect of the Product purchased under this Agreement and, in such event, shall provide any supporting certificate or other documentation that may be required by the applicable governmental authority to claim such exemption. If such exemption exists, Smart Sand shall not invoice, and Buyer shall not be obligated to pay for any such taxes. If Buyer is not exempt from such applicable sales, excise, use or compensating, and/or value added taxes, or similar tax that may be levied on it for purchase of Product under this Agreement: (i) Smart Sand shall document any such taxes and itemize them in the invoices to Buyer; (ii) Buyer will pay such amounts; and (iii) Smart Sand shall make the appropriate payments to the applicable taxing authority. Should Smart Sand fail to charge Buyer any applicable taxes or charges that Smart Sand is obligated to remit under law and the appropriate taxing authority subsequently requests and demands payment of same from Smart Sand, Buyer shall reimburse Smart Sand if a claim is made by Smart Sand against Buyer within one (1) year from the date such taxes or charges are paid by Smart Sand. Smart Sand will provide Buyer with a receipt or sufficient secondary documentation evidencing remittance of said tax obligation on behalf of Buyer.

15.2 Wages. Smart Sand shall be responsible for and shall indemnify Buyer from and against any and all claims for payment of all wages, salaries, benefits, and other remuneration (including any redundancy payments), and for payment of all Taxes and contributions, including both employee and employer contributions, required by any governmental authority (including any political subdivision thereof) applicable to employees or other members of Smart Sand, including payment in compensation for an accident, injury, or occupational disease.

15.3 Submission of Reports. Smart Sand, at its sole cost and expense, shall timely submit all reports, and take all other actions necessary, to satisfy tax, accounting, and reporting requirements of any governmental authority (including any political subdivision thereof) having or claiming jurisdiction over the subject matter of this Agreement.

15.4 Withholding. Buyer shall, without Buyer incurring any additional liability to Smart Sand, withhold from any payment, as provided for in this Agreement, any Taxes or other government charges or levies in the percentage required under the provisions of any applicable laws in force and effect as of the time of payment. The parties acknowledge and agree, however, that the amounts set forth hereto constitute the entire amount for which Buyer shall be held liable for the items detailed therein. The parties further acknowledge and agree that no payment due from Buyer to Smart Sand shall in any event be increased in order to cover any withholding, Taxes, government charge, levy, or other obligation of Smart Sand. Failure by Buyer to withhold shall not relieve Smart Sand from its liability to pay such Taxes and charges. Buyer agrees to indemnify Smart Sand for all related fines, penalties, and interest thereon or levied on Buyer as a consequence of Buyer's non-compliance or failure with its own statutory tax obligations. Buyer shall provide Smart Sand with all receipts in respect of any amounts so withheld. If Smart Sand is exempt from withholding,

Smart Sand shall: (i) notify Buyer that such exemption is held and of any change to or cancellation of such exemption; and (ii) furnish Buyer with proper documentation evidencing such exemption or any other information that may be required to obtain such exemption.

15.5 Survival. This Section 15 shall survive termination, cancellation, or expiration of this Agreement.

16. Miscellaneous.

16.1 This Agreement constitutes the entire agreement between the parties hereto relating to the subject matter hereof and supersedes all prior oral and written agreements and all contemporaneous oral negotiation, commitments and understandings of the parties. This Agreement may not be changed or amended except by a writing executed by both parties hereto.

16.2 No party may assign this Agreement without the prior written consent of the other party, which consent shall not be unreasonably withheld, conditioned or delayed; provided, however, that Smart Sand or Buyer, as the case may be, may assign or otherwise transfer this Agreement without Buyer's or Smart Sand's, as applicable, consent to (i) one of its affiliates, or (ii) any of its successors (including but not limited to the purchaser of substantially all of its assets), or (iii) any financial institution providing it financing; provided, further that any assignment pursuant to subsections (i), (ii) or (iii) above must be to a party having a substantially similar or better financial condition than the assigning party. Any prohibited assignment or attempted assignment without the other party's prior written consent shall be void.

16.3 This Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of Delaware without giving effect to that state's conflicts of laws principles or choice of law rules. Any legal suit, action, or proceeding arising out of or based upon/relating to this Agreement or the transactions contemplated hereby shall be instituted in the federal courts of the United States of America or the courts of the State of Delaware in each case located in the City of Wilmington and County of New Castle, and each party irrevocably submits to the exclusive jurisdiction of such courts in any such suit, action, or proceeding. Service of process, summons, notice, or other document by mail to such party's address set forth herein shall be effective service of process for any suit, action, or other proceeding brought in any such court. The parties irrevocably and unconditionally waive any objection to the laying of venue of any suit, action, or proceeding in such courts and irrevocably waive and agree not to plead or claim in any such court that any such suit, action, or proceeding brought in any such court has been brought in an inconvenient forum.

16.4 No delay or failure by either party to exercise or enforce at any time any right or provision of this Agreement shall be considered a waiver thereof or of such party's right thereafter to exercise or enforce each and every right and provision of this Agreement. A waiver to be valid shall be in writing, but need not be supported by consideration. No single waiver shall constitute a continuing or subsequent waiver.

16.5 This Agreement may be executed in two or more counterparts and delivered via facsimile or pdf, each of which when executed shall be deemed to be an original, and all of which shall constitute one and the same agreement.

16.6 The headings herein are for reference purposes only and are not to be considered in construing this Agreement. This Agreement shall be interpreted and construed without regard to customary principles of interpretation and construction of legal instruments which construe ambiguities

against the party causing an instrument to be drafted. For purposes of this Agreement, the neuter shall include the masculine and feminine, the masculine shall include the feminine, the feminine shall include the masculine, the singular shall include the plural, and the plural shall include the singular, as the context may require.

16.7 If any provision of this Agreement shall be held illegal, invalid or unenforceable, in whole or in part, such provision shall be modified to render it legal, valid and enforceable while to the fullest extent possible preserving the business and financial intent and impact of the original provision, and the legality, validity and enforceability of all other provisions of the Agreement shall not be affected thereby.

16.8 All exhibits and appendices attached to this Agreement are deemed to be a part of this Agreement and are incorporated herein by reference.

[signature page follows]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

Smart Sand, Inc.
("Smart Sand")

Hess Corporation
("Buyer")

By: /s/ John Young By: /s/ Barry Biggs
Name: John Young Name: Barry Biggs
Title: EVP Title: VP Onshore Assets

By: /s/ Steve Roberts
Name: Steve Roberts
Title: Directors - GSC Onshore

APPENDIX A

Specifications

As of the Execution Date the standards of ISO 13503-2 and API RP 19C are identical and as indicated below.

	ISO 13503-2
Turbidity (NTU)	***
Kumbein Shape Factors:	
Roundness	***
Sphericity	***
Clusters (%)	***
Sieve Analysis (conducted by Smart Sand at Oakdale Facility):	
<0.1% of sample larger than first specified sieve size	
% In Size ***	***
% In Size ***	***
% In Size ***	***
% In Size ***	***
<1.0% in pan	
Sieve Analysis (conducted by Buyer at Van Hook Basin Facility):	
<0.1% of sample larger than first specified sieve size	
% In Size ***	***
% In Size ***	***
% In Size ***	***
% In Size ***	***
Solubility in 12/3 HCL/HF for 0.5 HR @150°F (% Weight Loss)	***
Crush Resistance (pounds per square inch)*	
% In Size ***	***
% In Size ***	***
% In Size ***	***
% In Size ***	***

*All crush resistance testing shall be performed by Stim-Lab, Inc., or such other testing provider as mutually agreed to in writing by Smart Sand and Buyer.

APPENDIX B

Product Mix Parameters

Buyer acknowledges the need for a balanced Product sales mix output from Smart Sand's facilities. Therefore, the following shall serve as a benchmark Product volume mix for each month during the Term.

The following product mix shall apply to this Agreement:

Product*	Product Mix (%)
***	***
***	***
Total	100%

*Upon providing at least *** prior written notice to Smart Sand (but no more than *** per Contract Year), Buyer may modify the product mix to include *** Products and increase the amount of *** Products; provided, however, that (i) the total amount of *** and *** mesh Products purchased in any month shall not exceed *** of the total Products purchased in such month, and (ii) the total amount of *** Products purchased in any month shall not exceed *** of the total Products purchased in such month. Subject to availability, as determined by Smart Sand in its sole discretion, Buyer may (a) further modify the product mix, and (b) in lieu of purchasing *** mesh Products, purchase *** mesh Products at the Contract Price set forth herein.

APPENDIX C

Product Pricing

“**Contract Prices**” consist of the sum of Base Prices (as defined below) and quarterly fuel surcharges / reductions, as set forth in (3) below. “**Base Prices**” consist of the sum of the Base (as defined below) and all WTI Spot Price escalators as set forth in paragraph (1) (A) below. The “**Base**” shall initially be \$*** and includes all transportation and rail-related charges other than rail fuel surcharges, which will be reimbursed to Smart Sand by Buyer. The Base shall be adjusted as set forth in paragraphs (1)(B), (1)(C) and (2) below. Pricing for shipments each month shall be based on the Contract Prices in effect for the quarter in which such purchase occurs.

(1) Base Prices:

(A) The Base Prices shall be adjusted on the first day of Contract Year 1 and on the first day of each calendar quarter thereafter based upon the Average Cushing Oklahoma WTI Spot Prices per barrel as listed on WWW.EIA.DOE.GOV for the calendar quarter immediately preceding the date of adjustment (the “**Oil Price Average**”) ((Month 1 Average + Month 2 Average + Month 3 Average)/3=Oil Price Average) as follows:

Product	Base Prices (\$ / Ton) Based Upon Oil Price Average (per barrel)				
	Less than \$***	At least \$*** and less than \$***	At least \$*** and less than \$***	At least \$*** and less than \$***	At least \$***
***	***	***	***	***	***

(B) In addition to (and not in lieu of) the price adjustments set forth in paragraph (C) below, commencing at the beginning of Contract Year 3 and continuing at the beginning of each Contract Year during the remainder of the Term of the Agreement, the Base then in effect shall be increased annually at the beginning of each Contract Year by an amount equal to ***; provided, however, that no such adjustment shall (1) decrease the Base, or (2) increase the Base in excess of *** annually.

(C) In addition to (and not in lieu of) the price adjustments set forth in paragraph (B) above, commencing at the beginning of Contract Year 3 and continuing for the remainder of the Term of the Agreement, the Base then in effect shall be increased by *** at the beginning of the Contract Year immediately following a Contract Year in which the Average Cushing Oklahoma WTI Spot Prices per barrel as listed on WWW.EIA.DOE.GOV for such Contract Year was at least \$*** per barrel and less than or equal to \$*** per barrel; provided, however, that the price increase set forth in this subsection (C) shall only occur once during the Term of the Agreement.

(2) Rail Charges:

(A) Rail charges assume that all Products are shipped in a unit train configuration. In the event Buyer requests that such Products be shipped via manifest, then Buyer shall pay to Smart Sand a higher rail charge, as reasonably determined by Smart Sand in its sole discretion. The Base includes the rail charge currently assessed by Smart Sand’s rail carrier for the shipment of Products (the “**Base Rail Charge**”). If the rail charge paid by Smart Sand to the rail carrier in connection with the shipment of Products hereunder exceeds the Base Rail Charge (such charge, the “**Higher Rail Charge**”), then the Base shall be adjusted upwards by an amount equal to the difference between the Higher Rail Charge per ton and the Base Rail Charge per ton.

(B) If Buyer disputes in good faith Smart Sand’s determination of whether the Base should be increased due to a Higher Rail Charge, or the amount of any such increase, Buyer may request that the determination be

referred to a nationally recognized public accounting firm that is not then providing audit or tax services to either party. The parties shall promptly agree in good faith upon the identity of such accounting firm. Smart Sand shall provide the accounting firm with all relevant information regarding rail charges assessed by Smart Sand's rail carrier for the shipment of Products, which shall be confidential and shall not be shared with Buyer or any third parties. Buyer shall provide the accounting firm with the relevant information about its Product purchases. After reviewing such information, the accounting firm shall render its determination of whether Smart Sand may increase the Base and if so, what the appropriate increase shall be. Such accounting firm's determination shall be conclusive, absent manifest error. The parties shall share equally the cost of the accounting firm's services.

(3) Fuel Surcharges/Reductions: Quarterly natural gas or propane surcharges or reductions, starting on the Execution Date, with details below:

Natural Gas Surcharge/Reduction: A natural gas surcharge or reduction will be applied as follows:

(i) a surcharge will be applied if the Henry Hub Average Natural Gas Price (ANGP) Spot Price as listed on WWW.EIA.DOE.GOV (https://www.eia.gov/dnay/ng/ng_pri_fut_s1_m.htm) for the preceding calendar quarter is above \$*** per MMBTU (the "**Natural Gas Surcharge Benchmark**") ((Month 1 Average + Month 2 Average + Month 3 Average)/3=ANGP), and shall be adjusted at the end of each calendar quarter for the duration of the Term of the Agreement. A surcharge of \$*** per ton for every \$*** per MMBTU increase above the Natural Gas Surcharge Benchmark for the ANGP for the preceding calendar quarter will apply to the Contract Prices for all Products.

(ii) a reduction will be applied if the Henry Hub Average Natural Gas Price (ANGP) Spot Price as listed on WWW.EIA.DOE.GOV (https://www.eia.gov/dnay/ng/ng_pri_fut_s1_m.htm) for the preceding calendar quarter is below \$*** per MMBTU (the "**Natural Gas Reduction Benchmark**") ((Month 1 Average + Month 2 Average + Month 3 Average)/3=ANGP), and shall be adjusted at the end of each calendar quarter for the duration of the Term of the Agreement. A reduction of \$*** per ton for every \$*** per MMBTU decrease below the Natural Gas Reduction Benchmark for the ANGP for the preceding calendar quarter will apply to the Contract Prices for all Products.

The foregoing calculations will be prorated, i.e., if the average of the monthly closes of ANGP for a prior quarter averages \$*** per MMBTU, the surcharge will be \$*** per ton for the following quarter.

As an example, if the average of the monthly closes of ANGP for January, February and March is \$***, then \$*** will be added to the applicable Contract Price for April, May and June. If the average of the monthly closes of ANGP for April, May and June is between \$*** and \$***, then \$*** will be added to the applicable Contract Price for July, August and September. If the average of the monthly closes of ANGP for July, August and September is \$***, then \$*** will be deducted from the applicable Contract Price for October, November and December.

Propane Surcharge/Reduction: A propane surcharge or reduction will be applied as follows:

(i) a surcharge will be applied if the Average Quarterly Mont Belvieu, TX Propane Spot Price (AMBTX) as listed on WWW.EIA.GOV (http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=pet&s=eer_epllpa_pf4_y44mb_dpg&f=m) for the preceding calendar quarter is above \$*** per gallon of Propane (the "**Propane Surcharge Benchmark**") ((Month 1 Average + Month 2 Average + Month 3 Average)/3=AMBTX), and shall be adjusted at the end of each calendar quarter for the duration of the Term of the Agreement. A surcharge of \$*** per ton for every \$*** per gallon

increase in the AMBTX above the Propane Surcharge Benchmark for the preceding calendar quarter will apply to the Contract Prices for all Products.

(i) a reduction will be applied if the Average Quarterly Mont Belvieu, TX Propane Spot Price (AMBTX) as listed on WWW.EIA.GOV (http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=pet&s=eer_epllp_pf4_y44mb_dpg&f=m) for the preceding calendar quarter is below \$*** per gallon of Propane (the “**Propane Reduction Benchmark**”) ((Month 1 Average + Month 2 Average + Month 3 Average)/3=AMBTX), and shall be adjusted at the end of each calendar quarter for the duration of the Term of the Agreement. A surcharge of \$*** per ton for every \$*** per gallon decrease in the AMBTX below the Propane Reduction Benchmark for the preceding calendar quarter will apply to the Contract Prices for all Products.

The calculation will be prorated, i.e., if the AMBTX for a prior quarter averages \$*** per Gallon, the surcharge will be \$*** per ton for the following quarter.

As an example, if the average of the monthly closes of AMBTX for January, February and March is \$***/gallon, then \$*** will be added to the applicable Contract Price for April, May and June. If the average of the monthly closes of AMBTX propane for April, May and June is between \$***/gallon and \$***/gallon, then \$*** will be added to the applicable Contract Price for July, August and September. If the average of the monthly closes of AMBTX propane for July, August and September is \$***/gallon, then \$*** will be deducted from the applicable Contract Price for October, November and December.

APPENDIX D

Testing Procedures

This schedule provides an explanation of how Smart Sand will test its Products to confirm that they are compliant with the Specifications set forth in Appendix A. All testing shall be conducted during periods when Smart Sand's facility is operational and not during down time. Testing shall be conducted at Smart Sand's Oakdale facility on sand samples taken from the transfer area that leads to the storage silo(s). Smart Sand is not required to conduct any testing at the Van Hook Basin Facility.

The testing to be performed and its frequency, shall be as follows:

1. ***
2. ***
3. ***
4. ***

In addition, Smart Sand will test and provide a sieve analysis of every railcar and send a Certificate of Analysis for each railcar with the corresponding invoice.

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CERTIFICATION BY PRINCIPAL EXECUTIVE OFFICER

I, Charles E. Young, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Smart Sand, 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)) 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.

Dated: May 10, 2018

/s/ Charles E. Young

Charles E. Young, Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION BY PRINCIPAL FINANCIAL OFFICER

I, Lee E. Beckelman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Smart Sand, 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)) 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.

Dated: May 10, 2018

/s/ Lee E. Beckelman

Lee E. Beckelman, Chief Financial Officer
(Principal Financial Officer)

**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 of Smart Sand, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles E. Young, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (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.

Dated: May 10, 2018

/s/ Charles E. Young

Charles E. Young, Chief Executive Officer
(Principle Executive Officer)

**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 of Smart Sand, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lee E. Beckelman, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (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.

Dated: May 10, 2018

/s/ Lee E. Beckelman

Lee E. Beckelman, Chief Financial Officer
(Principle Financial Officer)

MINE SAFETY DISCLOSURES

The following disclosures are provided pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Act”) and Item 104 of Regulation S-K, which requires certain disclosures by companies required to file periodic reports under the Securities Exchange Act of 1934, as amended, that operate mines regulated under the Federal Mine Safety and Health Act of 1977 (the “Mine Act”).

Mine Safety Information

Whenever the Federal Mine Safety and Health Administration (“MSHA”) believes a violation of the Mine Act, any health or safety standard or any regulation has occurred, it may issue a citation which describes the alleged violation and fixes a time within which the U.S. mining operator must abate the alleged 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 the alleged hazards are corrected. When MSHA issues a citation or order, it generally proposes a civil penalty, or fine, as a result of the alleged violation, that the operator is ordered to pay. Citations and orders can be contested and appealed, and as part of that process, may be reduced in severity and amount, and are sometimes dismissed. The number of citations, orders and proposed assessments vary depending on the size and type (underground or surface) of the mine as well as by the MSHA inspector(s) assigned.

Mine Safety Data

The following provides additional information about references used in the table below to describe the categories of violations, orders or citations issued by MSHA under the Mine Act:

- *Section 104 S&S Citations:* Citations received from MSHA under section 104 of the Mine Act for violations of mandatory health or safety standards that could significantly and substantially contribute to the cause and effect of a mine safety or health hazard.
- *Section 104(b) Orders:* 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:* Citations and orders issued by MSHA under section 104(d) of the Mine Act for an unwarrantable failure to comply with mandatory health or safety standards.
- *Section 110(b)(2) Violations:* Flagrant violations issued by MSHA under section 110(b)(2) of the Mine Act.
- *Section 107(a) Orders:* Orders issued by MSHA under section 107(a) of the Mine Act for situations in which MSHA determined an “imminent danger” (as defined by MSHA) existed.

Pattern or Potential Pattern of Violations

The following provides additional information about references used in the table below to describe elevated pattern of violation enforcement actions taken by MSHA under the Mine Act:

- *Pattern of Violations:* A pattern of violations of mandatory health or safety standards that are of such nature as could have significantly and substantially contributed to the cause and effect of mine health or safety hazards under section 104(e) of the Mine Act.
- *Potential Pattern of Violations:* The potential to have a pattern of violations under section 104(e).

Pending Legal Actions

The following provides additional information of the types of proceedings brought before the Federal Mine Safety and Health Review Commission (“FMSHRC”):

- *Contest Proceedings:* A contest proceeding may be filed by an operator to challenge the issuance of a citation or order issued by MSHA.
 - *Civil Penalty Proceedings:* A civil penalty proceeding may be filed by an operator to challenge a civil penalty MSHA has proposed for a violation contained in a citation or order. The Partnership does not institute civil penalty proceedings based solely on the assessment amount of proposed penalties. Any initiated adjudications address substantive matters of law and policy instituted on conditions that are alleged to be in violation of mandatory standards of the Mine Act.
 - *Discrimination Proceedings:* Involves a miner’s allegation that he or she has suffered adverse employment action because he or she engaged in activity protected under the Mine Act, such as making a safety complaint. Also includes temporary reinstatement proceedings involving cases in which a miner has filed a complaint with MSHA stating that he or she has suffered discrimination and the miner has lost his or her position.
-

- *Compensation Proceedings:* A compensation proceeding may be filed by miners entitled to compensation when a mine is closed by certain closure orders issued by MSHA. The purpose of the proceeding is to determine the amount of compensation, if any, due to miners idled by the orders.
- *Temporary Relief:* Applications for temporary relief are applications filed under section 105(b)(2) of the Mine Act for temporary relief from any modification or termination of any order.
- *Appeals:* An appeal may be filed by an operator to challenge judges' decisions or orders to the Commission, including petitions for discretionary review and review by the Commission on its own motion.

For the Three Months Ended March 31, 2018:

Mine (1)	Oakdale, WI
Section 104 citations for violations of mandatory health or safety standards that could significantly and substantially contribute to the cause and effect of a mine safety or health hazard (#)	2
Section 104(b) orders (#)	—
Section 104(d) citations and orders (#)	—
Section 110(b)(2) violations (#)	—
Section 107(a) orders (#)	—
Proposed assessments under MSHA (2)	\$1,477.00
Mining-related fatalities (#)	—
Section 104(e) notice	No
Notice of the potential for a pattern of violations under Section 104(e)	No
Legal actions before the FMSHRC initiated (#)	—
Legal actions before the FMSHRC resolved (#)	11
Legal actions pending before the FMSHRC, end of period:	
Contests of citations and orders referenced in Subpart B of 29 CFR Part 2700 (#)	—
Contests of proposed penalties referenced in Subpart C of 29 CFR Part 2700 (#)	—
Complaints for compensation referenced in Subpart D of 29 CFR Part 2700 (#)	—
Complaints of discharge, discrimination or interference referenced in Subpart E of 29 CFR Part 2700 (#)	—
Applications for temporary relief referenced in Subpart F of 29 CFR Part 2700 (#)	—
Appeals of judges' decisions or orders referenced in Subpart H of 29 CFR Part 2700 (#)	—
Total pending legal actions (#)	—

(1) The definition of mine under section 3 of the Mine Act includes the mine, as well as other items used in, or to be used in, or resulting from, the work of extracting minerals, such as land, structures, facilities, equipment, machines, tools and minerals preparation facilities. Unless otherwise indicated, any of these other items associated with a single mine have been aggregated in the totals for that mine. MSHA assigns an identification number to each mine and may or may not assign separate identification numbers to related facilities such as preparation facilities. We are providing the information in the table by mine rather than MSHA identification number because that is how we manage and operate our mining business and we believe this presentation will be more useful to investors than providing information based on MSHA identification numbers.

(2) Represents the total dollar value of the proposed assessment from MSHA under the Mine Act pursuant to the citations and/or orders preceding such dollar value in the corresponding row.