

smartsand®



# *Premier Provider of Northern White Sand*

**2022 Annual Report**





## COMPARATIVE HIGHLIGHTS

(\$ in millions)

Financial and Operations Data	2022	2021	2020
Revenues	\$ 255.7	\$ 126.6	\$ 122.3
Cost of Goods Sold	\$ 226.1	\$ 140.4	\$ 104.2
Net (Loss) Income	\$ (0.7)	\$ (50.7)	\$ 38.0
Contribution Margin <sup>(1)</sup>	\$ 54.6	\$ 10.5	\$ 39.1
Adjusted EBITDA <sup>(1)</sup>	\$ 29.3	\$ (30.5)	\$ 20.5
Free Cash Flow <sup>(1)</sup>	\$ (13.9)	\$ 21.2	\$ 16.9
Volumes sold (thousands of tons)	4,333	3,189	1,886
Balance Sheet Data			
Total Assets	\$ 360.0	\$ 374.0	\$ 427.7
Long-Term Debt	\$ 9.8	\$ 15.4	\$ 22.4
Total Liabilities	\$ 116.5	\$ 132.9	\$ 138.9
Total Stockholders' Equity	\$ 243.5	\$ 241.1	\$ 288.8

## OUR COMPANY

We are a fully integrated frac and industrial sand supply and services company. We offer complete mine to wellsite proppant supply and logistics solutions to our frac sand customers. We produce low-cost, high quality Northern White sand, which is a premium sand used as proppant to enhance hydrocarbon recovery rates in the hydraulic fracturing of oil and natural gas wells and for a variety of industrial applications. We also offer proppant logistics solutions to our customers through our in-basin transloading terminals and our SmartSystems™ wellsite proppant storage capabilities. In late 2021, we created our Industrial Products Solutions (“IPS”) business in order to diversify our customer base and markets we serve by offering sand for industrial uses. We market our products and services to oil and natural gas exploration and production companies, oilfield service companies and industrial manufacturers. We sell our sand through long-term contracts or spot sales in the open market. We provide wellsite proppant storage solutions services and equipment under flexible contract terms custom tailored to meet the needs of our customers. We believe that, among other things, the size and favorable geologic characteristics of our sand reserves, the strategic location and logistical advantages of our facilities, our proprietary SmartDepot™ portable wellsite proppant storage silos, SmartPath™ transloader, access to all Class I rail lines, and the industry experience of our senior management team position us to be a highly attractive provider of sand and logistics services.

(1) Contribution margin, Adjusted EBITDA and Free Cash Flow are “Non-GAAP Financial Measures”. For an explanation of why we believe these financial measures are meaningful and reconciliations of these measures to the most directly comparable measures under generally accepted accounting principles, see the section entitled “Note regarding Non-GAAP Financial Measures” on page 56 of the Form 10-K included herewith.

## DEAR FELLOW SHAREHOLDERS,

2022 was a pivotal year for Smart Sand. We significantly improved our operating and financial performance over 2021 results while staying true to our core values of a strong balance sheet and efficient, low-cost operations with a continued commitment to high safety and environmental standards. We did this by:

- Increasing Frac Sand sales volumes at both our Oakdale and Utica mining and processing facilities;
- Improving the utilization and operating profitability of our last mile business;
- Establishing new product markets with our Industrial Products Solutions;
- Staying focused on being an efficient and low cost sand producer; and
- Remaining committed to low leverage levels.

We continue to execute our long-term strategy of providing sand and logistics services from the mine to the wellsite while broadening our product offering and customer base in the industrial sand market. We sold a record 4.3 million tons of sand in 2022 and believe we are in the early stages of a multi-year upcycle for our business. Our low leverage and financial discipline have allowed us to sustainably grow our business at a time when many of our peers have been scaling back or reorganizing. We took advantage of our financial strengths and operating focus on the Northern White sand market to acquire the Blair, Wisconsin mine and processing facilities from Hi-Crush. This facility was idle. We are in the process of bringing Blair online in 2023 to allow us entry into Canada, which is a growing and predominantly Northern White sand market.

Our primary focus is to continue to be the premier provider of Northern White sand for the hydraulic fracturing and industrial sand markets. With the acquisition of Blair, we believe we are now the second largest supplier of Northern White sand in North America. We now have direct access to four Class I rail lines, and efficient connections to all locations Class I rail lines in North America. We operate three in-basin terminals and have access to a broad network of third-party terminals. We also provide efficient and cost-effective wellsite sand storage and management with our SmartSystems equipment and services. We believe we have created one of the most efficient logistics services for delivering Northern White sand to the market.

The key markets that we serve today are the Marcellus and Utica basins in the northeastern United States, the Bakken basin in North Dakota, the operating basins in Colorado and Wyoming and now the operating basins in Western Canada. We strongly believe that our high-quality Northern White sand leads to better long-term well results and outperforms regional sand in nearly every measurable way, most importantly in crush strength and conductivity. Northern White sand continues to be the frac sand of choice in the Bakken, Marcellus and Utica basins and we believe that there remains a value proposition in the other operating basins, such as the Eagle Ford and Permian basins in Texas and New Mexico. Recent studies by Rystad Energy have shown that the use of high quality Northern White sand can lead to better long term well results than using lesser quality regional sand.

While the Permian and other operating basins in Texas, Oklahoma and New Mexico are currently still primarily supplied by regional sand suppliers, long term well performance in these basins continues to deteriorate and we believe some producers in these markets may start to look to start using Northern White sand again. Smart Sand doesn't need to sell into these basins to be successful, but they offer us incremental opportunities to expand the markets we serve.

## FINANCIAL STRENGTH

Smart Sand remains focused on increasing our operating cash flow and maintaining low debt levels. In 2022, while managing increased working capital demand due to our increased sales activity, we generated \$5.4 million in net cash provided by operating activities and reduced our debt levels by approximately \$7.3 million. Over the last three years, we have reduced our debt levels by \$18.4 million.

## SHAREHOLDER VALUE

We remain committed to creating long term value for our shareholders. With that in mind, we recently repurchased approximately 5.18 million common equity shares from Clearlake Capital Group which represented approximately 11.3% of our outstanding shares. This transaction demonstrates our continued commitment to deliver long-term value to our shareholders. We believe this repurchase of Clearlake's equity position demonstrates our focus on shareholder returns and is a beneficial investment in the future of Smart Sand. We will continue to strive to create long-term value for our shareholders through improving financial operating performance.



## STRONG COMMITMENT TO SAFETY AND ENVIRONMENTAL PERFORMANCE

At Smart Sand, safety is our first priority. We prioritize safety and environmental stewardship for the betterment of our employees and the communities in which we operate. With respect to safety, we work collaboratively with our employees to identify and minimize workspace hazards to contribute to a safe and healthy workplace.

As to the environment, we strive to find ways to reduce our negative impact on the land, air, waste, and atmosphere in the communities where we operate. We are members of the Wisconsin Green Tier program, a marquee public/private partnership, under which the Wisconsin Department of Natural Resources worked with us on a plan to meet applicable legal requirements and to improve our facility from an environmental perspective. We continue to work to protect wetlands, reduce usage and impacts of heavy equipment, reduce fuel usage of equipment and vehicles and define best practices for onsite water management. Sustainability has always been part of the Smart Sand story and we continue to identify new opportunities for improvement.

We believe our products and services provide our customers with a more efficient and environmentally friendly solution to meet their frac sand needs for the completion of oil and gas wells in North America. We believe that to reduce truck traffic, accidents and emissions, bulk commodities, like frac sand, should move by rail to terminals that are close to completions activity. Our assets are uniquely situated to accomplish this. By utilizing high-quality Northern White sand that is delivered in bulk by rail in close proximity to drilling locations, oil and gas producers can greatly reduce the number of trucks being utilized to deliver sand to the wellsite. We believe that this will reduce overall carbon emissions through less truck traffic while also leading to a safer environment in the surrounding communities by reducing the number of trucks on the road.

Additionally, our SmartSystems provide a more efficient option at the wellsite for the delivery and storage of frac sand which leads to less truck traffic as well.





We are proud of our performance in 2022. We believe that we are well positioned to compete effectively in the frac sand and industrial sand markets. By working with our railroad partners and utilizing our network of in-basin terminals, combined with our SmartSystems wellsite storage solutions, we believe that we provide our customers sustainable, efficient and cost-effective frac sand and logistics services. Sand is an integral part of the completion process, and we are well positioned to continue to be a leading provider of high quality Northern White sand to the marketplace. Our sand is also well suited to meet industrial sand applications and we will continue to look for ways to expand our market share in the industrial sand markets.

In a commodity business, there will invariably be up and down cycles. Therefore, we will continue to be focused on being a low-cost producer with a strong balance sheet that will allow us to operate through any market cycle. We believe we can continue to deliver positive long-term operating results while staying true to our core principles of safely and efficiently providing and delivering high-quality Northern White sand to the market. We are excited for the future of Smart Sand and believe that we will continue to be the model for long-term success in our industry.

Sincerely,

Charles E. Young  
Chief Executive Officer



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smartsand®

2022  
Form 10-K



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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the Annual Period Ended December 31, 2022  
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)

28420 Hardy Toll Road, Suite 130  
Spring, Texas 77373  
(Address of principal executive offices)

(281) 231-2660  
(Registrant's telephone number)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	SND	The Nasdaq Global Select Market

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. Yes  No

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

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

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

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

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

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

As of June 30, 2022, the last business day of the registrant's second fiscal quarter of 2022, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$48,823,668 based on the closing price of \$2.00 per share, as reported on NASDAQ on that date.

Number of shares of common shares outstanding, par value \$0.001 per share as of February 21, 2023 was 45,831,269.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's proxy statement for the 2023 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2022.

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## Certain Definitions

The following definitions apply throughout this annual report unless the context requires otherwise:

“We”, “Us”, “Company”, “Smart Sand” or “Our”	Smart Sand, Inc., a company organized under the laws of Delaware, and its subsidiaries.
“shares”, “stock”	The common stock of Smart Sand, Inc., nominal value \$0.001 per share.
“ABL Credit Facility”, “ABL Credit Agreement”, “ABL Security Agreement”	The five-year senior secured asset-based lending credit facility (the “ABL Credit Facility”) pursuant to: (i) an ABL Credit Agreement, dated December 13, 2019, between the Company, and Jefferies Finance LLC (the “ABL Credit Agreement”); and (ii) a Guarantee and Collateral Agreement, dated December 13, 2019, between the Company and Jefferies Finance LLC, as agent (the “Security Agreement”).
“Oakdale Equipment Financing”, “MLA”	The five-year Master Lease Agreement, dated December 13, 2019, between Nexseer Capital (“Nexseer”) and related lease schedules in connection therewith (collectively, the “MLA”). The MLA is structured as a sale-leaseback of substantially all of the equipment at the Company’s mining and processing facility located near Oakdale, Wisconsin. The Oakdale Equipment Financing is considered a lease under article 2A of the Uniform Commercial Code but is considered a financing arrangement (and not a lease) for accounting or financial reporting purposes.
“Exchange Act”	The Securities Exchange Act of 1934, as amended.
“Securities Act”	The Securities Act of 1933, as amended.
“FASB”, “ASU”, “ASC”, “GAAP”	Financial Accounting Standards Board, Accounting Standards Update, Accounting Standards Codification, Accounting Principles Generally Accepted in the United States, respectively.

## Disclaimer Regarding Forward-looking Statements and Risk Factor Summary

This Annual Report on Form 10-K contains forward-looking statements that are subject to risks and uncertainties. All statements other than statements of historical fact included in this Annual Report on Form 10-K are forward-looking statements. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as “anticipate”, “estimate”, “expect”, “project”, “plan”, “intend”, “believe”, “may”, “will”, “should”, “can have”, “likely” and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. For example, all statements we make relating to our estimated and projected costs, expenditures, cash flows, growth rates and financial results, our plans and objectives for future operations, growth or initiatives, strategies or the expected outcome or impact of pending or threatened litigation are forward-looking statements. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those expected, including without limitation:

- fluctuations in demand for frac sand;
- the cyclical nature of our customers’ businesses;
- operating risks that are beyond our control, such as changes in the price and availability of transportation, natural gas or electricity; unusual or unexpected geological formations or pressures; pit wall failures or rock falls: or unanticipated ground, grade or water conditions;
- our dependence on our Oakdale mine and processing facility for a significant portion of our current sales;
- decreased usage of rail terminals that we operate;
- the level of activity in the oil and natural gas industries;
- the development of either effective alternative proppants or new processes to replace hydraulic fracturing;
- increased competition from new or existing sources of sand supply, including frac sand mines in locations located close to, or within, the oil and gas basins;
- federal, state and local legislative and regulatory initiatives relating to hydraulic fracturing and the potential for related regulatory action or litigation affecting our customers’ operations, including restrictions on oil and gas development and possible bans on hydraulic fracturing;
- potential negative litigation outcomes;
- scarcity of supplies necessary to run our business;
- barriers to entry in the industrial sand market;
- actions by the Organization of the Petroleum Exporting Countries or Russia;
- our rights and ability to mine our properties and our renewal or receipt of the required permits and approvals from governmental authorities and other third parties;
- our ability to successfully compete in the frac and industrial sand market;
- loss of, or reduction in, business from our largest customers;
- increasing costs or a lack of dependability or availability of transportation services and transload network access or infrastructure, including the potential impact of train derailments;
- increases in the prices of, or interruptions in the supply of, natural gas, electricity, diesel fuel, propane, or any other energy sources;
- loss of or diminished access to water;
- our ability to successfully complete acquisitions or integrate acquired businesses;
- our ability to fully protect our intellectual property rights;



- our ability to make capital expenditures to maintain, develop and increase our asset base and our ability to obtain needed capital or financing on satisfactory terms;
- restrictions imposed by our indebtedness on our current and future operations;
- border restrictions;
- global pandemics, including the ongoing coronavirus (“COVID-19”) pandemic;
- contractual obligations that require us to deliver minimum amounts of frac sand or purchase minimum amounts of products or services;
- the accuracy of our estimates of mineral reserves and resource deposits;
- a shortage of skilled labor and rising costs in the frac sand mining and manufacturing industries;
- our ability to attract and retain key personnel;
- our ability to maintain satisfactory labor relations;
- our ability to maintain effective quality control systems at our mining, processing and production facilities and rail terminals;
- seasonal and severe weather conditions;
- the results of political and civil unrest;
- fluctuations in our sales and results of operations due to seasonality and other factors;
- interruptions or failures in our information technology systems, including cyber-attacks;
- the impact of international or domestic terrorism or an armed conflict, including the conflict in Ukraine;
- extensive and evolving environmental, mining, health and safety, licensing, reclamation and other regulation (and changes in their enforcement or interpretation);
- silica-related health issues and corresponding litigation;
- our ability to acquire, maintain or renew financial assurances related to the reclamation and restoration of mining property; and
- other factors disclosed in Item I A. “Risk Factors” and elsewhere in this Annual Report on Form 10-K.

We derive many of our forward-looking statements from our operating budgets and forecasts, which are based on many assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. The risk factors summarized below could materially harm our business, operating results and/or financial condition, impair our future prospects and/or cause the price of our common stock to decline. These risks are discussed more fully under Item 1A, “Risk Factors” and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Annual Report on Form 10-K. Material risks that may affect our business, operating results and financial condition include, but are not necessarily limited to, the following:

- our business and financial performance depend on the level of activity in the oil and natural gas industry;
- a material portion of our revenues have been generated from sales with a limited number of customers;
- we are exposed to the credit risk of our customers;
- our proppant sales are subject to fluctuations in market pricing;
- we face significant competition that may cause us to lose market share;
- we may be required to make substantial capital expenditures to maintain and grow our asset base and we may not realize enough of a return on such capital expenditures to cover their costs;

- the inability to obtain needed capital or financing on satisfactory terms, or at all;
- inaccuracies in estimates of volumes and qualities of our sand reserves could result in lower than expected sales and higher than expected cost of production;
- if we are unable to make acquisitions on economically acceptable terms, our future growth would be limited;
- restrictions in our ABL Credit Facility may limit our ability to capitalize on potential acquisitions and other business opportunities;
- we face distribution and logistical challenges in our business;
- we may be adversely affected by decreased demand for frac sand due to the development of effective alternative proppants or new processes to replace hydraulic fracturing;
- an increase in the supply of frac sand having similar characteristics as the frac sand we produce could make it more difficult for us to renew or replace our existing contracts on favorable terms, or at all;
- our long-term take-or-pay contracts may preclude us from taking advantage of increasing prices for frac sand or mitigating the effect of increased operational costs during the term of those contracts;
- our operations are subject to operational hazards and unforeseen interruptions for which we may not be adequately insured;
- our business relies significantly on railroads to deliver our products, and any delays in rail transportation could adversely impact our business.
- increases in the price or a significant interruption in the supply of natural gas, electricity or any other energy sources of which our production process consumes large amounts;
- increases in the price of diesel fuel could adversely affect our transportation costs;
- a facility closure entails substantial costs, and if we close our facility sooner than anticipated, our results of operations may be adversely affected;
- our operations are dependent on our rights and ability to mine our properties and on our having renewed or received the required permits and approvals from governmental authorities and other third parties;
- a shortage of skilled labor together with rising labor costs in the excavation industry, which may further increase operating costs;
- our business may suffer if we lose, or are unable to attract and retain, key personnel;
- failure to maintain effective quality control systems at our mining, processing and production facilities;
- seasonal and severe weather conditions;
- our cash flow fluctuates on a seasonal basis;
- we do not own the land on which our rail terminals facilities are located;
- a terrorist attack or armed conflict;
- diminished access to water;
- we may be subject to interruptions or failures in our information technology systems, including cyber-attacks;
- if we are unable to fully protect our intellectual property rights, we may suffer a loss in our competitive advantage;
- we may be adversely affected by disputes regarding intellectual property rights of third parties;
- we currently rely on a limited number of suppliers for certain equipment and materials to build our SmartSystems, and our reliance on a limited number of suppliers for such equipment and materials exposes us to risks including price and timing of delivery;



- unsatisfactory safety performance may negatively affect our customer relationships and cause us to fail to retain existing customers or attract new customers;
- we may be subject to legal claims, such as personal injury and property damage;
- a financial downturn could negatively us;
- our future results will suffer if we do not effectively manage our expanded operations;
- federal, state and local legislative and regulatory initiatives or mandates relating to hydraulic fracturing, such as oil and gas leasing moratoriums, and the potential for related litigation could result in increased costs, additional operating restrictions or delays for our customers, which could cause a decline in the demand for our frac sand or restrict our ability to maximize profits;
- we and our customers are subject to extensive regulations, including environmental and occupational health and safety regulations, that impose, and will continue to impose, significant costs and liabilities, and future regulations, or more stringent enforcement of existing regulations, could increase those costs and liabilities;
- we are subject to the Federal Mine Safety and Health Act of 1977, which imposes stringent health and safety standards on numerous aspects of our operations;
- our inability to acquire, maintain or renew financial assurances related to the reclamation and restoration of mining property; and
- climate change legislation and regulatory initiatives could negatively affect our business.

All written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements as well as other cautionary statements that are made from time to time in our other filings with the Securities and Exchange Commission (the “SEC”) and public communications. You should evaluate all forward-looking statements made in this Annual Report on Form 10-K in the context of these risks and uncertainties.

We caution users of the financial statements that the important factors referenced above may not contain all of the factors that may be important to every user. In addition, we cannot make assurances that we will realize the results or developments we expect or anticipate or, even if substantially realized, that they will result in the consequences or affect us or our operations in the way we expect. The forward-looking statements included in this Annual Report on Form 10-K are made only as of the date hereof. We undertake no obligation to update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

## PART I

### ITEM 1. — BUSINESS

#### The Company

We are a fully integrated frac and industrial sand supply and services company. We offer complete mine to wellsite proppant supply and logistics solutions to our frac sand customers. We produce low-cost, high quality Northern White sand, which is a premium sand used as proppant used to enhance hydrocarbon recovery rates in the hydraulic fracturing of oil and natural gas wells and for a variety of industrial applications. We also offer proppant logistics solutions to our customers through our in-basin transloading terminals and our SmartSystems™ wellsite proppant storage capabilities. In late 2021, we created our Industrial Products Solutions (“IPS”) business in order to diversify our customer base and markets we serve by offering sand for industrial uses. We market our products and services to oil and natural gas exploration and production companies, oilfield service companies and industrial manufacturers. We sell our sand through long-term contracts or spot sales in the open market. We provide wellsite proppant storage solutions services and equipment under flexible contract terms custom tailored to meet the needs of our customers. We believe that, among other things, the size and favorable geologic characteristics of our sand reserves, the strategic location and logistical advantages of our facilities, our proprietary SmartDepot™ portable wellsite proppant storage silos, SmartPath™ transloader, access to all Class I rail lines, and the industry experience of our senior management team make us as a highly attractive provider of sand and logistics services.

We incorporated in Delaware in July 2011 and began operations at our Oakdale, Wisconsin facility with 1.1 million tons of annual processing capacity in July 2012. Through multiple expansions at Oakdale and the acquisition of the Utica, Illinois facility in September 2020, the Company has current annual processing capacity of approximately 7.1 million tons. With the acquisition of the Blair, Wisconsin mine and processing facility in March 2022, which is currently idled, we have the ability to expand to approximately 10.0 million tons. The Company is in the process of restarting the Blair facility and believes that it will be operational in the second quarter of 2023.

In September 2020, we acquired from Eagle Materials Inc., a Delaware corporation (“Eagle”), all of the issued and outstanding interests in Eagle Oil and Gas Proppants Holdings LLC, a Delaware limited liability company and wholly-owned subsidiary of Eagle (“Eagle Proppants Holdings”). The primary assets of Eagle Proppants Holdings and its subsidiaries include two frac sand mines and related processing facilities. The Utica, Illinois mine, which has approximately 128 million tons of proven and probable recoverable reserves as of December 31, 2022, annual processing capacity of 1.6 million tons and access to the BNSF Class I rail line through the Peru, Illinois transload facility. We began operating the Utica, Illinois mine and Peru, Illinois transload facility in October 2020. The acquisition also included rights to use a rail terminal located in El Reno, Oklahoma.

On March 4, 2022, we entered into a Membership Interest Purchase Agreement (the “Purchase Agreement”) with Hi-Crush Inc., a Delaware corporation (“HCR”), and Hi-Crush Blair LLC, a Delaware limited liability company and wholly-owned subsidiary of HCR (“Blair”) pursuant to which we acquired all of the issued and outstanding limited liability company interest of Blair from HCR for aggregate cash consideration of approximately \$6.5 million, subject to customary working capital adjustments. The primary assets of Blair consist of an idle frac sand mine and related processing facility located in Blair, Wisconsin. The Blair facility, once operational, will have approximately 2.9 million tons of total annual processing capacity and contains an onsite, unit train capable rail terminal with access to the Class 1 Canadian National Railway.

We have several in-basin rail terminals. We directly control three in-basin transloading facilities and have access to third party transloading terminals in all operating basins. We operate a unit train capable transloading terminal in Van Hook, North Dakota to service the Bakken Formation in the Williston Basin. We operate this terminal under a long-term agreement with Canadian Pacific Railway. We have been providing Northern White Sand in-basin to our customers since the Van Hook terminal became operational in April 2018. This terminal allows us to offer more efficient delivery options to customers operating in the Bakken Formation in the Williston Basin. In 2020, as part of our acquisition of the Utica, Illinois mining facility, we obtained rights to use a rail terminal located in El Reno, Oklahoma. In January 2022, we began operations at an additional unit train capable transloading terminal in Waynesburg, Pennsylvania to service the Appalachian Basin, including the Marcellus and Utica Formations.

We also offer to our customers portable wellsite storage and management solutions through our SmartSystems products and services. Our SmartSystems provide our customers with the capability to unload, store and deliver proppant at the wellsite, as well as the ability to rapidly set up, takedown and transport the entire system. This capability creates efficiencies, flexibility, enhanced safety and reliability for customers. Through our SmartSystems wellsite proppant storage solutions, we offer the SmartDepot and SmartDepotXL™ silo systems, SmartPath transloader, and our rapid deployment trailers. Our SmartDepot

silos include passive and active dust suppression technology, along with the capability of a gravity-fed operation. Our self-contained SmartPath transloader is a mobile sand transloading system designed to work with bottom dump trailers and features a drive over conveyor, surge bin, and dust collection system, and we believe the system has the ability to keep up with any hydraulic fracturing operation. Our rapid deployment trailers are designed for quick setup, takedown and transportation of the entire SmartSystem, and detach from the wellsite equipment, which allows for removal from the wellsite during operation. We have also developed a proprietary software program, the SmartSystem Tracker™, which allows our SmartSystems customers to monitor silo-specific information, including location, proppant type and proppant inventory. We believe that our SmartSystems reduce trucking and related fuel consumption for our customers, helping them meet their goals to reduce their carbon footprint in their daily operations.

In late 2021, we started our IPS business whereby we offer our sand to customers for various industrial purposes, such as glass, foundry, building products, filtration, geothermal, renewables, ceramics, turf & landscape, retail, and recreation. While we are still in the early stages of this business, we believe that as it grows, it will provide us with the ability to diversify our sales into more stable, consumer-driven products to help mitigate price volatility in the oil and gas industry.

## **Market**

In recent years, the increasing supply of sand, particularly in-basin sand, relative to demand, has led to a continued volatility in frac sand prices. During most of 2020, demand for frac sand declined significantly as a result of decreased demand for oil and natural gas as a result of the ongoing effects of the coronavirus (“COVID-19”) pandemic, which caused a global decrease in all means of travel, the closure of borders between countries and a general slowing of economic activity worldwide. Activity in the oil and gas industry began to rebound in the fourth quarter of 2020 and through 2021 as the global distribution of COVID-19 vaccines ramped up and travel restrictions lessened. However, the prices of frac sand remained depressed during 2021 as supply remained out of balance with demand even though market activity was improving. Throughout 2022, supply and demand fundamentals have continued to improve and frac sand prices continued recovering from previous historic lows. In 2022, the ongoing conflict in Ukraine and economic actions taken by the United States and other countries in connection with such conflict have contributed to dramatic swings in oil and natural gas prices and significant volatility in the oilfield service sector. Additionally, continued high inflation and other economic factors could lead to a global economic recession that could have a negative impact on global oil and natural gas demand, which may lead to continued volatility in the oil field service sector. We cannot predict if positive pricing trends will continue or if sand prices will increase, decrease or stabilize.

Northern White frac sand, which is found predominantly in Wisconsin and limited portions of Minnesota, Illinois, and Missouri, is considered a premium proppant due to its favorable physical characteristics. While we anticipate that regional sand will continue to affect the demand for Northern White sand in some of the oil and natural gas producing basins in which we operate, we believe there will continue to be demand for our high-quality Northern White frac sand. In particular, we currently believe that Northern White frac sand has logistical advantages in the Marcellus, Bakken, and Canada basins. We expect demand for our frac sand to continue to be supported by customers who are focused on long-term well performance and ultimate recovery of reserves from the oil and natural gas wells they are completing as well as those interested in the efficiency of their logistics supply chain and delivery of sand to the wellsite. Additionally, we believe market trends continue to support increased proppant usage per well drilled due to operator focus on well efficiencies through increasing lengths of drilling laterals, use of simul-fracking techniques and other well enhancement strategies. Finally, we believe that the adoption of our SmartSystems provides improved efficiencies in shipping and storing sand at the wellsite through reduced trucking requirements, which removes traffic from the roads, lowers diesel fuel consumption, thereby providing incremental value to our customers by reducing their carbon emissions and meeting their ESG initiatives.

In late 2021, we expanded our product offering to provide IPS for our customers. We expect to continue to expand and diversify our customer base to serve the vital industrial markets throughout North America, including glass, foundry, building products, filtration, geothermal, renewables, ceramics, turf & landscape, retail, recreation and more.

## **Business Strategies**

Our principal business objective is to be the premier provider of sustainable Northern White Sand supply and logistics solutions to our customers. We do this through supporting our existing customers, expanding our market share, being a low-cost producer of high-quality Northern White Sand, maintaining low debt leverage and managing efficient and sustainable supply chain logistics from the mine to the wellsite. In late 2021, we began expanding our product line to offer IPS. We believe that by executing these business strategies, we will be able to increase long-term stockholder value. We expect to achieve this objective through the following business strategies:

- ***Diversifying our customer base to include Industrial Product Solutions.*** In late 2021, we expanded our product offering to provide IPS for industrial customers. We are in the early stages of the industrial sand business and expect

to expand and diversify to serve the vital industrial markets throughout North America, including glass, foundry, building products, filtration, geothermal, renewables, ceramics, turf & landscape, retail, recreation and more.

- ***Expanding and optimizing our existing logistics infrastructure and developing additional origination and destination points.*** We expect to continue to capitalize on our Oakdale facility's ability to ship on two Class I rail carriers to maximize our product shipment rates, increase our railcar utilization and lower our transportation costs. We have the ability to simultaneously accommodate multiple unit trains on-site with the Canadian Pacific rail network while also having the ability to ship our frac sand directly to our customers on a second Class I rail carrier through our transloading facility located on the Union Pacific rail network approximately three miles from our Oakdale facility. This access to two Class I rail carriers from Oakdale provides increased delivery options for our customers, greater competition between our rail carriers and potentially lower freight costs.

Our second mine at Utica, Illinois and related transloading terminal in Peru, Illinois added new origination and destination points to our existing capabilities and offers additional capability to ship products on a third Class I rail carrier, the BNSF.

On March 4, 2022, we entered into the Purchase Agreement with HCR to purchase their idled Blair frac sand mine and related processing facility located in Blair, Wisconsin, which contains an onsite, unit train capable rail terminal with access to the Class 1 Canadian National Railway. With this acquisition, we now have direct access to four Class I rail lines and the ability to access all Class 1 rail lines within the United States and Canada. We believe the Blair facility will be operational in the second quarter of 2023.

We operate a multi-unit train capable transloading terminal in Van Hook, North Dakota, which we believe allows us to be one of the most efficient and low-cost sources of frac sand in the Bakken Formation in the Williston Basin.

In September 2021, we acquired the rights to construct and operate another transloading terminal in Waynesburg, Pennsylvania to service the Appalachian Basin, including the Marcellus and Utica Formations. The Waynesburg terminal became operational in January 2022. We believe the Waynesburg terminal will allow us to be one of the most efficient and low-cost sources of frac sand in the Appalachian Basin.

Additionally, our SmartSystems wellsite storage and proppant management systems allows us to offer expanded logistics services to our customers. We believe that our SmartSystems reduce trucking and related fuel consumption for our customers, helping them meet their goals to reduce their carbon footprint in their daily operations.

The benefits of our long-term growth strategy for in-basin delivery of sand include expanding our customer base by marketing through our own terminals, more opportunity for spot sales by forward deploying sand and the opportunity to capture incremental margin on the sale of sand farther down the supply chain by managing the cost of rail, terminal and wellsite storage operations. Additionally, having a presence in-basin gives us an opportunity to have a base of operations from which to market and support our SmartSystems wellsite proppant storage solutions. Through the expansion of our SmartSystems fleet and addition of new origination and destination options, we continue evaluating ways to reduce the landed cost of our products in-basin and to the wellsite for our customers while increasing our customized service offerings to provide our customers with additional delivery and pricing alternatives.

- ***Focusing on organic growth by increasing the utilization of our mine and frac sand processing facilities.*** We intend to continue pursuing opportunities to maximize the value and the utilization of our Oakdale and Utica facilities through the addition of new customers and increased sales volumes. Despite the emergence of regional sand in oil and natural gas producing basins, we believe the proppant market continues to offer attractive long-term growth fundamentals for Northern White frac sand in the key operating basins we currently serve due to the logistics advantages in these basins and its superior well results compared to regional sand alternatives. We believe that coupling our premium proppant with long-term sustainable logistics supply services may mitigate the potential cost savings of using regional sand.

Demand for frac sand increased during 2022, from the all-time lows in 2020, following the decline in demand for oil driven primarily by reduced demand as a result of the COVID-19 pandemic. According to Spears and Associates, Inc. ("Spears"), North America proppant demand increased by 25% in 2022 compared to 2021, mirroring an improving hydraulic fracturing market. Oil and gas prices are currently expected to stay at elevated levels in 2023, relative to historical prices, which should translate into higher drilling and completions activity. These improved market fundamentals should lead to improved proppant demand over the course of 2023.



- **Focusing on being a low-cost provider and continuing to make process improvements.** We continue to focus on being a low-cost provider, which we believe will allow us to compete effectively for sales of frac sand and to achieve attractive operating margins. Our low-cost structure results from a number of key attributes, including, among others, our (i) relatively low royalty rates, (ii) majority of fine mineral reserve deposits, (iii) our facilities access to all Class I rail lines within the United States and Canada, and (iv) our low levels of debt. We have strategically designed our operations to provide for low-cost production, including having dryers and wet plants enclosed in our Oakdale and Utica processing facilities that allow for year-round operation at both facilities. This allows us to more efficiently match our wet sand production with our drying capacity and to better utilize our workforce with a goal to reduce the overall cost of production. We continue to invest in capital projects and consider strategic acquisitions that increase efficiencies and offer the opportunity for a high return on investment. In addition, we seek to maximize our mining yields on an ongoing basis by targeting sales volumes that more closely match our reserve gradation in order to minimize waste in our processing. We also continue to evaluate other mining techniques to reduce the overall cost of our mining operations.
- **Creating flexible sales activities.** We believe that demand for our products will remain strong in basins where regional sand is not an attractive alternative due to the logistics and performance advantages of Northern White Sand, such as the Bakken in North Dakota, and the Marcellus and Utica formations in the Northeast region of the United States. We continue to have discussions with operators in these regions regarding new relationship and growth opportunities. We also believe that the long-term benefits of high quality Northern White sand outweighs the short-term cost savings provided by regional sand in the Permian, Eagle Ford and SCOOP/STACK basins. We believe there are additional opportunities for customers in the Permian and other basins, which have regional supply, who are focused on the long-term performance of their production and on the long-term efficiency of their logistics.

While we continue to look for long-term contract opportunities, we intend to increase focus on shorter term contracts and increase sales in the spot market given the reluctance of our customers to enter into long-term take-or-pay contracts in the current market environment. Having a greater portion of our activity on spot or short-term contracts allows us the opportunity to take advantage of pricing improvements quickly should market fundamentals improve.

## Competitive Strengths

We believe that we will be able to successfully execute our business strategies because of the following competitive strengths:

- **Long-lived, strategically located, high-quality reserve base.** We believe our three frac sand mines in Oakdale, Wisconsin, Utica, Illinois and Blair, Wisconsin have a uniquely desirable combination of a large high-quality reserves of fine mesh sand that is contiguous to their production with either on-site or close proximity to primary rail loading facilities. As of December 31, 2022, we have an estimated life of mine of approximately 62 years at Oakdale, 107 years at Utica, and 46 years at Blair, based on our current expected sales volumes. With the acquisition of the Blair, Wisconsin mine and processing facility, which is currently idled but which we expect to start operating in the second quarter of 2023, we have the ability to expand our total annual processing capacity to approximately 10.0 million tons.

We believe our reserve base positions us well to take advantage of current market trends of increasing demand for finer mesh frac sand. We also believe that having our mine, processing facilities and primary rail loading facilities in close proximity provides us with an overall low-cost structure, which enables us to compete effectively for sales of Northern White frac sand and to achieve attractive operating margins.

- **Intrinsic logistics advantage.** We believe that we are one of the few frac sand producers with a facility custom-designed for the specific purpose of delivering frac sand to all of the major U.S. oil and natural gas producing basins by an on-site rail facility that can simultaneously accommodate multiple unit trains. Our on-site transportation assets at Oakdale include approximately nine miles of rail track in a triple-loop configuration and four railcar loading facilities that are connected to a Class I rail line owned by Canadian Pacific. We believe our customized on-site logistical configuration yields lower operating and transportation costs compared to manifest train or single-unit train facilities as a result of our higher railcar utilization, more efficient use of locomotive power and more predictable movement of product between mine and destination. In addition, we have a transload facility on a Class I rail line owned by Union Pacific in Byron Township, Wisconsin, approximately three miles from the Oakdale facility. This transload facility, which is also capable of handling multiple unit trains simultaneously, allows us to ship sand directly from Oakdale to our customers on more than one Class I rail carrier.

Our Utica mine and related Peru transloading terminal in Illinois adds significant quality reserves and logistics assets that further increase our logistics advantage by providing access to another Class I rail line through our owned,

multiple unit train capable Peru transload facility with direct access to the BNSF rail line. These additional logistics options give us greater access to operating basins in the Western United States allowing us to offer more competitive pricing to existing and new customers in these markets.

The addition of the Blair frac sand mine and related processing facility located in Blair, Wisconsin, which contains an onsite, unit train capable rail terminal with access to the Class 1 Canadian National Railway, has secured our access to provide sand on all Class I rail lines in the United States and Canada.

- **Expanded logistics solutions.** Our transloading terminal in Van Hook, North Dakota is capable of handling multiple unit trains simultaneously, and we have been providing in-basin sand at this terminal to our customers since operations began in 2018. This terminal has allowed us to expand our customer base and to offer more efficient delivery options to customers operating in the Bakken Formation in the Williston Basin.

In January 2022 we began operating the terminal in Waynesburg, Pennsylvania to service the Appalachian Basin, including the Marcellus and Utica Formation. We believe the Waynesburg terminal will allow us to be one of the most efficient and low-cost sources of frac sand in the Appalachian Basin.

We also operate a terminal located in El Reno, Oklahoma, to serve the Woodford and SCOOP/STACK Basins, which we acquired in 2020.

Our SmartSystems wellsite proppant storage and management products provide our customers with the capability to unload, store and deliver proppant at the wellsite, as well as the ability to rapidly set up, takedown and transport the entire system. This capability creates efficiencies, flexibility, enhanced safety and reliability for customers. Through our SmartSystems wellsite proppant storage solutions we offer the SmartDepot and SmartDepotXL silo systems, SmartPath transloader, and our rapid deployment trailers. We believe that our SmartSystems reduce trucking and related fuel consumption for our customers, helping them meet their goals to reduce their carbon footprint in their daily operations. We have also developed a proprietary software program, the SmartSystem Tracker, which allows our SmartSystems customers to monitor silo-specific information, including location, proppant type and proppant inventory.

We are capable of delivering sand to any onshore operating basin in the United States and Canada. We have direct access to four Class I rail lines in North America and indirect access to all Class I rail lines, which gives us superior advantage over many of our competitors by allowing us to offer more competitive pricing and delivery options to our customers.

- **Sufficient liquidity and financial flexibility.** We believe we have sufficient liquidity to support our operations and pursue our growth initiatives. As of December 31, 2022, we had cash on hand of \$5.5 million. Further, we have a \$20 million senior secured asset-based lending credit facility with Jefferies Finance LLC, under which we had undrawn availability of \$19.0 million as of December 31, 2022 and no outstanding borrowings. The available borrowing amount under the ABL Credit Facility is based on the Company's eligible accounts receivable and inventory. The ABL Credit Facility matures on December 13, 2024. Our total available liquidity among cash and available borrowings was \$24.5 million as of December 31, 2022.
- **Experienced management team.** The members of our senior management team bring significant experience to the market environment in which we operate. Their expertise covers a range of disciplines, including industry-specific operating and technical knowledge and experience managing businesses in a variety of operating conditions.
- **Focus on safety and environmental stewardship.** We are committed to maintaining a culture that prioritizes safety, the environment and our relationship with the communities in which we operate, actions we believe are critical to the success of our business. We are a Tier 1 participant in The Wisconsin Department of Natural Resources' Green Tier program, which encourages, recognizes and rewards companies for voluntarily exceeding environmental, health and safety legal requirements. Since 2016, Smart Sand has maintained International Organization for Standardization ("ISO") ISO 9001 and ISO 14001 registrations for our quality management system and environmental management system programs, respectively, for our Oakdale facility. We earned initial ISO 9001 registration for our Utica, IL facility in 2022. We also have attained Green Professional status in Wisconsin's Green Master sustainability recognition program. We are one of a select group of companies who are members of the Wisconsin Industrial Sand Association, which promotes safe and environmentally responsible sand mining standards.

## **Our Customers**

Our core customers are oil and natural gas exploration and production and oilfield service companies. In late 2021, we began diversifying our sand sales to include IPS to customers. While sales of IPS to customers were a small portion of our overall sand sales in 2022, we intend to increase our focus on IPS in 2023 and going forward. We sell frac sand under long-term take-or-pay contracts as well as in the spot market, and provide proppant logistics solutions through our in-basin transloading terminals and SmartSystems wellsite proppant storage solutions and other logistics services.

Generally, customers under long-term take-or-pay contracts are required to take minimum volumes of sand or make shortfall payments for a specified period of time. We recognize revenue in our results of operations in the period in which the obligation becomes due.

In the current market, many of our customers are disinclined to enter into long-term contracts for their frac sand supply and have instead purchased their frac sand supply in the spot market or under short-term contractual arrangements at market prices. Should our customer base continue to limit their exposure to longer term contracts, we will continue to focus on shorter term contracts and increasing sales in the spot market.

Customers renting SmartSystems are able to tailor the contract, including adjusting the number of SmartDepot silos and SmartPath transloaders to be supplied, to meet their short-term and long-term needs. We recognize rental revenue when the equipment is made available for the customer to use or other obligations in the contract are met.

For the year ended December 31, 2022, Equitable Gas Corporation, Halliburton Energy Services, Encino Energy, and Liberty Oilfield Services accounted for 22.3%, 15.4%, 14.4%, and 13.7%, respectively, of total revenue, and the remainder of our revenues were from 63 customers. For the year ended December 31, 2021, Equitable Gas Corporation, Halliburton Energy Services, and Liberty Oilfield Services accounted for 24.3%, 18.3%, and 14.8%, respectively, of our total revenues, and the remainder of our revenues were from 20 customers. For the year ended December 31, 2020, Equitable Gas Corporation, Liberty Oilfield Services, and U.S. Well Services accounted for 28.1%, 21.7% and, 14.0%, respectively, of our total revenues, and the remainder of our revenues were from 20 customers. Please read “Risk Factors—Risks Inherent in Our Business—A substantial majority of our revenues have been generated under contracts with a limited number of customers, and the loss of, material nonpayment or nonperformance by or significant reduction in purchases by any of them could adversely affect our business, results of operations and financial condition.”

## **Capital Plans**

We expect 2023 capital expenditures to be between \$20.0 million and \$25.0 million, consisting primarily of capital for efficiency projects at Oakdale, Utica and our in-basin terminals, investments in our facilities to support incremental IPS activity and capital to bring the Blair mine and processing facility online over the course of the year. We expect to fund these capital expenditures with existing cash, cash generated from operations, or borrowings under the ABL Credit Facility or other financing sources, such as equipment finance providers.

## **Industry Trends Impacting Our Business**

Unless otherwise indicated, the information set forth under this section, including all statistical data and related forecasts, is derived from Spears’ “Proppant Market Report with Frac Market Overview - Q4 2022” published in the first quarter of 2023. While we are not aware of any misstatements regarding the proppant industry data presented herein, estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed under the heading “Risk Factors.”

## **Demand Trends**

According to Spears, the North American proppant market, including frac sand, ceramic and resin-coated proppant, was approximately 128 million tons in 2022, which is approximately a 25% increase from the 102 million tons Spears reported for 2021. Spears estimates that 2023 demand will increase to approximately 154 million tons, which is an approximate 21% increase over 2022.

## **Supply Trends**

There has been consolidation activity including mergers, acquisitions, closures of mines and bankruptcy filings among our peers. Additional consolidation activity is expected in 2023 in the mining, transloading and logistics businesses. According to the Spears, local supply in the Permian Basin market is less than forecasted demand in 2023, which may require additional Northern White Sand in the Permian Basin.

Supplies of high-quality Northern White frac sand are limited to select areas, predominantly in western Wisconsin and limited areas of Minnesota and Illinois. We believe the ability to obtain large contiguous reserves in these areas is a key constraint and can be an important supply consideration when assessing the economic viability of a potential frac sand processing facility. Further constraining the supply and throughput of Northern White frac sand is that not all of the large reserve mines have on-site excavation, processing or logistics capabilities, which impact the long-term competitiveness of these mines due to lower efficiency and higher cost structures. Historically, much of the capital investment in Northern White frac sand mines was used for the development of coarser deposits in western Wisconsin, which is inconsistent with the increasing demand for finer mesh frac sand in recent years. As such, we've seen competitors in the Northern White frac sand market reduce their capacity by shuttering or idling operations as the shift to finer sands in hydraulic fracturing of oil and natural gas wells and to lower cost regional sand sources has eroded the ongoing economic viability of mines with coarser reserve deposits and inefficient mining and logistics facilities.

## **Environmental, Social & Governance**

In 2020, we refined our scope of setting a Company objective of adopting a formal Environmental, Social & Governance ("ESG") program. Smart Sand already has a strong record of environmental performance. In 2014, we joined the Wisconsin Green Tier program, a marquee public/private partnership, under which the Wisconsin Department of Natural Resources worked with us on a plan to meet applicable legal requirements and to improve our facility from an environmental perspective. In addition to documenting seven years of compliant operations, we have worked on, among other things, protecting wetlands, reducing usage and impact of heavy equipment, reducing fuel usage of equipment and vehicles and defining best practices for onsite water management. We are also a member of Wisconsin's sustainability initiative, Green Masters. As part of this program, we have completed a detailed survey of our sustainability and social responsibility activities and started the process of a complete carbon inventory. As a mining company, we invest and plan for reclamation, ensuring that the land is returned to beneficial use. Smart Sand has held ISO 9001/14001-2015 environmental and quality management systems for the past five years. Smart Sand is also a member of the Wisconsin Industrial Sand Association, a select group of mining companies focused on safety, environmental and public policy.

One of the goals of the United Nations' Paris Agreement is a carbon neutral world by the year 2050. We know that energy consumption is only one part of ethical operations and we will continue to work to manage our carbon footprint in an efficient and responsible manner. For additional information regarding the United Nations' Paris Agreement, see "Item 1A Risk Factors-Risks Related to Environmental, Mining and Other Regulation-Climate change legislation and regulatory initiatives could result in increased compliance costs for us and our customers."

We provide social value through our excellent employment opportunities. Our first priority is keeping our employees safe, which we accomplish through daily training and inspections. Our business supports hundreds of families and we are proud to offer rewarding and interesting work with competitive compensation and benefits. We promote from within, provide continuous training, hire with a passion for diversity and provide every employee with the opportunity to participate in retirement plans and ownership of the Company. Smart Sand is an active charitable partner in the communities in which it operates, making both financial and time investments in those communities.

Sustainability has always been part of the Smart Sand story, but we are looking forward to evaluating what we have done and identifying improvement opportunities. We are embracing this growing movement and designing an area in our website to articulate our ESG goals and report on our performance.

## **Permits**

We operate in a highly regulated environment overseen by many governmental regulatory and enforcement bodies at the local, state and federal levels. To conduct our operations, we are required to have obtained permits and approvals that address environmental, land use and safety issues at our operating facilities. Our current and planned areas for excavation at our mining facilities are permitted for extraction of our proven reserves. Portions of our facilities lie in areas designated as wetlands, which will require additional local, state and federal permits prior to mining and reclaiming those areas.

We also must meet requirements for certain international standards concerning safety, greenhouse gases and rail operations. We have voluntarily agreed to meet the standards of the Wisconsin Department of Natural Resources' Green Tier program, the National Industrial Sand Association ("NISA") and the Wisconsin Industrial Sand Association. Further, for Oakdale, we have agreed to meet the standards required to maintain our ISO 9001-2015 and ISO 14001-2015 quality/environmental management system registrations. These voluntary requirements are tracked and managed along with our permits.

While resources invested in securing permits are significant, this cost has not had a material adverse effect on our results of operations or financial condition. We cannot ensure that existing environmental laws and regulations will not be reinterpreted



or revised or that new environmental laws and regulations will not be adopted or become applicable to us. Revised or additional environmental requirements that result in increased compliance costs or additional operating restrictions could have a material adverse effect on our business.

## **Competition**

The proppant industry is highly competitive. Please read “Risk Factors—Risks Inherent in Our Business—We face significant competition that may cause us to lose market share.” There are numerous large and small producers in all sand producing regions of North America with whom we compete, many of which also offer solutions for unloading, storing and delivering proppant to the wellsite. Our main competitors include Badger Mining Corporation, Hi-Crush, Inc., Covia Holdings Corporation, U.S. Silica Holdings, Inc., Capital Sand Company and Solaris Oilfield Infrastructure, Inc.

Although some of our competitors may have greater financial or natural resources than we do, we believe that we are well-positioned competitively due to our low cost of sand production, low debt levels, logistics infrastructure, high-quality, balanced reserve profile and patented SmartSystems wellsite proppant storage solutions, which offer numerous benefits over our competition. The most important factors on which we compete are our service capabilities, product quality, proven performance, sand characteristics, transportation capabilities, reliability of supply, price, logistics services and the performance of patented SmartSystems wellsite proppant storage solutions technology. Demand for frac sand and logistics solutions and the prices that we will be able to obtain for our products, to the extent not subject to a fixed price or take-or-pay contract, are closely linked to proppant consumption patterns for the completion of oil and natural gas wells in North America. These consumption patterns are influenced by numerous factors, including, among other things, the price for oil and natural gas and hydraulic fracturing activity, including the number of stages completed and the amount of proppant used per stage. Further, these consumption patterns are also influenced by the location, quality, price and availability of frac sand and other types of proppants such as resin-coated sand and ceramic proppant.

## **Seasonality**

Our business is affected to some extent by seasonal fluctuations in weather that impact the production levels for a portion of our wet sand processing capacity. While our dry plants are able to process finished product volumes evenly throughout the year, our excavation and our wet sand processing activities have historically been limited to primarily non-winter months. As a consequence, we have experienced lower cash operating costs in the first and fourth quarter of each calendar year, and higher cash operating costs in the second and third quarter of each calendar year when we overproduced wet sand to meet demand in the winter months. These higher cash operating costs are capitalized into inventory and expensed when these tons are sold, which can lead to us having higher overall costs in the first and fourth quarters of each calendar year as we expense inventory costs that were previously capitalized. However, we have enclosed, indoor wet plants at our Oakdale and Utica processing facilities, which allow us to produce wet sand inventory year-round to support a large portion of our dry sand processing capacity, which may reduce certain effects of this seasonality. We may also sell 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. Severe weather can also impact the rail lines which we utilize to ship our sand to our customers in the operating basins and as a result could lead to reduced sales volumes during such severe weather periods. For a discussion of the impact of weather on our operations, please read “Risk Factors—Seasonal and severe weather conditions could have a material adverse impact on our business, results of operations and financial condition” and “Risk Factors—Our cash flow fluctuates on a seasonal basis.”

## **Intellectual Property**

Our intellectual property primarily consists of trade secrets, know-how and trademarks. We own patents and have patent applications pending related to our SmartSystems wellsite proppant storage solutions. All of the issued patents have an expiration date after July 2030. With respect to our other products, we principally rely on trade secrets, rather than patents, to protect our proprietary processes, methods, documentation and other technologies, as well as certain other business information. For a discussion of the impact of our intellectual property, please read “Risk Factors—If we are unable to fully protect our intellectual property rights, we may suffer a loss in our competitive advantage” and “Risk Factors—We may be adversely affected by disputes regarding intellectual property rights of third parties.”

## **Insurance**

We believe that our insurance coverage is customary for the industry in which we operate and adequate for our business. As is customary in the proppant industry, we review our safety equipment and procedures and carry insurance against most, but not all, risks of our business. Losses and liabilities not covered by insurance would increase our costs. To address the hazards inherent in our business, we maintain insurance coverage that includes physical damage coverage, third-party general liability insurance, employer’s liability, business interruption, environmental and pollution and other coverage, although coverage for

environmental and pollution-related losses is subject to significant limitations. For additional discussion regarding our insurance, please read “Risk Factors—Our operations are subject to operational hazards and unforeseen interruptions for which we may not be adequately insured.”

### **Environmental and Occupational Health and Safety Regulations**

We are subject to stringent and complex federal, state, local and international laws and regulations governing the discharge of materials into the environment or otherwise relating to protection of worker health, safety and the environment. Compliance with these laws and regulations may expose us to significant costs and liabilities and cause us to incur significant capital expenditures in our operations. Any failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, imposition of remedial obligations, and the issuance of injunctions delaying or prohibiting operations. Private parties may also have the right to pursue legal actions to enforce compliance as well as to seek damages for non-compliance with environmental laws and regulations or for personal injury or property damage. In addition, the trend in environmental regulation is to place more restrictions on activities that may affect the environment, and thus, any changes in, or more stringent enforcement of, these laws and regulations that result in more stringent and costly pollution control equipment, the occurrence of delays in the permitting or performance of projects, or waste handling, storage, transport, disposal or remediation requirements could have a material adverse effect on our operations and financial position.

We do not believe that compliance by us with federal, state, local or international environmental laws and regulations will have a material adverse effect on our business, financial position or results of operations or cash flows. We cannot be assured, however, that future events, such as changes in existing laws or enforcement policies, the promulgation of new laws or regulations or the development or discovery of new facts or conditions adverse to our operations will not cause us to incur significant costs. The following is a discussion of material environmental and worker health and safety laws, as amended from time to time that relate to our operations or those of our customers that could have a material adverse effect on our business.

#### ***Air Emissions***

Our operations are subject to the federal Clean Air Act (“CAA”) and related state and local laws, which restrict the emission of air pollutants and impose permitting, monitoring and reporting requirements on various sources. Over the next several years, we may be required to incur certain capital expenditures for air pollution control equipment or to address other air emissions-related issues. Changing and increasingly stringent requirements, future non-compliance, or failure to maintain necessary permits or other authorizations could require us to incur substantial costs or suspend or terminate our operations.

#### ***Climate Change***

In recent years, the U.S. Congress has considered legislation to reduce emissions of greenhouse gases (“GHG”). We are unable to predict actions that may be taken by the Federal government; however, a number of states are addressing GHG emissions, primarily through the development of emission inventories or regional GHG cap and trade programs. Depending on the particular program, we could be required to control GHG emissions or to purchase and surrender allowances for GHG emissions resulting from our operations. Independent of Congress, the U.S. Environmental Protection Agency (“EPA”) has adopted regulations controlling GHG emissions under its existing authority. Compliance with new legislation may require us to incur substantial costs or suspend or terminate our operations. In addition, the U.S. Securities and Exchange Commission (“SEC”) issued a proposed rule in March 2022 that would mandate extensive disclosure of climate-related data, risks, GHG emissions, for certain public companies. The SEC originally planned to issue a final rule by October 2022, but most commentators now expect a final rule to be issued in 2023.

President Biden and the Democratic Party, have identified climate change as a priority, and it is likely that new executive orders, regulatory action, and/or legislation targeting GHG emissions, or prohibiting, delaying or restricting oil and gas development activities in certain areas, will be proposed and/or promulgated during the Biden Administration. For example, in January 2021, President Biden issued an executive order targeting climate change, which directed the Secretary of the Interior to pause new oil and natural gas leasing on federal public lands and in offshore waters pending completion of a comprehensive review of federal permitting and leasing practices, consider whether to adjust royalties associated with coal, oil, and gas resources extracted from public lands and offshore waters, or take other appropriate actions to account for corresponding climate costs. The climate change executive order also directed the federal government to identify “fossil fuel subsidies” to take steps to ensure that, to the extent consistent with applicable law, federal funding is not directly subsidizing fossil fuels. Legal challenges to the executive order have been filed. A federal district court issued a preliminary injunction against the order in June 2021, which the Fifth U.S. Circuit Court of Appeals vacated and remanded back to the district court in August 2022. The federal district court subsequently issued a permanent injunction against the order in August 2022 limited to the thirteen plaintiff states, which included Louisiana, Alabama, Alaska, Arkansas, Georgia, Mississippi, Missouri, Montana, Nebraska, Oklahoma, Texas, Utah, and West Virginia.

President Biden’s order also established climate change as a primary foreign policy and national security consideration, affirmed that achieving net-zero GHG emissions by or before mid-century is a critical priority, affirmed the Biden Administration’s desire to establish the United States as a leader in addressing climate change, and generally further integrated climate change and environmental justice considerations into government agencies’ decision-making, among other measures. President Biden has recommitted the United States is taking steps to reenter the Paris Agreement. and, in April 2021, announced a goal of reducing the United States’ emissions by 50-52% below 2005 levels by 2030. In November 2021, the international community gathered again in Glasgow at the 26th Conference to the Parties on the UN Framework Convention on Climate Change (“COP26”), during which multiple announcements were made, including a call for parties to eliminate certain fossil fuel subsidies and pursue further action on non-carbon dioxide GHGs. Relatedly, the United States and European Union jointly announced the launch of the “Global Methane Pledge,” which aims to cut global methane pollution at least 30% by 2030 relative to 2020 levels, including “all feasible reductions” in the energy sector. These goals were reaffirmed in November 2022 at the 27th Conference of the Parties (“COP27”). In addition, in August 2022, President Biden signed into law the Inflation Reduction Act of 2022 (“IRA”), which provides significant funding and incentives for research and development of low-carbon energy production methods, carbon capture, and other programs directed at addressing climate change. The IRA also includes a methane emissions reduction program that amends the Clean Air Act to include a Methane Emissions and Waste Reduction Incentive Program for petroleum and natural gas systems. This program requires the EPA to impose a “waste emissions charge” on certain natural gas and oil sources that are already required to report under EPA’s Greenhouse Gas Reporting Program. Such developments could have an adverse impact on our business to the extent they result in a decrease in demand for the oil and natural gas our customers produce and/or an increase in our customers’ operating costs, which, in turn, could result in a decrease in demand for our frac sand.

### ***Water Discharges***

The Clean Water Act (“CWA”) and analogous state laws impose restrictions and strict controls with respect to the discharge of pollutants, including spills and leaks of oil and other substances, into state waters or waters of the United States. The discharge of pollutants into regulated waters is prohibited, except in accordance with the terms of a permit issued by the EPA or an analogous state agency. The CWA and regulations implemented thereunder also prohibit the discharge of dredge and fill material into regulated waters, including jurisdictional wetlands, unless authorized by the Army Corps of Engineers (“Corps”) pursuant to an appropriately issued permit. In addition, the CWA and analogous state laws require individual permits or coverage under general permits for discharges of storm water runoff from certain types of facilities. Compliance with new rules and legislation could require us to face increased costs and delays with respect to obtaining permits for expansion activities. Federal and state regulatory agencies can impose administrative, civil and criminal penalties as well as other enforcement mechanisms for non-compliance with discharge permits or other requirements of the CWA and analogous state laws and regulations.

### ***Hydraulic Fracturing***

We supply frac sand to hydraulic fracturing operators in the oil and natural gas industry. Hydraulic fracturing is an industry practice that is used to stimulate production of oil and natural gas from low permeability hydrocarbon bearing subsurface rock formations. The hydraulic fracturing process involves the injection of water, proppants, and chemicals under pressure into the formation to fracture the surrounding rock, increase permeability and stimulate production. Although we do not directly engage in hydraulic fracturing activities, our customers purchase our frac sand for use in their hydraulic fracturing activities.

The adoption of new laws or regulations at the federal or state levels imposing reporting obligations on, or otherwise limiting or delaying, the hydraulic fracturing process could make it more difficult to complete natural gas wells, increase our customers’ costs of compliance and doing business, and otherwise adversely affect the hydraulic fracturing services they perform, which could negatively impact demand for our frac sand.

### ***Non-Hazardous and Hazardous Wastes***

The Resource Conservation and Recovery Act (“RCRA”) and comparable state laws control the management and disposal of hazardous and non-hazardous waste. These laws and regulations govern the generation, storage, treatment, transfer and disposal of wastes that we generate. In the course of our operations, we generate waste that is regulated as non-hazardous wastes and hazardous wastes, obligating us to comply with applicable standards relating to the management and disposal of such wastes. In addition, drilling fluids, produced waters, and most of the other wastes associated with the exploration, development, and production of oil or natural gas, if properly handled, are currently exempt from regulation as hazardous waste under RCRA and, instead, are regulated under RCRA’s less stringent non-hazardous waste provisions, state laws or other federal laws. However, it is possible that certain oil and natural gas drilling and production wastes now classified as non-hazardous could be classified as hazardous wastes in the future. A loss of the RCRA exclusion for drilling fluids, produced

waters and related wastes could result in an increase in our customers' costs to manage and dispose of generated wastes and a corresponding decrease in their drilling operations, which developments could have a material adverse effect on our business.

### ***Site Remediation***

The Comprehensive Environmental Response, Compensation, and Liability Act, as amended ("CERCLA") and comparable state laws impose strict, joint and several liability without regard to fault or the legality of the original conduct on certain classes of persons that contributed to the release of a hazardous substance into the environment. These persons include the owner and operator of a disposal site where a hazardous substance release occurred and any company that transported, disposed of, or arranged for the transport or disposal of hazardous substances released at the site. Under CERCLA, such persons may be liable for the costs of remediating the hazardous substances that have been released into the environment, for damages to natural resources, and for the costs of certain health studies. In addition, where contamination may be present, it is not uncommon for the neighboring landowners and other third parties to file claims for personal injury, property damage and recovery of response costs. We have not received notification that we may be potentially responsible for cleanup costs under CERCLA at any site.

### ***Endangered Species***

The Endangered Species Act ("ESA") restricts activities that may result in a "take" of endangered or threatened species and provides for substantial penalties in cases where listed species are taken by being harmed. Harm under the ESA includes acts that actually kill or injure wildlife as well as significant habitat modification or degradation that significantly impairs essential behavioral patterns, including breeding, feeding or sheltering. Take prohibitions also protect migratory birds under the Migratory Bird Treaty Act ("MBTA").

The dunes sagebrush lizard is one example of a species that, if listed as endangered or threatened under the ESA, could impact our operations or the operations of our customers. The dunes sagebrush lizard is found in the active and semi-stable shinnery oak dunes of southeastern New Mexico and adjacent portions of Texas, including areas where our customers operate and our frac sand facilities may be located. The United States Fish and Wildlife Service ("USFWS") is currently reviewing a petition from the Center for Biological Diversity and the Defenders of Wildlife to list the dunes sagebrush lizard as endangered or threatened under the ESA, and on July 16, 2020, issued a 90-day finding that the petition presents substantial information that listing may be warranted and the agency will conduct a more thorough review to determine whether listing may be warranted. Following a May 19, 2022 lawsuit filed by Center for Biological Diversity, USFWS filed a settlement agreement on August 25, 2022 to submit a listing decision no later than June 29, 2023. This decision, known as the 12-month finding, will result in a listing decision of: warranted, not warranted, or warranted, but precluded. If the dunes sagebrush lizard is listed as an endangered or threatened species, our operations and the operations of our customers in any area that is designated as the dunes sagebrush lizard's habitat may be limited, delayed or, in some circumstances, prohibited, and our customers could be required to comply with expensive conservation measures intended to protect the dunes sagebrush lizard and its habitat.

The USFWS has approved several Enhancement of Survival Permits that allow operations in designated habitats to continue if the dunes sagebrush lizard is listed provided that qualification criteria and conservation measures required by such permits are met. One such permit is referred to as the Texas Conservation Plan ("TCP"). The TCP was developed as a voluntary conservation plan for the dunes sagebrush lizard by the Texas Comptroller, which served as the permit holder until the transfer of the TCP to a new permit holder in September 2020. Smart Sand is a participant in the TCP and has enrolled 2,713-acres of its land in Winkler, County, Texas. The USFWS issued a second Enhancement of Survival Permit for operations in West Texas that may affect the dunes sagebrush lizard in January 2021. The permits cover incidental "take" of the dunes sagebrush lizard associated with oil and gas exploration and development, sand mining, renewable energy development and operations, pipeline construction and operations, local government activities, agricultural activities, and general construction activities within the permit area that could affect suitable habitat. Smart Sand's enrollment in the TCP minimizes the potential that new or more stringent conservation measures or land, water, or resource use restrictions beyond the measures and restrictions in the TCP may be required for that property.

Another species whose recent listing could impact our operations and the operations of our customers is the lesser prairie-chicken. In November 2022, the USFWS formally listed two Distinct Population Segments ("DPSs") of the lesser prairie-chicken under the ESA. The Southern DPS, the habitat of which includes portions of southeast New Mexico and western Texas, was listed as endangered, while the Northern DPS, the habitat of which spans from northern Texas, through eastern Oklahoma, and into southeastern Colorado and southwestern Nebraska, was listed as threatened. The listed territory of the Southern DPS could overlap with the operating areas of some of our customers.



To the extent species are listed under the ESA or similar state laws, or are protected under the MBTA, or previously unprotected species are designated as threatened or endangered in areas where we or our customers operate, we could experience increased costs arising from species protection measures and delays or limitations in our or our customers' performance of operations, which could adversely affect or reduce demand for our frac sand.

### ***Mining and Workplace Safety***

Our sand mining operations are subject to mining safety regulation. The U.S. Mining Safety and Health Administration (“MSHA”) is the primary regulatory organization governing frac sand mining and processing. Accordingly, MSHA regulates quarries, surface mines, underground mines and the industrial mineral processing facilities associated with and located at quarries and mines. The mission of MSHA is to administer the provisions of the Federal Mine Safety and Health Act of 1977 and to enforce compliance with mandatory miner safety and health standards. As part of MSHA’s oversight, representatives perform at least two unannounced inspections annually for each above-ground facility.

OSHA has promulgated new rules for workplace exposure to respirable silica for several other industries. Respirable silica is a known health hazard for workers exposed over long periods. MSHA is expected to adopt similar rules as part of its “Long Term Items” for rulemaking, and in August 2019 published a formal request for information and data on feasible, best practices to protect miners' health from exposure to silica in respirable dust. In June 2022, the MSHA launched a new enforcement initiative to better protect U.S. miners from health hazards resulting from repeated overexposure to respirable crystalline silica. As part of the program, MSHA will conduct silica dust-related mine inspections and expand silica sampling at mines, while providing mine operators with compliance assistance and best practices to limit miners’ exposure to silica dust. Specifically, the silica enforcement initiative will include:

- Spot inspections at mines with a history of repeated silica overexposures to closely monitor and evaluate health and safety conditions.
- Increased oversight and enforcement of known silica hazards at mines with previous citations for exposing miners to silica dust levels over the existing permissible exposure limit of 100 micrograms. For mines where the operator has not timely abated hazards, MSHA will issue a withdrawal order until the silica overexposure hazard has been abated.
- Expanded silica sampling at mines to ensure inspectors’ samples represent the mines, commodities, and occupations known to have the highest risk for overexposure.
- A focus on sampling during periods of the mining process that present the highest risk of silica exposure for miners.
- Reminding miners about their rights to report hazardous health conditions, including any attempt to tamper with the sampling process.

Airborne respirable silica is associated with work areas at our site and is monitored closely through routine testing and MSHA inspection. If the workplace exposure limit is lowered significantly, we may be required to incur certain capital expenditures for equipment to reduce this exposure. Smart Sand also adheres to the NIOSH’s respiratory protection program, and ensures that workers are provided with fitted respirators and ongoing radiological monitoring.

### ***Environmental Reviews***

Our operations may be subject to broad environmental review under the National Environmental Policy Act, as amended, (“NEPA”). NEPA requires federal agencies to evaluate the environmental impact of all “major federal actions” significantly affecting the quality of the human environment. The granting of a federal permit for a major development project, such as a mining operation, may be considered a “major federal action” that requires review under NEPA. As part of this evaluation, the federal agency considers a broad array of environmental impacts, including, among other things, impacts on air quality, water quality, wildlife (including threatened and endangered species), historic and archeological resources, geology, socioeconomics, and aesthetics. NEPA also requires the consideration of alternatives to the project. The NEPA review process, especially the preparation of a full environmental impact statement, can be time consuming and expensive. The purpose of the NEPA review process is to inform federal agencies’ decision-making on whether federal approval should be granted for a project and to provide the public with an opportunity to comment on the environmental impacts of a proposed project. Though NEPA requires only that an environmental evaluation be conducted and does not mandate a particular result, a federal agency could decide to deny a permit or impose certain conditions on its approval, based on its environmental review under NEPA, or a third party could challenge the adequacy of a NEPA review and thereby delay the issuance of a federal permit or approval. In January 2020, the White House Council on Environmental Quality (“CEQ”) published a Notice of Proposed Rulemaking that would revise NEPA’s implementing regulations, with the stated purpose of facilitating more efficient and timely NEPA reviews. In July 2020, CEQ issued a final rule implementing the January 2020 proposal. However, several states and environmental groups

filed challenges to this rulemaking. CEQ issued an Interim Final Rule in June 2021, which extended the deadline by two years (to September 14, 2023) for federal agencies to develop or update their NEPA implementing procedures to conform to the CEQ regulations. Additionally, in October 2021, the CEQ issued a notice of proposed rulemaking to reintroduce certain requirements removed or reduced by the July 2020 amendments, and the Infrastructure and Investment Jobs Act, Pub.L. 117-58, signed into law in November 2021, codified some of the July 2020 amendments in statutory text. In April 2022, CEQ issued the Phase 1 Final Rule, which finalizes a narrow set of changes to generally restore regulatory provisions that were in effect for decades before the 2020 rule modified them for the first time. At this time we cannot predict what further revisions, if any, will be made to NEPA's implementing regulations, and what impacts, if any, they will have on our operations.

### ***State and Local Regulation***

We are subject to a variety of state and local environmental review and permitting requirements. Some states, including Wisconsin where our current projects are located, have state laws similar to NEPA; thus, our development of a new site or the expansion of an existing site may be subject to comprehensive state environmental reviews even if it is not subject to NEPA. In some cases, the state environmental review may be more stringent than the federal review. Our operations may require state-law based permits in addition to federal permits, requiring state agencies to consider a range of issues, many the same as federal agencies, including, among other things, a project's impact on wildlife and their habitats, historic and archaeological sites, aesthetics, agricultural operations, and scenic areas. Wisconsin has specific permitting and review processes for commercial silica mining operations, and state agencies may impose different or additional monitoring or mitigation requirements than federal agencies. The development of new sites and our existing operations also are subject to a variety of local environmental and regulatory requirements, including land use, zoning, building, and transportation requirements.

Demand for frac sand in the oil and natural gas industry drove a significant increase in the production of frac sand. As a result, some local communities expressed concern regarding silica sand mining operations. These concerns have generally included exposure to ambient silica sand dust, truck traffic, water usage and blasting. In response, certain state and local communities have developed or are in the process of developing regulations or zoning restrictions intended to minimize dust from becoming airborne, control the flow of truck traffic, significantly curtail the amount of practicable area for mining activities, provide compensation to local residents for potential impacts of mining activities and, in some cases, ban issuance of new permits for mining activities. To date, we have not experienced any material impact to our existing mining operations or planned capacity expansions as a result of these types of concerns. We would expect this trend to continue as oil and natural gas production increases.

In August 2014, we were accepted as a Tier 1 participant in Wisconsin's voluntary Green Tier program, which encourages, recognizes and rewards companies for voluntarily exceeding environmental, health and safety legal requirements. Successful Tier 1 participants are required to demonstrate a strong record of environmental compliance, develop and implement an environmental management system meeting certain criteria, conduct and submit annual performance reviews to the Wisconsin Department of Natural Resources, promptly correct any findings of non-compliance discovered during these annual performance reviews, and make certain commitments regarding future environmental program improvements. Our most recent annual report required under the Tier 1 protocol was submitted to the Green Tier Program contact on August 1, 2019.

### **Employees**

As of December 31, 2022, we employed 328 people, of which 54 were employed under collective bargaining agreements. We offer competitive salaries and a comprehensive package of employee benefits, including bonuses, retirement savings plans, medical, dental, life and disability coverage. We consider our employee relations to be good.

### **Executive Officers of the Registrant**

#### ***Charles E. Young***

Charles E. Young was named Chief Executive Officer in July 2014. Mr. Young has also served as a director since September 2011. Mr. Young founded Smart Sand, LLC (our predecessor) and served as its President from November 2009 to August 2011. Mr. Young served as our President and Secretary from September 2011 to July 2014. Mr. Young has over 25 years of executive and entrepreneurial experience in the high-technology, telecommunications and renewable energy industries. He previously served as the President and Founder of Premier Building Systems, a construction, solar, geothermal and energy audit company in Pennsylvania and New Jersey from 2006 to 2011. Mr. Young serves as a director for Gravity Oilfield Services, Inc., a privately-held company. Mr. Young received a B.A. in Political Science from Miami University. Mr. Young is the brother of William John Young, our Chief Operating Officer, and James D. Young, our Executive Vice President, General Counsel and Secretary. We believe that Mr. Young's industry experience and deep knowledge of our business makes him well suited to serve as Chief Executive Officer and Director.

### ***Lee E. Beckelman***

Lee E. Beckelman was named Chief Financial Officer in August 2014. From December 2009 to February 2014, Mr. Beckelman served as Executive Vice President and Chief Financial Officer of Hilcorp Energy Company, an exploration and production company. From February 2008 to October 2009, he served as the Executive Vice President and Chief Financial Officer of Price Gregory Services, Incorporated, a crude oil and natural gas pipeline construction firm until its sale to Quanta Services. Prior thereto, Mr. Beckelman served in various roles from 2002 to 2007 at Hanover Compressor Company, an international oilfield service company, until its merger with Universal Compression to form Exterran Holdings. Mr. Beckelman received his BBA in Finance with High Honors from the University of Texas at Austin.

### ***William John Young***

William John Young was named Chief Operating Officer in April 2018. Prior to that time, he served as Executive Vice President of Sales and Logistics from October 2016 to April 2018. Mr. Young served as Vice President of Sales and Logistics from May 2014 to September 2016 and Director of Sales from November 2011 to April 2014. Prior to joining us, Mr. Young was a Director of Sales for Comcast Corporation from 2002 to 2011. Mr. Young brings over 25 years of experience in the mining, commercial telecommunications and broadband industries. Mr. Young received a BSc in Biology from Dalhousie University. Mr. Young is the brother of Charles E. Young, our Chief Executive Officer and member of our board of directors, and James D. Young, our Executive Vice President, General Counsel and Secretary.

### ***Robert Kiszka***

Robert Kiszka was named Executive Vice President of Operations in May 2014. Previously, Mr. Kiszka served as the Vice President of Operations from September 2011 to May 2014. Mr. Kiszka has over 25 years of construction, real estate, renewable energy and mining experience. Mr. Kiszka has been the owner of A-1 Bracket Group Inc. since 2005 and was a member of Premier Building Systems LLC from 2010 to 2011. Mr. Kiszka attended Pedagogical University in Krakow, Poland and Rutgers University.

### ***Ronald P. Whelan***

Ronald P. Whelan was named Executive Vice President of Sales in June 2018. Prior to that time, he served as Executive Vice President of Business Development from April 2017 to June 2018, Vice President of Business Development from September 2016 to March 2017 and as Director of Business Development from April 2014 to August 2016. Prior to being named Director of Business Development, Mr. Whelan was the Operations Manager responsible for the design, development and production of the Oakdale facility from November 2011 to April 2014. Before joining Smart Sand, Mr. Whelan ran his own software design company from 2004 to 2011 and was a member of Premier Building Systems LLC from 2008 to 2009. Mr. Whelan has over 20 years of entrepreneurial experience in mining, technology and renewable energy industries. Mr. Whelan received a B.A. in Marketing from Bloomsburg University and M.S. in Instructional Technology from Bloomsburg University.

### ***James D. Young***

James D. Young was named Executive Vice President, General Counsel and Secretary in June 2017. Prior to joining us, Mr. Young was a partner of the law firm Fox Rothschild LLP, where he worked for thirteen years and served as our outside general counsel. Mr. Young received a J.D. from Rutgers University School of Law and a B.A. in History and Political Science from the University of Toronto. Mr. Young is the brother of Charles E. Young, our Chief Executive Officer and member of our board of directors, and William John Young, our Chief Operating Officer.

### ***Richard Shearer***

Richard Shearer was named President – Industrial Products in September 2021. Before joining Smart Sand, Mr. Shearer was the Chief Executive Officer for Emerge Energy Services LP from 2012 until 2020. Before that, he was the President and Chief Executive Officer of Superior Silica Sands and of Black Bull Resources. He was also President and COO of U.S. Silica. Mr. Shearer was the founding Chairman of the Industrial Minerals Association of North America (IMA-NA). Mr. Shearer received an M.B.A from Eastern Michigan University and a B.A.Sc. in Business Administration from Alderson Broaddus University.

### **Available Information**

Our website address is [www.smartsand.com](http://www.smartsand.com). Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are available on our website, without charge, as soon as reasonably practicable after they are filed electronically with the SEC. The SEC also maintains a website that contains reports, proxy and

information statements and other information statements and other information regarding issuers who file electronically with the SEC. The SEC's website address is [www.sec.gov](http://www.sec.gov).

## **ITEM 1A. — RISK FACTORS**

### **Risks Inherent in Our Business**

***Our business and financial performance depend on the level of activity in the oil and natural gas industry.***

Substantially all of our revenues are derived from sales to companies in the oil and natural gas industry. As a result, our operations are dependent on the levels of activity in oil and natural gas exploration, development and production and prevailing oil and natural gas prices. More specifically, the demand for the proppants we produce and our wellsite storage solutions is closely related to the number of oil and natural gas wells completed in geological formations where sand-based proppants are used in fracturing activities. These activity levels are affected by both short- and long-term trends in oil and natural gas prices, among other factors.

Oil and natural gas prices and, therefore, the level of exploration, development and production activity, experienced a high level of volatility leading to sustained declines from the highs in the latter half of 2014 to the lows experienced in 2020. Oil and natural gas prices improved in 2021 and 2022 leading to increased drilling and completions activity over the last two years.

A prolonged reduction in oil and natural gas prices or a sustained lack of key resources that affect drilling activity, whether due to recession, political developments or other events, would generally depress the level of oil and natural gas exploration, development, production and well completion activity and would result in a corresponding decline in the demand for the proppants we produce and our wellsite proppant storage solutions. Such a decline would have a material adverse effect on our business, results of operation and financial condition. The commercial development of economically viable alternative energy sources (such as wind, solar, geothermal, tidal, batteries, fuel cells and biofuels) could have a similar effect. In addition, certain U.S. federal income tax deductions currently available with respect to oil and natural gas exploration and development may be eliminated. Any future decreases in the rate at which oil and natural gas reserves are discovered or developed, whether due to the passage of legislation, increased governmental regulation leading to limitations, or prohibitions on exploration and drilling activity, including hydraulic fracturing, or other factors, could have a material adverse effect on our business and financial condition, even in a stronger oil and natural gas price environment.

***A significant portion of our revenues have been generated with a limited number of customers, and the loss of, material nonpayment or nonperformance by or significant reduction in purchases by any of them could adversely affect our business, results of operations and financial condition.***

A material portion of our revenues are generated from a limited number of customers. The ability or willingness of each of our customers to maintain their purchases from us will depend on a number of factors that are beyond our control and may include, among other things, the overall operations and financial condition of the counterparty, the condition of the U.S. oil and natural gas exploration and production industry, continuing use of frac sand in hydraulic fracturing operations and general economic conditions. In addition, in depressed market conditions, our customers may reduce the amount of sand they purchase from us or they may be able to obtain comparable products at a lower price. If our customers with long-term contracts experience a significant downturn in their business or financial condition, they may attempt to renegotiate our contracts. For example, certain of our existing contracts were adjusted in 2020 resulting in a combination of reduced average selling prices per ton, adjustments to take-or-pay volumes and length of contract. If any of our major customers substantially reduces or altogether ceases purchasing our sand and we are not able to generate replacement sales of sand into the market, our business, financial condition and results of operations could be adversely affected until such time as we generate replacement sales in the market. In addition, as contracts expire, depending on market conditions at the time, our contracted customers may choose not to extend these contracts which could lead to a significant reduction of sales volumes and corresponding revenues, cash flows and financial condition if we are not able to replace these contracts with new sales volumes. Even if we were to replace any lost volumes, lower prices for our product could materially reduce our revenues, cash flow and financial condition. Additionally, consolidation and vertical integration of pressure pumpers and exploration and production companies continues in the industry and this trend could lead to fewer overall customers for us to market sand to and negatively impact our sales volumes.

***We are exposed to the credit risk of our customers, and any material nonpayment or nonperformance by our customers could adversely affect our business, results of operations and financial condition.***

We are subject to the risk of loss resulting from nonpayment or nonperformance by our customers. Our credit procedures and policies may not be adequate to fully eliminate customer credit risk. If we fail to adequately assess the creditworthiness of

existing or future customers or unanticipated deterioration in their creditworthiness, any resulting increase in nonpayment or nonperformance by them and our inability to re-market or otherwise use the production could have a material adverse effect on our business, results of operations and financial condition. A decline in natural gas and crude oil prices could negatively impact the financial condition of our customers and sustained lower prices could impact their ability to meet their financial obligations to us. Further, our contract counterparties may not perform or adhere to our existing or future contractual arrangements. To the extent one or more of our contract counterparties is in financial distress or commences bankruptcy proceedings, contracts with these counterparties may be subject to renegotiation or rejection under applicable provisions of the United States Bankruptcy Code. Any material nonpayment or nonperformance by our contract counterparties due to inability or unwillingness to perform or adhere to contractual arrangements could adversely affect our business and results of operations.

***We face significant competition that may cause us to lose market share.***

The proppant industry is highly competitive. The proppant market is characterized by a small number of large, national producers and a larger number of small, regional or local producers. Competition in this industry is based on price, consistency and quality of product, site location, distribution and logistics capabilities, customer service, reliability of supply, breadth of product offering (including wellsite storage products and services) and technical support.

Some of our competitors have greater financial and natural other resources than we do. Also, certain of our competitors have recently emerged from bankruptcy and may be able to offer more attractive pricing as a result of lower debt obligations. In addition, our larger competitors may develop technology superior to ours or may have production facilities that offer lower-cost transportation to certain customer locations than we do. When the demand for hydraulic fracturing services decreases or the supply of proppant available in the market increases, prices in the frac sand market can materially decrease. Furthermore, oil and natural gas exploration and production companies and other providers of hydraulic fracturing services have acquired and in the future may acquire their own frac sand reserves to fulfill their proppant requirements, and these other market participants may expand their existing frac sand production capacity, all of which would negatively impact demand for our frac sand. In addition, increased competition in the proppant industry could have an adverse impact on our ability to enter into long-term contracts or to enter into contracts on favorable terms. For example, supplies of regional frac sand from our competitors became available in 2018, primarily in the Permian Basin of West Texas. Since then, other regional frac sand mines have opened in or near additional basins where we sell sand. Regional frac sand has had a negative impact on our ability to sell our Northern White Sand in the Permian Basin or other markets in close proximity to these regional mines. The reduced ability to sell sand in operating basins with regional sand supply has led to increased competition among our competitors in other basins and could lead to pressure to reduce prices to compete effectively.

***We may be required to make substantial capital expenditures to maintain and grow our asset base. We may not realize enough of a return on such capital expenditures to cover their costs. Also, the inability to obtain needed capital or financing on satisfactory terms, or at all, could have an adverse effect on our business, results of operations and financial condition.***

We rely on cash generated from our operations and the availability of credit to fund our capital expenditures. We have made significant capital expenditures, and expect to make additional capital expenditures in the future. We cannot provide any assurance that we will receive an adequate return on such capital expenditures.

In addition, our ability to maintain existing debt financing or to access the capital markets for future equity or debt offerings may be limited by our financial condition at the time of any such financing or offering, the covenants or borrowing base restrictions contained in our ABL Credit Facility or other current or future debt agreements, adverse market conditions or other contingencies and uncertainties that are beyond our control. Our failure to obtain the funds necessary to maintain, develop and increase our asset base could adversely impact our business, results of operations and financial condition.

Even if we are able to maintain existing financing or access the capital markets, incurring additional debt may significantly increase our interest expense and financial leverage, and our level of indebtedness could restrict our ability to fund future development and acquisition activities. In addition, the issuance of additional equity interests may result in significant dilution to our existing common stockholders.

***Inaccuracies in estimates of volumes and qualities of our sand reserves could result in lower than expected sales and higher than expected cost of production.***

We rely on our independent reserve engineers' prepared estimates of our reserves based on engineering, economic and geological data assembled and analyzed by our engineers and geologists. However, frac sand reserve estimates are by nature imprecise and depend to some extent on statistical inferences drawn from available data, which may prove unreliable. There are numerous uncertainties inherent in estimating quantities and qualities of reserves and non-reserve frac sand deposits and costs to mine recoverable reserves, including many factors beyond our control. Estimates of economically recoverable frac sand

reserves necessarily depend on a number of factors and assumptions, all of which may vary considerably from actual results, such as:

- geological and mining conditions and/or effects from prior mining that may not be fully identified by available data or that may differ from experience;
- assumptions concerning future prices of frac sand, operating costs, mining technology improvements, development costs and reclamation costs; and
- assumptions concerning future effects of regulation, including wetland mitigation requirements, the issuance of required permits and the assessment of taxes by governmental agencies.

Any inaccuracy in our independent reserve engineer's estimates related to our frac sand reserves or non-reserve frac sand deposits could result in lower than expected sales or higher than expected costs. For example, estimates of our proven and probable recoverable sand reserves assume that our revenue and cost structure will remain relatively constant over the life of our reserves. If these assumptions prove to be inaccurate, some or all of our reserves may not be economically mineable, which could have a material adverse effect on our results of operations and cash flows. In addition, our current customer contracts require us to deliver frac sand that meets certain specifications. If estimates of the quality of our reserves, including the volumes of the various specifications of those reserves, prove to be inaccurate, we may incur significantly higher excavation costs without corresponding increases in revenues, we may not be able to meet our contractual obligations, or our facilities may have a shorter than expected reserve life, any of which could have a material adverse effect on our results of operations and cash flows.

***Our sand is currently generated at two facilities and our sales are dependent on delivery by railroads. Any adverse developments at our production facilities, rail terminals, or on any rail line could have a material adverse effect on our business, financial condition and results of operations.***

All of our sand sales are currently derived from our facilities near Oakdale, Wisconsin and Utica, Illinois. We also ship a substantial portion of our sand through our rail terminals. Any adverse development at these facilities, our rail terminals, or on any of the rail lines we use to deliver our sand due to catastrophic events or weather, or any other event that would cause us to curtail, suspend or terminate operations at such facilities or terminals, could result in us being unable to meet our contracted sand deliveries. Although we have access to more than one Class I rail line, we may not be able to facilitate all shipments of product from one facility. We maintain insurance coverage to cover a portion of these types of risks; however, there are potential risks associated with our operations not covered by insurance. There also may be certain risks covered by insurance where the policy does not reimburse us for all of the costs related to a loss. Downtime or other delays or interruptions to our operations that are not covered by insurance could have a material adverse effect on our business, results of operations and financial condition. In addition, under our long-term take-or-pay contracts, if we are unable to deliver contracted volumes and a customer arranges for delivery from a third party at a higher price, we may be required to pay that customer the difference between our contract price and the price of the third-party product.

***If we are unable to make acquisitions on economically acceptable terms, our future growth would be limited.***

A portion of our strategy to grow our business is dependent on our ability to make acquisitions. If we are unable to make acquisitions from third parties because we are unable to identify attractive acquisition candidates or negotiate acceptable purchase contracts, we are unable to obtain financing for these acquisitions on economically acceptable terms or we are outbid by competitors, our future growth may be limited. Any acquisition involves potential risks, some of which are beyond our control, including, among other things:

- mistaken assumptions about revenues and costs, including synergies;
- inability to integrate successfully the businesses we acquire;
- inability to hire, train or retain qualified personnel to manage and operate our business and newly acquired assets;
- the assumption of unknown liabilities;
- limitations on rights to indemnity from the seller;
- mistaken assumptions about the overall costs of equity or debt;
- diversion of management's attention from other business concerns;
- unforeseen difficulties operating in new product areas or new geographic areas; and



- customer or key employee losses at the acquired businesses.

If we consummate any future acquisitions, our capitalization and results of operations may change significantly, and common stockholders will not have the opportunity to evaluate the economic, financial and other relevant information that we will consider in determining the application of these funds and other resources.

***Restrictions in our ABL Credit Facility may limit our ability to capitalize on potential acquisition and other business opportunities.***

The operating and financial restrictions and covenants in our ABL Credit Facility could restrict our ability to finance future operations or capital needs or to expand or pursue our business activities. For example, our ABL Credit Facility restricts or limits our ability to:

- grant liens;
- incur additional indebtedness;
- engage in a merger, consolidation or dissolution;
- enter into transactions with affiliates;
- sell or otherwise dispose of assets, businesses and operations;
- materially alter the character of our business as conducted at the time of filing of this annual report; and
- make acquisitions, investments and capital expenditures.

Furthermore, the borrowing base under our ABL Credit Facility is recalculated from time to time based on our eligible accounts receivable and inventory. Decreases in our eligible accounts receivable and inventory may limit our available borrowing levels and may require us to comply with certain financial ratios.

***We face distribution and logistical challenges in our business.***

Transportation and logistical operating expenses comprise a significant portion of the costs incurred by our customers to deliver frac sand to the wellhead, which could favor suppliers located in close proximity to the customer. As oil and natural gas prices fluctuate, our customers may shift their focus to different resource plays, some of which may be located in geographic areas that do not have well-developed transportation and distribution infrastructure systems, or seek contracts with additional delivery and pricing alternatives including contracts that sell product on an “as-delivered” basis at the target shale basin. Serving our customers in these less-developed areas presents distribution and other operational challenges that may affect our sales and negatively impact our operating costs and any delays we experience in optimizing our logistics infrastructure or developing additional origination and destination points may adversely affect our ability to renew existing contracts with customers seeking additional delivery and pricing alternatives. Disruptions in transportation services, including shortages of railcars, lack of developed infrastructure, weather-related problems, flooding, drought, accidents, mechanical difficulties, strikes, lockouts, bottlenecks, environmental restrictions or other events could affect our ability to timely and cost effectively deliver to our customers and could temporarily impair the ability of our customers to take delivery and, in certain circumstances, constitute a force majeure event under our customer contracts, permitting our customers to suspend taking delivery of and paying for our frac sand (and in some cases terminating the agreement after a period of time). Additionally, increases in the price of transportation costs, including freight charges, fuel surcharges, transloading fees, terminal switch fees and demurrage costs, could negatively impact operating costs if we are unable to pass those increased costs along to our customers. Accordingly, because we are so dependent on rail infrastructure, if there are disruptions of the rail transportation services utilized by us or our customers, and we or our customers are unable to find alternative transportation providers to transport our products, our business and results of operations could be adversely affected. Further, declining volumes could result in railcar over-capacity, which would lead to railcar storage fees while, at the same time, we would continue to incur lease costs for those railcars in storage. Failure to find long-term solutions to these logistical challenges could adversely affect our ability to respond quickly to the needs of our customers or result in additional increased costs, and thus could negatively impact our business, results of operations and financial condition.

***We may be adversely affected by decreased demand for frac sand due to the development of effective alternative proppants or new processes to replace hydraulic fracturing.***

Frac sand is a proppant used in the completion and re-completion of oil and natural gas wells to stimulate and maintain oil and natural gas production through the process of hydraulic fracturing. Frac sand is the most commonly used proppant and is

less expensive than other proppants, such as resin-coated sand and manufactured ceramics. A significant shift in demand from frac sand to other proppants, or the development of new processes to make hydraulic fracturing more efficient could replace it altogether, could cause a decline in the demand for the frac sand we produce and result in a material adverse effect on our business, results of operations and financial condition.

***An increase in the supply of frac sand having similar characteristics as the frac sand we produce could make it more difficult for us to maintain sales with existing customers or obtain new customers on favorable terms, or at all.***

If significant new reserves of frac sand are discovered and developed, and those frac sands have similar characteristics to the frac sand we produce, we may be unable to maintain sales with our existing customers, obtain new customers on favorable terms, or at all. Specifically, if frac sand is oversupplied, our customers may reduce their sales volumes, may not be willing to purchase sand from us, may demand lower prices, any one or combination of the preceding could have a material adverse effect on our business, results of operations and financial condition. For example, new supplies of regional frac sand from our competitors became available in 2018, primarily in the Permian Basin of West Texas. Since then, other regional frac sand mines have opened in or near additional basins where we sell sand. These new supplies have had a negative impact on our ability to sell our Northern White Sand in the Permian Basin or other markets in close proximity to these regional mines.

***Our operations are subject to operational hazards and unforeseen interruptions for which we may not be adequately insured.***

Our operations are exposed to potential natural disasters, including blizzards, tornadoes, storms, floods, other adverse weather conditions and earthquakes. In addition, our employees could be subject to a COVID-19 outbreak at one or more of our facilities. If any of these events were to occur, we could incur substantial losses because of operational downtime, personal injury or loss of life, severe damage to and destruction of property and equipment, and pollution or other environmental damage resulting in curtailment or suspension of our operations.

We are not fully insured against all risks incident to our business, including the risk of our operations being interrupted due to severe weather and natural disasters. Furthermore, we may be unable to maintain or obtain insurance of the type and amount we desire at reasonable rates. As a result of market conditions, premiums and deductibles for certain of our insurance policies have increased and could escalate further. In addition, sub-limits have been imposed for certain risks. In some instances, certain insurance could become unavailable or available only for reduced amounts of coverage. If we were to incur a significant liability for which we are not fully insured, it could have a material adverse effect on our business, results of operations and financial condition.

***Our production process consumes large amounts of natural gas and electricity. An increase in the price or a significant interruption in the supply of these or any other energy sources could have a material adverse effect on our business, results of operations and financial condition.***

Energy costs, primarily natural gas and electricity, represented approximately 8.4% of our total cost of goods sold for the year ended December 31, 2022. Natural gas is currently the primary fuel source used for drying in our frac sand production process. As a result, our profitability will be impacted by the price and availability of natural gas we purchase from third parties. Because we have not contracted for the provision of all of our natural gas usage on a fixed-price basis, our costs and profitability will be impacted by fluctuations in prices for natural gas. The price and supply of natural gas is unpredictable and can fluctuate significantly based on international, political and economic circumstances, as well as other events outside our control, such as changes in supply and demand due to weather conditions, actions by OPEC, governmental sanctions, and other oil and natural gas producers, regional production patterns, security threats and environmental concerns. In addition, potential climate change regulations or carbon or emissions taxes could result in higher cost of production for energy, which may be passed on to us in whole or in part. In order to manage the risk of volatile natural gas prices, we may hedge natural gas prices through the use of fixed price supply contracts or derivative financial instruments, such as forwards, swaps and futures. However, these measures carry risk (including nonperformance by counterparties) and do not in any event entirely eliminate the risk of decreased margins as a result of propane or natural gas price increases. We further attempt to mitigate these risks by including in our sales contracts fuel surcharges based on natural gas prices exceeding certain benchmarks. A significant increase in the price of energy that is not recovered through an increase in the price of our products or covered through our hedging arrangements or an extended interruption in the supply of natural gas or electricity to our production facilities could have a material adverse effect on our business, results of operations and financial condition.

***Increases in the price of diesel fuel may adversely affect our business, results of operations and financial condition.***

Diesel fuel costs generally fluctuate with increasing and decreasing world crude oil prices and, accordingly, are subject to political, economic and market factors that are outside of our control. Our operations are dependent on earth moving equipment, locomotives and tractor trailers, and diesel fuel costs are a significant component of the operating expense of these

vehicles. Accordingly, increased diesel fuel costs could have an adverse effect on our business, results of operations and financial condition.

***A facility closure entails substantial costs, and if we close any of our facilities sooner than anticipated, our results of operations may be adversely affected.***

We base our assumptions regarding the life of our facilities on detailed studies that we perform from time to time, but our studies and assumptions may not prove to be accurate. If we close any of our operating facilities sooner than expected, sales may decline. The closure of our operating facilities would involve significant fixed closure costs, including accelerated employment legacy costs, severance-related obligations, reclamation and other environmental costs and the costs of terminating long-term obligations, including energy contracts and equipment leases. We accrue for the costs of reclaiming open pits, stockpiles, non-saleable sand, ponds, roads and other mining support areas over the estimated mining life of our property. If we were to reduce the estimated life of our operating facilities, the fixed facility closure costs would be applied to a shorter period of production, which would increase the cost of production per ton produced and could materially and adversely affect our business, results of operations and financial condition.

Applicable statutes and regulations require that mining property be reclaimed following a mine closure in accordance with specified standards and an approved reclamation plan. The plan addresses matters such as removal of facilities and equipment, regrading, prevention of erosion and other forms of water pollution, re-vegetation and post-mining land use. We may be required to post a surety bond or other form of financial assurance equal to the cost of reclamation as set forth in the approved reclamation plan. The establishment of the final mine closure reclamation liability is based on estimated costs and requires various estimates and assumptions. If our accruals for expected reclamation and other costs associated with facility closures for which we will be responsible were later determined to be insufficient, our business, results of operations and financial condition may be adversely affected.

***Our operations are dependent on our rights and ability to mine our properties and on our having renewed or received the required permits and approvals from governmental authorities and other third parties.***

We hold numerous governmental, environmental, mining and other permits, water rights and approvals authorizing operations at our mining and operating facilities. For our extraction and processing in Wisconsin and Illinois, we must obtain permits from various federal, state and local authorities. For example, at the federal level, a *Mine Identification Request (MSHA Form 7000-51)* must be filed and obtained before mining commences. If wetlands are impacted, a permit from the *U.S. Army Corps of Engineers* is required. At the state level, a series of permits are required related to air quality, wetlands, water quality (waste water, storm water), grading permits, endangered species, archeological assessments and high capacity wells in addition to others depending upon site specific factors and operational detail. At the local level, zoning, building, storm water, erosion control, wellhead protection, road usage and access are all regulated and require permitting to some degree. A non-metallic mining reclamation permit is required. A decision by a governmental agency or other third party to deny or delay issuing a new or renewed permit or approval, or to revoke or substantially modify an existing permit or approval, could have a material adverse effect on our business, results of operations and financial condition.

Title to, and the area of, mineral properties and water rights may also be disputed. Mineral properties sometimes contain claims or transfer histories that examiners cannot verify. A successful claim that we do not have title to our property or lack appropriate water rights could cause us to lose any rights to explore, develop and extract minerals, without compensation for our prior expenditures relating to such property. Our business may suffer a material adverse effect in the event we have title deficiencies.

***A shortage of skilled labor together with rising labor costs in the excavation industry may further increase operating costs, which could adversely affect our business, results of operations and financial condition.***

Efficient sand excavation using modern techniques and equipment requires skilled laborers, preferably with several years of experience and proficiency in multiple tasks, including processing of mined minerals. If there is a shortage of experienced labor in areas in which we operate, we may find it difficult to hire or train the necessary number of skilled laborers to perform our own operations which could have an adverse impact on our business, results of operations and financial condition.

The manufacturing and maintenance of our SmartSystems equipment requires skilled and experienced personnel who can perform physically demanding work. Our ability to operate the manufacturing facility in Saskatoon depends upon our ability to have access to the services of skilled workers. The demand for skilled workers is high, and the supply is limited. As a result, competition for experienced personnel is intense, and a significant increase in the wages paid by competing employers could result in a reduction of our skilled labor force, increases in the rates that we must pay or both. If either of these events were to occur, there could be an adverse impact on our business, results of operations and financial condition.

***Our business may suffer if we lose, or are unable to attract and retain, key personnel.***

We depend to a large extent on the services of our senior management team and other key personnel. Members of our senior management and other key employees bring significant experience to the market environment in which we operate. Competition for management and key personnel is intense, and the pool of qualified candidates is limited. The loss of any of these individuals or the failure to attract additional personnel, as needed, could have a material adverse effect on our operations and could lead to higher labor costs or the use of less-qualified personnel. In addition, if any of our executives or other key employees were to join a competitor or form a competing company, we could lose customers, suppliers, know-how and key personnel. We do not maintain key-man life insurance with respect to any of our employees. Our success is dependent on our ability to continue to attract, employ and retain highly skilled personnel.

***Our profitability could be negatively affected if we fail to maintain satisfactory labor relations.***

As of December 31, 2022, 54 employees in our Illinois facility operated under a collective bargaining agreement. If we are unable to renegotiate acceptable collective bargaining agreements with these employees in the future, we could experience, among other things, strikes, work stoppages or other slowdowns by our workers and increased operating costs as a result of higher wages, health care costs or benefits paid to our employees. An inability to maintain good relations with our workforce could cause a material adverse effect on our business, financial condition, and results of operations.

***Failure to maintain effective quality control systems at our mining, processing and production facilities could have a material adverse effect on our business, results of operations and financial condition.***

The performance and quality of our products are critical to the success of our business. These factors depend significantly on the effectiveness of our quality control systems, which, in turn, depends on a number of factors, including the design of our quality control systems, our quality-training program and our ability to ensure that our employees adhere to our quality control policies and guidelines. Any significant failure or deterioration of our quality control systems could have a material adverse effect on our business, results of operations and financial condition.

***Seasonal and severe weather conditions could have a material adverse impact on our business, results of operations and financial condition.***

Our business could be materially adversely affected by severe weather conditions. Severe weather conditions may affect our customers' operations, thus reducing their need for our products, impact our operations by resulting in weather-related damage to our facilities and equipment and impact our customers' ability to take delivery of our products at our plant site. Any weather-related interference with our operations could force us to delay or curtail services and potentially breach our contractual obligations to deliver minimum volumes or result in a loss of productivity and an increase in our operating costs.

In addition, winter weather conditions impact our operations by causing us to reduce our excavation and wet plant related production activities during the winter months. During non-winter months, we excavate excess sand to build a stockpile that will feed the dry plants (along with the sand provided by our year-round wet plant), which continue to operate during the winter months. Unexpected winter conditions (such as winter arriving earlier than expected or lasting longer than expected) may result in us not having a sufficient sand stockpile to operate our dry plants during winter months, which could result in us being unable to deliver our contracted sand amounts during such time and lead to a material adverse effect on our business, results of operations and financial condition.

***Our cash flow fluctuates on a seasonal basis.***

Our cash flow is affected by a variety of factors, including weather conditions and seasonal periods. Seasonal fluctuations in weather impact the production levels at our wet processing plant. While our sales and finished product production levels are contracted evenly throughout the year, our mining and wet sand processing activities are reduced during winter months. As a consequence, we experience lower cash costs in the first and fourth quarter of each calendar year.

***We do not own the land on which our Van Hook, North Dakota and Waynesburg, Pennsylvania transload terminals are located, which could disrupt our operations.***

We do not own the land on which our Van Hook, North Dakota and Waynesburg, Pennsylvania terminals are located and instead own a leasehold interest and right-of-way for the operation of these facilities. Upon expiration, termination or other lapse of our current leasehold terms, we may be unable to renew our existing leases or rights-of-way on terms favorable to us, or at all. Any renegotiation on less favorable terms or inability to enter into new leases on economically acceptable terms upon the expiration, termination or other lapse of our current leases or rights-of-way could cause us to cease operations on the affected land, increase costs related to continuing operations elsewhere and have a material adverse effect on our business, financial condition and results of operations.

***A terrorist attack or armed conflict could harm our business.***

Global and domestic terrorist activities, anti-terrorist efforts and other armed conflicts could adversely affect the U.S. and global economies and could prevent us from meeting financial and other obligations. We could experience loss of business, delays or defaults in payments from payors or disruptions of fuel supplies and markets if pipelines, production facilities, processing plants, refineries or transportation facilities are direct targets or indirect casualties of an act of terror or war. Such activities could reduce the overall demand for oil and natural gas, which, in turn, could also reduce the demand for our frac sand. Global and domestic terrorist activities and the threat of potential terrorist activities and any resulting physical damage and economic downturn could adversely affect our results of operations, impair our ability to raise capital or otherwise adversely impact our ability to realize certain business strategies.

***Diminished access to water may adversely affect our operations or the operations of our customers.***

The mining and processing activities at our facilities require significant amounts of water. Additionally, the development of oil and natural gas properties through fracture stimulation likewise requires significant water use. We have obtained water rights that we currently use to service the activities at our operating facilities, and we plan to obtain all required water rights to service other properties we may develop or acquire in the future. However, the amount of water that we and our customers are entitled to use pursuant to water rights must be determined by the appropriate regulatory authorities in the jurisdictions in which we and our customers operate. Such regulatory authorities may amend the regulations regarding such water rights, increase the cost of maintaining such water rights or eliminate our current water rights, and we and our customers may be unable to retain all or a portion of such water rights. These new regulations, which could also affect local municipalities and other industrial operations, could have a material adverse effect on our operating costs and effectiveness if implemented. Such changes in laws, regulations or government policy and related interpretations pertaining to water rights may alter the environment in which we and our customers do business, which may negatively affect our financial condition and results of operations.

***We may be subject to interruptions or failures in our information technology systems, including cyber-attacks.***

We rely on sophisticated information technology systems and infrastructure to support our business, including process control technology. Any of these systems may be susceptible to outages due to fire, floods, power loss, telecommunication failures, usage errors by employees, computer viruses, cyber-attacks or other security breaches, or similar events. If our information technology systems are damaged or cease to function properly, we may have to make a significant investment to fix or replace them, and we may suffer loss of critical data and interruptions or delays in our operations.

We may be the target of attempted cyber-attacks, computer viruses, malicious code, phishing attacks, denial of service attacks and other information security threats. To date, cyber-attacks have not had a material impact on our financial condition, results or business; however, we could suffer material financial or other losses in the future and we are not able to predict the severity of these attacks. The occurrence of a cyber-attack, breach, unauthorized access, misuse, computer virus or other malicious code or other cyber security event could jeopardize or result in the unauthorized disclosure, gathering, monitoring, misuse, corruption, loss or destruction of confidential and other information that belongs to us, our customers, our counterparties, or third-party service providers that is processed and stored in, and transmitted through, our computer systems and networks. The occurrence of such an event could also result in damage to our software, computers or systems, or otherwise cause interruptions or malfunctions in our, our customers', our counterparties' or third parties' operations. This could result in significant losses, loss of customers and business opportunities, reputational damage, litigation, regulatory fines, penalties or intervention, reimbursement or other compensatory costs, or otherwise adversely affect our business, financial condition or results of operations.

The reliability and capacity of our information technology systems is critical to our operations. Any material disruption in our information technology systems, or delays or difficulties in implementing or integrating new systems or enhancing current systems, could have an adverse effect on our business, and results of operations.

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

The commercial success of our SmartSystems wellsite proppant storage solutions depends on patented and proprietary information and technologies, know-how and other intellectual property. Because of the technical nature of this business, we rely on a combination of patent, copyright, trademark and trade secret laws, and restrictions on disclosure to protect our intellectual property. As of December 31, 2022, we had several patents related to our SmartSystems, including patents related to our silo storage system and patents related to lifting and lowering our storage silos. We customarily enter into confidentiality or license agreements with our employees, consultants and corporate partners and control access to and distribution of our design information, documentation and other patented and proprietary information. In addition, in the future we may develop or acquire additional patents or patent portfolios, which could require significant cash expenditures. However, third parties may knowingly or unknowingly infringe our patent or other proprietary rights, or challenge patents or proprietary

rights held by us, and pending and future trademark and patent applications may not be approved. Failure to protect, monitor and control the use of our existing intellectual property rights could cause us to lose our competitive advantage and incur significant expenses. It is possible that our competitors or others could independently develop the same or similar technologies or otherwise obtain access to our unpatented technologies. In such case, our trade secrets would not prevent third parties from competing with us. Consequently, our results of operations may be adversely affected. Furthermore, third parties or our employees may infringe or misappropriate our patented or proprietary technologies or other intellectual property rights, which could also harm our business and results of operations. Policing unauthorized use of intellectual property rights can be difficult and expensive, and adequate remedies may not be available.

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

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

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

***We currently rely on a limited number of suppliers for certain equipment and materials to build our SmartSystems, and our reliance on a limited number of suppliers for such equipment and materials exposes us to risks including price and timing of delivery.***

We currently rely on a limited number of suppliers for equipment and materials to build our SmartSystems. If demand for our systems or the components necessary to build such systems increases or suppliers of equipment face financial distress or bankruptcy, our suppliers may not be able to provide such equipment on schedule at the current price or at all. In particular, steel is the principal raw material used in the manufacture of our systems, and the price of steel has historically fluctuated on a cyclical basis and will depend on a variety of factors over which we have no control, including trade tariffs. Additionally, we depend on a limited number of suppliers for certain mechanical and electrical components that we use in our systems which may not have direct replacements available from alternate suppliers. If our suppliers are unable to provide the raw materials and components needed to build our systems on schedule at the current price or at all, we could be required to seek other suppliers for the raw materials and components needed to build and operate our systems, which may adversely affect our revenues or increase our costs. Any inability to find alternative components at prices or with quality specifications similar to those deployed today could result in delays or a loss of customers.

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

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

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

As we focus on growing our business, particularly as it relates to our SmartSystems offerings, our business may become increasingly subject to inherent risks that can cause personal injury or loss of life, damage to or destruction of property,



equipment or the environment or the suspension of our operations. In addition, we may be subject to legal proceedings with our customers or suppliers, particularly as it relates to contract disputes. Regardless of the merit of particular claims, litigation may be expensive, time consuming, disruptive to our operations and distracting to management.

The outcome of litigation is inherently uncertain. If one or more legal matters were resolved against us or an indemnified third party in a reporting period for amounts in excess of management's expectations, our financial condition and operating results for that reporting period could be materially adversely affected. Further, such an outcome could result in significant compensatory, punitive or trebled monetary damages, disgorgement of revenue or profits, remedial corporate measures or injunctive relief against us that could materially adversely affect our financial condition and operating results. We maintain what we believe is customary and reasonable insurance to protect our business against these potential losses, but such insurance may not be adequate to cover our liabilities, and we are not fully insured against all risks.

***A financial downturn could negatively affect our business, results of operations, financial condition and liquidity.***

Actual or anticipated declines in domestic or foreign economic growth rates, regional or worldwide increases in tariffs or other trade restrictions, turmoil affecting the U.S. or global financial systems and markets and a severe economic contraction either regionally or worldwide could materially affect our business and financial condition. These events could impact our ability to finance operations by worsening the actual or anticipated future drop in worldwide oil demand, negatively impacting the price we receive for our products and services, compressing the level of available funding under our ABL Credit Facility, inhibiting our lenders from funding borrowings under our ABL Credit Facility or resulting in our lenders reducing the borrowing base under our ABL Credit Facility. Negative economic conditions could also adversely affect the collectability of our trade receivables or performance by our vendors and suppliers.

**Risks Related to our Recent Expansion Activity**

***Our acquisition of the Blair facility may not achieve its intended results, and we may be unable to successfully integrate the operations of the Blair facility.***

On March 4, 2022, we entered into the Purchase Agreement with HCR and Blair, pursuant to which we acquired all of the issued and outstanding limited liability company interests of Blair from HCR for aggregate cash consideration of approximately \$6.5 million, subject to customary purchase price adjustments as set forth in the Purchase Agreement. Entities affiliated with Clearlake, who collectively own approximately 11.3% of the Company's outstanding common stock as of December 31, 2022, also own a significant portion of the outstanding common stock of HCR, and representatives of Clearlake serve on our board of directors and HCR's board of directors.

While we believe that the acquisition of Blair will result in various benefits, achieving the anticipated benefits of the acquisition is subject to a number of uncertainties, including whether we can integrate the business of Blair in an efficient and effective manner.

Our results of operations could be adversely affected by any issues attributable to Blair operations that arise from or are based on events or actions that occurred prior to the closing of the acquisition, including unknown liabilities of Blair or its subsidiaries. The integration process is subject to a number of uncertainties, and no assurance can be given whether anticipated benefits will be realized or, if realized, the timing of their realization. Failure to achieve these anticipated benefits could result in increased costs or decreases in the amount of expected revenues and could adversely affect our future business, financial condition, operating results, and prospects.

***Our future results will suffer if we do not effectively manage our expanded operations.***

With completion of the Blair acquisition and the acquisition of the Waynesburg terminal, our operations and the size of our business has expanded. Our future operating results depend, in part, on our ability to manage this expansion and growth successfully, which poses substantial challenges for management, including challenges related to the management and monitoring of new operations and associated increased costs and complexity. We cannot assure you that we will be successful or that we will realize the expected operating efficiencies, cost savings, and other benefits from the acquisition that we currently anticipate. A failure to manage our growth effectively could materially and adversely affect our profitability.

## Risks Related to Environmental, Mining and Other Regulation

***Federal, state and local legislative and regulatory initiatives relating to hydraulic fracturing and the potential for related litigation could result in increased costs, additional operating restrictions or delays for our customers, which could cause a decline in the demand for our frac sand and negatively impact our business, results of operations and financial condition.***

We supply frac sand to hydraulic fracturing operators in the oil and natural gas industry. Hydraulic fracturing is an important practice that is used to stimulate production of oil and natural gas from low permeability hydrocarbon bearing subsurface rock formations. The hydraulic fracturing process involves the injection of water, proppants, and chemicals under pressure into the formation to fracture the surrounding rock, increase permeability and stimulate production.

Although we do not directly engage in hydraulic fracturing activities, our customers purchase our frac sand for use in their hydraulic fracturing activities. Hydraulic fracturing is typically regulated by state oil and natural gas commissions and similar agencies. Some states have adopted, and other states are considering adopting, regulations that could impose new or more stringent permitting, disclosure or well construction requirements on hydraulic fracturing operations. Aside from state laws, local land use restrictions may restrict drilling in general or hydraulic fracturing in particular. Municipalities may adopt local ordinances attempting to prohibit hydraulic fracturing altogether or, at a minimum, allow such fracturing processes within their jurisdictions to proceed but regulating the time, place and manner of those processes. In addition, federal agencies have started to assert regulatory authority over the process and various studies have been conducted or are currently underway by the EPA, and other federal agencies concerning the potential environmental impacts of hydraulic fracturing activities. At the same time, certain environmental groups have suggested that additional laws may be needed and, in some instances, have pursued voter ballot initiatives to more closely and uniformly limit or otherwise regulate the hydraulic fracturing process, and legislation has been proposed by some members of Congress to provide for such regulation.

The adoption of new laws or regulations at the federal, state or local levels imposing reporting obligations on, or otherwise limiting or delaying, the hydraulic fracturing process could make it more difficult to complete natural gas wells, increase our customers' costs of compliance and doing business, and otherwise adversely affect the hydraulic fracturing services they perform, which could negatively impact demand for our frac sand. In addition, heightened political, regulatory, and public scrutiny of hydraulic fracturing practices could expose us or our customers to increased legal and regulatory proceedings, which could be time-consuming, costly, or result in substantial legal liability or significant reputational harm. We could be directly affected by adverse litigation involving us, or indirectly affected if the cost of compliance limits the ability of our customers to operate. Such costs and scrutiny could directly or indirectly, through reduced demand for our frac sand, have a material adverse effect on our business, financial condition and results of operations.

***We and our customers are subject to extensive environmental and occupational health and safety regulations that impose, and will continue to impose, significant costs and liabilities. In addition, future regulations, or more stringent enforcement of existing regulations, could increase those costs and liabilities, which could adversely affect our results of operations.***

We are subject to a variety of federal, state, and local regulatory environmental requirements affecting the mining and mineral processing industry, including among others, those relating to employee health and safety, environmental permitting and licensing, air and water emissions, water pollution, waste management, remediation of soil and groundwater contamination, land use, reclamation and restoration of properties, hazardous materials, and natural resources. Some environmental laws impose substantial penalties for noncompliance, and others, such as the federal CERCLA, may impose strict, retroactive, and joint and several liabilities for the remediation of releases of hazardous substances. Liability under CERCLA, or similar state and local laws, may be imposed as a result of conduct that was lawful at the time it occurred or for the conduct of, or conditions caused by, prior operators or other third parties. Failure to properly handle, transport, store, or dispose of hazardous materials or otherwise conduct our operations in compliance with environmental laws could expose us to liability for governmental penalties, cleanup costs, and civil or criminal liability associated with releases of such materials into the environment, damages to property, natural resources and other damages, as well as potentially impair our ability to conduct our operations. In addition, future environmental laws and regulations could restrict our ability to expand our facilities or extract our mineral deposits or could require us to acquire costly equipment or to incur other significant expenses in connection with our business. Future events, including adoption of new, or changes in any existing, environmental requirements (or their interpretation or enforcement) and the costs associated with complying with such requirements, could have a material adverse effect on us.

Any failure by us to comply with applicable environmental laws and regulations may cause governmental authorities to take actions that could adversely impact our operations and financial condition, including:

- issuance of administrative, civil, or criminal penalties;
- denial, modification, or revocation of permits or other authorizations;

- occurrence of delays in permitting or performance of projects;
- imposition of injunctive obligations or other limitations on our operations, including cessation of operations; and
- requirements to perform site investigatory, remedial, or other corrective actions.

Any such regulations could require us to modify existing permits or obtain new permits, implement additional pollution control technology, curtail operations, significantly increase our operating costs, or impose additional operating restrictions among our customers that reduce demand for our services.

We may not be able to comply with any new or amended laws and regulations that are adopted, and any new or amended laws and regulations could have a material adverse effect on our operating results by requiring us to modify our operations or equipment or shut down our facility. Additionally, our customers may not be able to comply with any new or amended laws and regulations, which could cause our customers to curtail or cease operations. We cannot at this time reasonably estimate our costs of compliance or the timing of any costs associated with any new or amended laws and regulations, or any material adverse effect that any new or modified standards will have on our customers and, consequently, on our operations.

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

We are subject to laws and regulations relating to human exposure to crystalline silica. Several federal and state regulatory authorities, including MSHA, may continue to propose changes in their regulations regarding workplace exposure to crystalline silica, such as permissible exposure limits and required controls and personal protective equipment. We may not be able to comply with any new or amended laws and regulations that are adopted, and any new or amended laws and regulations could have a material adverse effect on our operating results by requiring us to modify or cease our operations.

In addition, the inhalation of respirable crystalline silica is associated with the lung disease silicosis. There is evidence of an association between crystalline silica exposure or silicosis and lung cancer and a possible association with other diseases, including immune system disorders such as scleroderma. These health risks have been, and may continue to be, a significant issue confronting the proppant industry. Concerns over silicosis and other potential adverse health effects, as well as concerns regarding potential liability from the use of frac sand, may have the effect of discouraging our customers' use of our frac sand. The actual or perceived health risks of mining, processing and handling proppants could materially and adversely affect proppant producers, including us, through reduced use of frac sand, the threat of product liability or employee lawsuits, increased scrutiny by federal, state and local regulatory authorities of us and our customers or reduced financing sources available to the frac sand industry.

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

Our operations are subject to the Federal Mine Safety and Health Act of 1977, as amended by the Mine Improvement and New Emergency Response Act of 2006, which imposes stringent health and safety standards on numerous aspects of mineral extraction and processing operations, including the training of personnel, operating procedures, operating equipment, and other matters. Our failure to comply with such standards, or changes in such standards or the 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.

***We and our customers are subject to other extensive regulations, including licensing, plant and wildlife protection and reclamation regulation, that impose, and will continue to impose, significant costs and liabilities. In addition, future regulations, or more stringent enforcement of existing regulations, could increase those costs and liabilities, which could adversely affect our results of operations.***

In addition to the regulatory matters described above, we and our customers are subject to extensive governmental regulation on matters such as permitting and licensing requirements, plant and wildlife protection, wetlands protection, reclamation and restoration activities at mining properties after mining is completed, the discharge of materials into the environment, and the effects that mining and hydraulic fracturing have on groundwater quality and availability. Our future success depends, among other things, on the quantity and quality of our frac sand deposits, our ability to extract these deposits profitably, and our customers being able to operate their businesses as they currently do.

In order to obtain permits and renewals of permits in the future, we may be required to prepare and present data to governmental authorities pertaining to the potential adverse impact that any proposed excavation or production activities, individually or in the aggregate, may have on the environment. Certain approval procedures may require preparation of archaeological surveys, endangered species studies, and other studies to assess the environmental impact of new sites or the

expansion of existing sites. Compliance with these regulatory requirements is expensive and significantly lengthens the time needed to develop a site. Finally, obtaining or renewing required permits is sometimes delayed or prevented due to community opposition and other factors beyond our control. The denial of a permit essential to our operations or the imposition of conditions with which it is not practicable or feasible to comply could impair or prevent our ability to develop or expand a site. Significant opposition to a permit by neighboring property owners, members of the public, or other third parties, or delay in the environmental review and permitting process also could delay or impair our ability to develop or expand a site. New legal requirements, including those related to the protection of the environment, could be adopted that could materially adversely affect our mining operations (including our ability to extract or the pace of extraction of mineral deposits), our cost structure, or our customers' ability to use our frac sand. Such current or future regulations could have a material adverse effect on our business, and we may not be able to obtain or renew permits in the future.

***Our inability to acquire, maintain or renew financial assurances related to the reclamation and restoration of mining property could have a material adverse effect on our business, financial condition and results of operations.***

We are generally obligated to restore property in accordance with regulatory standards and our approved reclamation plan after it has been mined. We are required under federal, state, and local laws to maintain financial assurances, such as surety bonds, to secure such obligations. The inability to acquire, maintain or renew such assurances, as required by federal, state, and local laws, could subject us to fines and penalties as well as the revocation of our operating permits. Such inability could result from a variety of factors, including:

- the lack of availability, higher expense, or unreasonable terms of such financial assurances;
- the ability of current and future financial assurance counterparties to increase required collateral; and
- the exercise by financial assurance counterparties of any rights to refuse to renew the financial assurance instruments.

Our inability to acquire, maintain, or renew necessary financial assurances related to the reclamation and restoration of mining property could have a material adverse effect on our business, financial condition, and results of operations.

***Climate change legislation and regulatory initiatives could result in increased compliance costs for us and our customers.***

In recent years, the U.S. Congress has considered legislation to reduce emissions of GHGs, including methane, a primary component of natural gas, and carbon dioxide, a byproduct of the burning of natural gas. It presently appears unlikely that comprehensive climate legislation will be passed by either house of Congress in the near future, although energy legislation and other regulatory initiatives are expected to be proposed that may be relevant to GHG emissions issues. For example, in August 2022, the U.S. Congress passed, and President Biden signed into law, the Inflation Reduction Act of 2022 which appropriates significant federal funding for renewable energy initiatives and, for the first time ever, imposes a fee on GHG emissions from certain facilities. The emissions fee and funding provisions of the law could increase the operating costs of our customers and accelerate the transition away from fossil fuels, which could in turn adversely affect our business and results of operations.

In addition, a number of states are addressing GHG emissions, primarily through the development of emission inventories or regional GHG cap and trade programs. Depending on the particular program, we could be required to control GHG emissions or to purchase and surrender allowances for GHG emissions resulting from our operations. Independent of Congress, the EPA has adopted regulations controlling GHG emissions under its existing authority under the federal CAA. For example, the EPA has adopted regulations under existing provisions of the CAA that, among other things establish construction and operating permit reviews for GHG emissions from certain large stationary sources that are already potential major sources for conventional pollutants. In addition, the EPA has adopted rules requiring the monitoring and reporting of GHG emissions from specified production, processing, transmission and storage facilities in the United States on an annual basis.

In addition, in December 2015, over 190 countries, including the United States, reached an agreement to reduce global GHG emissions, also known as the Paris Agreement. The Paris Agreement entered into force in November 2016 after more than 170 nations, including the United States, ratified or otherwise indicated their intent to be bound by the agreement. The United States withdrew from this agreement under the Trump Administration, but reentered shortly after President Biden took office in January 2021. In April 2021, President Biden announced a goal of reducing the United States' emissions by 50-52% below 2005 levels by 2030. In November 2021, the international community gathered again in Glasgow at the 26th Conference to the Parties on the UN Framework Convention on Climate Change ("COP26"), during which multiple announcements were made, including a call for parties to eliminate certain fossil fuel subsidies and pursue further action on non-CO2 GHGs. Relatedly, while at COP26, the United States and European Union jointly announced the launch of the "Global Methane Pledge," which aims to cut global methane pollution at least 30% by 2030 relative to 2020 levels, including "all feasible reductions" in the energy sector. Since its formal launch at COP26, over 150 countries have joined the pledge. We cannot predict what additional legislative or regulatory requirements may result from these developments. COP26 concluded with the

finalization of the Glasgow Climate Pact, which stated long-term global goals (including those in the Paris Agreement) aimed at limiting the increase in the global average temperature and reducing GHG emissions. These goals were reaffirmed at the November 2022 UN Climate Change Conference of Parties (“COP27”). Several states and geographic regions in the United States have also adopted legislation and regulations to reduce emissions of GHGs, including cap and trade regimes and commitments to contribute to meeting the goals of the Paris Agreement. It is not possible at this time to predict the timing and effects of climate change or to predict the timing or effect of rejoining the Paris Agreement or whether additional climate-related legislation, regulations or other measures will be adopted at the local, state, regional, national and international levels.

Governmental, scientific and public concern over the threat of climate change arising from GHG emissions has also resulted in increasing political risks in the United States, including climate change-related pledges made by certain candidates elected to public office. President Biden has issued several executive orders focused on addressing climate change, including items that may impact our customers’ costs to produce, or demand for, oil and natural gas. Additionally, in November 2021, the Biden Administration released “The Long-Term Strategy of the United States: Pathways to Net-Zero Greenhouse Gas Emissions by 2050,” which establishes a roadmap to net-zero emissions in the United States by 2050 through, among other things, improving energy efficiency; decarbonizing energy sources via electricity, hydrogen and sustainable biofuels; and reducing non-CO<sub>2</sub> GHG emissions, such as methane and nitrous oxide. To the extent that the United States and other countries implement the Paris Agreement or local, state, regional, national or international governments impose other climate change regulations on the oil and natural gas industry, it could have an adverse effect on our business because substantial limitations on GHG emissions could adversely affect demand for the oil and natural gas that is produced by our customers. Litigation risks are also increasing, as a number of entities have sought to bring suit against oil and natural gas companies in state or federal court, alleging, among other things, that such companies created public nuisances by producing fuels that contributed to climate change. Suits have also been brought against such companies under stockholder and consumer protection laws, alleging that companies have been aware of the adverse effects of climate change but failed to adequately disclose those impacts. To the extent these risks impact our customers, we may experience reduced demand for our proppant.

Additionally, in March 2022, the SEC proposed new rules relating to the disclosure of a range of climate-related data risks and opportunities, including financial impacts, physical and transition risks, related governance and strategy and GHG emissions, for certain public companies. We are currently assessing this rule but at this time we cannot predict the ultimate impact of the rule on our business or those of our customers. The SEC originally planned to issue a final rule by October 2022, but most commentators now expect a final rule to be issued in early 2023. To the extent this rule is finalized as proposed, we or our customers could incur increased costs related to the assessment and disclosure of climate-related risks and certain emissions metrics. In addition, enhanced climate disclosure requirements could accelerate the trend of certain stakeholders and lenders restricting or seeking more stringent conditions with respect to their investments in certain carbon intensive sectors.

Finally, many scientists have concluded that increasing concentrations of GHGs in the Earth’s atmosphere may produce climate changes that have significant physical effects, such as increased frequency and severity of storms, floods and other climatic events; if any such effects were to occur, they could have an adverse effect on our operations and our customers’ exploration and production operations.

***A negative shift in investor sentiment towards the oil and natural gas industry and increased attention to environmental, social and governance (“ESG”) and conservation matters may adversely impact our business.***

Increasing attention to climate change and natural capital, societal expectations on companies to address climate change, investor and societal expectations regarding voluntary ESG initiatives and disclosures, and consumer demand for alternative sources of energy may result in increased costs (including but not limited to increased costs associated with compliance, stakeholder engagement, contracting, and insurance), reduced demand for our customers’ hydrocarbon products and our product and services, reduced profits, increased legislative and judicial scrutiny, investigations and litigation, and negative impacts on our stock price and access to capital markets. Increasing attention to climate change and environmental conservation, for example, may result in demand shifts for our customers’ hydrocarbon products and additional governmental investigations and private litigation against those customers. To the extent that societal pressures or political or other factors are involved, it is possible that liability could be imposed on our customers without regard to their causation of or contribution to the asserted damage, or to other mitigating factors. To date, however, changes in societal pressures and consumer demand related to increased attention to ESG and conservation matters have not had a material impact on our customers’ operations or otherwise materially and adversely affected our business. Voluntary disclosures regarding ESG matters, as well as any ESG disclosures mandated by law, could result in private litigation or government investigation or enforcement action regarding the sufficiency or validity of such disclosures. In addition, failure or a perception (whether or not valid) of failure to implement ESG strategies or achieve ESG goals or commitments, including any GHG reduction or neutralization goals or commitments, could result in governmental investigations or enforcement, private litigation and damage our reputation, cause our investors or consumers to lose confidence in our Company, and negatively impact our operations.

Moreover, while we may create and publish disclosures regarding ESG matters, many of the statements in those disclosures may be on hypothetical expectations and assumptions that may or may not be representative of current or actual risks or events or forecasts of expected risks or events, including the costs associated therewith. Such expectations and assumptions are necessarily uncertain and may be prone to error or subject to misinterpretation given the long timelines involved and the lack of an established single approach to identifying and measuring many ESG matters. Such disclosures may also be partially reliant on third-party information that we have not or cannot independently verify. Additionally, we expect there will likely be increasing levels of regulation, disclosure-related and otherwise, with respect to ESG matters, and increased regulation will likely lead to increased compliance costs as well as scrutiny that could heighten all of the risks identified in this risk factor.

In addition, organizations that provide information to investors on corporate governance and related matters have developed ratings processes for evaluating companies on their approach to ESG matters. Such ratings are used by some investors to inform their investment and voting decisions. Unfavorable ESG ratings and recent activism directed at shifting funding away from companies with energy-related assets could lead to increased negative investor sentiment toward us or our customers and to the diversion of investment to other industries, which could have a negative impact on our stock price and our or our customers' access to and costs of capital. Also, institutional lenders may, of their own accord, decide not to provide funding for fossil fuel industry companies based on climate change, natural capital, or other ESG related concerns, which could affect our or our customers' access to capital for potential growth projects. Moreover, to the extent ESG matters negatively impact our or the fossil fuel industry's reputation, we may not be able to compete as effectively to recruit or retain employees, which may adversely affect our operations.

### **Risks Related to Ownership of Our Common Stock**

***Our stock price could be volatile, and you may not be able to resell shares of your common stock at or above the price you paid.***

The stock markets generally have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock. Volatility in the market price of our common stock may prevent you from being able to sell your common stock at or above the price at which you purchased the stock. As a result, you may suffer a loss on your investment. Securities class action litigation has often been instituted against companies following periods of volatility in the overall market and in the market price of a company's securities. Such litigation, if instituted against us, could result in very substantial costs, divert our management's attention and resources and harm our business, operating results and financial condition.

In addition to the risks described in this section, the market price of our common stock may fluctuate significantly in response to a number of factors, most of which we cannot control, including:

- our operating and financial performance;
- quarterly variations in the rate of growth of our financial indicators, such as revenues, EBITDA, Adjusted EBITDA, contribution margin, free cash flow, net income, and net income per share;
- the public reaction to our press releases, our other public announcements, and our filings with the SEC;
- strategic actions by our competitors;
- our failure to meet revenue or earnings estimates by research analysts or other investors;
- changes in revenue or earnings estimates, or changes in recommendations or withdrawal of research coverage, by equity research analysts;
- speculation in the press or investment community;
- the failure of research analysts to cover our common stock;
- sales of our common stock by us or our stockholders, or the perception that such sales may occur;
- changes in accounting principles, policies, guidance, interpretations, or standards;
- additions or departures of key management personnel;
- actions by our stockholders;



- general market conditions, including fluctuations in commodity prices, sand-based proppants, or industrial and recreational sand-based products;
- domestic and international economic, legal and regulatory factors unrelated to our performance; and
- the realization of any risks described under this “Risk Factors” section.

***We are subject to certain requirements of Section 404 of the Sarbanes-Oxley Act. If we are unable to timely comply with Section 404 or if the costs related to compliance are significant, our profitability, stock price, results of operations and financial condition could be materially adversely affected.***

We are required to comply with certain provisions of Section 404 of the Sarbanes-Oxley Act. Section 404 requires that we document and test our internal control over financial reporting and issue management’s assessment of our internal control over financial reporting. This section also requires that our independent registered public accounting firm opine on those internal controls upon our public float exceeding a certain threshold as set forth in the SEC rules. We are evaluating our existing controls against the standards adopted by the Committee of Sponsoring Organizations of the Treadway Commission. During the course of our ongoing evaluation and integration of the internal control over financial reporting, we may identify areas requiring improvement, and we may have to design enhanced processes and controls to address issues identified through this review.

We believe that the out-of-pocket costs, diversion of management’s attention from running the day-to-day operations and operational changes caused by the need to comply with the requirements of Section 404 of the Sarbanes-Oxley Act could be significant. If the time and costs associated with such compliance exceed our current expectations, our results of operations could be adversely affected.

If we fail to comply with the requirements of Section 404 or if we or our independent registered public accounting firm identify and report such material weaknesses, the accuracy and timeliness of the filing of our annual and quarterly reports may be materially adversely affected and could cause investors to lose confidence in our reported financial information, which could have a negative effect on the stock price of our common stock. In addition, a material weakness in the effectiveness of our internal control over financial reporting could result in an increased chance of fraud and the loss of customers, reduce our ability to obtain financing and require additional expenditures to comply with these requirements, each of which could have a material adverse effect on our business, results of operations and financial condition.

***The concentration of our capital stock ownership among our largest stockholders and their affiliates will limit your ability to influence corporate matters.***

As of December 31, 2022, Clearlake beneficially owns approximately 11.3% of our outstanding common stock and our Chief Executive Officer beneficially owns approximately 15.1% of our outstanding common stock. Consequently, Clearlake and our Chief Executive Officer (each of whom we sometimes refer to as a “Principal Stockholder”) will continue to have significant influence over all matters that require approval by our stockholders, including the election of directors and approval of significant corporate transactions. Additionally, we are party to a stockholders’ agreement pursuant to which, so long as either Principal Stockholder maintains certain beneficial ownership levels of our common stock, each Principal Stockholder will have certain rights, including board of directors and committee designation rights and consent rights, including the right to consent to change in control transactions. For additional information, please read “Certain Relationships and Related Party Transactions—Stockholders Agreement” in the prospectus included in our Registration Statement on Form S-1 (Registration No. 333-215554), initially filed with the SEC on January 13, 2017. This concentration of ownership and the rights of our Principal Stockholders under the stockholders agreement, will limit your ability to influence corporate matters, and as a result, actions may be taken that you may not view as beneficial.

Furthermore, conflicts of interest could arise in the future between us and Clearlake and its affiliates, including its portfolio companies, concerning among other things, potential competitive business activities or business opportunities. Clearlake is a private equity firm in the business of making investments in entities in a variety of industries. As a result, Clearlake’s existing and future portfolio companies which it controls may compete with us for investment or business opportunities. These conflicts of interest may not be resolved in our favor.

***The price of our common stock may fluctuate significantly, and you could lose all or part of your investment.***

As of December 31, 2022, there were 28,543,283 publicly traded shares of common stock held by our public common stockholders. Although our common stock is listed on the NASDAQ, we do not know whether an active trading market will continue to develop or how liquid that market might be. You may not be able to resell your common stock at or above the

public offering price. Additionally, the lack of liquidity may result in wide bid-ask spreads, contribute to significant fluctuations in the market price of the common stock and limit the number of investors who are able to buy the common stock.

***Our amended and restated certificate of incorporation contains a provision renouncing our interest and expectancy in certain corporate opportunities.***

Our amended and restated certificate of incorporation provides for the allocation of certain corporate opportunities between us and Clearlake. Under these provisions, neither Clearlake, its affiliates and investment funds, nor any of their respective principals, officers, members, managers and/or employees, including any of the foregoing who serve as our officers or directors, will have any duty to refrain from engaging, directly or indirectly, in the same business activities or similar business activities or lines of business in which we operate. For instance, a director of our company who also serves or is a principal, officer, member, manager and/or employee of Clearlake or any of its affiliates or investment funds may pursue certain acquisitions or other opportunities that may be complementary to our business and, as a result, such acquisition or other opportunities may not be available to us. These potential conflicts of interest could have a material adverse effect on our business, financial condition and results of operations if attractive corporate opportunities are allocated by Clearlake to itself or its affiliates or investment funds instead of to us. The terms of our amended and restated certificate of incorporation are more fully described in “Description of Capital Stock” in the prospectus included in our Registration Statement on Form S-3 (Registration No. 333-251915), initially filed with the SEC on January 6, 2021.

***If securities or industry analysts do not publish research or reports or publish unfavorable research about our business, the price and trading volume of our common stock could decline.***

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who covers us downgrades our securities, the price of our securities would likely decline. If one or more of these analysts ceases to cover us or fails to publish regular reports on us, interest in the purchase of our securities could decrease, which could cause the price of our common stock and other securities and their trading volume to decline.

***Our amended and restated certificate of incorporation and amended and restated bylaws, as well as Delaware law, contain provisions that could discourage acquisition bids or merger proposals, which may adversely affect the market price of our common stock.***

Our amended and restated certificate of incorporation authorizes our board of directors to issue preferred stock without stockholder approval. If our board of directors elects to issue preferred stock, it could be more difficult for a third party to acquire us. In addition, some provisions of our amended and restated certificate of incorporation and amended and restated bylaws could make it more difficult for a third party to acquire control of us, even if the change of control would be beneficial to our stockholders, including:

- advance notice provisions for stockholder proposals and nominations for elections to the board of directors to be acted upon at meetings of stockholders;
- provisions that divide our board of directors into three classes of directors, with the classes to be as nearly equal in number as possible;
- provisions that prohibit stockholder action by written consent after the date on which our Principal Stockholders collectively cease to beneficially own at least 50% of the voting power of the outstanding shares of our stock entitled to vote;
- provisions that provide that special meetings of stockholders may be called only by the board of directors or, for so long as a Principal Stockholder continues to beneficially own at least 20% of the voting power of the outstanding shares of our stock;
- provisions that provide that our stockholders may only amend our certificate of incorporation or bylaws with the approval of at least 66 2/3% of the voting power of the outstanding shares of our stock entitled to vote, or for so long as our Principal Stockholders collectively continue to beneficially own at least 50% of the voting power of the outstanding shares of our stock entitled to vote, with the approval of a majority of the voting power of the outstanding shares of our stock entitled to vote;
- provisions that provide that the board of directors is expressly authorized to adopt, or to alter or repeal our bylaws; and

- provisions that establish advance notice and certain information requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

***We do not currently pay dividends on our common stock, and our debt agreements place certain restrictions on our ability to do so. Consequently, your only opportunity to achieve a return on your investment is if the price of our common stock appreciates.***

We do not currently pay dividends on shares of our common stock. Additionally, our ABL Credit Facility places certain restrictions on our ability to pay cash dividends. Consequently, unless we revise our dividend policy, your only opportunity to achieve a return on your investment in us will be if you sell your common stock at a price greater than you paid for it. There is no guarantee that the price of our common stock that will prevail in the market will ever exceed the price that you previously paid.

***Future sales of our common stock in the public market could reduce our stock price, and the sale or issuance of equity or convertible securities may dilute your ownership in us.***

We may sell additional shares of common stock in subsequent public offerings. We may also issue additional shares of common stock or convertible securities. As of December 31, 2022, we have outstanding 45,818,584 shares of common stock. Clearlake beneficially owns 5,192,052 shares of our common stock, or approximately 11.3% of our total outstanding shares and our Chief Executive Officer beneficially owns 6,915,217 shares of our common stock, or approximately 15.1% of our total outstanding shares.

On November 9, 2021, we entered into an Open Market Sale Agreement (the “Sale Agreement”) with Clearlake Capital Partners II (Master), L.P., an affiliate of Clearlake (the “Selling Stockholder”), and Jefferies LLC (the “Sales Agent”). Pursuant to the terms of the Sale Agreement, (i) we may sell, from time to time, shares of its common stock having an aggregate value of up to \$25,000,000 and (ii) the Selling Stockholder may sell, from time to time, up to 10,920,445 shares of our common stock. The sales, if any, of shares of our common stock made under the Sale Agreement may be made in sales deemed to be “at-the-market” offerings as defined in Rule 415 under the Securities Act, including sales made directly on the Nasdaq Global Select Market, on any other existing trading market for our common stock, or to or through a market maker. Sales of shares of our common stock may also be made by any method permitted by law, including, but not limited to, in privately negotiated transactions.

In connection with our initial public offering, we filed a registration statement with the SEC on Form S-8 providing for the registration of shares of our common stock issued or reserved for issuance under our equity incentive plans. Subject to the satisfaction of vesting conditions and the requirements of Rule 144, shares registered under the registration statement on Form S-8 will be available for resale immediately in the public market without restriction.

We have provided certain registration rights for the sale of common stock by certain existing stockholders in the future. The sale of these shares could have an adverse impact on the price of our common stock or on any trading market that may develop.

We cannot predict the size of future issuances of our common stock or securities convertible into common stock or the effect, if any, that future issuances and sales of shares of our common stock will have on the market price of our common stock. Sales of substantial amounts of our common stock (including shares issued in connection with an acquisition), or the perception that such sales could occur, may adversely affect prevailing market prices of our common stock.

***We may issue preferred stock whose terms could adversely affect the voting power or value of our common stock.***

Our amended and restated certificate of incorporation authorizes us to issue, without the approval of our stockholders, one or more classes or series of preferred stock having such designations, preferences, limitations and relative rights, including preferences over our common stock respecting dividends and distributions, as our board of directors may determine. The terms of one or more classes or series of preferred stock could adversely impact the voting power or value of our common stock. For example, we might grant holders of preferred stock the right to elect some number of our directors in all events or on the happening of specified events or the right to veto specified transactions. Similarly, the repurchase or redemption rights or liquidation preferences we might assign to holders of preferred stock could affect the residual value of the common stock.

*Our amended and restated certificate of incorporation designates the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, employees or agents.*

Our amended and restated certificate of incorporation provides that unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will, to the fullest extent permitted by applicable law, be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers, employees or agents to us or our stockholders, (iii) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law (the "DGCL"), our amended and restated certificate of incorporation or our bylaws, or (iv) any action asserting a claim against us that is governed by the internal affairs doctrine, in each such case subject to such Court of Chancery having personal jurisdiction over the indispensable parties named as defendants therein. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock will be deemed to have notice of, and consented to, the provisions of our amended and restated certificate of incorporation described in the preceding sentence. This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, employees or agents, which may discourage such lawsuits against us and such persons. Alternatively, if a court were to find these provisions of our amended and restated certificate of incorporation inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business, financial condition or results of operations.

#### **ITEM 1B. — UNRESOLVED STAFF COMMENTS**

None.

#### **ITEM 2. — PROPERTIES**

As of December 31, 2022, our operating facilities include two frac sand mines and related processing facilities in Oakdale, Wisconsin and Utica, Illinois. Also, in addition to the onsite transloading capabilities at our Oakdale mine, we have nearby transloading facilities to each of our mines and three in-basin transload facilities in Van Hook, North Dakota, Waynesburg, Pennsylvania, and El Reno, Oklahoma.

The following table provides key characteristics of our Oakdale, Wisconsin facility as of December 31, 2022:

<b>Facility Characteristic</b>	<b>Description</b>
Site geography	Approximately 1,256 contiguous acres, with on-site processing and rail loading facilities.
Proven and probable recoverable reserves	247 million tons.
Deposits	Sand reserves of up to 200 feet; grade mesh sizes 20/40, 30/50, 40/70 and 100 mesh.
Proven reserve mix	Approximately 19% of 20/40 and coarser substrate, 41% of finer 40/70 mesh substrate and approximately 40% of fine 100 mesh substrate. Our 30/50 gradation is a derivative of the 20/40 and 40/70 blends.
Excavation technique	Generally shallow overburden allowing for surface excavation.
Annual processing capacity	5.5 million tons.
Logistics capabilities	Dual served rail line logistics capabilities. On-site transportation infrastructure capable of simultaneously accommodating multiple unit trains and connected to the Canadian Pacific rail network. Additional unit train capable transload facility located approximately three miles from the Oakdale facility in Byron Township that provides access to the Union Pacific rail network.
Royalties	\$0.50 per ton sold of 70 mesh and coarser substrate.

The following table provides key characteristics of our Utica, Illinois facility as of December 31, 2022:

<b>Facility Characteristic</b>	<b>Description</b>
Site geography	Approximately 1,176 acres, with on-site processing and truck loadout facilities.
Proven and probable recoverable reserves	128 million tons.
Deposits	Sand reserves of up to 100 feet; grade mesh sizes 20/40, 30/50, 40/70 and 100 mesh.
Proven and probable reserve mix	Approximately 29% of 20/40 and coarser substrate, 58% of finer 40/70 mesh substrate and approximately 13% of fine 70/100 mesh substrate. Our 30/50 gradation is a derivative of the 20/40 and 40/70 blends.
Excavation technique	Average overburden of approximately 66ft allowing for surface excavation.
Annual processing capacity	1.6 million tons
Logistics capabilities	Unit train capable transload facility located approximately seven miles from the Utica facility in Peru, Illinois that provides access to the BNSF rail network.
Royalties	None

We expect to bring on the Blair facility in the second quarter of 2023. The following table provides key characteristics of our Blair, Wisconsin facility as of December 31, 2022:

<b>Facility Characteristic</b>	<b>Description</b>
Site geography	Approximately 1,285 acres, with on-site processing and rail loading facilities
Proven and probable recoverable reserves	115 million tons.
Deposits	Average thickness 106 feet; grade mesh sizes 20/40, 30/50, 40/70, 50/140, and 100 mesh.
Proven and probable reserve mix	Approximately 35% of 20/40 and coarser substrate with the remainder a finer substrate.
Excavation technique	Average overburden of approximately 18ft allowing for surface excavation.
Annual processing capacity	2.9 million tons
Logistics capabilities	Unit train capable transload facility with more than 8 miles of track and located on-site with access to the Canadian National Railway.
Royalties	\$1.75 per ton with certain annual minimum payments.

In addition to these currently operating facilities, we also acquired an idled mine and processing facility in New Auburn, Wisconsin as part of the Eagle Proppants Holdings acquisition in 2020, which contains a higher concentration of coarser sand deposits. We have no immediate plans to resume processing frac sand operations at this facility, though its administrative facilities and proximity to our Oakdale facility allow us to utilize the property to create synergies with our existing operations in Wisconsin.

We also own approximately 959 acres in Jackson County, Wisconsin (“Hixton”). The Hixton site is fully permitted to initiate operations and is available for future development. As of December 31, 2022, our Hixton site had approximately 141 million tons of measured resources. We have no immediate plans to further develop this site.

We have two long-term surface mining leases for properties located in the Permian Basin in Texas that are available for future development. The first site consists of 1,772 acres in Winkler County, Texas. This location is adjacent to the Texas & New Mexico Railway (TXN) short line with direct access to State Highway 18. The second site consists of 2,447 acres in Crane County, Texas. This location has direct access to Interstate Highway 20. Based on our preliminary testing, we believe there are sufficient quantities on these sites to establish reserves in the future. We have no immediate plans to further develop these sites.

We lease a 56,000 square foot facility in Saskatoon, Saskatchewan, Canada where we manufacture our SmartSystems wellsite proppant storage solutions.

## **Our Reserves**

We believe that our strategically-located mining sites provide us with a large and high-quality mineral reserves base. Mineral resources and reserves are typically classified by confidence (reliability) levels based on the level of exploration, consistency and assurance of geologic knowledge of the deposit. This classification system considers different levels of geoscientific knowledge and varying degrees of technical and economic evaluation. Mineral reserves are derived from in situ resources through application of modifying factors, such as mining, analytical, economic, marketing, legal, environmental, social and governmental factors, relative to mining methods, processing techniques, economics and markets. In estimating our reserves, we do not classify a resource as a reserve unless that resource can be demonstrated to have reasonable certainty to be recovered economically in accordance with the modifying factors listed above. “Reserves” are defined by SEC Industry Guide 7 as that part of a mineral deposit that could be economically and legally extracted or produced at the time of the reserve determination. Industry Guide 7 defines “proven (measured) reserves” as reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established. Industry Guide 7 defines “probable (indicated) reserves” as reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established.

In estimating our reserves, as listed in the tables above, we categorize our reserves as proven or probable recoverable in accordance with these SEC definitions. The quantity and nature of the sand reserves at our mining locations were estimated by third-party geologists and mining engineers for the year ended December 31, 2022.

Our Oakdale reserves are located on 1,256 contiguous acres in Monroe County, Wisconsin. We own our Monroe County acreage in fee and acquired surface and mineral rights on all of such acreage from multiple landowners in separate transactions. Our mineral rights are subject to an aggregate non-participating royalty interest of \$0.50 per ton sold of coarser than 70 mesh, which we believe is significantly lower than many of our competitors.

Our Hixton site is on approximately 959 acres in Jackson County, Wisconsin. The Hixton site is fully permitted and available for future development. We own our Jackson County acreage in fee and acquired surface and mineral rights on all of such acreage from multiple landowners in separate transactions. Our mineral rights are subject to an aggregate non-participating royalty interest of \$0.50 per ton sold of coarser than 70 mesh, which we believe is significantly lower than many of our competitors.

Our Utica mine is approximately 1,400 acres in LaSalle County, Illinois. The Utica site is a fully owned including all mineral rights and we are not subject to any royalty interest at this site.

Our Blair mine is approximately 1,285 acres in Trempealeau and Jackson County, Wisconsin. We own our Blair mine property in fee and acquired surface and mineral rights on all rights. There are currently royalties of \$1.75 per ton sold, subject to certain annual minimum annual royalties.

To opine as to the economic viability of our reserves, independent experts reviewed our financial cost and revenue per ton data at the time of the reserve determination. Historical mineral prices are considered in the context of market supply and demand dynamics to further assess the long-term economic viability of the mineral reserve assets that were evaluated over a thirty year measurement period. A range of average sales price assumptions was considered to estimate proven reserves in accordance with the Commission's definitions. For our Oakdale location, the assumed average sales price was \$20 per ton for the life of mine over 62 years. For our Utica location, the assumed average sales price was \$20 per ton for the life of mine over 107 years. For our Blair location, the assumed average sales price was \$36 per ton for the life of mine over 46 years. The reserve estimates are updated annually based on a variety of factors, including sales, changes to mineral properties, changes in mine plan, current pricing forecasts and other business strategies. The recovery percentage following processing is also an important criterion in determining economic viability of our mineral reserves. An estimated average processing recovery of approximately 82% was used for our Oakdale and Hixton locations, 81% for our Utica location AND 75% for our Blair location.

Based on their review of our cost structure and their extensive experience with similar operations, John T. Boyd concluded that it is reasonable to assume that we will operate under a similar cost structure over the remaining life of our reserves. John T. Boyd further assumed that if our revenue per ton remained relatively constant over the life of the reserves, our current operating margins are sufficient to expect continued profitability throughout the life of our reserves.

### **ITEM 3. — 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. The disclosure called for by Part I, Item 3 regarding our legal proceedings is incorporated by reference herein from Part II, Item 8. Note 17 - Commitments and Contingencies - Litigation of the notes to the consolidated financial statements in this Form 10-K for the year ended December 31, 2022.

### **ITEM 4. — MINE SAFETY DISCLOSURES**

We are committed to maintaining a culture that prioritizes mine safety. We believe that our commitment to safety, the environment and the communities in which we operate is critical to the success of our business. Our sand mining operations are subject to mining safety regulation. The U.S. Mining Safety and Health Administration ("MSHA") is the primary regulatory organization governing frac sand mining and processing. Accordingly, MSHA regulates quarries, surface mines, underground mines and the industrial mineral processing facilities associated with and located at quarries and mines. The mission of MSHA is to administer the provisions of the Federal Mine Safety and Health Act of 1977 and to enforce compliance with mandatory miner safety and health standards. As part of MSHA's oversight, representatives perform at least two unannounced inspections annually for each above-ground facility.

We are also subject to regulations by the U.S. Occupational Safety and Health Administration ("OSHA") which has promulgated rules for workplace exposure to respirable silica for several other industries. Respirable silica is a known health hazard for workers exposed over long periods. MSHA is expected to adopt similar rules as part of its "Long Term Items" for rulemaking. Airborne respirable silica is associated with work areas at our site and is monitored closely through routine testing and MSHA inspection. If the workplace exposure limit is lowered significantly, we may be required to incur certain capital expenditures for equipment to reduce this exposure. We also adhere to NIOSH's respiratory protection program, and ensures that workers are provided with fitted respirators and ongoing radiological monitoring.

Our operations are subject to the Federal Mine Safety and Health Act of 1977, as amended by the Mine Improvement and New Emergency Response Act of 2006, which imposes stringent health and safety standards on numerous aspects of mineral extraction and processing operations, including the training of personnel, operating procedures, operating equipment, and other matters. Our failure to comply with such standards, or changes in such standards or the 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, MSHA significantly increased the numbers of citations and orders charged against mining operations. The dollar penalties assessed for citations issued has also increased in recent years. 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.



## **PART II**

### **ITEM 5. — MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Shares of our common stock, traded publicly under the symbol, “SND,” have been publicly traded since November 4, 2016, when our common stock was listed and began trading on the NASDAQ Global Select Market (“NASDAQ”). Prior to that date, there was no public market for our stock.

#### **Holders of Record**

On February 21, 2023, there were 45,831,269 shares of our common stock outstanding, which were held by approximately 31 stockholders of record. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

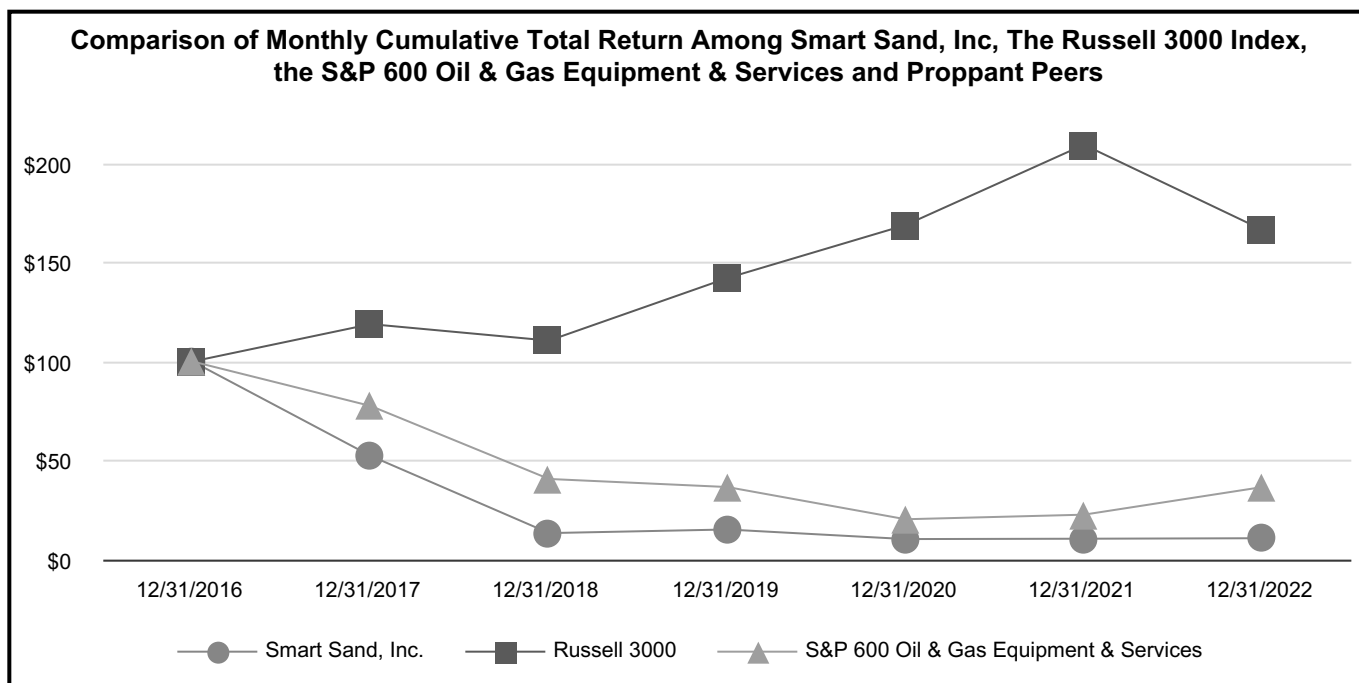
#### **Dividends**

Our ability to pay dividends is governed by (i) the provisions of Delaware corporate law, (ii) our Certificate of Incorporation and Bylaws, and (iii) our ABL Credit Facility. To date, we have not paid or declared any dividends on our common stock and there is no assurance that we will pay any cash dividends on our common stock in the future. The future payment of cash dividends on our common stock, if any, is within the discretion of our board of directors and will depend on our earnings, capital requirements, financial condition, and other relevant factors.

#### **Smart Sand, Inc. Comparative Stock Performance Graph**

The graph below compares the cumulative total stockholder return on our common stock, the cumulative total return on the Russell 3000 Index and the Standard and Poor’s Small Cap 600 GICS Oil & Gas Equipment & Services Sub-Industry for the last five years.

The graph assumes \$100 was invested on December 31, 2016, in our common stock, the Russell 3000, and the Standard and Poor’s Small Cap 600 GICS Oil & Gas Equipment & Services Sub-Industry Index. The cumulative total return assumes the reinvestment of all dividends.



The information contained in this Smart Sand, Inc. Comparative Stock Performance Graph section shall not be deemed to be “soliciting material” or “filed” or incorporated by reference in future filings with the SEC, or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act or the Exchange Act.

**Unregistered Sales of Equity Securities and Use of Proceeds**

On November 14, 2022, we issued an aggregate of 300,000 shares of our common stock to certain royalty holders in connection with a renegotiation of the royalty rates payable at our recently acquired Blair, Wisconsin mine and processing facility. The shares of common stock were issued in a private placement transaction pursuant to an exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended, without general solicitation or advertising of any kind and without payment of placement agent or brokerage fees to any person.

Other than the foregoing, during the year ended December 31, 2022, no shares were sold by the Company without registration under the Securities Act of 1933.

**ITEM 6. — RESERVED**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(UNAUDITED)**

**ITEM 7. — MANAGEMENT'S DISCUSSION AND ANALYSIS FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Forward-Looking Statements**

*The following discussion and analysis of our financial condition and results of operations should be read together with Item 1, "Business," and the Consolidated Financial Statements and the related notes in Item 8 of this Annual Report on Form 10-K.*

*This discussion contains forward-looking statements as a result of many factors, including those set forth under Item 1, "Business—Forward-Looking Statements" and Item 1A, "Risk Factors," and elsewhere in this report. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially from those discussed in or implied by forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this report, particularly in Item 1A, "Risk Factors."*

*We use contribution margin, EBITDA, Adjusted EBITDA and free cash flow herein as non-GAAP measures of our financial performance. For further discussion of contribution margin, EBITDA, Adjusted EBITDA and free cash flow, see the section entitled "Non-GAAP Financial Measures." in this Item 7 of this Annual Report on Form 10-K. We define various terms to simplify the presentation of information in this Report. All share amounts are presented in thousands.*

**Factors Impacting Comparability of Our Financial Results**

Our historical results of operations and cash flows are not indicative of results of operations and cash flows to be expected in the future, principally for the following reasons:

- *Litigation settlement.* In 2021, we recorded bad debt of approximately \$19.6 million. We entered into a settlement agreement related to previous litigation which we collected a \$35.0 million cash payment to settle \$54.6 million of outstanding accounts receivable.
- *Impairment loss.* As of December 31, 2022, we have not recorded any impairment loss. In 2021, we recorded an inventory impairment loss of \$2.2 million related to the write down of inventory driven by expected yield. In 2020, we recorded an impairment loss of \$5.1 million to fully write down the value of our long-lived assets in the Permian basin as we have no intentions to develop these properties in the foreseeable future. These amounts are separately on the consolidated statements of operations. See our discussion in the section entitled "GAAP Results of Operations" for additional information regarding these transactions.
- *Market Trends.* In recent years, the increasing supply of sand, particularly in-basin sand, relative to demand, has led to continued volatility of frac sand prices. During most of 2020, demand for frac sand declined significantly due to decreased demand for oil and natural gas as a result of the ongoing effects of the COVID-19 pandemic, which caused a global decrease in all means of travel, the closure of borders between countries and a general slowing of economic activity worldwide. Activity in the oil and gas industry began to rebound in the fourth quarter of 2020 and throughout 2021 as the global distribution of COVID-19 vaccines ramped up and travel restrictions lessened. This improvement in oil and natural gas activity continued in 2022 as oil and gas prices increased due to the war in Ukraine and overall increased worldwide demand relative to supply. We have seen an increase in the volume of sand sold and improvements in sand pricing in 2022. However, current high levels of inflation and the continuation of the war in Ukraine could lead to a recession in the United States and globally, which could impact oil and natural gas prices and overall oil and gas activity thereby leading to reduced demand for frac sand and negative pressures on sand pricing in 2023. The continued volatility in oil and natural gas demand and potential for increased supplies of sand has led to continued reluctance by our customers to enter into long-term contracts as customers have instead trended toward purchasing their frac sand supply in the spot market at current market prices. However, we expect that the recent higher demand for frac sand could lead to better pricing opportunities, although we cannot predict when frac sand prices will increase or stabilize, if at all.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(UNAUDITED)**

**Overview**

We are a fully integrated frac and industrial sand supply and services company. We offer complete mine to wellsite proppant supply and logistics solutions to our frac sand customers. We produce low-cost, high quality Northern White sand, which is a premium sand used as proppant used to enhance hydrocarbon recovery rates in the hydraulic fracturing of oil and natural gas wells and for a variety of industrial applications. We also offer proppant logistics solutions to our customers through our in-basin transloading terminals and our SmartSystems™ wellsite storage capabilities. In late 2021, we created our Industrial Products Solutions (“IPS”) business in order to diversify our customer base and markets we serve by offering sand for industrial uses. We market our products and services to oil and natural gas exploration and production companies, oilfield service companies, and industrial manufacturers. We sell our sand through long-term contracts or spot sales in the open market. We provide wellsite proppant storage solutions services and equipment under flexible contract terms custom tailored to meet the needs of our customers. We believe that, among other things, the size and favorable geologic characteristics of our sand reserves, the strategic location and logistical advantages of our facilities, our proprietary SmartDepot™ portable wellsite storage silos and SmartPath™ transloader, access to all Class I rail lines, and the industry experience of our senior management team make us as a highly attractive provider of sand and logistics services.

We incorporated in Delaware in July 2011 and began operations at our Oakdale facility with 1.1 million tons of annual processing capacity in July 2012. After several expansions, our current annual processing capacity at our Oakdale facility is approximately 5.5 million tons of sand. In September 2020, we acquired from Eagle Materials Inc., a Delaware corporation (“Eagle”), all of the issued and outstanding interests in Eagle Oil and Gas Proppants Holdings LLC, a Delaware limited liability company and wholly-owned subsidiary of Eagle (“Eagle Proppants Holdings”), which included our Utica, Illinois processing facility. We currently have 7.1 million tons of annual capacity at our Oakdale and Utica facilities with the ability to expand annual processing capacity to approximately 10.0 million tons of sand when we bring our recently acquired Blair facility online. We currently anticipate that the Blair facility will be operational in the second quarter of 2023.

We directly control three in-basin transloading facilities and have access to third party transloading terminals in all operating basins. We operate a unit train capable transloading terminal in Van Hook, North Dakota to service the Bakken Formation in the Williston Basin. We operate this terminal under a long-term agreement with Canadian Pacific Railway to service the Van Hook terminal directly along with the other key oil and natural gas exploration and production basins of North America. In January 2022, we began operations at an additional unit train capable transloading terminal in Waynesburg, Pennsylvania to service the Appalachian Basin, including the Marcellus and Utica Formations. We also have rights to use a rail terminal located in El Reno, Oklahoma, which we obtained as part of our acquisition of Eagle Proppants Holdings. These terminals allow us to offer more efficient and sustainable delivery options to our customers. We have long-standing relationships with third party terminal operators that allow us access to all oil and natural gas exploration production basins of North America.

We also offer to our customers portable wellsite proppant storage and management solutions through our SmartSystems products and services. Our SmartSystems provide our customers with the capability to unload, store and deliver proppant at the wellsite, as well as the ability to rapidly set up, takedown and transport the entire system. This capability creates efficiencies, flexibility, enhanced safety and reliability for customers. Through our SmartSystems wellsite proppant storage solutions, we offer the SmartDepot and SmartDepotXL™ silo systems, SmartPath transloader, and our rapid deployment trailers. Our SmartDepot silos include passive and active dust suppression technology, along with the capability of a gravity-fed operation. Our self-contained SmartPath transloader is a mobile sand transloading system designed to work with bottom dump trailers and features a drive over conveyor, surge bin, and dust collection system, and we believe the system has the ability to keep up with any hydraulic fracturing operation. Our rapid deployment trailers are designed for quick setup, takedown and transportation of the entire SmartSystem, and detach from the wellsite equipment, which allows for removal from the wellsite during operation. We have also developed a proprietary software program, the SmartSystem Tracker™, which allows our SmartSystems customers to monitor silo-specific information, including location, proppant type and proppant inventory. We believe that our SmartSystems reduce trucking and related fuel consumption for our customers, helping them meet their goals to reduce their carbon footprint in their daily operations.

In late 2021, we started our IPS business whereby we offer our sand to customers for various industrial purposes, such as glass, foundry, building products, filtration, geothermal, renewables, ceramics, turf & landscape, retail, and recreation. While we are still in the early stages of this business, we believe that as it grows, it will provide us with the ability to diversify our sales into more stable, consumer-driven products to help mitigate price volatility in the oil and gas industry.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
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***Recent Developments***

*Waynesburg Transload Terminal*

The Waynesburg terminal became operational in January 2022. We believe our Waynesburg terminal will allow us to be one of the most efficient and low-cost sources of frac sand in the Appalachian Basin.

*Blair Mine and Processing Facility*

On March 4, 2022, we entered into the Purchase Agreement with HCR and Blair, pursuant to which the Company acquired all of the issued and outstanding limited liability company interests of Blair from HCR for aggregate cash consideration of approximately \$6.5 million, subject to customary purchase price adjustments as set forth in the Purchase Agreement. Entities affiliated with Clearlake Capital ("Clearlake"), who collectively own approximately 11% of the Company's outstanding common stock, as of December 31, 2022 also own a significant portion of the outstanding common stock of HCR, and representatives of Clearlake serve on our board of directors and HCR's board of directors.

The primary assets of Blair consist of an idle frac sand mine and related processing facility located in Blair, Wisconsin. The Blair facility has approximately 2.9 million tons of total annual processing capacity and contains an onsite, unit train capable rail terminal with access to the Class 1 Canadian National Railway.

We believe this acquisition broadens our mine to wellsite capabilities by adding high quality sand mining and processing assets coupled with enhanced logistics options that provide direct access to an additional Class I rail line. We believe these additional mining and logistics resources help secure our ability to be the preferred provider of Northern White Sand in the proppants market. With this acquisition, we now have direct access to four Class I rail lines and the ability to access all Class I rail lines within the United States and Canada.

***Assets and Operations***

*Oakdale, Wisconsin*

Our sand reserves in Oakdale include a balanced concentration of coarse sand, (19% 20/40 and coarser), finer sand (41% of 40/70 mesh) and fine sand (40% 60/140 gradation, which we refer to in this annual report as "100 mesh"). Our 30/50 gradation is a derivative of the 20/40 and 40/70 blends. We believe that this mix of coarse and fine sand reserves, combined with contractual demand for our products across a range of mesh sizes, provides us with relatively higher mining yields and lower processing costs than frac sand mines with predominantly coarse sand reserves. We have approximately 247 million tons of proven and probable recoverable reserves, which brings our estimated life of mine to approximately 62 years, based on current volumes. This long reserve life enables us to better serve demand for different types of frac sand as compared to mines with shorter reserve lives.

Our Oakdale facility is purpose-built to exploit the reserve profile in place and produce high-quality frac sand. Unlike some of our competitors, our primary processing and rail loading facilities are located in close proximity to the mine site, which limits the need for us to truck sand on public roads between the mine and the production facility or between wet and dry processing facilities. Our on-site transportation assets include approximately nine miles of rail track in a triple-loop configuration and four railcar loading facilities that are connected to a Class I rail line owned by Canadian Pacific. This enables us to simultaneously accommodate multiple unit trains and significantly increases our efficiency in meeting our customers' frac sand transportation needs. Our unit train capable transload facility approximately three miles from the Oakdale facility in Byron Township, Wisconsin, provides us with the ability to ship sand to our customers on the Union Pacific rail network. We believe that we are the only sand facility in Wisconsin that has dual served rail capabilities, which should create competition among our rail carriers and allow us to provide more competitive logistics options for our customers.

*Utica & Peru, Illinois*

Our Utica facility also has a large high-quality reserve base of primarily fine-mesh sand that is contiguous to the production facility and in close proximity to our Peru transload facility located on the BNSF railway. We have approximately 128 million tons of proven and probable reserves, which gives us an estimated life of mine of approximately 107 years, based on current volumes. Our Utica facility provides us with significant logistics assets that further increases our logistics advantage,

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
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including access to BNSF, a Class I rail line, through our owned Peru transload facility. Additionally, the CSX and NS rail lines are available within short trucking distances. This facility is also capable of handling multiple unit trains simultaneously. These additional logistics options give us greater access to operating basins in the Western United States allowing us to offer more competitive pricing to existing and new customers in these markets.

*Blair, Wisconsin*

Our Blair facility also has a large high-quality reserve base of primarily fine-mesh sand that is contiguous to the production facility and located on the Canadian National railway. We have approximately 115 million tons of proven and probable reserves, which gives us an estimated life of mine of approximately 46 years, based on expected sales volumes. Our Blair facility provides us with significant logistics assets that further increases our logistics advantage, including access to the Canadian National, a Class I rail line. When this facility opens in the second quarter of 2023, we will have direct access to four Class I rail lines and the ability to access all Class 1 rail lines within the United States and Canada.

*Logistics*

Through our transloading terminal in Van Hook, North Dakota, we provide one of the most efficient and lowest-cost sources of Northern White sand in-basin to customers operating in the Bakken Formation in the Williston Basin. With the addition of our Waynesburg terminal in the Appalachian Basin in 2021, we are now able to also provide one of the most efficient and lowest-cost sources of Northern White sand in-basin to customers operating in the Marcellus and Utica Formations. We also acquired a rail terminal from the Eagle acquisition located in El Reno, Oklahoma, which allows us to economically provide frac sand to customers operating nearby, including customers using our SmartSystems last mile equipment.

Through our SmartSystems offering, we have the technology, production capacity and management team to compete further in the frac sand supply chain for our customers by offering logistics services from the mine all the way to the wellsite. Our SmartSystems consist of our SmartDepot proppant storage silos, our SmartPath transloader and our rapid deployment trailer system.

We believe our patented SmartDepot silos will outperform our competitors in that they can be set up or taken down rapidly, they include industry-leading passive and active dust suppression technology, they have the capability of gravity-fed operation and they can be filled by both pneumatic and gravity dump trailers. Our trailers detach, which reduces their footprint on the wellsite. In 2020, we developed a self-contained SmartPath transloader, which is a mobile sand transloading system designed to work with bottom dump trailers and features a drive over conveyor, surge bin, and dust collection system, and we believe the system has the ability to keep up with any hydraulic fracturing operation. Our rapid deployment trailers are designed for quick setup, takedown and transportation of the entire SmartSystem, and they detach from the wellsite equipment, which allows for removal from the wellsite during operation. We have also developed a proprietary software program, the SmartSystem Tracker™, which allows our SmartSystems customers to monitor silo-specific information, including location, proppant type and proppant inventory.

Through the expansion of our SmartSystems fleet and other logistics options, we continue evaluating ways to reduce the landed cost of our products in-basin and to the wellsite for our customers while increasing our customized service offerings to provide additional delivery and pricing alternatives, including selling product on an “as-delivered” basis to the wellsite. We believe that our SmartSystems reduce trucking and related fuel consumption for our customers, helping them meet their goals to reduce their carbon footprint in their daily operations.

We expect to continue to capitalize on our Oakdale facility’s ability to simultaneously accommodate multiple unit trains on-site with the Canadian Pacific rail network and ship on two Class I rail carriers to maximize our product shipment rates, increase our railcar utilization and lower our transportation costs. Our newly acquired Peru transload terminal, located just minutes away from our Utica mine and frac sand processing facility, offers additional capability to ship products on a third Class I rail carrier, the BNSF. The recent addition of the Blair facility, once operational, will provide us with another facility that is capable of handling multiple unit trains on-site and gives us access to the Canadian National Railway.

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*How We Generate Revenue*

We generate revenue by excavating and processing frac sand, which we sell to our customers under long-term price agreements or as spot sales at prevailing market rates. For in-basin sales, revenues also include a charge for transportation services provided to customers. Our transportation revenue fluctuates based on a number of factors, including the volume of product transported and the distance between the plant and our customers. Our long-term price agreements typically contain a minimum volume purchase requirement and provide for delivery of frac sand from one of our processing facilities, transloading terminals or another location specified by our customers. Revenue is generally recognized as products are delivered to customers in accordance with the contract.

We generate revenue on our SmartSystems by renting equipment to our customers under contract terms tailored to meet their short-term or long-term needs with any number of SmartDepots, SmartPaths or trailers they require. We recognize rental revenue when the equipment is made available for the customer to use or other obligations in the contract are met.

In the fourth quarter of 2021, we expanded our product line to begin offering sand through IPS. While sales of IPS to customers were a small portion of our overall sand sales in 2022, we expect to expand and diversify to serve the major industrial markets throughout North America, including glass, foundry, building products, filtration, geothermal, renewables, ceramics, turf & landscape, retail, recreation and more in 2023.

*Costs of Conducting Our Business*

The principal direct costs involved in operating our business are freight charges, which consist of transportation, railcar rental and storage, and production costs, which consists of labor, maintenance, utilities, equipment, excavation and depreciation of our property, plant and equipment. We incur labor costs associated with employees at our processing facilities which represent the most significant cost of converting sand to finished products. Our sand processing and logistics facilities undergo maintenance to minimize unscheduled downtime and ensure the ongoing quality of our sand and ability to meet customer demands. We incur utility costs in connection with the operation of our processing and logistics facilities, primarily electricity and natural gas, which are both susceptible to market fluctuations. We lease equipment in many areas of our operations including our mining and hauling equipment and logistics services. Excavation costs relate to the blasting and excavation of sand and other materials in order to retrieve desirable sand products. In addition, other costs including processing costs, overhead allocation, depreciation and depletion are capitalized as a component of inventory and are reflected in cost of goods sold when inventory is sold.

***Overall Trends and Outlook***

*Demand Trends*

According to Spears, the North American proppant market, including frac sand, ceramic and resin-coated proppant, was approximately 128 million tons in 2022, which is approximately 25% increase from the 102 million tons Spears reported for 2021. Spears estimates that 2023 demand will increase to 154 million tons, which is approximately 21% increase over 2022.

*Supply Trends*

There has been consolidation activity including mergers, acquisitions, closures of mines and bankruptcy filings among our peers. Additional consolidation activity is expected in 2023 in the mining, transloading and logistics businesses. According to the Spears, local supply in the Permian Basin market is less than forecasted demand in 2023, which may require additional Northern White Sand in the Permian Basin.

Supplies of high-quality Northern White frac sand are limited to select areas, predominantly in western Wisconsin and limited areas of Minnesota and Illinois. We believe the ability to obtain large contiguous reserves in these areas is a key constraint and can be an important supply consideration when assessing the economic viability of a potential frac sand processing facility. Further constraining the supply and throughput of Northern White frac sand is that not all of the large reserve mines have on-site excavation, processing or logistics capabilities, which impact the long-term competitiveness of these mines due to lower efficiency and higher cost structures. Historically, much of the capital investment in Northern White frac sand mines was used for the development of coarser deposits in western Wisconsin, which is inconsistent with the increasing demand for finer mesh frac sand in recent years. As such, we've seen competitors in the Northern White frac sand market



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reduce their capacity by shuttering or idling operations as the shift to finer sands in hydraulic fracturing of oil and natural gas wells and to lower cost regional sand sources has eroded the ongoing economic viability of mines with coarser reserve deposits and inefficient mining and logistics facilities.

*Management's Outlook*

In 2021, we started several strategic initiatives to take advantage of the current market downturn and set ourselves up for success in 2022. In the fourth quarter of 2021 we expanded our product line to begin offering IPS. Since then, we have worked to expand and diversify our customer base to serve the major industrial markets throughout North America, including glass, foundry, building products, filtration, geothermal, renewables, ceramics, turf & landscape, retail and recreation. In 2021, we also acquired the rights to construct and operate a transloading terminal in Waynesburg, Pennsylvania to service the Appalachian Basin, including the Marcellus and Utica Formations. The Waynesburg terminal became operational in January 2022. We believe the Waynesburg terminal allows us to be one of the most efficient and low-cost sources of frac sand in the Appalachian Basin. In March 2022, we entered into a Purchase Agreement with HCR to purchase its Blair facility. The primary assets of Blair consist of a frac sand mine and related processing facility located in Blair, Wisconsin, which has approximately 2.9 million tons of total annual processing capacity and contains an onsite, unit train capable rail terminal with access to the Class 1 Canadian National Railway. This facility, while currently idled, is expected to become operational in the second quarter of 2023. With this acquisition, we now have direct access to four Class I rail lines and the ability to access all Class 1 rail lines within the United States and Canada.

We expect the demand for frac sand in 2023 to continue to be at healthy levels. We believe higher demand driven by consistent drilling and completion activity should also lead to sand prices remaining relatively stable with some opportunity for improvement in 2023. Beginning in 2021 and continuing throughout 2022, exploration and production companies have moved to a more disciplined approach to new drilling activity leading to less volatility in supply relative to demand and subsequently higher overall oil and natural gas prices. Demand for both frac sand and our SmartSystems is influenced by the volume of oil and natural gas well drilling and completion activity, as well as the types of wells that are completed. We expect the Bakken and Marcellus formations to continue to be key markets for us and we look to expand our market share in these key areas through our current strategic initiatives.

The industry trends continue towards drilling and completing wells with longer laterals and more frac stages per lateral foot drilled. This trend is leading to higher volumes of sand per well and the need for oil and natural gas exploration companies to manage larger volumes of sand at the wellsite. We believe these trends support continued demand for frac sand and increased demand for SmartSystems as customers look to create synergies in the time and cost of managing their sand needs at the wellsite.

We generally expect the price of frac sand to fluctuate based on the level of drilling and completions activity for oil and natural gas as well as overall supply for frac sand relative to demand. We believe the supply of sand to be stabilizing or contracting as consolidation in the industry continues. The willingness of exploration and production companies to engage in new drilling is determined by a number of factors, the most important of which are the prevailing and projected prices of oil and natural gas, the cost to drill, complete and operate a well, the availability and cost of capital and environmental and government regulations, as well as their ability to source sand delivered to the wellsite. We generally expect the level of drilling to correlate with long-term trends in commodity prices. Similarly, oil and natural gas production levels nationally and regionally generally tend to correlate with drilling activity.

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**GAAP Results of Operations**

*Year Ended December 31, 2022 compared to the Year Ended December 31, 2021:*

	Year Ended December 31,		Change	
	2022	2021	Dollars	Percentage
(in thousands, except percentage change)				
<b>Revenues:</b>				
Sand sales revenue	\$ 243,162	\$ 117,402	\$ 125,760	107 %
Shortfall revenue	5,010	4,421	589	13 %
Logistics revenue	7,568	4,825	2,743	57 %
Total revenue	<u>255,740</u>	<u>126,648</u>	<u>129,092</u>	<u>102 %</u>
Cost of goods sold	226,149	140,384	85,765	61 %
Inventory impairment loss	—	2,170	(2,170)	(100)%
Gross profit	<u>29,591</u>	<u>(15,906)</u>	<u>45,497</u>	<u>286 %</u>
<b>Operating expenses:</b>				
Salaries, benefits and payroll taxes	14,942	11,258	3,684	33 %
Depreciation and amortization	2,244	1,980	264	13 %
Selling, general and administrative	15,532	14,749	783	5 %
Bad debt expense	1	19,592	(19,591)	(100)%
Total operating expenses	<u>32,719</u>	<u>47,579</u>	<u>(14,860)</u>	<u>(31)%</u>
Operating loss	<u>(3,128)</u>	<u>(63,485)</u>	<u>60,357</u>	<u>95 %</u>
<b>Other (expenses) income:</b>				
Interest expense, net	(1,608)	(1,979)	371	(19)%
Other income	828	5,773	(4,945)	(86)%
Total other (expenses) income, net	<u>(780)</u>	<u>3,794</u>	<u>(4,574)</u>	<u>(121)%</u>
(Loss) income before income tax (benefit) expense	<u>(3,908)</u>	<u>(59,691)</u>	<u>55,783</u>	<u>93 %</u>
Income tax benefit	<u>(3,205)</u>	<u>(9,017)</u>	<u>5,812</u>	<u>64 %</u>
Net (loss) income	<u>\$ (703)</u>	<u>\$ (50,674)</u>	<u>\$ 49,971</u>	<u>99 %</u>

*Revenue*

Revenue was \$255.7 million for the year ended December 31, 2022, during which we sold approximately 4,333,000 tons of sand. Revenue for the year ended December 31, 2021 was \$126.6 million, during which we sold approximately 3,189,000 tons of sand. The key factors contributing to the increase in revenues for the year ended December 31, 2022 as compared to the year ended December 31, 2021 were as follows:

- Sand sales revenue increased from \$117.4 million for the year ended December 31, 2021 to \$243.2 million for the year ended December 31, 2022, as a result of higher total volumes sold. Sand volumes increased by 36% from 2021 to 2022, additionally sand prices have increased due to a shift in supply and demand, which we believe is driven by increased prices in oil and natural gas leading to increased completion activity of new oil and natural gas wells.
- We had \$5.0 million of contractual shortfall revenue for the year ended December 31, 2022 and \$4.4 million for the year ended December 31, 2021, respectively. We recognize revenue to the extent of the unfulfilled minimum contracted quantity at the shortfall price per ton as stated in the contract.
- Logistics revenue, which includes freight for certain mine gate sand sales, logistics services and SmartSystems rentals, was \$7.6 million for the year ended December 31, 2022, an increase of \$2.7 million when compared to logistics revenue of \$4.8 million for the year ended December 31, 2021. The increase in logistics revenue was due to higher utilization of our SmartSystems equipment.

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*Cost of Goods Sold*

Cost of goods sold was \$226.1 million and \$140.4 million, for the years ended December 31, 2022 and December 31, 2021, respectively. The increase was primarily due to higher volumes sold and the related increase in production costs and freight costs that accompany higher volumes, along with higher labor, maintenance and utilities costs in 2022.

*Gross Profit*

Gross profit was \$29.6 million and \$(15.9) million for the years ended December 31, 2022 and December 31, 2021, respectively. The increase in gross profit for the year ended December 31, 2022 was primarily due to higher sales volumes and higher average sale prices of our sand relative to the cost to produce and deliver products to our customers. Gross profit for the year ended December 31, 2021 included \$2.2 million related to a write-down of inventory based on expected yield.

*Operating Expenses*

Operating expenses were \$32.7 million and \$47.6 million for the years ended December 31, 2022 and December 31, 2021, respectively. In 2021, we recorded \$19.6 million as non-cash bad debt expense, which is the difference between the \$54.6 million accounts receivable balance that was subject to litigation and the \$35.0 million cash payment received under a settlement agreement. Salaries, benefits and payroll taxes increased to \$14.9 million for the year ended December 31, 2022, as compared to \$11.3 million for the year ended December 31, 2021, due primarily to increased bonuses as management has reinstated a formal employee bonus plan based on company performance for 2022 and increased staffing to support our IPS business. Depreciation and amortization increased slightly from 2022 as compared to 2021. Selling, general and administrative expenses increased from \$14.7 million for the year ended December 31, 2021 to \$15.5 million for the year ended December 31, 2022, primarily driven by development costs, royalty payments and other costs related to our Blair facility and our Waynesburg terminal.

*Other Income (Expense)*

We qualified for federal government assistance through employee retention credit provisions of the Consolidated Appropriations Act of 2021. During the year ended December 31, 2021, we recorded \$5.0 million of employee retention credits. The calculation of the credit is based on employees continued employment and represents a portion of the wages paid to them. For income tax purposes, the credit will result in decreased expense related to the wages it offsets in the period received.

*Interest Expense*

We incurred \$1.6 million and \$2.0 million of net interest expense for the years ended December 31, 2022 and 2021, respectively. In 2022, we continued to reduce debt levels and decrease interest expense through scheduled amortization payments.

*Income Tax Benefit*

Income tax benefit was \$3.2 million for the year ended December 31, 2022 compared to income tax benefit of \$9.0 million for the year ended December 31, 2021. For the years ended December 31, 2022 and 2021, our effective tax rate was approximately 82.0% and 15.1%, respectively, based on the annual effective tax rate net of discrete federal and state taxes. The computation of the effective tax rate for the years ended December 31, 2022 and 2021 included modifications from the statutory rate such as income tax credits, depletion deductions, carrybacks as a result of the Coronavirus Aid, Relief and Economic Security Act, and state apportionment changes, among other items.

*Net Loss*

Net loss was \$(0.7) million for year ended December 31, 2022 compared to net loss of \$(50.7) million for the year ended December 31, 2021. The decrease in net loss is attributable to an increase in total volumes sold and higher average sale prices of our sand in addition to non-cash bad debt expense recorded in the prior year against the residual balance of accounts receivable that were previously the subject of litigation in the prior year.

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*Year Ended December 31, 2021 Compared to the Year Ended December 31, 2020:*

	Year Ended December 31,		Change	
	2021	2020	Dollars	Percentage
(in thousands, except percentage change)				
<b>Revenues:</b>				
Sand sales revenue	\$ 117,402	\$ 70,902	\$ 46,500	66 %
Shortfall revenue	4,421	23,281	(18,860)	(81)%
Logistics revenue	4,825	28,157	(23,332)	(83)%
Total revenue	126,648	122,340	4,308	4 %
Cost of goods sold	140,384	104,221	36,163	35 %
Inventory impairment loss	2,170	—	2,170	Not meaningful
Gross profit	(15,906)	18,119	(34,025)	(188)%
<b>Operating expenses:</b>				
Salaries, benefits and payroll taxes	11,258	9,993	1,265	13 %
Depreciation and amortization	1,980	1,911	69	4 %
Selling, general and administrative	14,749	15,527	(778)	(5)%
Bad debt expense	19,592	—	19,592	Not meaningful
Change in the estimated fair value of contingent consideration	—	(1,410)	1,410	(100)%
Impairment loss	—	5,115	(5,115)	(100)%
Total operating expenses	47,579	31,136	16,443	53 %
Operating loss	(63,485)	(13,017)	(50,468)	388 %
<b>Other (expenses) income:</b>				
Gain on bargain purchase	—	39,600	(39,600)	(100)%
Interest expense, net	(1,979)	(2,091)	112	(5)%
Other income	5,773	482	5,291	1098 %
Total other (expenses) income, net	3,794	37,991	(34,197)	(90)%
(Loss) income before income tax (benefit) expense	(59,691)	24,974	(84,665)	(339)%
Income tax benefit	(9,017)	(12,980)	3,963	(31)%
Net (loss) income	<u>\$ (50,674)</u>	<u>\$ 37,954</u>	<u>\$ (88,628)</u>	<u>(234)%</u>

*Revenue*

Revenue was \$126.6 million for the year ended December 31, 2021, during which we sold approximately 3,189,000 tons of sand. Revenue for the year ended December 31, 2020 was \$122.3 million, during which we sold approximately 1,886,000 tons of sand. The key factors contributing to the decrease in revenues for the year ended December 31, 2021 as compared to the year ended December 31, 2020 were as follows.

- Sand sales revenue increased from \$70.9 million for the year ended December 31, 2020 to \$117.4 million for the year ended December 31, 2021, as a result of higher total volumes sold. The volumes sold in 2020 were negatively impacted by depressed oil prices driven by continued oversupply relative to the decreased demand due to the COVID-19 pandemic. Sand volumes increased by 69% from 2020 to 2021, however, due to lower average sand prices, total revenue did not increase at the same rate.
- We had \$4.4 million of contractual shortfall revenue for the year ended December 31, 2021 and \$23.3 million for the year ended December 31, 2020, respectively. We recognize revenue to the extent of the unfulfilled minimum contracted quantity at the shortfall price per ton as stated in the contract. Shortfall revenue of \$14.0 million in 2020 was from a customer that we had a legal settlement with in 2021.

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- Logistics revenue, which includes freight for certain mine gate sand sales, railcar usage, logistics services and SmartSystems rentals, was \$4.8 million for the year ended December 31, 2021, a decrease of \$23.3 million when compared to logistics revenue of \$28.2 million for the year ended December 31, 2020. The decrease in logistics revenue was due to the shift from mine gate sales to in-basin sales, which include transportation and any other handling services.

*Cost of Goods Sold*

Cost of goods sold was \$140.4 million and \$104.2 million, for the years ended December 31, 2021 and December 31, 2020, respectively. The increase was primarily due to higher volumes sold and increased freight cost due to the shift of sales to more in-basin deliveries in 2021. During 2020, headcount reductions and other cost savings measures were implemented as a result of the onset of COVID-19. Headcount and production costs increased in 2021 to support increased sales activity, though we remain focused on other cost-saving measures.

*Gross Profit*

Gross profit was \$(15.9) million and \$18.1 million for the years ended December 31, 2021 and 2020, respectively. The decline in gross profit for the year ended December 31, 2021 was primarily due to decreased shortfall revenue and low average sales price of our sand relative to the cost to produce and deliver products to our customers. Gross profit for the year ended December 31, 2021 included \$2.2 million related to a write-down of inventory based on expected yield.

*Operating Expenses*

Operating expenses were \$47.6 million and \$31.1 million for the years ended December 31, 2021 and December 31, 2020, respectively. In 2021, we recorded \$19.6 million as non-cash bad debt expense, which is the difference between the \$54.6 million accounts receivable balance that was subject to litigation and the \$35.0 million cash payment received under a settlement agreement. Salaries, benefits and payroll taxes increased to \$11.3 million for the year ended December 31, 2021, as compared to \$10.0 million for the year ended December 31, 2020, respectively, as we increased headcount to support higher levels of production activity and restored the variable compensation in 2021. Depreciation and amortization were largely consistent in 2021 as compared to 2020. Selling, general and administrative expenses decreased from \$15.5 million for the year ended December 31, 2020 to \$14.7 million for the year ended December 31, 2021, primarily as a result of decreased professional fees in 2021 as we settled our ongoing litigation. December 31, 2020 included an impairment charge of \$5.1 million related to the full impairment of long-lived assets in the Permian basin as we have no intentions to develop these properties in the foreseeable future.

*Other Income*

We qualified for federal government assistance through employee retention credit provisions of the Consolidated Appropriations Act of 2021. During the year ended December 31, 2021, we recorded \$5.0 million of employee retention credits. The calculation of the credit is based on employees continued employment and represents a portion of the wages paid to them. For income tax purposes, the credit will result in decreased expense related to the wages it offsets in the period received. For the year ended December 31, 2020, we recorded a gain on bargain purchase of \$39.6 million related to our acquisition of Eagle Proppants Holdings. The gain was a result of the total fair value of net assets acquired in the transaction of \$41.7 million, which exceeded the total consideration of \$2.1 million paid to Eagle for such assets.

*Interest Expense*

We incurred \$2.0 million and \$2.1 million of net interest expense for the years ended December 31, 2021 and 2020, respectively. In 2021, we continued to reduce debt levels and decrease interest expense through scheduled amortizing payments.

*Income Tax Benefit*

Income tax benefit was \$9.0 million for the year ended December 31, 2021 compared to income tax benefit of \$13.0 million for the year ended December 31, 2020. For the years ended December 31, 2021 and 2020, our effective tax rate was approximately 15.1% and (52.0)%, respectively, based on the annual effective tax rate net of discrete federal and state taxes. The computation of the effective tax rate for the year ended December 31, 2021 and 2020 included modifications from the statutory rate such as income tax credits, depletion deductions, carrybacks as a result of the Coronavirus Aid, Relief and

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Economic Security Act, and state apportionment changes, among other items. The bargain purchase gain related to our acquisition of Eagle Proppants Holdings that we recorded during the third quarter of 2020 is not taxable.

*Net (Loss) Income*

Net loss was \$(50.7) million for year ended December 31, 2021 compared to net income of \$38.0 million for the year ended December 31, 2020. The net loss in 2021 was primarily due to reduced gross profit on our sand sales and non-cash bad debt expense of \$19.6 million related to a litigation settlement. Net income in 2020 was primarily due to shortfall revenue and the gain on bargain purchase related to our acquisition of Eagle Proppants Holdings.

**Non-GAAP Financial Measures**

Contribution margin, EBITDA, Adjusted EBITDA and free cash flow are not financial measures presented in accordance with GAAP. We believe that the presentation of these non-GAAP financial measures will provide useful information to investors in assessing our financial condition and results of operations. Gross profit is the GAAP measure most directly comparable to contribution margin, net income is the GAAP measure most directly comparable to EBITDA and Adjusted EBITDA and net cash provided by operating activities is the GAAP measure most directly comparable to free cash flow. Our non-GAAP financial measures should not be considered as alternatives to the most directly comparable GAAP financial measures. 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 contribution margin, EBITDA, Adjusted EBITDA or free cash flow in isolation or as substitutes for an analysis of our results as reported under GAAP. Because contribution margin, EBITDA, Adjusted EBITDA and free cash flow 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.

**Contribution Margin**

We use contribution margin, which we define as total revenues less costs of goods sold excluding depreciation, depletion and accretion of asset retirement obligations, to measure our financial and operating performance. Contribution margin excludes other operating expenses and income, including costs not directly associated with the operations of our business such as accounting, human resources, information technology, legal, sales and other administrative activities.

Gross profit is the GAAP measure most directly comparable to contribution margin. Contribution margin should not be considered an alternative to gross profit presented in accordance with GAAP. Because contribution margin may be defined differently by other companies in our industry, our definition of contribution margin may not be comparable to similarly titled measures of other companies, thereby diminishing its utility. The following table presents a reconciliation of contribution margin to gross profit.

	Year Ended December 31,		
	2022	2021	2020
	(in thousands)		
Revenue	\$ 255,740	\$ 126,648	\$ 122,340
Cost of goods sold	226,149	140,384	104,221
Gross profit	29,591	(13,736)	18,119
Depreciation, depletion, and accretion of asset retirement obligations included in cost of goods sold	25,038	24,258	21,022
Contribution margin	<u>\$ 54,629</u>	<u>\$ 10,522</u>	<u>\$ 39,141</u>
Contribution margin per ton	<u>\$ 12.61</u>	<u>\$ 3.30</u>	<u>\$ 20.75</u>
Total tons sold	<u>4,333</u>	<u>3,189</u>	<u>1,886</u>

Contribution margin was \$54.6 million, or \$12.61 per ton sold, for the year ended December 31, 2022 compared to \$10.5 million, or \$3.30 per ton sold, for the year ended December 31, 2021. The increase in overall contribution margin and contribution margin per ton sold for the year ended December 31, 2022, as compared to the prior year, was primarily due to

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higher sales volumes and higher average sale prices relative to the cost to deliver products to our customers, along with increased IPS sales and higher utilization of our SmartSystems fleet in the current period.

Contribution margin was \$10.5 million, or \$3.30 per ton sold, for the year ended December 31, 2021 compared to \$39.1 million, or \$20.75 per ton sold, for the year ended December 31, 2020. The decrease in overall contribution margin and contribution margin per ton sold for the year ended December 31, 2021, as compared to the prior year, was primarily due to \$18.9 million higher shortfall revenue in the prior period and low average sale price relative to our cost to produce and deliver sand to our customers for the year ended December 31, 2021.

***EBITDA and Adjusted EBITDA***

We define EBITDA as 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; (iii) equity compensation; (iv) acquisition and development costs; (v) non-recurring cash charges related to restructuring, retention and other similar actions; (vi) earn-out, contingent consideration obligations and other acquisition and development costs; 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 or capital structure; and
- our debt covenant compliance, as Adjusted EBITDA is a key component of critical covenants to the ABL Credit Facility.



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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.

	Year Ended December 31,		
	2022	2021	2020
	(in thousands)		
Net (loss) income	\$ (703)	\$ (50,674)	\$ 37,954
Depreciation, depletion and amortization	26,521	25,495	22,536
Income tax benefit	(3,205)	(9,017)	(12,980)
Interest expense	1,661	2,014	2,129
Franchise taxes	353	290	275
EBITDA	\$ 24,627	\$ (31,892)	\$ 49,914
(Gain) loss on sale of fixed assets	(294)	555	237
Equity compensation	2,729	2,933	3,431
Royalty stock issuance	639	—	—
Employee retention credit	—	(5,026)	—
Acquisition and development costs <sup>(1)</sup>	675	28	(369)
Gain on bargain purchase	—	—	(39,600)
Non-cash impairments <sup>(2)</sup>	—	2,170	5,115
Cash charges related to restructuring and retention	137	9	82
Accretion of asset retirement obligations	758	740	396
Sales tax audit settlement	\$ —	\$ —	\$ 1,250
Adjusted EBITDA	\$ 29,271	\$ (30,483)	\$ 20,456

(1) Represents costs incurred related to the business combinations and current development project activities. The year ended December 31, 2020 includes \$891 of costs related to the acquisition of Eagle Proppants Holdings and \$1,410 decrease in the estimated fair value of our contingent consideration related to the acquisition of Quickthree.

(2) The year ended December 31, 2021 represents a write-down of our inventory based on expected yield. December 31, 2020 represents a \$5,115 full impairment of long-lived assets in the Permian basin.

Adjusted EBITDA was \$29.3 million for the year ended December 31, 2022 compared to \$(30.5) million for the year ended December 31, 2021. The increase in Adjusted EBITDA for the year ended December 31, 2022, as compared to the prior year, was primarily due to a decrease in net loss for the year ended December 31, 2022 as a result of higher sales volumes and higher average selling prices of our sand.

Adjusted EBITDA was \$(30.5) million for the year ended December 31, 2021 compared to \$20.5 million for the year ended December 31, 2020. The decrease in Adjusted EBITDA for the year ended December 31, 2021, shortfall revenue in the current period, non-cash bad debt expense of \$19.6 million related to a litigation settlement, and low average sale prices of our sand relative to the cost to produce and deliver it despite having higher overall volumes in 2021.

### **Free Cash Flow**

Free cash flow, which we define as net cash provided by operating activities less purchases of property, plant and equipment, is used as a supplemental financial measure by our management and by external users of our financial statements, such as investors and commercial banks, to measure the liquidity of our business.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(UNAUDITED)**

Net cash provided by operating activities is the GAAP measure most directly comparable to free cash flows. Free cash flows should not be considered an alternative to net cash provided by operating activities presented in accordance with GAAP. Because free cash flows may be defined differently by other companies in our industry, our definition of free cash flows may not be comparable to similarly titled measures of other companies, thereby diminishing its utility. The following table presents a reconciliation of free cash flows to net cash provided by operating activities.

	Year Ended December 31,		
	2022	2021	2020
	(in thousands)		
Net cash provided by operating activities	\$ 5,420	\$ 32,438	\$ 25,541
Acquisition of Blair facility	(6,547)	—	—
Purchases of property, plant and equipment	(12,731)	(11,220)	(8,620)
Free cash flow	<u>\$ (13,858)</u>	<u>\$ 21,218</u>	<u>\$ 16,921</u>

Free cash flow was \$(13.9) million for the year ended December 31, 2022. During the year ended December 31, 2022, positive cash flow from operating activities came late in the year as cash collections caught up with increased working capital requirements due to significant increase in sales volumes. The acquisition of the Blair facility and planned capital expenditures more than offset the cash provided by operating activities. Capital expenditures for the year ended December 31, 2022 were \$12.7 million compared to \$11.2 million for the year ended December 31, 2021.

Free cash flow was \$21.2 million for the year ended December 31, 2021 compared to \$16.9 million for the year ended December 31, 2020. The increase in free cash flow was primarily attributable to a slightly longer cash collection cycle on strong fourth quarter 2021 sales volumes and lower average sales prices of our sand, partially offset by \$35.0 million cash payment received under a litigation settlement agreement in 2021 as compared to 2020. Capital expenditures for the year ended December 31, 2021 were \$11.2 million compared to \$8.6 million for the year ended December 31, 2020.

### **Liquidity and Capital Resources**

Our primary sources of liquidity are cash flow generated from operations, availability under our ABL Credit Facility and other equipment financing sources. As of December 31, 2022, cash on hand was \$5.5 million and we had \$19.0 million in undrawn availability on our ABL Credit Facility.

Based on our balance sheet, cash flows, current market conditions, and information available to us at this time, we believe that we have sufficient liquidity and other available capital resources, to meet our cash needs for the next twelve months, including continued investment in our SmartSystems wellsite proppant storage solutions and other capital projects.

### **Material Cash Requirements**

#### *Capital Requirements*

We expect 2023 capital expenditures, excluding any acquisitions, to be between \$20.0 million and \$25.0 million, consisting primarily of capital for efficiency projects at Oakdale and Utica, IPS expansion projects and Blair facility start-up costs. We expect to fund these capital expenditures with existing cash, cash generated from operations, borrowings under the ABL Credit Facility or other financing sources, such as equipment finance providers.

#### *Indebtedness*

We have several debt facilities including the Oakdale Equipment Financing, various notes payable and our ABL Credit Facility. Our Oakdale Equipment Financing is secured by substantially all of the assets at our Oakdale facility. The balance on this facility as of December 31, 2022 was \$11.8 million. Minimum cash payments on this facility in 2023 are \$4.6 million. Our various notes payable are primarily secured by our manufactured SmartSystems equipment. Total debt under these notes payable as of December 31, 2022 was \$3.4 million. Minimum cash payments on these notes payable in 2023 are \$1.9 million. There were no borrowings outstanding out our ABL Credit Facility as of December 31, 2022.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(UNAUDITED)**

*Operating Leases*

We use leases primarily to procure certain office space, railcars and heavy equipment as part of our operations. The majority of our lease payments are fixed and determinable. Our operating lease liabilities as of December 31, 2022 were \$28.6 million. Minimum cash payments on operating leases in 2023 are \$12.2 million.

*Mineral Rights Property*

The Company is obligated under certain contracts for minimum payments for the right to use land for extractive activities. The annual minimum payments under these contracts is approximately \$2.5 million per year for the next 14 years.

**Off-Balance Sheet Arrangements**

We had \$17.7 million and \$8.6 million of outstanding performance bonds as of each of the years ended December 31, 2022 and 2021, respectively. These performance bonds assure our performance under our reclamation plan, maintenance and restoration of public roadways.

**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.

**Seasonality**

Our business is affected to some extent by seasonal fluctuations in weather that impact the production levels for a portion of our wet sand processing capacity. While our dry plants are able to process finished product volumes evenly throughout the year, our excavation and our wet sand processing activities have historically been limited to primarily non-winter months. As a consequence, we have experienced lower cash operating costs in the first and fourth quarter of each calendar year, and higher cash operating costs in the second and third quarter of each calendar year when we overproduced to meet demand in the winter months. These higher cash operating costs are capitalized into inventory and expensed when these tons are sold, which can lead to us having higher overall cost of production in the first and fourth quarters of each calendar year as we expense inventory costs that were previously capitalized. We have indoor wet processing facilities at each of our plant locations which allow us to produce wet sand inventory year-round to support a portion of our dry sand processing capacity, which may reduce certain of the effects of this seasonality. We may also sell 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 year ended December 31, 2022, Equitable Gas Corporation, Halliburton Energy Services, Encino Energy, and Liberty Oilfield Services accounted for 22.3%, 15.4%, 14.4%, and 13.7% respectively, of total revenue. For the year ended December 31, 2021, Equitable Gas Corporation, Halliburton Energy Services, and Liberty Oilfield Services accounted for 24.3%, 18.3%, and 14.8%, respectively, of total revenue. For the year ended December 31, 2020, Equitable Gas Corporation, Liberty Oilfield Services, and U.S. Well Services accounted for 28.1%, 21.7%, and 14.0%, respectively, of total revenue.

**Critical Accounting Estimates**

The discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported revenues and expenses during the reporting periods. We evaluate these estimates and assumptions on an ongoing basis and base our estimates on historical experience, current

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(UNAUDITED)**

conditions and various other assumptions that we believe to be reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Our actual results may materially differ from these estimates.

Listed below are the accounting estimates that we believe are critical to our financial statements due to the degree of uncertainty regarding the estimates or assumptions involved.

***Asset Retirement Obligation***

We estimate the future cost of dismantling, restoring and reclaiming operating excavation sites and related facilities in accordance with federal, state and local regulatory requirements and recognize reclamation obligations when extraction occurs and record them as liabilities at estimated fair value. In addition, a corresponding increase in the carrying amount of the related asset is recorded and depreciated over such asset's useful life or the estimated number of years of extraction. The reclamation liability is accreted to expense over the estimated productive life of the related asset and is subject to adjustments to reflect changes in value resulting from the passage of time and revisions to the estimates of either the timing or amount of the reclamation costs. If the asset retirement obligation is settled for more or less than the carrying amount of the liability, a loss or gain will be recognized, respectively. The asset retirement obligation estimate is calculated by estimating the cost to reclaim an area as of the estimation date and inflating that cost to an estimated reclamation date, then discounting that inflated cost back to the reporting period date. Changes in the current estimate or the interest rates used for inflation or discount can have a material effect on the liability reported. In addition, due to the nature of our business, changes in mine planning can result in changes to our estimated future reclamation dates. We recorded an initial asset retirement obligations at our Blair facility upon acquisition based on existing reclamation Bonds in the amount of \$8.3 million. When we developed a mine plan we revised the asset retirement plan estimate to \$2.0 million using the same methodology we use in determining our other asset retirement obligations.

***Inventory Valuation***

Sand inventory is stated at the lower of cost or net realizable value using the average cost method. Costs applied to inventory include direct excavation costs, processing costs, overhead allocation, depreciation and depletion. Reserves are estimated for moisture loss and waste during production. Stockpile tonnages are calculated by measuring the number of tons added and removed from the stockpile. Tonnages are verified periodically by a survey. Costs are calculated on a per ton basis and are applied to the stockpiles based on the number of tons in the stockpile. There was no writedown of inventory value based on the lower of cost or net realizable value calculation.

***Impairment of Long-Lived Assets***

We periodically evaluate whether current events or circumstances indicate that the carrying value of our long-lived assets may not be recoverable. If circumstances indicate that the carrying value may not be recoverable, we estimate future undiscounted net cash flows, estimated future sales prices (considering historical and current prices, price trends and related factors) and anticipated operating costs and capital expenditures. If the carrying value of our long-lived assets is less than the undiscounted cash flows, the assets are measured at fair value and an impairment is recorded if that fair value is less than the carrying value.

During the year ended December 31, 2022, we did not record any impairment charges based on the analysis of our long-lived assets.

***Income Taxes***

Under the balance sheet approach to provide for income taxes, we recognize deferred tax assets and liabilities 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. In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. If we determine it is more likely than not that we will not be able to realize the benefits of the deductible temporary differences, we would record a valuation allowance against the net deferred tax asset.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
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We recognize the impact of uncertain tax positions at the largest amount that, in our judgment, is more-likely-than-not to be required to be recognized upon examination by a taxing authority.

We have recorded a liability of \$2.2 million for uncertain tax positions included in deferred tax liabilities, long-term, net on our consolidated balance sheet as of December 31, 2022, related to our depletion deduction methodology, and a corresponding increase to the income tax expense on our consolidated statements of operations. There was a \$2.2 million liability for uncertain tax positions as of December 31, 2021.

As of December 31, 2022, we determined it is more likely than not that we will not be able to fully realize the benefits of certain existing deductible temporary differences and have recorded a valuation allowance against the deferred tax liabilities, long-term, net on our consolidated balance sheet in the amount of \$1.6 million, and an immaterial corresponding increase to the income tax expense of on our consolidated statements of operations.

## **ITEM 7A. — 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. We do not believe that inflation has a material impact on our financial position or results of operations during periods covered by the financial statements included in this filing.

### **Commodity Price Risk**

The market for proppant and proppant storage equipment 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. Additionally the price fluctuations of natural gas, electricity, as well as diesel prices impact the overall cost of conducting our business. We currently hedge our indirect exposure to commodity price risk by entering into fixed price contracts for natural gas, propane and electricity.

### **Interest Rate Risk**

The majority of our debt is financed under fixed interest rates. Borrowings under the ABL Credit Facility bear interest at a rate per annum equal to an applicable margin, plus, at our option, either a LIBOR rate or an alternate base rate (“ABR”). The applicable margin is 2.00% for LIBOR loans and 1.00% for ABR loans. There was no balance on our ABL Credit Facility as of December 31, 2022. We do not believe this represents a material interest rate risk.

### **Credit Risk**

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 expire in accordance with its terms, and we are unable to renew or replace these contracts or the related sales volumes, our gross profit and cash flows may be adversely affected.

### **Foreign Currency Risk**

Our revenues and expenses are primarily in United States dollars; however, certain transactions are transacted in Canada dollars due to our SmartSystems manufacturing facility located in Canada. Thus, revenues, operating expenses, the results of operations, assets and liabilities may be impacted to the extent that they are not hedged by the rise and fall of the relative value of the United States dollar to the Canada dollar. During the years ended December 31, 2022, 2021 and 2020, revenue, expenses, assets and liabilities transacted in Canada dollars were immaterial to the results of operations.

## ITEM 8. — FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following Consolidated Financial Statements are filed as part of this Annual Report on Form 10-K:

	<u>PAGE</u>
<u>Report of Independent Registered Public Accounting Firm (PCAOB ID Number 248)</u>	<u>65</u>
<u>Consolidated Balance Sheets</u>	<u>66</u>
<u>Consolidated Statements of Operations</u>	<u>67</u>
<u>Consolidated Statements of Comprehensive (Loss) Income</u>	<u>68</u>
<u>Consolidated Statements of Changes in Stockholders' Equity</u>	<u>69</u>
<u>Consolidated Statements of Cash Flows</u>	<u>70</u>
<u>Notes to the Consolidated Financial Statements</u>	<u>71</u>



## **Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders  
Smart Sand, Inc.

### **Opinion on the financial statements**

We have audited the accompanying consolidated balance sheets of Smart Sand, Inc. (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2022 and 2021, the related consolidated statements of operations, comprehensive (loss) income, changes in stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2022, and the related notes and financial statement schedule included under Item 15(a) (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

### **Basis for opinion**

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### **Critical audit matters**

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

/s/ GRANT THORNTON LLP

We have served as the Company’s auditor since 2014.

New York, New York

February 28, 2023

**SMART SAND, INC.**  
**CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2022	2021
(in thousands)		
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 5,510	\$ 25,588
Accounts receivable	35,746	17,481
Unbilled receivables	79	1,884
Inventory	20,185	15,024
Prepaid expenses and other current assets	6,593	13,886
Total current assets	68,113	73,863
Property, plant and equipment, net	258,843	262,465
Operating lease right-of-use assets	26,075	29,828
Intangible assets, net	6,669	7,461
Other assets	303	402
Total assets	<u>\$ 360,003</u>	<u>\$ 374,019</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 14,435	\$ 8,479
Accrued expenses and other liabilities	13,430	14,073
Current portion of deferred revenue	6,959	9,842
Current portion of long-term debt	6,183	7,127
Current portion of operating lease liabilities	10,910	9,029
Total current liabilities	51,917	48,550
Long-term deferred revenue	—	6,428
Long-term debt	9,807	15,353
Long-term operating lease liabilities	17,642	23,690
Deferred tax liabilities, long-term, net	18,238	22,434
Asset retirement obligation	18,888	16,155
Other non-current liabilities	40	249
Total liabilities	116,532	132,859
Commitments and contingencies (Note 18)		
Stockholders' equity		
Common stock, \$0.001 par value, 350,000,000 shares authorized; 45,099,067 issued and 43,088,106 outstanding at December 31, 2022; 43,789,814 issued and 42,012,813 outstanding at December 31, 2021	43	42
Treasury stock, at cost, 2,010,961 and 1,777,001 shares at December 31, 2022 and 2021, respectively	(5,075)	(4,535)
Additional paid-in capital	178,386	174,486
Retained earnings	69,890	70,593
Accumulated other comprehensive income	227	574
Total stockholders' equity	243,471	241,160
Total liabilities and stockholders' equity	<u>\$ 360,003</u>	<u>\$ 374,019</u>

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

SMART SAND, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2022	2021	2020
	(in thousands, except per share amounts)		
Revenues:			
Sand sales revenue	\$ 243,162	\$ 117,402	\$ 70,902
Shortfall revenue	5,010	4,421	23,281
Logistics revenue	7,568	4,825	28,157
Total revenue	255,740	126,648	122,340
Cost of goods sold	226,149	140,384	104,221
Inventory impairment loss	—	2,170	—
Gross profit	29,591	(15,906)	18,119
Operating expenses:			
Salaries, benefits and payroll taxes	14,942	11,258	9,993
Depreciation and amortization	2,244	1,980	1,911
Selling, general and administrative	15,532	14,749	15,527
Bad debt expense	1	19,592	—
Change in the estimated fair value of contingent consideration	—	—	(1,410)
Impairment loss	—	—	5,115
Total operating expenses	32,719	47,579	31,136
Operating loss	(3,128)	(63,485)	(13,017)
Other (expenses) income:			
Gain on bargain purchase	—	—	39,600
Interest expense, net	(1,608)	(1,979)	(2,091)
Other income	828	5,773	482
Total other (expenses) income, net	(780)	3,794	37,991
(Loss) income before income tax (benefit) expense	(3,908)	(59,691)	24,974
Income tax benefit	(3,205)	(9,017)	(12,980)
Net (loss) income	\$ (703)	\$ (50,674)	\$ 37,954
Net (loss) income per common share:			
Basic	\$ (0.02)	\$ (1.21)	\$ 0.94
Diluted	\$ (0.02)	\$ (1.21)	\$ 0.94
Weighted-average number of common shares:			
Basic	42,408	41,775	40,260
Diluted	42,408	41,775	40,260

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

SMART SAND, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

	Year Ended December 31,		
	2022	2021	2020
	(in thousands)		
Net (loss) income	\$ (703)	\$ (50,674)	\$ 37,954
Other comprehensive (loss) income:			
Foreign currency translation adjustment	(347)	151	464
Comprehensive (loss) income	<u>\$ (1,050)</u>	<u>\$ (50,523)</u>	<u>\$ 38,418</u>

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

**SMART SAND, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Outstanding Shares	Par Value	Shares	Amount				
	(in thousands, except share amounts)							
Balance at December 31, 2019	40,234,451	\$ 40	740,957	\$ (2,979)	\$ 165,223	\$ 83,313	\$ (41)	\$ 245,556
Foreign currency translation adjustment	—	—	—	—	—	—	464	464
Acquisition stock issuance	1,503,759	2	—	—	2,059	—	—	2,061
Vesting of restricted stock	674,593	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	3,831	—	—	3,831
Employee stock purchase plan compensation	—	—	—	—	34	—	—	34
Employee stock purchase plan issuance	39,634	—	—	—	62	—	—	62
Restricted stock buy back	(99,008)	—	99,008	(155)	—	—	—	(155)
Shares repurchased	(778,300)	—	778,300	(1,000)	—	—	—	(1,000)
Net income	—	—	—	—	—	37,954	—	37,954
Balance at December 31, 2020	41,575,129	\$ 42	1,618,265	\$ (4,134)	\$ 171,209	\$ 121,267	\$ 423	\$ 288,807
Foreign currency translation adjustment	—	—	—	—	—	—	151	151
Acquisition stock issuance	14,430	—	—	—	20	—	—	20
Vesting of restricted stock	547,563	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	3,161	—	—	3,161
Employee stock purchase plan compensation	—	—	—	—	34	—	—	34
Employee stock purchase plan issuance	34,427	—	—	—	62	—	—	62
Restricted stock buy back	(158,736)	—	158,736	(401)	—	—	—	(401)
Net income	—	—	—	—	—	(50,674)	—	(50,674)
Balance at December 31, 2021	42,012,813	\$ 42	1,777,001	\$ (4,535)	\$ 174,486	\$ 70,593	\$ 574	\$ 241,160
Foreign currency translation adjustment	—	—	—	—	—	—	(347)	(347)
Royalty stock issuance	300,000	—	—	—	639	—	—	639
Vesting of restricted stock	974,730	1	—	—	—	—	—	1
Stock-based compensation	—	—	—	—	3,184	—	—	3,184
Employee stock purchase plan compensation	—	—	—	—	25	—	—	25
Employee stock purchase plan issuance	34,523	—	—	—	52	—	—	52
Restricted stock buy back	(233,960)	—	233,960	(540)	—	—	—	(540)
Net loss	—	—	—	—	—	(703)	—	(703)
Balance at December 31, 2022	43,088,106	\$ 43	2,010,961	\$ (5,075)	\$ 178,386	\$ 69,890	\$ 227	\$ 243,471

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

SMART SAND, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2022	2021	2020
	(in thousands)		
Operating activities:			
Net (loss) income	\$ (703)	\$ (50,674)	\$ 37,954
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation, depletion and accretion of asset retirement obligation	26,488	25,308	22,130
Impairment loss	—	2,170	5,115
Amortization of intangible assets	792	792	793
(Gain) loss on disposal of assets	(294)	555	237
Provision for bad debt	1	19,592	—
Amortization of deferred financing cost	105	105	105
Accretion of debt discount	186	183	185
Deferred income taxes	(4,196)	(10,547)	(2,573)
Stock-based compensation, net	3,184	3,161	3,831
Employee stock purchase plan compensation	25	34	34
Change in contingent consideration fair value	—	—	(1,410)
Gain on bargain purchase, net of cash acquired	—	—	(39,291)
Changes in assets and liabilities:			
Accounts receivable	(18,265)	32,899	(10,719)
Unbilled receivables	1,805	(2,011)	4,638
Inventory	(5,161)	1,942	4,738
Prepaid expenses and other assets	6,524	751	(5,327)
Deferred revenue	(9,311)	5,913	1,032
Accounts payable	5,244	4,508	(370)
Accrued expenses and other liabilities	(1,004)	(2,243)	4,981
Income taxes payable	—	—	(542)
Net cash provided by operating activities	5,420	32,438	25,541
Investing activities:			
Acquisition, net of cash acquired	(6,547)	—	—
Purchases of property, plant and equipment	(12,731)	(11,220)	(8,620)
Proceeds from disposal of assets	1,070	78	61
Net cash used in investing activities	(18,208)	(11,142)	(8,559)
Financing activities:			
Proceeds from the issuance of notes payable	—	—	952
Repayments of notes payable	(7,325)	(6,771)	(4,802)
Payments under financing lease obligation	(116)	(123)	(123)
Payment of deferred financing and debt issuance costs	—	—	(20)
Proceeds from revolving credit facility	10,000	—	6,000
Repayment of revolving credit facility	(10,000)	—	(8,500)
Payment of contingent consideration	—	(180)	(310)
Proceeds from equity issuance	52	42	62
Royalty stock issuance	639	—	—
Purchase of treasury stock	(540)	(401)	(1,155)
Net cash used in financing activities	(7,290)	(7,433)	(7,896)
Effect of exchange rate changes on cash and cash equivalents	—	—	—
Net increase in cash and cash equivalents	(20,078)	13,863	9,086
Cash and cash equivalents at beginning of year	25,588	11,725	2,639
Cash and cash equivalents at end of year	\$ 5,510	\$ 25,588	\$ 11,725

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

**SMART SAND, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(IN THOUSANDS, EXCEPT PER SHARE DATA)**

**NOTE 1 — Organization and Nature of Business**

The Company was incorporated in July 2011 and is headquartered in Spring, Texas. The Company primarily operates as a fully integrated frac and industrial sand supply and services company. The Company offers complete mine to wellsite proppant supply and logistics solutions to our frac sand customers. These operations include the excavation, processing and sale of sand, or proppant, for use in hydraulic fracturing operations for the oil and natural gas industry. The Company also offers proppant logistics and wellsite storage solutions through its SmartSystems™ products and services. In late 2021, the Company created its Industrial Products Solutions (“IPS”) business in order to diversify its customer base and markets it serves by offering sand to customers for industrial uses, such as glass, foundry, building products, filtration, geothermal, renewables, ceramics, turf & landscape, retail, and recreation.

***Sand Mines and Processing Facilities***

The Company’s integrated Oakdale facility, with on-site rail infrastructure and wet and dry sand processing facilities, has access to two Class I rail lines which enable the Company to process and cost effectively deliver products to its customers. The Company also offers proppant logistics solutions to its customers through, among other things, its in-basin transloading terminals and its SmartSystems™ wellsite proppant storage and management capabilities. The Company completed construction of the first phase of its mine and processing facility near Oakdale, Wisconsin and commenced operations in July 2012, and subsequently expanded its operations in 2014, 2015 and 2018. Currently, the annual processing capacity at the Company’s Oakdale facility is approximately 5.5 million tons.

In September 2020, the Company acquired from Eagle Materials Inc., a Delaware corporation (“Eagle”), all of the issued and outstanding interests in Eagle Oil and Gas Proppants Holdings LLC, a Delaware limited liability company and wholly-owned subsidiary of Eagle (“Eagle Proppants Holdings”). The primary assets of Eagle Proppants Holdings and its subsidiaries included two frac sand mines and related processing facilities in Utica, Illinois and New Auburn, Wisconsin. The Utica facility has an annual processing capacity of 1.6 million tons and access to the Burlington Northern Santa Fe (“BNSF”) Class I rail line through the Peru, Illinois transload facility. The Company began operating the Utica, Illinois mine and Peru, Illinois transload facility in October 2020. The Company has no plans to operate the New Auburn Facility for the foreseeable future.

On March 4, 2022, the Company entered into a Membership Interest Purchase Agreement (the “Purchase Agreement”) with Hi-Crush Inc., a Delaware corporation (“HCR”), and Hi-Crush Blair LLC, a Delaware limited liability company and wholly-owned subsidiary of HCR (“Blair”), pursuant to which the Company acquired all of the issued and outstanding limited liability company interests of Blair from HCR for aggregate cash consideration of approximately \$6,450, subject to customary purchase price adjustments as set forth in the Purchase Agreement (the “Transaction”). Entities affiliated with Clearlake Capital Group, L.P. (“Clearlake”), who collectively own approximately 11% of the Company’s outstanding common stock, also own a significant portion of the outstanding common stock of HCR, and representatives of Clearlake serve on our board of directors and HCR’s board of directors.

The primary assets of Blair consist of an idle frac sand mine and related processing facility located in Blair, Wisconsin. The Blair facility has approximately 2.9 million tons of total annual processing capacity and contains an onsite, unit train capable rail terminal with access to the Class 1 Canadian National Railway. Currently the Company plans to start operations at Blair in the second quarter of 2023.

With the Blair acquisition, the Company has direct access to four Class I rail lines and the ability to access all Class 1 rail lines within the United States and Canada.

***Transload & Logistics Solutions***

In March 2018, the Company acquired the rights to operate a unit train capable transloading terminal in Van Hook, North Dakota to service the Bakken Formation in the Williston Basin and began providing Northern White Sand in-basin in April 2018.

In September 2020, the Company acquired the rights to use a rail terminal located in El Reno, Oklahoma, which was idled at the time of the acquisition but has recently started operating again.

In September 2021, the Company acquired the rights to construct and operate another transloading terminal in Waynesburg, Pennsylvania to service the Appalachian Basin, including the Marcellus and Utica Formations. The Company began providing sand to customers through this terminal in January 2022.

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In June 2018, the Company acquired substantially all of the assets of Quickthree Solutions, Inc., (“Quickthree”), a manufacturer of portable vertical proppant storage solution systems. Quickthree formed the basis for the Company’s SmartSystems under which it offers various proppant storage solutions that create efficiencies, flexibility, enhanced safety and reliability for customers by providing the capability to unload, store and deliver proppant at the wellsite, as well as the ability to rapidly set up, takedown and transport the entire system. The SmartDepot™ silo includes passive and active dust suppression technology, along with the capability of gravity-fed operation. The self-contained SmartPath™ transloader is a mobile sand transloading system designed to work with bottom dump trailers and features a drive over conveyor, surge bin, and dust collection system. Rapid deployment trailers are designed for quick setup, takedown and transportation of the entire SmartSystem, and they detach from the wellsite equipment, which allows for removal from the wellsite during operation. A proprietary software program, the SmartSystem Tracker™, allows customers to monitor silo-specific information, including location, proppant type and proppant inventory.

**NOTE 2 — Summary of Significant Accounting Policies**

***Basis of Presentation and Consolidation***

The accompanying consolidated financial statements (“financial statements”) of the Company have been prepared in accordance with GAAP and pursuant to the rules and regulations of the SEC. The accompanying financial statements include those of our controlled subsidiaries. The intercompany accounts and transactions have been eliminated. In the opinion of management, all adjustments and disclosures necessary for a fair presentation of these financial statements have been included.

***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 consolidated 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 their impact on calculating the depletion expense under the units-of-production method; the depreciation and amortization associated with property, plant and equipment and definite-lived intangible assets; impairment considerations of intangible assets; estimated cost of future asset retirement obligations; fair value of acquired assets and assume liabilities; stock-based compensation; recoverability of deferred tax assets; inventory reserve; 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. The Company is currently unable to estimate the impact of current or future events on its future financial position and results of operations. Therefore, the Company can give no assurances that current or future events will not have a material adverse effect on its financial position or results of operations.

***Revenue Recognition***

Revenues are generally 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.

***Sand Sales Revenue***

The Company derives its sand sales revenue by mining and processing sand. Its revenues are primarily a function of the price per ton realized and the volumes sold. For sand delivered at one of the Company’s facilities, title passes as the product is loaded into railcars hired by the customer or provided by the Company and revenue is recognized when title transfers at the Company’s facility. For sand delivered in-basin, the Company recognizes revenue when title passes to the customer at the transload facility or in the customer’s truck, depending on the level of logistics services provided to the customer. The amount invoiced reflects product, transportation and any other additional handling services, such as storage or transloading the product from railcar to truck.

Prices under the Company’s long-term agreements with customers are generally fixed but may contain provisions allowing for adjustments including: (i) annual percentage price increases; and/or (ii) market factor adjustments, including a natural gas surcharge/reduction, propane surcharge/reduction, or rail surcharge which are applied if prices moved beyond benchmarks established in the contract.



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The Company requires certain customers to pay a fixed-price monthly reservation charge based on a minimum contractual volume over the remaining life of their contract, which may be applied as a per ton credit to the sales price up to a certain contractually specified monthly volume or credited against any applicable shortfall payments. Standard collection terms are net 30 days, although extended terms are offered in competitive situations. The Company recognizes revenue when the customer no longer has the right to use the reservation charge towards sand sales or shortfall payments.

*Shortfall Revenue*

The Company's shortfall revenues are related to minimum commitments under take-or-pay contracts and 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.

*Logistics Revenue*

Logistics revenue includes railcar usage revenue, transportation revenue and SmartSystems revenue.

Railcar usage revenue consists of revenue derived from the usage of the Company's railcars by customers under long-term contracts or on an as-used basis. Based on the customer contract, the Company either recognizes revenue on the usage 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.

Transportation revenue consists primarily of railway transportation and transload services 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.

SmartSystems revenues are primarily from the rental of our patented SmartSystems equipment to customers, which is typically earned under fixed monthly fees and services related to delivery, proppant management and maintenance on the equipment. Revenues are recognized as the performance obligations are satisfied under the terms of the customer contract.

*Contract Balances*

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables, deferred revenue, and contract assets, included in other assets, on the consolidated balance sheet. Generally, billing occurs subsequent to revenue recognition, though certain billing occurs in advance, resulting in unbilled receivables and deferred revenue, respectively. In addition, the Company sometimes receives shortfall payments from or offers pricing concessions to its customers, which results in deferred revenue until the Company recognizes such revenue when performance obligations are met in accordance with the contract.

*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. Deferred revenue is recognized as revenue when performance obligations are met in accordance with the contract.

*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, each performance obligation is satisfied. The Company's contracts may include a single performance obligation in a single contract whereby the allocation of transaction price is not necessary. The Company's contracts may also contain multiple elements in a single contract or multiple contracts. For contracts with multiple performance obligations, the transaction price is allocated to each performance obligation identified in the contract based on relative standalone selling prices, or estimates of such prices, and recognize the related revenue as control of each individual product or service is transferred to the customer, in satisfaction of the corresponding performance obligations. As of December 31, 2022, the Company had \$111,845 in unsatisfied performance obligations related to contracts with customers. The Company expects to perform these obligations and recognize revenue of \$69,095 and \$42,750 in the years ending December 31, 2023 and 2024, respectively.

**SMART SAND, INC.**  
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*Significant Judgments*

Accounting for long-term contracts involves the use of various techniques to estimate total contract revenue, costs and satisfaction of performance obligations. 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 sand being delivered to customers, the transaction price may be variable in nature.

*Cash and Cash Equivalents*

The Company considers all short-term, highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash is maintained at financial institutions and, at times, balances may exceed federally insured limits.

*Accounts 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 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 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, a 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 December 31, 2022 and 2021, the Company recorded no allowance for doubtful accounts. As of December 31, 2022 and 2021, there were no unbilled receivables included in deferred revenue. The Company recorded \$1 and \$19,592 for the years ended December 31, 2022 and 2021, respectively as non-cash bad debt expense, which is the difference between the \$54,592 accounts receivable balance that was previously under litigation and the \$35,000 cash received under a settlement agreement.

*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 shipping was \$118,616, \$57,770 and \$40,891 for the years ended December 31, 2022, 2021 and 2020, 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). Costs applied to sand inventory include direct excavation costs, processing costs, overhead allocation, depreciation and depletion, transportation and additional service costs, as applicable. 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 periodic surveys to verify the quantity of sand 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. Sand inventory is stated at the lower of cost or net realizable value using the average cost method. There was no write-down of inventory value based on the lower of cost or net realizable value calculation. The Company also performs an analysis on its existing inventory and estimates the expected production yield based on waste sand produced to determine if it has obsolete inventory. An inventory impairment was recorded in the amount of \$2,170 was recorded for the year ended December 31, 2021. There was no impairment due to obsolescence in 2022 or 2020.

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

Certain acquired inventory is stated at fair market value, as determined by its anticipated sales price less costs of disposal and reasonable profit allowance for selling efforts, which may be higher than its cost.

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***Deferred Financing Charges***

Direct costs incurred in connection with the Company's debt are capitalized amortized using the straight-line method, which approximates the effective interest method, over the term of the debt. Amortization expense of the deferred financing and debt discount charges of \$291, \$291, and \$290 are included in interest expense as of December 31, 2022, 2021 and 2020, respectively. Costs related to the Oakdale Equipment Financing are presented net of the related debt and costs related to the ABL Credit Facility are presented in other assets on the balance sheet.

***Financial Instruments***

The carrying value of the Company's financial instruments, consisting of cash, 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 fixed or variable rates which are 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:

	<b>Years</b>
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
SmartSystems	5-15
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 statements of operations.

***Acquisitions***

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, contingent considerations 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 expenses acquisition-related costs and fees associated with business combinations in the period in which they are incurred.

***Long-Lived Assets, Including Definite-Lived Intangible Assets***

Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows derived from such assets. Definite-lived intangible assets primarily consist of developed technology. For long-lived assets used in operations, impairment

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losses are only recorded if the asset's carrying amount is not recoverable through its undiscounted, probability-weighted future cash flows. The Company measures the impairment loss based on the difference between the carrying amount and the estimated fair value. When an impairment exists, the related assets are written down to fair value.

Acquired finite-lived intangible assets are amortized on a straight-line basis over the following periods:

	<u>Estimated Useful Life (Years)</u>
Developed technology	13

There were no impairments of long-lived assets or definite-lived intangible assets during the year ended December 31, 2022 and 2021. In 2020, the Company recorded an impairment loss of \$5,115 to fully write down the value of its long-lived assets in the Permian basin as it has no intentions to develop these properties in the foreseeable future.

### ***Leases***

#### *Lessee*

The Company uses leases primarily to procure certain office space, railcars and heavy equipment as part of its operations. The majority of its lease payments are fixed and determinable with certain of its lease payments containing immaterial variable payments based on the number of hours the equipment is used. Certain of its leases have options that allow for renewal at market rates, purchase at fair market value or termination of the lease. The Company must determine that it is reasonably certain that a lease option will be exercised for such an option to be included in the right-of-use asset or lease liability. The Company is not reasonably certain that any of its lease options will be exercised and, as such, has not included those options in its right-of-use assets or lease liabilities. Certain of its equipment leases contain residual value guarantees which guarantee various parts of heavy equipment will have a remaining life when the equipment is returned to the lessor. It is possible that the Company could owe additional amounts to the lessor upon return of equipment. There are no restrictions or covenants imposed by any of the Company's leases.

The Company evaluates contracts during the negotiation process and when they are executed to determine the existence of leases. A contract contains a lease when it conveys the right to use property, plant or equipment for a stated period of time in exchange for consideration. Leases with an initial term of twelve months or less are not recorded on the balance sheet. The Company recognizes lease expense on a straight-line basis over the term of the lease. The Company evaluates the classification of its leases at the commencement date and includes both lease and non-lease components in its calculation of consideration in the contract for all classes of operating leases.

The Company applies a single discount rate to all operating leases, which is its incremental borrowing rate. The Company determined its incremental borrowing rate based on an average of collateralized borrowing rates offered by various lenders. The Company considered the nature of the assets and the life of the leases and determined that there is no significant difference in the incremental borrowing rate among its classes of assets. See Note 10 — Leases for additional disclosures regarding the Company's leasing activity.

The Company is obligated under certain contracts for minimum payments for the right to use land for extractive activities, which is not within the scope of leases under ASC 842. See Note 17 — Commitments and Contingencies for additional disclosures regarding these obligations.

#### *Lessor*

The Company manufactures SmartSystems and offers the equipment for lease. The Company negotiates the terms of its leases on a case-by-case basis. There are no significant options that are reasonably certain to be exercised, residual value guarantees, restrictions or covenants in its lease contracts and have, therefore, not been included in its accounting for the leases. All of the Company's SmartSystems are accounted for as operating leases.

### ***Fair Value Measurements***

The Company has categorized its assets and liabilities that are measured at fair value on a recurring and non-recurring basis into a three-level fair value hierarchy, of which the first two are considered observable and the last unobservable, which are as follows:

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- 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.

The Company had no financial instruments carried at fair value as of December 31, 2022 and 2021.

***Asset Retirement Obligation***

The Company estimates the future cost of dismantling, restoring and reclaiming operating excavation sites and related facilities in accordance with federal, state and local regulatory requirements and recognizes reclamation obligations when disturbance occurs and records them as liabilities at estimated fair value. In addition, a corresponding increase in the carrying amount of the related asset is recorded and depreciated over such asset’s useful life or the estimated number of years of extraction. The reclamation liability is accreted to expense over the estimated productive life of the related asset and is subject to adjustments to reflect changes in value resulting from the passage of time and revisions to the estimates of either the timing or amount of the reclamation costs. If the asset retirement obligation is settled for more or less than the carrying amount of the liability, a loss or gain will be recognized, respectively.

***Stock-Based Compensation***

The Company issues restricted stock to certain 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, in the consolidated statements of operations, stock-based compensation expense 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 on a straight-line basis when it is probable that the performance condition will be achieved. Forfeitures are accounted for when they occur. The Company uses the market price of its shares as the grant date fair value for restricted stock awards.

***Income Taxes***

The Company applies the provisions of ASC 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 derecognition, 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 statements of operations. For the periods presented, no interest and penalties were recorded.

***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 December 31, 2022 and 2021, there were no material probable environmental matters.

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***Segment Information***

Reportable operating segments are identified as components of an enterprise about which separate discrete financial information is available and utilized 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 reportable operating segment.

***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 these shares and restricted stock are 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 for the years ended December 31, 2022, 2021, 2020 was 2,317, 3,011 and 1,886, respectively as their effect would be anti-dilutive. 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:

	Year Ended December 31,		
	2022	2021	2020
Weighted average common shares outstanding	42,408	41,775	40,260
Assumed conversion of restricted stock	—	—	—
Diluted weighted average common stock outstanding	42,408	41,775	40,260

***Employee Retention Credit***

The Company qualified for federal government assistance through employee retention credit provisions of the Consolidated Appropriations Act of 2021. During the period ended December 31, 2021, the Company recorded \$5,026 of employee retention credits in other income on its consolidated statements of operations, of which \$1,180 remained included in prepaid expenses and other current assets on the consolidated balance sheet as of December 31, 2022. The calculation of the credit is based on employees continued employment and represents a portion of the wages paid to them. For income tax purposes, the credit will result in decreased expense related to the wages it offsets in the period received.

***Recent Accounting Pronouncements***

There are no recent accounting pronouncements that materially affect the financial statements of the Company.

**NOTE 3 — Acquisitions**

***Asset Acquisition - Blair Facility***

On March 4, 2022, the Company entered into the Purchase Agreement with HCR and Blair, pursuant to which the Company acquired all of the issued and outstanding limited liability company interest of Blair from HCR for aggregate cash consideration of \$6,450, subject to customary purchase price adjustments as set forth in the Purchase Agreement.

The primary assets of Blair consist of an idle frac sand mine and related processing facility located in Blair, Wisconsin. The Blair facility, once operational, will have approximately 2.9 million tons of total annual processing capacity and contains an onsite, unit train capable rail terminal with access to the Class 1 Canadian National Railway.

The Company accounted for this transaction as an asset acquisition based on an evaluation of the guidance in ASC 805. The Company determined that there was not a substantive process in place that generates outputs that can be sold to a customer, and therefore the acquisition did not meet the definition of a business. The Company recognized identifiable assets acquired on a relative fair value basis. All assets acquired were allocated to property, plant and equipment on the acquisition date. The Company also recorded an initial increase to its asset retirement obligations and a corresponding increase in purchases of

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property plant and equipment in the amount of \$8,281 and subsequently revised the estimate to \$1,988, based on its current mine plan as of December 31, 2022.

The table below presents the calculation of the total purchase consideration:

Base price consideration	\$	6,450
Net working capital adjustments and capitalized costs		97
Total purchase consideration	\$	<u>6,547</u>

***Business Combination - Eagle Proppants Holdings***

On September 18, 2020, the Company entered into an Equity Purchase and Sale Agreement (the “Purchase Agreement”) with Eagle Materials Inc., a Delaware corporation (“Eagle”), pursuant to which the Company acquired all of the issued and outstanding interests in Eagle Oil and Gas Proppants Holdings LLC, a Delaware limited liability company and wholly-owned subsidiary of Eagle (“Eagle Proppants Holdings”), from Eagle for aggregate non-cash consideration of approximately \$2,080. In satisfaction of the purchase price, the Company issued to Eagle 1,504 shares of its common stock; the Company issued an additional 14 shares of its common stock in January 2021 as settlement of the net working capital adjustment. The number of shares issued was determined by the weighted average trading price of the Company’s common stock over the twenty days preceding the date of the Purchase Agreement.

The primary assets of Eagle Proppants Holdings and its subsidiaries include two frac sand mines and related processing facilities in Utica, Illinois and New Auburn, Wisconsin, with approximately 3.5 million tons of total combined annual processing capacity, 1.6 million tons of which has access to the BNSF rail line through the Peru, Illinois transload facility.

The table below presents the calculation of the total purchase consideration:

Base price consideration	\$	2,000
20-day volume weighted average price of Smart Sand stock	\$	1.33
Shares issued		1,504
Closing share price on September 18, 2020	\$	1.37
Total equity issued	\$	2,060
Net working capital adjustment	\$	20
Total purchase consideration	\$	<u>2,080</u>

**SMART SAND, INC.**  
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The Company's allocation of the purchase price in connection with the acquisition was calculated as follows:

	<b>Fair Value</b>
<b><u>Assets Acquired</u></b>	
Cash	\$ 309
Accounts receivable	75
Inventory	2,459
Prepaid expenses and other current assets	124
Property, plant and equipment	60,310
Right-of-use assets	9,603
Total assets acquired	72,880
<b><u>Liabilities Assumed</u></b>	
Accounts payable	16
Accrued expenses and other liabilities	2,008
Asset retirement obligations	8,424
Operating lease liabilities	9,603
Deferred income taxes	11,149
Total liabilities assumed	31,200
Estimated fair value of net assets acquired	\$ 41,680

The estimated aggregate fair value of the net assets acquired was \$41,680, which exceeds the total consideration and results in a bargain purchase gain of \$39,600 on the acquisition date, which is included in net income for the year ended December 31, 2020. The Company believes that the seller wanted to exit the business relatively quickly and that there were a limited number of potential buyers due to the downturn in the market.

The Company determined the fair values of the acquired assets and assumed liabilities based on the highest and best use of such assets as required by GAAP. Cash, accounts receivable, prepaid expenses and other current assets, accounts payable, accrued expenses and other liabilities are based on underlying assets and liabilities whose carrying value approximates fair value. The Company acquired \$2,050 of contractual receivables; however, it does not expect to collect on \$1,975 as these customers are in bankruptcy proceedings. The fair value of inventory was determined using market prices the Company expects to receive for the inventory when it is sold. Operating leases are considered to be at market rates and the fair values of the associated operating lease liabilities and right-of-use assets were determined using the Company's lease accounting policies. The fair value of the asset retirement obligations was calculated consistently with the Company's other asset retirement obligations and includes assumptions about inflation and discount rates over time to represent the estimated future cost of dismantling, restoring and reclaiming the plant and mines in accordance legal obligations. Deferred income taxes represent the temporary differences between future expenses for GAAP purposes and income tax purposes at the Company's applicable enacted tax rate. The Company determined the fair values of the property, plant and equipment with the assistance of external valuation specialists. The fair value is based on the highest and best use, as required by GAAP, which was determined to be the orderly liquidation value rather than the value imputed by other valuation methods. During the fourth quarter 2020, the Company finalized the deferred tax liability impacts of the acquisition, resulting in a \$289 reduction to the initial gain on bargain purchase. The Company's allocation of the purchase price was complete as of December 31, 2020.

Total acquisition costs incurred during the year ended December 31, 2020 was \$891, which is included in selling, general and administrative expense on the Company's consolidated statements of operations.



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The following represents unaudited pro forma consolidated revenue and income before income tax expense as if Eagle Proppants Holdings had been included in the consolidated results of the Company for the year ended December 31, 2020. These amounts have been calculated after applying the Company's accounting policies and adjusting the results of Eagle Proppants Holdings to reflect the depreciation and accretion expense that would have been charged assuming the fair value adjustments to property, plant and equipment and asset retirement obligations as well as equipment rent that would have been recorded based on the acquired right-of-use assets.

	Year ended December 31,
	2020
	(unaudited)
Revenues	\$ 131,189
Income before income tax expense	\$ 23,173

From the date of acquisition through December 31, 2020, the Company recognized \$3,161 and \$3,021 of revenue and loss before income tax expense, respectively.

**NOTE 4 — Inventories**

Inventories consisted of the following:

	December 31,	
	2022	2021
Raw material	\$ 844	\$ 293
Work in progress	6,240	3,082
Finished goods	7,534	7,269
Spare parts	5,567	4,380
Total inventory	\$ 20,185	\$ 15,024

**NOTE 5 — Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets consisted of the following:

	December 31,	
	2022	2021
Prepaid insurance	\$ 777	\$ 404
Prepaid expenses	658	731
Prepaid income taxes	2,494	7,932
Other receivables	2,476	4,819
Other current assets	188	—
Total prepaid expenses and other current assets	\$ 6,593	\$ 13,886

**SMART SAND, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(IN THOUSANDS, EXCEPT PER SHARE DATA)**

**NOTE 6 — Property, Plant and Equipment, net**

Net property, plant and equipment consists of:

	December 31,	
	2022	2021
Machinery, equipment and tooling	\$ 36,483	\$ 30,813
SmartSystems	28,376	27,343
Vehicles	3,835	3,066
Furniture and fixtures	1,421	1,325
Plant and building	200,480	199,958
Real estate properties	6,155	6,496
Railroad and sidings	33,698	27,703
Land and land improvements	40,433	35,652
Asset retirement obligation	22,583	20,536
Mineral properties	7,442	7,442
Deferred mining costs	2,470	2,455
Construction in progress	10,421	9,574
	<u>393,797</u>	<u>372,363</u>
Less: accumulated depreciation and depletion	134,954	109,898
Total property, plant and equipment, net	<u>\$ 258,843</u>	<u>\$ 262,465</u>

Depreciation expense was \$25,693, \$24,667 and \$21,725 for the years ended December 31, 2022, 2021 and 2020, respectively. Depletion expense was \$36, \$36 and \$18 for the years ended December 31, 2022, 2021 and 2020, respectively.

The Company capitalized no interest expense associated with the construction of new property, plant and equipment for the years ended December 31, 2022, 2021 and 2020.

**NOTE 7 — Intangible Assets, net**

The following table reflects the changes in the net carrying amounts of the Company's intangible assets for the year ended December 31, 2022.

	Balance at December 31, 2021	Assets Acquired Pursuant to Business Combination	Impairment Charges	Amortization Expense	Balance at December 31, 2022
Developed technology	\$ 7,461	\$ —	\$ —	\$ 792	\$ 6,669
	<u>\$ 7,461</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 792</u>	<u>\$ 6,669</u>

The following table reflects the changes in the net carrying amounts of the Company's finite-lived intangible assets for the year ended December 31, 2021.

	Balance at December 31, 2020	Assets Acquired Pursuant to Business Combination	Impairment Charges	Amortization Expense	Balance at December 31, 2021
Developed technology	\$ 8,253	\$ —	\$ —	\$ 792	\$ 7,461
	<u>\$ 8,253</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 792</u>	<u>\$ 7,461</u>

**SMART SAND, INC.**  
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The following table reflects the carrying amounts of the Company's finite-lived intangible assets at December 31, 2022 and 2021.

	December 31, 2022		December 31, 2021	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Developed technology	\$ 10,300	\$ (3,631)	\$ 10,300	(2,839)
	<u>\$ 10,300</u>	<u>\$ (3,631)</u>	<u>\$ 10,300</u>	<u>\$ (2,839)</u>

The Company uses the straight-line method to determine the amortization expense for its definite-lived intangible assets. The weighted-average remaining useful life for the intangible assets is 8.4 years. Amortization expense related to the purchased intangible assets was \$792, \$792 and \$793 for the year ended December 31, 2022, 2021, and 2020, respectively.

The table below reflects the future estimated amortization expense for amortizable intangible assets as of December 31, 2022.

Year ending December 31,	
2023	\$ 792
2024	792
2025	792
2026	792
2027	792
Thereafter	2,709
Total	<u>\$ 6,669</u>

**NOTE 8 — Accrued and Other Expense**

Accrued and other expense consists of the following:

	December 31,	
	2022	2021
Employee related expenses	\$ 1,172	\$ 806
Accrued equipment expense	597	58
Accrued professional fees	295	691
Accrued royalties	3,470	2,701
Accrued freight and delivery charges	4,117	2,164
Accrued real estate tax	1,008	1,010
Accrued utilities	1,604	1,264
Sales tax liability	829	665
Income taxes payable	—	2,332
Other accrued liabilities	338	2,382
Total accrued liabilities	<u>\$ 13,430</u>	<u>\$ 14,073</u>

**SMART SAND, INC.**  
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**NOTE 9 — Debt**

Current portion of long-term debt current consists of the following:

	December 31,	
	2022	2021
Oakdale Equipment Financing	\$ 4,041	\$ 3,814
Finance leases	360	117
Notes payable	1,782	3,196
Current portion of long-term debt	\$ 6,183	\$ 7,127

Long-term debt consists of the following:

	December 31,	
	2022	2021
ABL Credit Facility	\$ —	\$ —
Oakdale Equipment Financing	7,753	11,608
Finance leases	460	234
Notes payable	1,594	3,511
Long-term debt	\$ 9,807	\$ 15,353

*ABL Credit Facility*

On December 13, 2019, the Company entered into a \$20,000 five-year senior secured asset-based credit facility with Jefferies Finance LLC. The available borrowing amount under the ABL Credit Facility as of December 31, 2022 was \$20,000 and is based on the Company's eligible accounts receivable and inventory, as described in the ABL Credit Agreement. As of December 31, 2022, there were no amounts outstanding under the ABL Credit Facility, \$1,000 letters of credit and \$19,000 was available to be drawn. We use this facility primarily as a source for working capital needs. Borrowings under the ABL Credit Facility bear interest at a rate per annum equal to an applicable margin, plus, at our option, either a LIBOR rate or an alternate base rate ("ABR") as well as unused commitment fees. The applicable margin is 2.00% for LIBOR loans and 1.00% for ABR loans. Substantially all of the U.S. assets of the Company are pledged as collateral under the ABL Credit Facility. The ABL Credit Facility contains various reporting requirements, negative covenants and restrictive provisions and requires maintenance of financial covenants, under certain conditions, including a fixed charge coverage ratio, as defined in the ABL Credit Agreement. As of December 31, 2022, the Company was in compliance with all financial covenants. The weighted average interest rate on our ABL credit facility for the year ended December 31, 2022 was 4.81%. There was no interest paid on this facility for the year ended December 31, 2021.

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*Oakdale Equipment Financing*

On December 13, 2019, the Company received net proceeds of \$23,000 in an equipment financing arrangement with Nexseer. The Oakdale Equipment Financing is legally comprised of an MLA and five lease schedules. The Oakdale Equipment Financing is considered a lease under article 2A of the Uniform Commercial Code but is considered a financing arrangement for accounting or financial reporting purposes and not a lease. Substantially all of the Company's mining and processing equipment at its Oakdale facility are pledged as collateral under the Oakdale Equipment Financing. The Oakdale Equipment Financing bears interest at a fixed rate of 5.79%. The Company used the net proceeds to repay in full and terminate the Former Credit Facility, pay transaction costs, and the remainder was used for working capital purposes. The Oakdale Equipment Financing matures on December 13, 2024. As a result of financial relief during the COVID-19 coronavirus pandemic in 2020, a portion of the Oakdale Equipment Financing matures on March 31, 2025. The Company has the right to prepay the financing and reacquire the underlying equipment on a lease schedule-by-lease schedule basis during the period commencing on the seventh month of the term and continuing until the 54th month of the term at a percentage of the purchase price of the relevant equipment, and at the end of the term at the fair market value of the equipment. The Oakdale Equipment Financing contains affirmative and restrictive covenants customary for transactions of this type.

*Notes Payable*

The Company entered into various financing arrangements to finance its manufactured wellsite proppant storage solutions equipment. Upon completion of the equipment manufacturing, title to the subject equipment passes to the financial institutions as collateral. In June 2020, the Company executed a note payable to defer certain near-term minimum royalty payments. All notes payable bear interest at fixed rates between 4.00% and 7.49%.

*Finance Leases*

See Note 10 - Leases for additional information about the Company's finance leases.

Future minimum payments as of December 31, 2022 are as follows:

Year Ended December 31,	ABL Credit Facility	Oakdale Equipment Financing	Notes Payable	Finance Leases	Total
2023	\$ —	\$ 4,639	\$ 1,882	\$ 465	\$ 6,986
2024	—	6,888	918	179	7,985
2025	—	1,724	309	179	2,212
2026	—	—	302	164	466
2027 and thereafter	—	—	174	—	174
Total minimum payments	—	13,251	3,585	987	17,823
Amount representing interest	—	(1,096)	(209)	(167)	(1,472)
Amount representing unamortized lender fees	—	(361)	—	—	(361)
Present value of payments	—	—	—	820	—
Less: current portion	—	(4,041)	(1,782)	(360)	(6,183)
Total long-term debt, net	<u>\$ —</u>	<u>\$ 7,753</u>	<u>\$ 1,594</u>	<u>\$ 460</u>	<u>\$ 9,807</u>

**NOTE 10 — Leases**

*Lessee*

At December 31, 2022 and 2021, the operating and financing components of the Company's right-of-use assets and lease liabilities on the consolidated balance sheet are as follows:

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		December 31,	
		2022	2021
<b>Balance Sheet Location</b>			
<b>Right-of-use assets</b>			
Operating	Operating right-of-use assets	\$ 26,075	\$ 29,828
Financing	Property, plant and equipment, net	699	262
<b>Total right-of use assets</b>		<b>\$ 26,774</b>	<b>\$ 30,090</b>
<b>Lease liabilities</b>			
Operating	Operating lease liabilities, current and long-term portions	\$ 28,552	\$ 32,719
Financing	Long-term debt, current and long-term portions	820	351
<b>Total lease liabilities</b>		<b>\$ 29,372</b>	<b>\$ 33,070</b>

Operating lease costs are recorded in a single expense on the statements of operations and allocated to the right-of-use assets and the related lease liabilities as depreciation expense and interest expense, respectively. Lease cost recognized in the consolidated statements of operations for the years ended December 31, 2022 and 2021 is as follows:

	Year ended December 31,	
	2022	2021
<b>Finance lease cost</b>		
Amortization of right-of-use assets	\$ 136	\$ 139
Interest on lease liabilities	20	28
Operating lease cost	12,214	11,008
Short-term lease cost	594	428
<b>Total lease cost</b>	<b>\$ 12,964</b>	<b>\$ 11,603</b>

Other information related to the Company's leasing activity for year ended December 31, 2022 and 2021 is as follows:

	Year ended December 31,	
	2022	2021
<b>Cash paid for amounts included in the measurement of lease liabilities</b>		
Operating cash flows used for finance leases	\$ 20	\$ 28
Operating cash flows used for operating leases	\$ 12,626	\$ 10,083
Financing cash flows used for finance leases	\$ 116	\$ 123
<b>Right-of-use assets obtained in exchange for new finance lease liabilities</b>		
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 590	\$ —
<b>Right-of-use assets obtained in exchange for new operating lease liabilities</b>		
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 6,721	\$ 6,903
<b>Weighted average remaining lease term - finance leases</b>		
Weighted average remaining lease term - finance leases	3.1 years	1.5 years
<b>Weighted average discount rate - finance leases</b>		
Weighted average discount rate - finance leases	9.37 %	6.60 %
<b>Weighted average remaining lease term - operating leases</b>		
Weighted average remaining lease term - operating leases	2.8 years	3.5 years
<b>Weighted average discount rate - operating leases</b>		
Weighted average discount rate - operating leases	5.81 %	5.81 %

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Maturities of the Company's lease liabilities as of December 31, 2022 are as follows:

Year	Operating Leases	Finance Leases	Total
2023	\$ 12,226	\$ 465	\$ 12,692
2024	9,448	179	9,627
2025	4,541	179	4,720
2026	3,191	164	3,355
2027	1,295	—	1,295
Thereafter	511	—	511
Total cash lease payments	31,213	987	32,200
Less: amounts representing interest	(2,661)	(167)	(2,827)
Total lease liabilities	<u>\$ 28,552</u>	<u>\$ 820</u>	<u>\$ 29,372</u>

**NOTE 11 — Asset Retirement Obligation**

The Company had a post-closure reclamation and site restoration obligation of \$18,888 as of December 31, 2022. The following is a reconciliation of the total reclamation liability for asset retirement obligations.

Balance at December 31, 2020	\$ 14,996
Additions and revisions of prior estimates	419
Accretion expenses	740
Settlement of liability	—
Balance at December 31, 2021	\$ 16,155
Additions and revisions of prior estimates	1,975
Accretion expenses	758
Settlement of liability	—
Balance at December 31, 2022	<u>\$ 18,888</u>

**NOTE 12 — Revenue**

***Disaggregation of Revenue***

The following table presents the Company's revenues disaggregated by type and percentage of total revenues for the periods indicated.

	Year Ended December 31,					
	2022		2021		2020	
	Revenue	Percentage of Total Revenue	Revenue	Percentage of Total Revenue	Revenue	Percentage of Total Revenue
Sand sales revenue	\$ 243,162	95 %	\$ 117,402	93 %	\$ 70,902	58 %
Shortfall revenue	5,010	2 %	4,421	3 %	23,281	19 %
Logistics revenue	7,568	3 %	4,825	4 %	28,157	23 %
Total revenues	<u>\$ 255,740</u>	<u>100 %</u>	<u>\$ 126,648</u>	<u>100 %</u>	<u>\$ 122,340</u>	<u>100 %</u>

**SMART SAND, INC.**  
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Deferred revenue recognition is as follows:

December 31, 2022		December 31, 2021	
Total deferred revenue	\$ 6,727	Total deferred revenue	\$ 16,270
		Recognized in 2022	10,305
Expected recognition:		Expected recognition:	
2023	6,727	2023	5,965
	<u>\$ 6,727</u>		<u>\$ 16,270</u>

**NOTE 13 — Stock-Based Compensation**

***Equity Incentive 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. On April 3, 2020, the Company’s Board adopted an amendment to the 2016 Plan to increase the available shares of common stock authorized for issuance by an additional 2,088 shares. On April 22, 2022, the Company’s board of directors adopted an amendment to the 2016 Plan to increase the available shares of common stock authorized for issuance by an additional 3,900 shares. The awards can be issued in the form of incentive stock options, non-qualified stock options or restricted stock.

During 2022, there were 1,172 shares of restricted stock issued under 2016 Plan. During 2021 and 2020, 2,013 and 0 shares of restricted stock were issued under the 2016 Plan, respectively. The grant date fair value of all restricted stock outstanding during the year ended December 31, 2022 was between \$1.71 - \$7.79 per share. The shares vest over one to four 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. The significant assumptions used in the Monte Carlo simulation are presented in the following table.

	Year ended December 31,
	2022
Expected volatility	90.3 %
Expected life (years)	3.0
Risk-free interest rate	2.81 %

The total number of shares and their respective values that vested during the years ended December 31, 2022, 2021 and 2020 were 975 at \$2,275, 675 at \$1,358 and 261 at \$1,013, respectively.



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The Company recognized \$3,184, \$3,161 and \$3,831 of compensation expense for the restricted stock during 2022, 2021 and 2020, respectively, in cost of goods sold and operating expenses on the consolidated statements of operations. At December 31, 2022, the Company had unrecognized compensation expense of \$6,278 related to granted but unvested stock awards. That expense is expected to be recognized as follows:

<b>Year Ended December 31,</b>	
2023	\$ 2,858
2024	2,022
2025	1,116
2026	282
2027	—
	\$ 6,278

The following table summarizes restricted stock activity under the 2016 Plan from January 1, 2021 through December 31, 2022:

	<u>Number of Shares</u>	<u>Weighted Average</u>
Unvested, January 1, 2021	1,886	\$ 5.14
Granted	2,013	\$ 2.88
Vested	(548)	\$ 7.11
Forfeiture	(200)	\$ 5.71
Unvested, December 31, 2021	3,151	\$ 3.06
Granted	1,172	\$ 3.30
Vested	(975)	\$ 3.54
Forfeiture	(618)	\$ 2.69
Unvested December 31, 2022	2,730	\$ 3.06

***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.

**NOTE 14 — Income Taxes**

On March 27, 2020, the President signed into law the Coronavirus Aid, Relief and Economic Security ("CARES") Act which introduced and revised numerous provisions which include, but are not limited to, (a) a five-year carryback period for net operating losses arising in tax years beginning tax after December 31, 2017 and before January 1, 2021, (b) a technical correction to qualified improvement property for assets placed in service after 2017 through 2022 to allow for immediate depreciation to be claimed on these assets, and (c) temporary increases to the limitations on certain deductions such as interest expense and charitable contributions.

As a result of the CARES Act, the Company recorded a current tax benefit of \$9.7 million for the year ended December 31, 2020 related to the anticipated benefit to be received from the carryback of net operating losses, including those related to depletion deduction, to tax years with a 35% corporate tax rate. The amended returns related to depletion deduction and net operating loss carrybacks were filed in 2021. The Company will continue to monitor and consider available benefits under the CARES Act for which it qualifies, including those described above.

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On December 27, 2020, the President signed into law the Consolidated Appropriations Act, 2021 (the “CAA”). The legislation includes additional coronavirus (COVID-19) relief that expands upon the relief provided in the CARES Act and a number of tax provisions. Tax provisions under the CAA include, but are not limited to, (a) the extension for employers to pay certain deferred payroll taxes and (b) the extension and revision of employer retention credits. Although the Company is currently evaluating the impact of CAA, it does not expect it to have a material impact on its consolidated financial statements for the year ended December 31, 2022.

The provision for income taxes consists of the following:

	Year Ended December 31,		
	2022	2021	2020
<b>Current</b>			
Federal	\$ 96	\$ 1,404	\$ (10,175)
State and local	895	125	(9)
Foreign	—	—	(223)
Total current (benefit) expense	991	1,529	(10,407)
<b>Deferred</b>			
Federal	(3,148)	(10,133)	(2,497)
State and local	(1,048)	(413)	(76)
Foreign	—	—	—
Total deferred income tax (benefit) expense	(4,196)	(10,546)	(2,573)
Total income tax (benefit) expense	<u>\$ (3,205)</u>	<u>\$ (9,017)</u>	<u>\$ (12,980)</u>

Income tax expense differs from the amounts computed by applying the statutory income tax rates to pretax income. The statutory income tax rates were 21% for the years ended December 31, 2022, 2021 and 2020. The reconciliations from the applicable statutory income tax rates to income tax (benefit) expense are as follows:

	Year Ended December 31,		
	2022	2021	2020
At statutory rate	\$ (821)	\$ (12,535)	\$ 5,245
State taxes, net of U.S. federal benefit	(162)	(757)	(99)
Foreign taxes	—	—	(223)
Federal tax deductions	(3,299)	357	(5)
Change in applicable tax rate	26	286	478
Provision to return permanent difference	(17)	340	(20)
R&D credits	(209)	67	(159)
Fuel tax credit	(142)	(125)	(90)
Foreign tax credit	—	—	153
Foreign branch loss	—	—	50
Gain on bargain purchase	—	—	(8,316)
Unrecognized tax benefits	70	2,163	—
NOL carryback/carryforward	14	1,186	(10,046)
Nondeductible asset basis	909	—	—
Compensation deduction limitation	426	—	—
Other	—	—	52
Total income tax benefit	<u>\$ (3,205)</u>	<u>\$ (9,017)</u>	<u>\$ (12,980)</u>

Deferred income taxes reflect the net tax effects of loss and credit carry-forwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

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Significant components of the Company's deferred tax assets for federal and state income taxes are as follows:

	<b>Year Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>Deferred tax assets:</b>		
Reserves and accruals	\$ 2,560	\$ 377
Prepaid expenses and other	1,137	1,457
Federal net operating losses	11,184	9,818
State net operating losses	763	781
Operating lease liabilities	6,605	7,458
<b>Total gross deferred tax assets</b>	<b>22,249</b>	<b>19,891</b>
Less valuation allowance	(1,588)	(1,574)
<b>Total net deferred tax assets</b>	<b>20,661</b>	<b>18,317</b>
<b>Deferred tax liabilities:</b>		
Depreciation and amortization	(32,822)	(33,904)
Foreign net operating losses	(50)	(50)
Operating lease right-of-use assets	(6,027)	(6,797)
<b>Total deferred tax liabilities</b>	<b>(38,899)</b>	<b>(40,751)</b>
<b>Deferred tax liabilities, long-term, net</b>	<b>\$ (18,238)</b>	<b>\$ (22,434)</b>

In assessing the realizability of deferred tax assets, the Company considered whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. A valuation allowance should be recorded if, based on the weight of all positive and negative evidence, it is more likely than not that some portion or all of a deferred tax asset will not be realized. At December 31, 2022 and December 31, 2021, the Company determined it was more likely than not that it will not be able to fully realize the benefits of certain existing deductible temporary differences and has recorded a partial valuation allowance against the gross deferred tax assets on its consolidated balance sheet in the amount of \$1,588 and \$1,574, respectively.

The Company has recorded a liability of \$2,240 and \$2,163, for unrecognized tax benefits for uncertain tax positions included on its consolidated balance sheet as of December 31, 2022 and 2021, respectively. A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

	<b>Unrecognized tax benefits</b>
<b>Unrecognized tax benefits as of December 31, 2021</b>	<b>\$ 2,163</b>
Additions based on prior year positions	77
Decreases due to settlements and /or reduction in reserves	—
<b>Unrecognized tax benefits as of December 31, 2022</b>	<b>\$ 2,240</b>

The Company's federal income tax returns subsequent to 2017 remain open to audit by taxing authorities. The Company has not been informed that its tax returns are the subject of any audit or investigation by taxing authorities.

**NOTE 15 — Retirement Benefits**

***U.S. Defined Contribution Plan***

The Company is the sponsor of a defined contribution plan, subject to the provisions of the Employee Retirement Income Security Act of 1974, that covers substantially all U.S. employees over the age of 21 that have been employed for at least 90 days. The plan allows participants to make pre-tax and Roth after-tax contributions and the Company provides 100% matching contributions on the first 3% of employee contributions and 50% matching contributions on the next 2% of employee contributions. Employees are immediately vested in both their contributions and the Company's matching contributions. In

**SMART SAND, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(IN THOUSANDS, EXCEPT PER SHARE DATA)**

accordance with the provisions of the plan, the Company may make additional discretionary contributions to the accounts of its participants. There were no additional discretionary contributions during the years ended December 31, 2022, 2021 and 2020. During the years ended December 31, 2022, 2021 and 2020, the Company made matching contributions of \$572, \$513 and \$397, respectively to its U.S. Defined Contribution Plan.

***Canada Group Savings Plan and Deferred Profit Sharing Plan***

The Company is the sponsor of a defined contribution plan that covers substantially all Canada employees that have been employed for at least 90 days. The plan allows participants to make contributions to the Group Savings Plan and after six months of employment the Company provides 100% matching contributions on between 3% - 5% of the employee's salary, depending on their length of service to the Deferred Profit Sharing Plan. Employees are immediately vested in their contributions to the Group Savings Plan and vest in the Company's contributions to the Deferred Profit Sharing Plan after two years of service. All accounts opened prior to May 31, 2018 are fully vested. During the year ended December 31, 2022, 2021 and subsequent to the acquisition of Quickthree in 2020, the Company made matching contributions of \$18 and \$30 and \$18, respectively, to its Deferred Profit Sharing Plan.

**NOTE 16 — Concentrations**

As of December 31, 2022, four customers accounted for 65% of the Company's total accounts receivable. As of December 31, 2021, two customers accounted for 59% of the Company's total accounts receivable.

During the year ended December 31, 2022, 60% of the Company's revenues were earned from four customers. During the years ended December 31, 2021 and 2020, 58% and 64% of the Company's revenues were earned from three and four customers, respectively.

As of December 31, 2022, one vendor accounted for 17% of the Company's accounts payable. As of December 31, 2021, one vendor accounted for 19% of the Company's accounts payable.

During the year ended December 31, 2022, two suppliers accounted for 34%, of the Company's cost of goods sold. During the year ended December 31, 2021 and 2020, one and two suppliers accounted for 22% and 45%, respectively, of the Company's cost of goods sold.

The Company's primary product is Northern White frac sand and its mining operations are limited to Wisconsin and Illinois. There is a risk of loss if there are significant environmental, legal or economic changes to this geographic area.

As of December 31, 2022, the Company employed 328 people, of which 54 were employed under collective bargaining agreements. There are no collective bargaining agreements expiring within one year.

**NOTE 17 — Commitments and Contingencies**

***Future Minimum Commitments***

The Company is obligated under certain contracts for minimum payments for the right to use land for extractive activities, which is not within the scope of leases under ASC 842. Future minimum annual commitments under such contracts at December 31, 2022 are as follows:

2023	\$ 2,573
2024	2,469
2025	2,462
2026	2,456
2027	2,449
Thereafter	21,981
Total future minimum annual commitments under these obligations	<u>\$ 34,390</u>

**SMART SAND, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(IN THOUSANDS, EXCEPT PER SHARE DATA)**

***Litigation***

We may be subject to various legal proceedings, claims and governmental inspections, audits or investigations arising out of our operations in the normal course of business, which cover matters such as general commercial, governmental and trade regulations, product liability, environmental, intellectual property, employment and other actions. Although the outcomes of these routine claims cannot be predicted with certainty, in the opinion of management, the ultimate resolution of these matters will not have a material adverse effect on our financial statements.

***Bonds***

The Company has performance bonds with various public and private entities regarding reclamation, permitting and maintenance of public roadways. Total performance bonds as of December 31, 2022 was \$17,651.

**NOTE 18 — Supplemental Disclosures of Cash Flow information**

Supplemental disclosures regarding cash flow information and non-cash investing and financing activities are as follows:

	Year Ended December 31,		
	2022	2021	2020
Cash paid for interest	\$ 1,239	\$ 1,548	\$ 1,766
Cash paid for income taxes	\$ 187	\$ 209	\$ 635
Non-cash investing activities:			
Asset retirement obligation	\$ 1,975	\$ —	\$ 34
Non-cash financing activities:			
Equipment purchased with debt	\$ 445	\$ —	\$ —
Capitalized expenditures in accounts payable and accrued expenses	\$ 958	\$ 1,586	\$ 376

**NOTE 19 — Subsequent Event**

On February 27, 2023, the Company purchased 5,176 of the Company's common stock from Clearlake Capital Partners II (Master), L.P., an affiliate of Clearlake Capital Group ("Clearlake"), for \$8,850, of which \$4,425 was paid in cash and the remainder was financed through an unsecured promissory note, bearing interest of 10%, issued to Clearlake. The promissory note will mature on December 15, 2023. This purchase represented all of the common stock previously owned by Clearlake and approximately 11.3% of the number of outstanding shares of the Company's common stock as of immediately prior to the purchase. Clearlake is a related party to the Company with a representative that serves on our board of directors.

## **ITEM 9. — CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS AND FINANCIAL DISCLOSURE**

None.

## **ITEM 9A. — 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 Annual Report on Form 10-K. 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.

### **Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our internal control over financial reporting is a process designed under the supervision of our Chief Executive Officer and Chief Financial Officer 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.

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

As of December 31, 2022, our management assessed the effectiveness of our internal control over financial reporting based on the criteria for effective internal control over financial reporting established in *Internal Control - Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on its assessment, management determined that we maintained effective internal control over financial reporting as of December 31, 2022.

Our independent registered public accounting firm is not yet required to formally attest to the effectiveness of our internal controls over financial reporting, and will not be required to do so for as long as we are a smaller reporting company as defined in Rule 12b-2 of the Exchange Act.

### **Changes in Internal Controls Over Financial Reporting**

There have been no changes in our internal control over financial reporting for the three months ended December 31, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **ITEM 9B. — OTHER INFORMATION**

None.

## **ITEM 9C. — DISCLOSURES REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

None.

## **PART III**

### **ITEM 10. — DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this item with respect to directors and corporate governance will be set forth under “Proposal No. 1: Election of Directors” in the 2023 Proxy Statement and is incorporated herein by reference.

The information required by this item with respect to executive officers of Smart Sand, Inc., pursuant to instruction 3 of paragraph (b) of Item 401 of Regulation S-K, is set forth following Part I, Item 1 of this Annual Report on Form 10-K under “Executive Officers of the Registrant”.

The information required by this item regarding Section 16(a) beneficial ownership reporting compliance will be set forth under “Section 16(a) Beneficial Ownership Reporting Compliance” in the 2023 Proxy Statement and is incorporated herein by reference.

### **ITEM 11. — EXECUTIVE COMPENSATION**

The information required by this item will be set forth under “Executive Compensation” in the 2023 Proxy Statement and is incorporated herein by reference.

### **ITEM 12. — SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The Equity Compensation Plan Information table required pursuant to Item 201(d) of Regulation S-K will be set forth in the 2023 Proxy Statement and is incorporated herein by reference.

The information required by Item 403 of Regulation S-K regarding security ownership of certain beneficial owners and management will be set forth under “Principal Stockholders” in the 2023 Proxy Statement and is incorporated herein by reference.

### **ITEM 13. — CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this item will be set forth under “Certain Relationships and Transactions with Related Persons” and “Corporate Governance” in the 2023 Proxy Statement and is incorporated herein by reference.

### **ITEM 14. — PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this item will be set forth under “Ratification of the Selection of Grant Thornton LLP as the Company’s Independent Registered Public Accounting Firm for the Year Ending December 31, 2022” in the 2023 Proxy Statement and is incorporated herein by reference.

## PART IV

### ITEM 15. — EXHIBITS, FINANCIAL STATEMENT SCHEDULES

#### (a) Financial Statements

- (1) The Consolidated Financial Statements are included in Part II, Item 8 of this Annual Report on Form 10-K.
- (2) Financial Statement Schedules:

#### SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

Year Ended December 31, 2022	Balance at Beginning of the Year	Charged to cost and expenses	Additions (Deductions)	Balance at End of the Year
Deferred tax asset valuation allowance	\$ 1,574	\$ 14	\$ —	\$ 1,588

#### (b) Exhibits

2.1	<u>Equity Purchase and Sale Agreement, dated September 18, 2020, by and between Smart Sand, Inc. and Eagle Materials, Inc. (incorporated by reference to Exhibit 2.1 to Smart Sand, Inc.'s Current Report on Form 8-K filed with the SEC on September 18, 2020)</u>
2.2	<u>Membership Interest Purchase Agreement by and among HI-CRUSH INC., HI-CRUSH BLAIR LLC, and Smart Sand, Inc. Dated as of March 4, 2022 (incorporated by reference to Exhibit 2.1 to Smart Sand, Inc.'s Current Report on Form 8-K filed with the SEC on March 8, 2022)</u>
3.1	<u>Second Amended and Restated Certificate of Incorporation of Smart Sand, Inc. (incorporated by reference to Exhibit 3.1 to Smart Sand, Inc.'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 Smart Sand, Inc.'s Current Report on Form 8-K filed with the SEC on November 15, 2016)</u>
4.1	<u>Registration Rights Agreement, dated November 9, 2016, by and among Smart Sand, Inc. and the Persons listed on Schedule A thereto (incorporated by reference to Exhibit 4.1 to Smart Sand, Inc.'s Current Report on Form 8-K filed with the SEC on November 15, 2016)</u>
4.2	<u>Stockholders Agreement, dated November 9, 2016, by and among Smart Sand, Inc., Clearlake Capital Partners II (Master), L.P. and Keystone Cranberry, LLC (incorporated by reference to Exhibit 4.2 to Smart Sand, Inc.'s Current Report on Form 8-K filed with the SEC on November 15, 2016)</u>
4.3*	<u>Description of the Company's Capital Stock</u>
10.1†	<u>Smart Sand, Inc. Amended and Restated 2016 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to Smart Sand, Inc.'s Current Report on Form 8-K filed with the SEC on June 4, 2020)</u>
10.2†	<u>Form of Time-Based Vesting Restricted Stock Award Agreement under Smart Sand, Inc. 2016 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to Smart Sand Inc.'s Current Report on Form 8-K filed with the SEC on April 5, 2017)</u>
10.3†	<u>Form of Performance-Based Vesting Restricted Stock Award Agreement under Smart Sand, Inc. 2016 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.2 to Smart Sand Inc.'s Current Report on Form 8-K filed with the SEC on April 5, 2017)</u>
10.4†	<u>Form of Time and Performance-Based Vesting Restricted Stock Award Agreement under Smart Sand, Inc. 2016 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.3 to Smart Sand Inc.'s Current Report on Form 8-K filed with the SEC on April 5, 2017)</u>
10.5	<u>2016 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.3 to Smart Sand, Inc.'s Current Report on Form 8-K filed with the SEC on November 15, 2016)</u>
10.6	<u>Amendment No. 1 to the Smart Sand, Inc. Amended and Restated 2016 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 Smart Sand Inc.'s Quarterly Report on Form 10-Q filed with the SEC on August 9, 2022)</u>
10.7	<u>Form of Indemnification Agreement between the Company and its officers and directors (incorporated by reference to Exhibit 10.23 to Amendment No. 2 to Smart Sand, Inc.'s Registration Statement on Form S-1 filed with the SEC on October 18, 2016)</u>



10.8	<u>Master Lease Agreement, dated December 13, 2019, among Smart Sand, Inc., Smart Sand Oakdale, LLC and Nexseer Capital (incorporated by reference to Exhibit 10.13 to Smart Sand, Inc.'s Annual Report on Form 10-K filed with the SEC on March 14, 2020)</u>
10.9	<u>ABL Credit Agreement, dated December 13, 2019, among Smart Sand, Inc., the subsidiary borrowers and guarantors party thereto, Jefferies Finance LLC, as issuing bank, swingline lender and agent, and certain other lenders from time to time party thereto (incorporated by reference to Exhibit 10.14 to Smart Sand, Inc.'s Annual Report of Form 10-K filed with the SEC on March 14, 2020)</u>
10.10	<u>Guarantee and Collateral Agreement, dated December 13, 2019, among Smart Sand, Inc., the subsidiary borrowers and guarantors party thereto and Jefferies Finance LLC, as agent (incorporated by reference to Exhibit 10.15 to Smart Sand, Inc.'s Annual Report on Form 10-K filed with the SEC on March 14, 2020)</u>
10.11	<u>First Amendment to ABL Credit Agreement, dated July 8, 2020, by and between Smart Sand, Inc. and Jefferies Finance LLC (incorporated by reference to Exhibit 10.3 to Smart Sand, Inc.'s Quarterly Report on Form 10-Q filed with the SEC on November 9, 2020)</u>
10.12	<u>Second Amendment to ABL Credit Agreement, dated September 18, 2020, by and between Smart Sand, Inc. and Jefferies Finance LLC (incorporated by reference to Exhibit 10.4 to Smart Sand, Inc.'s Quarterly Report on Form 10-Q filed with the SEC on November 9, 2020)</u>
10.13	<u>Third Amendment to ABL Credit Agreement, dated July 22, 2022, by and between Smart Sand, Inc. and Jefferies Finance LLC (incorporated by reference to Exhibit 10.1 to Smart Sand, Inc.'s Quarterly Report on Form 10-Q filed with the SEC on November 8, 2022)</u>
10.14	<u>Guarantee and Collateral Agreement Supplement, dated September 18, 2020, by and between Eagle Oil and Gas Proppants Holdings LLC and Northern White Sand LLC, and CRS Proppants LLC, and Jefferies Finance LLC (incorporated by reference to Exhibit 10.5 to Smart Sand, Inc.'s Quarterly Report on Form 10-K filed with the SEC on November 9, 2020)</u>
10.15‡	<u>Master Product Purchase Agreement dated effective as of January 1, 2017 between Rice Drilling B, LLC and Smart Sand, Inc. (incorporated by reference to Exhibit 10.1 to Smart Sand, Inc.'s Current Report on Form 8-K filed with the SEC on January 6, 2017)</u>
10.16†	<u>Railcar Usage Agreement dated effective as of January 1, 2017 between Rice Drilling B, LLC and Smart Sand, Inc. (incorporated by reference to Exhibit 10.2 to Smart Sand, Inc.'s Current Report on Form 8-K filed with the SEC on January 6, 2017)</u>
10.17†	<u>First Amendment to the Master Product Purchase Agreement and First Amendment to Railcar Usage Agreement, dated June 21, 2019, between Smart Sand, Inc. and Rice Drilling B LLC, a subsidiary of EQT Corporation (incorporated by reference to Exhibit 10.1 to Smart Sand, Inc.'s Quarterly Report on Form 10-Q filed with the SEC on August 7, 2019)</u>
10.18†	<u>Letter Agreement to Master Product Purchase Agreement, dated May 26, 2020, between Smart Sand, Inc. and Rice Drilling B LLC, a subsidiary of EQT Corporation (incorporated by reference to Exhibit 10.1 to Smart Sand, Inc.'s Quarterly Report on Form 10-Q filed with the SEC on August 5, 2020)</u>
10.19‡	<u>Second Amendment to Master Product Purchase Agreement and Second Amendment to Railcar Usage Agreement, dated September 28, 2020, between Smart Sand, Inc. and Rice Drilling B, LLC, a subsidiary of EQT Corporation (incorporated by reference to Exhibit 10.2 to Smart Sand, Inc.'s Quarterly Report on Form 10-Q filed with the SEC on November 9, 2020)</u>
10.20‡	<u>Second Amended and Restated Master Product Purchase Agreement, dated September 10, 2019, by and between Smart Sand, Inc. and Schlumberger Technology Corporation (incorporated by reference to Exhibit 10.1 to Smart Sand, Inc.'s Current Report on Form 8-K filed with the SEC on September 13, 2019)</u>
10.21	<u>Loan and Security Agreement, dated September 18, 2020, by and between Smart Sand, Inc. and Eagle Materials, Inc. (incorporated by reference to Exhibit 10.1 to Smart Sand, Inc.'s Current Report on Form 8-K filed with the SEC on September 18, 2020)</u>
10.22	<u>Settlement Agreement and Release, dated June 28, 2021, by and among Smart Sand, Inc., U.S. Well Services, LLC and U.S. Well Services, Inc. (incorporation by reference to Exhibit 10.1 to Smart Sand Inc.'s Current Report on Form 8-K filed with the SEC on June 29, 2021)</u>
10.23	<u>Open Market Sale Agreement, dated as of November 9, 2021, by and among Smart Sand, Inc., Clearlake Capital Partners II (Master), L.P. and Jefferies LLC (incorporation by reference to Exhibit 10.1 to Smart Sand Inc.'s Quarterly Report on Form 10-Q filed with the SEC on November 9, 2021)</u>
10.24‡	<u>Master Product Purchase Agreement, dated effective August 1, 2021, by and between Smart Sand, Inc. and EQT Production Company (incorporated by reference to Exhibit 10.1 to Smart Sand Inc.'s Current Report on Form 8-K filed with the SEC on August 4, 2021)</u>
10.25	<u>Technical Report Summary, Frac Sand Resources and Reserves Oakdale Mine, Monroe County, Wisconsin (incorporated by reference to Exhibit 10.23 to Smart Sand Inc.'s Annual Report on Form 10-K filed with the SEC on March 8, 2022)</u>

10.26	<u>Technical Report Summary, Frac Sand Resources and Reserves Utica Mine, LaSalle County, Illinois (incorporated by reference to Exhibit 10.24 to Smart Sand Inc.'s Annual Report on Form 10-K filed with the SEC on March 8, 2022)</u>
10.27	<u>Smart Sand Resource Properties New Auburn Proppant Sand Property and Hixton Greenfield Property (incorporated by reference to Exhibit 10.25 to Smart Sand Inc.'s Annual Report on Form 10-K filed with the SEC on March 8, 2022)</u>
10.28*	<u>Technical Report Summary, Frac Sand Resources and Reserves Blair Mine, Trempealeau County, Wisconsin</u>
21.1*	<u>List of subsidiaries of Smart Sand, Inc.</u>
23.1*	<u>Consent of Independent Registered Public Accounting Firm</u>
23.2*	<u>Consent of John T. Boyd Company</u>
31.1*	<u>Certification Pursuant to 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 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 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
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

\* Filed herewith

† Compensatory plan, contract or arrangement.

‡ Certain portions have been omitted pursuant to a confidential treatment request. Omitted information has been separately filed with the Securities and Exchange Commission.

◆ This certification is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended (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.

## ITEM 16. — FORM 10-K SUMMARY

None.

**Signatures**

Date: February 28, 2023

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.

/s/ Charles E. Young

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Charles E. Young,  
*Director and Chief Executive Officer*  
*(Principal Executive Officer)*

/s/ Lee E. Beckelman

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

/s/ Christopher Green

---

Christopher Green  
*Controller and Vice President of Accounting*  
*(Principal Accounting Officer)*

/s/ Frank Porcelli

---

Frank Porcelli  
*Director*

/s/ José E. Feliciano

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José E. Feliciano  
*Director*  
*(Co-Chairman of the Board)*

/s/ Sharon Spurlin

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Sharon Spurlin  
*Director*

/s/ Andrew Speaker

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Andrew Speaker  
*Director*  
*(Co-Chairman of the Board)*

/s/ Timothy J. Pawlenty

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Timothy J. Pawlenty  
*Director*

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**Smart Sand, Inc. trades on the NASDAQ under the symbol "SND"**

**INDEPENDENT AUDITORS**

Grant Thornton LLP

**TRANSFER AGENT & REGISTRANT**

American Stock Transfer & Trust Company LLC  
6201 15th Avenue  
Brooklyn, NY 11219  
(800) 937-5449

**CORPORATE HEADQUARTERS**

Smart Sand, Inc.  
28420 Hardy Toll Road., Suite 130  
Spring, TX 77373

**ANNUAL MEETING**

June 6, 2023- 9:00 CDT  
[www.virtualshareholdermeeting.com/SND2023](http://www.virtualshareholdermeeting.com/SND2023)

**COMPANY CONTACT**

Lee Beckelman  
Chief Financial Officer  
(281) 231-2660  
[lbeckelman@smartsand.com](mailto:lbeckelman@smartsand.com)

**MANAGEMENT**

**Charles E. Young**  
Chief Executive Officer

**Lee E. Beckelman**  
Chief Financial Officer

**William John Young**  
Chief Operating Officer

**Robert Kiszka**  
Executive Vice President of Operations

**Ronald P. Whelan**  
Executive Vice President of Sales

**James D. Young**  
Executive Vice President,  
General Counsel and Secretary

**Richard Shearer**  
President – Industrial Products

**BOARD OF DIRECTORS**

**José E. Feliciano**  
Co-Chairman of the Board

**Andrew Speaker**  
Co-Chairman of the Board

**Charles E. Young**  
Chief Executive Officer

**Timothy J. Pawlenty**

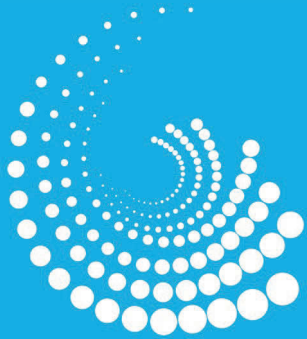
**Frank Porcelli**

**Sharon Spurlin**

**FORWARD-LOOKING STATEMENTS**

All statements in this 2022 Annual Report other than statements of historical facts are forward-looking statements which contain our current expectations about our future results. For additional information regarding forward-looking statements, see the section entitled "Disclaimer Regarding Forward-Looking Statements" on page 4 of the Form 10-K included herewith.





smartsand®

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