

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2020

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



smartsand[®]
Mine to Wellsite Solutions

SMART SAND, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

1725 Hughes Landing Blvd, Suite 800

The Woodlands, Texas 77380

(Address of principal executive offices)

45-2809926

(I.R.S. Employer Identification Number)

(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	Nasdaq Global Select Market

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

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

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

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

Number of shares of common stock outstanding, par value \$0.001 per share, as of November 2, 2020: 43,517,901

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Certain Definitions

The following definitions apply throughout this quarterly 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, as amended, 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.
“Former Credit Agreement”, “Former Credit Facility”	The \$45 million 3-year senior secured revolving credit facility (the “Former Credit Facility”) under a revolving credit agreement, dated December 8, 2016, with Jefferies Finance LLC, as administrative and collateral agent (as amended, the “Former Credit Agreement”). The Former Credit Facility was paid in full and terminated with proceeds from the Oakdale Equipment Financing.
“Loan Agreement”, “Acquisition Liquidity Support Facility”	In connection with the Company’s acquisition of Eagle Oil and Gas Proppants Holdings LLC from Eagle Materials Inc., which acquisition was completed on September 18, 2020, the Company, as borrower, entered into a Loan and Security Agreement, dated September 18, 2020 (the “Loan Agreement”), with Eagle Materials Inc., as lender, secured by certain property rights and assets of the acquired business, whereby the Company may draw loans in an aggregate amount up to \$5.0 million during the twelve-month period ending September 19, 2021 (the “Acquisition Liquidity Support Facility”).
“Exchange Act”	The Securities Exchange Act of 1934, as amended.
“Securities Act”	The Securities Act of 1933, as amended.
“FCA”, “DAT”, “DAP”	Free Carrier, Delivered at Terminal, Delivered at Place, respectively, Incoterms 2010.
“FASB”, “ASU”, “ASC”, “GAAP”	Financial Accounting Standards Board, Accounting Standards Update, Accounting Standards Codification, Accounting Principles Generally Accepted in the United States, respectively.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SMART SAND, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2020 (unaudited)	December 31, 2019
(in thousands, except share amounts)		
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,994	\$ 2,639
Accounts receivable, net	66,029	58,925
Unbilled receivables	9,256	4,765
Inventories	23,568	21,415
Prepaid expenses and other current assets	1,534	4,433
Total current assets	111,381	92,177
Property, plant and equipment, net	281,142	230,461
Operating lease right-of-use assets	32,198	28,178
Intangible assets, net	8,451	9,046
Other assets	3,417	3,541
Total assets	<u>\$ 436,589</u>	<u>\$ 363,403</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 3,338	\$ 3,961
Accrued expenses and other liabilities	7,735	8,578
Deferred revenue, current	8,192	7,654
Income taxes payable	6,510	542
Long-term debt, net, current	6,423	6,175
Operating lease liabilities, current	8,783	13,108
Total current liabilities	40,981	40,018
Deferred revenue, net	4,789	1,670
Long-term debt, net	23,899	28,240
Operating lease liabilities, long-term	24,536	15,469
Deferred tax liabilities, long-term, net	35,523	24,408
Asset retirement obligation	14,805	6,142
Contingent consideration	570	1,900
Other non-current liabilities	759	—
Total liabilities	145,862	117,847
Commitments and contingencies (Note 15)		
Stockholders' equity		
Common stock, \$0.001 par value, 350,000,000 shares authorized; 42,842,751 issued and 41,281,583 outstanding at September 30, 2020; 40,975,408 issued and 40,234,451 outstanding at December 31, 2019	42	40
Treasury stock, at cost, 1,561,168 and 740,957 shares at September 30, 2020 and December 31, 2019, respectively	(4,025)	(2,979)
Additional paid-in capital	170,282	165,223
Retained earnings	124,152	83,313
Accumulated other comprehensive income (loss)	276	(41)
Total stockholders' equity	290,727	245,556
Total liabilities and stockholders' equity	<u>\$ 436,589</u>	<u>\$ 363,403</u>

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

SMART SAND, INC.
CONDENSED CONSOLIDATED INCOME STATEMENTS
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands, except per share amounts)			
Revenues	\$ 23,409	\$ 65,690	\$ 97,003	\$ 185,406
Cost of goods sold	18,227	38,555	71,221	122,228
Gross profit	5,182	27,135	25,782	63,178
Operating expenses:				
Salaries, benefits and payroll taxes	2,058	2,958	7,115	8,466
Depreciation and amortization	440	623	1,354	1,954
Selling, general and administrative	3,933	2,693	10,393	8,283
Change in the estimated fair value of contingent consideration	—	(1,215)	(1,020)	(2,757)
Impairment loss	—	7,628	—	7,628
Total operating expenses	6,431	12,687	17,842	23,574
Operating (loss) income	(1,249)	14,448	7,940	39,604
Other income (expenses):				
Gain on bargain purchase	39,889	—	39,889	—
Interest expense, net	(497)	(968)	(1,576)	(2,943)
Other income	80	15	162	89
Total other income (expenses), net	39,472	(953)	38,475	(2,854)
Income before income tax expense	38,223	13,495	46,415	36,750
Income tax expense	1,941	2,569	5,576	7,515
Net income	\$ 36,282	\$ 10,926	\$ 40,839	\$ 29,235
Net income per common share:				
Basic	\$ 0.91	\$ 0.27	\$ 1.02	\$ 0.73
Diluted	\$ 0.91	\$ 0.27	\$ 1.02	\$ 0.73
Weighted-average number of common shares:				
Basic	39,973	40,233	39,903	40,102
Diluted	39,973	40,240	39,903	40,163

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

SMART SAND, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands)			
Net income	\$ 36,282	\$ 10,926	\$ 40,839	\$ 29,235
Other comprehensive income:				
Foreign currency translation adjustment	96	(46)	317	190
Comprehensive income	\$ 36,378	\$ 10,880	\$ 41,156	\$ 29,425

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

SMART SAND, INC.

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

Nine months ended September 30, 2020

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive 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	—	—	—	—	—	—	(163)	(163)
Vesting of restricted stock	139,947	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	1,025	—	—	1,025
Employee stock purchase plan compensation	—	—	—	—	14	—	—	14
Employee stock purchase plan issuance	21,486	—	—	—	46	—	—	46
Restricted stock buy back	(10,468)	—	10,468	(14)	—	—	—	(14)
Shares repurchased	(778,300)	—	778,300	(1,000)	—	—	—	(1,000)
Net loss	—	—	—	—	—	(84)	—	(84)
Balance at March 31, 2020	39,607,116	40	1,529,725	(3,993)	166,308	83,229	(204)	245,380
Foreign currency translation adjustment	—	—	—	—	—	—	384	384
Vesting of restricted stock	177,628	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	943	—	—	943
Employee stock purchase plan compensation	—	—	—	—	12	—	—	12
Employee stock purchase plan issuance	—	—	—	—	—	—	—	—
Restricted stock buy back	(30,673)	—	30,673	(31)	—	—	—	(31)
Shares repurchased	—	—	—	—	—	—	—	—
Net income	—	—	—	—	—	4,641	—	4,641
Balance at June 30, 2020	39,754,071	\$ 40	1,560,398	\$ (4,024)	\$ 167,263	\$ 87,870	\$ 180	\$ 251,329
Foreign currency translation adjustment	—	—	—	—	—	—	96	96
Acquisition stock issuance	1,503,759	2	—	—	2,059	—	—	2,061
Vesting of restricted stock	6,375	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	941	—	—	941
Employee stock purchase plan compensation	—	—	—	—	3	—	—	3
Employee stock purchase plan issuance	18,148	—	—	—	16	—	—	16
Restricted stock buy back	(770)	—	770	(1)	—	—	—	(1)
Net income	—	—	—	—	—	36,282	—	36,282
Balance at September 30, 2020	41,281,583	\$ 42	1,561,168	\$ (4,025)	\$ 170,282	\$ 124,152	\$ 276	\$ 290,727

SMART SAND, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (continued)
(UNAUDITED)

Nine months ended September 30, 2019

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Outstanding Shares	Par Value	Shares	Amount				
	(in thousands, except share amounts)							
Balance at December 31, 2018	39,974,478	\$ 40	699,035	\$ (2,839)	\$ 162,195	\$ 48,864	\$ (313)	\$ 207,947
Foreign currency translation adjustment	—	—	—	—	—	—	145	145
Vesting of restricted stock	30,729	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	790	—	—	790
Employee stock purchase plan compensation	—	—	—	—	9	—	—	9
Employee stock purchase plan issuance	20,954	—	—	—	40	—	—	40
Restricted stock buy back	(5,714)	—	5,714	(23)	—	—	—	(23)
Net income	—	—	—	—	—	4,033	—	4,033
Balance at March 31, 2019	40,020,447	40	704,749	(2,862)	163,034	52,897	(168)	212,941
Foreign currency translation adjustment	—	—	—	—	—	—	91	91
Vesting of restricted stock	224,653	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	754	—	—	754
Employee stock purchase plan compensation	—	—	—	—	9	—	—	9
Employee stock purchase plan issuance	—	—	—	—	—	—	—	—
Restricted stock buy back	(35,691)	—	35,691	(116)	—	—	—	(116)
Net income	—	—	—	—	—	14,276	—	14,276
Balance at June 30, 2019	40,209,409	40	740,440	(2,978)	163,797	67,173	(77)	227,955
Foreign currency translation adjustment	—	—	—	—	—	—	(46)	(46)
Vesting of restricted stock	4,500	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	652	—	—	652
Employee stock purchase plan compensation	—	—	—	—	12	—	—	12
Employee stock purchase plan issuance	20,121	—	—	—	38	—	—	38
Restricted stock buy back	(180)	—	180	—	—	—	—	—
Net income	—	—	—	—	—	10,926	—	10,926
Balance at September 30, 2019	<u>40,233,850</u>	<u>\$ 40</u>	<u>740,620</u>	<u>\$ (2,978)</u>	<u>\$ 164,499</u>	<u>\$ 78,099</u>	<u>\$ (123)</u>	<u>\$ 239,537</u>

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

SMART SAND, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30,	
	2020	2019
	(in thousands)	
Operating activities:		
Net income	\$ 40,839	\$ 29,235
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and accretion of asset retirement obligation	16,092	19,309
Impairment loss	—	7,628
Amortization of intangible assets	596	1,199
Asset retirement obligation settlement	—	(2,348)
Loss (gain) on disposal of assets	299	(41)
Amortization of deferred financing cost	79	172
Accretion of debt discount	138	517
Deferred income taxes	238	6,787
Stock-based compensation, net	2,909	2,196
Employee stock purchase plan compensation	29	30
Change in contingent consideration fair value	(1,020)	(2,757)
Gain on bargain purchase, net of cash acquired	(39,580)	—
Changes in assets and liabilities:		
Accounts receivable	(7,029)	(39,760)
Unbilled receivables	(4,491)	6,634
Inventories	306	2,649
Prepaid expenses and other assets	3,751	1,035
Deferred revenue	3,912	4,396
Accounts payable	(205)	(956)
Accrued and other expenses	(607)	4,403
Income taxes payable	5,968	—
Net cash provided by operating activities	22,224	40,328
Investing activities:		
Purchases of property, plant and equipment	(7,444)	(19,518)
Proceeds from disposal of assets	51	—
Net cash used in investing activities	(7,393)	(19,518)
Financing activities:		
Proceeds from the issuance of notes payable	952	6,120
Repayments of notes payable	(3,527)	(1,461)
Payments under equipment financing obligations	(87)	(79)
Payment of deferred financing and debt issuance costs	(20)	(1,087)
Proceeds from revolving credit facility	6,000	37,750
Repayment of revolving credit facility	(8,500)	(59,750)
Payment of contingent consideration	(310)	(1,610)
Proceeds from equity issuance	62	78
Purchase of treasury stock	(1,046)	(139)
Net cash used in financing activities	(6,476)	(20,178)
Net increase in cash and cash equivalents	8,355	632
Cash and cash equivalents at beginning of year	2,639	1,466
Cash and cash equivalents at end of period	\$ 10,994	\$ 2,098
Supplemental disclosure of cash flow information		
Non-cash investing activities:		
Asset retirement obligation	\$ —	\$ 3,301
Non-cash financing activities:		
Capitalized expenditures in accounts payable and accrued expenses	\$ 157	\$ 2,138

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

SMART SAND, INC.

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

NOTE 1 — Organization and Nature of Business & Market Update

Organization and Nature of Business

The Company was incorporated in July 2011 and is headquartered in The Woodlands, Texas. The Company is a fully integrated frac sand supply and services company, offering complete mine to wellsite proppant logistics and storage solutions. The Company is engaged in the excavation, processing and sale of sand, or proppant, for use in hydraulic fracturing operations for the oil and natural gas industry and offers proppant logistics and wellsite storage solutions through its SmartSystems™ products and services.

The Company completed construction of the first phase of its frac sand mine and related processing facility in Oakdale, Wisconsin and commenced operations in July 2012, and subsequently expanded its operations in 2014, 2015 and 2018 to the current annual processing capacity of approximately 5.5 million tons.

The Company provides complete logistics solutions through both its integrated Oakdale facility, with on-site rail infrastructure, with access to two Class I rail lines and its in-basin unit train capable transloading terminal in Van Hook, North Dakota to service the Bakken Formation in the Williston Basin. These logistics solutions enable the Company to cost-effectively deliver products to its customers anywhere in the United States.

The Company provides proppant storage and management solutions through its SmartSystems products and services under which it offers various 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 system includes passive and active dust suppression technology, along with the capability of a gravity-fed operation. SmartSystems operate with proprietary the SmartSystem Tracker™ software program, which allows users to monitor silo-specific information, including location, proppant type, and proppant inventory. The Company is currently developing a new transload technology to complement its existing solutions.

On September 18, 2020, the Company acquired all of the issued and outstanding interests in Eagle Oil and Gas Proppants Holdings LLC, which, together with its subsidiaries, constituted the entirety of the assets and operations of the oil and gas proppants business of Eagle Materials Inc. The primary assets of Eagle Oil and Gas Proppants Holdings LLC 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 Class I rail line through the Peru, Illinois transload facility. See Note 3 — Business Combination and Note 7 - Debt for additional disclosures regarding this transaction.

Market Update

Generally, the price of frac sand correlates with the level of drilling and completions activity for oil and natural gas in the United States and Canada. In recent years, the increasing supply of sand, particularly in-basin sand, relative to demand, has led to a continued depression of frac sand prices. The willingness of exploration and production companies to engage in drilling and completing new wells 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 acquire the sand at the wellsite.

Recently, oil prices declined to all-time lows as a result of decreased demand for oil from the COVID-19 coronavirus pandemic, as well as an increase in global oil supply driven by disagreements with respect to oil pricing between Russia and members of the Organization of the Petroleum Exporting Countries (“OPEC”), particularly Saudi Arabia. The COVID-19 coronavirus pandemic has caused a global decrease in all means of travel, the closure of borders between countries and a general slowing of economic activity worldwide which has decreased the demand for oil. In early March, discussions between Russia and Saudi Arabia deteriorated and the countries ended a three-year supply level agreement, which resulted in each country increasing its oil production. Subsequently, Russia and OPEC agreed to certain production cuts to mitigate the decline in the price of oil, however, such cuts may not be sufficient to stabilize the oil market if the decline in demand due to the COVID-19 coronavirus pandemic continues. Oil and natural gas prices are expected to continue to be depressed as a result of the increase of near-term supply and the decrease in overall demand caused by these events, and the Company cannot predict when prices will improve or stabilize.

SMART SAND, INC.

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

In response to market conditions, the Company has reduced its total capital expenditure budget, primarily a reduction to SmartSystems manufacturing plans. The Company has also put in place several cost-cutting measures, including headcount reductions at its Oakdale and Saskatoon, Canada operating facilities, salary reductions and suspension of certain variable cash compensation programs for all employees, and reduced compensation for board members. The Company has also taken steps to limit cash outflows in the near-term by negotiating for deferred payments on certain of its operating leases, debt and minimum royalty payments. The Company has put in place multiple initiatives to protect the health and well-being of its workforce and its customers, including work-from-home arrangements for all employees that are able to do so and implementing social distancing requirements as prescribed by the federal, state and local government authorities.

The ultimate disruption caused by these events is uncertain; however they may result in a material adverse impact on the Company's financial position, results of operations and cash flows. Possible effects may include, but are not limited to, disruption to the Company's customers and revenue, absenteeism in the Company's labor workforce, unavailability of products and supplies used in operations, a decline in value of assets held by the Company, including accounts receivable, inventories, property, plant and equipment and intangible assets, and a decrease in liquidity due to lower cash flows from operations being generated, a reduction in the availability to borrow under the ABL Credit Facility and inability to access other sources of liquidity and capital, such as equipment financings or the capital markets.

Management is actively monitoring these global events, but given the rapidly changing nature of these events, the Company is currently unable to estimate the impact of these events on its future financial position and results of operations. Therefore, the Company can give no assurances that the events will not have a material adverse effect on its financial position or results of operations.

NOTE 2 — Summary of Significant Accounting Policies

The information presented below supplements the complete description of our significant accounting policies disclosed in our 2019 Form 10-K, filed with the SEC on February 26, 2020.

Basis of Presentation and Consolidation

The accompanying unaudited quarterly condensed consolidated financial statements ("interim statements") of the Company are presented in accordance with the rules and regulations of the Securities and Exchange Commission for quarterly reports on Form 10-Q and therefore do not include all the information and notes required by GAAP. In the opinion of management, all adjustments and disclosures necessary for a fair presentation of these interim statements have been included. All adjustments are of a normal recurring nature. The results reported in these interim statements are not necessarily indicative of the results that may be reported for the entire year. The consolidated balance sheet as of December 31, 2019 was derived from the audited consolidated financial statements as of and for the year ended December 31, 2019. These interim statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2019.

Revision of Previously Issued Financial Statements for Immaterial Misstatements

During the quarter ended June 30, 2020, the Company identified an error in costs of goods sold in the Company's audited financial statements for the year ended December 31, 2018. The error related to a vendor rebate the Company received during the current period, \$1,800 of which related to expenses attributable to fiscal year 2018. As a result of the error, the Company reduced costs of goods sold by \$1,800 and increased income tax expense by \$387 in its audited financial statements for the year ended December 31, 2018, and increased prepaid expenses and other current assets by \$1,800, increased deferred tax liability by \$387 and increased retained earnings by \$1,413 in its audited financial statements for the year ended December 31, 2019. Additionally, certain 2019 balance sheet items have been reclassified to conform to the current financial statement presentation. These reclassifications have no effect on previously reported net income.

Pursuant to the guidance of Staff Accounting Bulletin ("SAB") No. 99, "Materiality", the Company evaluated the materiality of these errors quantitatively and qualitatively and concluded that the errors described above were not material to any of its prior annual or quarterly financial statements or trends of financial results. However, due to reduced activity and the current economic environment, the errors could be considered material to the Company's current period financial statements. As such, the Company has revised the prior period financial statements in accordance with SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." The Company expects to similarly revise previously presented historical financial statements for these immaterial errors in future filings,

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including the annual audited financial statements to be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

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; depreciation and amortization associated with property, plant and equipment and definite-lived intangible assets; impairment considerations of assets (including impairment of identified intangible assets and other long-lived assets); estimated cost of future asset retirement obligations; fair values of acquired assets and assumed 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 increased supply of oil and the decreased demand related to the COVID-19 coronavirus pandemic have caused a dramatic decline in oil prices and significant volatility in the oilfield services sector. The Company is currently unable to estimate the impact of these events on its future financial position and results of operations. Therefore, the Company can give no assurances that the events will not have a material adverse effect on its financial position or results of operations.

Recent Accounting Pronouncements

Not yet adopted

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326), which modifies how companies recognize expected credit losses on financial instruments and other commitments to extend credit held by an entity at each reporting date. Existing GAAP requires an "incurred loss" methodology whereby companies are prohibited from recording an expected loss until it is probable that the loss has been incurred. ASU 2016-13 requires companies to use a methodology that reflects current expected credit losses ("CECL") and requires consideration of a broad range of reasonable and supportable information to record and report credit loss estimates, even when the CECL is remote. Companies will be required to record the allowance for credit losses and deduct that amount from the basis of the asset and a related expense will be recognized in selling, general and administrative expenses on the income statement, similar to bad debt expense under existing GAAP. There is much latitude given to entities in determining the methodology for calculating the CECL. The guidance is effective for the Company for financial statement periods beginning after December 15, 2022, although early adoption is permitted. While the Company is still in the process of evaluating the effects of ASU 2016-13 and its related updates on its consolidated financial statements, it believes the primary effect will be an allowance recorded against its accounts and unbilled receivables on its balance sheet and related expense on its income statement upon adoption. The Company cannot determine the financial impact on its consolidated financial statements upon adoption as its accounts and unbilled receivables balances are affected by ongoing transactions with customers.

In December 2019, the FASB issued ASU 2019-12, Simplifying the Accounting for Income Taxes, which intends to simplify the guidance by removing certain exceptions to the general principles and clarifying or amending existing guidance. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Although the Company is currently evaluating the impact of the adoption of ASU 2019-12, it does not expect it to have a material impact on its consolidated financial statements.

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NOTE 3 — 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 consideration of approximately \$2,060. In satisfaction of the purchase price, the Company issued to Eagle 1,504 shares of its common stock. 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.

In connection with the acquisition of Eagle Proppants Holdings, the Company, as borrower, also entered into a Loan Agreement with Eagle, as lender. See Note 7 - Debt for additional information.

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 purchase consideration	\$	2,060

The Company’s preliminary allocation of the purchase price in connection with the acquisition was calculated as follows:

	Fair Value
<u>Assets Acquired</u>	
Cash	\$ 309
Accounts receivable	75
Inventory	2,459
Prepaid expenses and other current assets	123
Property, plant and equipment	60,310
Right-of-use assets	9,603
Total assets acquired	72,879
<u>Liabilities Assumed</u>	
Accounts payable	16
Accrued expenses and other liabilities	2,010
Asset retirement obligations	8,424
Operating lease liabilities	9,603
Deferred income taxes	10,877
Total liabilities assumed	30,930
Estimated fair value of net assets acquired	\$ 41,949

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The estimated aggregate fair value of the net assets acquired was \$41,949, which exceeds the total consideration and results in a bargain purchase gain of \$39,889 on the acquisition date, which is included in net income for the three and nine months ended September 30, 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 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 current 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. The Company's allocation of the purchase price is preliminary and subject to change. The total purchase consideration is subject to certain working capital adjustments through December 17, 2020. The Company has not yet completed its valuation procedures and believes property, plant and equipment, asset retirement obligations, and deferred income taxes are the primary line items whose value is subject to change.

Total acquisition costs incurred during the three and nine months ended September 30, 2020 were \$817 and \$875, respectively, which are included in selling, general and administrative expense on the Company's condensed consolidated income statements.

The following represents 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 three and nine months ended September 30, 2020 and 2019. 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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues	\$ 23,442	\$ 78,115	\$ 105,852	\$ 226,942
Income before income tax expense	\$ 34,614	\$ 12,297	\$ 39,700	\$ 33,484

NOTE 4 — Inventory

Inventory consisted of the following:

	September 30, 2020	December 31, 2019
Raw material	\$ 784	\$ 527
Work in progress	12,208	14,173
Finished goods	6,710	4,097
Spare parts	3,866	2,618
Total sand inventory	\$ 23,568	\$ 21,415

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NOTE 5 — Property, Plant and Equipment, net

Net property, plant and equipment consisted of:

	September 30, 2020	December 31, 2019
Machinery, equipment and tooling	\$ 52,077	\$ 19,683
SmartSystems	22,393	15,811
Vehicles	2,938	2,419
Furniture and fixtures	1,284	1,228
Plant and building	176,731	170,283
Real estate properties	6,458	4,946
Railroad and sidings	27,703	27,701
Land and land improvements	32,956	21,320
Asset retirement obligation	19,904	11,480
Mineral properties	7,442	7,442
Deferred mining costs	2,123	2,004
Construction in progress	8,153	9,208
	<u>360,162</u>	<u>293,525</u>
Less: accumulated depreciation and depletion	79,020	63,064
Total property, plant and equipment, net	<u>\$ 281,142</u>	<u>\$ 230,461</u>

Depreciation expense was \$5,328 and \$6,610 for the three months ended September 30, 2020 and 2019, respectively, and \$15,856 and \$18,648 for the nine months ended September 30, 2020 and 2019, respectively.

NOTE 6 — Accrued and Other Expenses

Accrued and other expenses were comprised of the following:

	September 30, 2020	December 31, 2019
Employee related expenses	\$ 486	\$ 2,233
Accrued construction related expenses	17	188
Accrued equipment	20	429
Accrued professional fees	882	750
Accrued royalties	1,926	2,419
Accrued freight and delivery charges	1,255	882
Accrued real estate tax	2,103	806
Accrued utilities	457	10
Sales tax liability	24	424
Other accrued liabilities	565	437
Total accrued liabilities	<u>\$ 7,735</u>	<u>\$ 8,578</u>

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NOTE 7 — Debt

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

	September 30, 2020	December 31, 2019
Oakdale Equipment Financing	\$ 3,450	\$ 3,431
Notes payable	2,852	2,628
Finance leases	121	116
Long-term debt, net, current	<u>\$ 6,423</u>	<u>\$ 6,175</u>

Long-term debt, net of current portion consists of the following:

	September 30, 2020	December 31, 2019
Oakdale Equipment Financing, net	\$ 16,109	\$ 18,074
ABL Credit Facility	—	2,500
Notes payable	7,409	7,192
Finance leases	381	474
Long-term debt, net	<u>\$ 23,899</u>	<u>\$ 28,240</u>

The follow summarizes the maturity of our debt:

	Oakdale Equipment Financing, Net	ABL Credit Facility	Notes Payable	Finance leases	Total
Remainder 2020	\$ 767	\$ —	\$ 503	\$ 30	\$ 1,300
2021	3,406	—	3,177	122	6,705
2022	3,620	—	3,196	116	6,932
2023	3,847	—	2,241	234	6,322
2024	7,537	—	1,144	—	8,681
Thereafter	382	—	—	—	382
Total	<u>\$ 19,559</u>	<u>\$ —</u>	<u>\$ 10,261</u>	<u>\$ 502</u>	<u>\$ 30,322</u>

Oakdale Equipment Financing

On December 13, 2019, the Company received net proceeds of \$23,000 in an equipment financing arrangement with Nexseer. 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.

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 September 30, 2020 was \$9,631 and is based on the Company's eligible accounts receivable and inventory, as described in the ABL Credit Agreement. As of September 30, 2020, there were no borrowings outstanding under the ABL Credit Facility and \$1,115 letters of credit. There were no borrowings during the three months ended September 30, 2020. The weighted average interest rate on borrowings for

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the nine months ended September 30, 2020 was 3.31%. As of September 30, 2020 and December 31, 2019, the Company was in compliance with all covenants.

Notes Payable

The Company has entered into various financing arrangements, primarily to finance its manufactured wellsite proppant storage solutions equipment. Upon completion of the equipment manufacturing, the Company signs a note payable and title to the 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 rates between 4.00% and 7.49%.

Acquisition Liquidity Support Facility

In connection with the Company's acquisition of Eagle Proppants Holdings, the Company, as borrower, also entered into a Loan Agreement with Eagle, as lender, secured by certain property rights and assets of the acquired business, whereby the Company may draw loans in an aggregate amount up to \$5,000 during the twelve month period ending September 18, 2021. Beginning with the calendar quarter ending December 31, 2021, any amounts borrowed will amortize over the following three years. The facility bears interest at a fixed rate of 6.00% until September 18, 2021 and will bear interest at a fixed rate of 8.00% thereafter until all outstanding borrowings have been paid in full. There were no borrowings outstanding under this facility as of September 30, 2020.

NOTE 8 — Leases

Lessee

The operating and financing components of the Company's right-of-use assets and lease liabilities on the consolidated balance sheet were as follows:

	Balance Sheet Location	September 30, 2020	December 31, 2019
Right-of-use assets			
Operating	Operating right-of-use assets	\$ 32,198	\$ 28,178
Financing	Property, plant and equipment, net	400	505
Total right-of use assets		\$ 32,598	\$ 28,683
Lease liabilities			
Operating	Operating lease liabilities, current and long-term portions	\$ 33,319	\$ 28,577
Financing	Long-term debt, current and long-term portions	502	590
Total lease liabilities		\$ 33,821	\$ 29,167

Operating lease costs are recorded as a single expense on the income statement 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 income statement for the three and nine months ended September 30, 2020 and 2019 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Finance lease cost				
Amortization of right-of-use assets	\$ 35	\$ 35	104	99
Interest on lease liabilities	9	10	28	32
Operating lease cost	2,729	4,105	9,824	11,469
Short-term lease cost	4	160	238	294
Total lease cost	\$ 2,777	\$ 4,310	10,194	11,894

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Other information related to the Company's leasing activity for the nine months ended September 30, 2020 and 2019 is as follows:

	Nine months ended September 30,	
	2020	2019
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows used for finance leases	\$ 28	\$ 33
Operating cash flows used for operating leases	\$ 9,158	\$ 12,447
Financing cash flows used for finance leases	\$ 85	\$ 79
Right-of-use assets obtained in exchange for new finance lease liabilities		
	\$ —	\$ 55
Right-of-use assets recorded upon adoption	N/A	\$ 35,939
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 13,936	\$ 5,056
Weighted average remaining lease term - finance leases		
	2.9 years	3.9 years
Weighted average discount rate - finance leases		
	6.60 %	6.60 %
Weighted average remaining lease term - operating leases		
	3.7 years	2.8 years
Weighted average discount rate - operating leases		
	5.71 %	5.50 %

Maturities of the Company's lease liabilities as of September 30, 2020 are as follows:

	Operating Leases	Finance Leases	Total
Remainder of 2020	\$ 2,334	\$ 34	\$ 2,368
2021	10,350	151	10,501
2022	8,596	136	8,732
2023	6,316	245	6,561
2024	4,768	—	4,768
Thereafter	5,517	—	5,517
Total cash lease payments	37,881	566	38,447
Less: amounts representing interest	(4,562)	(64)	(4,626)
Total lease liabilities	\$ 33,319	\$ 502	\$ 33,821

NOTE 9 — Asset Retirement Obligation

The Company had a post-closure reclamation and site restoration obligation of \$14,805 as of September 30, 2020. The following is a reconciliation of the total reclamation liability for asset retirement obligations.

Balance at December 31, 2019	\$ 6,142
Additions	8,424
Accretion expense	239
Balance at September 30, 2020	\$ 14,805

The additions above are related to the acquisition of Eagle Proppants Holdings. See Note 3 - Business Combination for additional information.

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NOTE 10 — Contingent Consideration

The Company recorded contingent consideration of \$9,200 at June 1, 2018, related to its acquisition of its SmartSystems business. Each reporting period, the Company reassesses its inputs, including market comparable information and management assessments regarding potential future scenarios, and then discounts the liabilities to present value. The Company recorded adjustments to the fair value of contingent consideration in the amount of \$0 and \$1,215 for the three months ended September 30, 2020 and 2019, respectively, on the condensed consolidated income statements. The Company recorded adjustments to the fair value of contingent consideration in the amount of \$1,020 and \$2,757 for the nine months ended September 30, 2020 and 2019, respectively, on the condensed consolidated income statements. The Company will continue to reassess earn-out calculations related to the contingent consideration in future periods.

The Company's contingent consideration is remeasured at fair value on a recurring basis and is comprised of payments for production of silos and related equipment during the three-year period after the acquisition. Contingent liabilities are valued using significant inputs that are not observable in the market, which are defined as Level 3 inputs according to fair value measurement accounting. The Company used a probability-weighted average between 1 and 5 manufactured SmartDepot fleets over the remaining earnout period, as the basis of its fair value determination. The actual contingent consideration could vary from the determined amount based on the actual number of SmartDepot silos and related equipment produced and the timing thereof. The Company estimates the fair value of contingent liabilities using a Monte Carlo simulation-based, real option pricing methodology implementation of the Income Approach. This approach utilizes inputs including market comparable information and management assessments regarding potential future scenarios, and then discounts the liabilities to present value. The Company believes its estimates and assumptions are reasonable, however, there is significant judgment involved. The Company's financial instruments remeasured and carried at fair value were as follows:

	September 30, 2020	Level 1	Level 2	Level 3
Contingent consideration	\$ 570	\$ —	\$ —	\$ 570
Total liabilities	\$ 570	\$ —	\$ —	\$ 570

The following table provides a summary of changes in the fair value of the Company's Level 3 financial instruments for the nine months ended September 30, 2020.

Balance as of December 31, 2019	\$ 1,900
Payment of contingent consideration	(310)
Fair value adjustment	(1,020)
Balance as of September 30, 2020	\$ 570

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NOTE 11 — Revenue

Disaggregation of Revenue

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
	Revenue	Percentage of Total Revenue	Revenue	Percentage of Total Revenue	Revenue	Percentage of Total Revenue	Revenue	Percentage of Total Revenue
Sand sales revenue	\$ 12,445	53 %	\$ 29,653	45 %	\$ 50,808	52 %	\$ 86,661	47 %
Shortfall revenue	6,842	29 %	15,620	24 %	22,148	23 %	37,659	20 %
Logistics revenue	4,122	18 %	20,417	31 %	24,046	25 %	61,086	33 %
Total revenues	\$ 23,409	100 %	\$ 65,690	100 %	\$ 97,002	100 %	\$ 185,406	100 %

The Company recorded \$9,324 of deferred revenue on the balance sheet on December 31, 2019, of which \$5,357 has been recognized in the nine months ended September 30, 2020. Of the remaining amount, the Company expects to recognize \$1,149 in 2020 and \$2,818 in 2021.

NOTE 12 — Earnings Per Share

Basic net income per share of common stock is computed by dividing net income attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period, excluding the dilutive effects of restricted stock. Diluted net income per share of common stock is computed by dividing the net income attributable to common stockholders by the sum of the weighted-average number of shares of common stock outstanding during the period plus the potential dilutive effects of restricted stock outstanding during the period calculated in accordance with the treasury stock method, although restricted stock is excluded if their effect is anti-dilutive. The number of shares underlying equity-based awards that were excluded from the calculation of diluted earnings per share as their effect would be anti-dilutive was 2,237 and 770 for the three months ended September 30, 2020 and 2019, respectively. The number of shares underlying equity-based awards that were excluded from the calculation of diluted earnings per share as their effect would be anti-dilutive was 2,237 and 760 for the nine months ended September 30, 2020 and 2019, respectively. The following table reconciles the weighted-average common shares outstanding used in the calculation of basic net income per share to the weighted average common shares outstanding used in the calculation of diluted net income per share.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Weighted average common shares outstanding	39,973	40,233	39,903	40,102
Assumed conversion of restricted stock	—	7	—	61
Diluted weighted average common stock outstanding	39,973	40,240	39,903	40,163

NOTE 13 — Stock-Based Compensation

Equity Incentive Plans

In May 2012, the board of directors approved the 2012 Equity Incentive Plan ("2012 Plan"), which provides for the issuance of equity awards of up to a maximum of 440 shares of the Company's common stock to employees, non-employee members of the board of directors, and consultants of the Company. During 2014, the 2012 Plan was amended to provide for

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the issuance of equity awards of up to 880 shares of the Company’s common stock. The awards can be issued in the form of incentive stock options, non-qualified stock options or restricted stock, and have expiration dates of 5 or 10 years after issuance, depending on whether the recipient already holds above 10% of the voting power of all classes of the Company’s shares. The exercise price will be based on the fair market value of the share on the date of issuance; vesting periods will be determined by the board of directors upon issuance of the equity award. Subsequent to the Company’s initial public offering, no additional equity awards were made under the 2012 Plan.

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

In April 2020, the Company adopted the Smart Sand, Inc. Amended and Restated 2016 Omnibus Incentive Plan (the “amended plan”). The amended plan increases the number of shares of common stock authorized for issuance by an additional 2,088 shares. The Company’s stockholders approved the amended plan on June 2, 2020.

During the nine months ended September 30, 2020 and 2019, 0 and 337 shares of restricted stock were issued under the Plans, respectively. The grant date fair value per share of all the outstanding restricted stock was \$2.44 - \$19.00. The shares vest over one to four years from their respective grant dates. For equity awards issued under the 2016 Plan, the grant date fair value was either the actual market price of the Company’s shares or an adjusted price using a Monte Carlo simulation for awards subject to the Company’s performance as compared to a defined peer group. For equity awards issued under the 2012 Plan, the grant date fair value was calculated based on a weighted analysis of (i) publicly-traded companies in a similar line of business to the Company (market comparable method)—Level 2 inputs, and (ii) discounted cash flows of the Company—Level 3 inputs. The Company recognized, in operating expenses and cost of goods sold on the condensed consolidated income statements, \$941 and \$652 of compensation expense for the restricted stock during the three months ended September 30, 2020 and 2019, respectively. The Company recognized, in operating expenses and cost of goods sold on the condensed consolidated income statements, \$2,910 and \$2,196 of compensation expense for the restricted stock during the nine months ended September 30, 2020 and 2019, respectively. At September 30, 2020, the Company had unrecognized compensation expense of \$4,612 related to granted but unvested stock awards, which is to be recognized as follows:

Remainder of 2020	\$	922
2021		2,317
2022		864
2023		509
2024		—
Total	\$	<u>4,612</u>

The following table summarizes restricted stock activity under the Plans from December 31, 2019 through September 30, 2020:

	Number of Shares	Weighted Average
Unvested, December 31, 2019	2,618	\$ 6.91
Granted	—	\$ —
Vested	(324)	\$ 11.77
Forfeited	(57)	\$ 13.16
Unvested, September 30, 2020	<u>2,237</u>	<u>\$ 4.85</u>

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NOTE 14 — Income Taxes

The Company calculates its interim income tax provision by estimating the annual expected effective tax rate and applying that rate to its ordinary year-to-date earnings or loss. In addition, the effect of changes in enacted tax laws, rates or tax status is recognized in the interim period in which the change occurs.

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, during the quarter ended March 31, 2020, the Company recorded a discrete tax benefit of \$821 related to the anticipated benefit received from the carryback of net operating losses to tax years with a 35% corporate tax rate. In addition, the Company remeasured certain deferred tax assets and liabilities based on the rates they are expected to reverse when carrying back the net operating losses.

For the three months ended September 30, 2020 and 2019, the effective tax rate was approximately 5.1% and 19.0%, respectively, based on the annual effective tax rate net of discrete federal and state taxes. For the nine months ended September 30, 2020 and 2019, the effective tax rate was approximately 12.0% and 20.4%, respectively, based on the annual effective tax rate net of discrete federal and state taxes. For the three and nine months ended September 30, 2020 and 2019, the statutory tax rate was 21.0%. The computation of the effective tax rate includes modifications from the statutory rate such as income tax credits, carrybacks, state apportionment changes and the gain on bargain purchase, among other items.

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. At September 30, 2020 and December 31, 2019, based on the Company’s future income projections and reversal of taxable temporary differences, management determined it was more likely than not that the Company will be able to realize the benefits of the deductible temporary differences. As of September 30, 2020 and December 31, 2019, the Company determined no valuation allowance was necessary.

The Company has evaluated its tax positions taken as of September 30, 2020 and December 31, 2019 and believes all positions taken would be upheld under examination from income taxing authorities. Therefore, no liability for the effects of uncertain tax positions has been recorded in the accompanying consolidated balance sheets as of September 30, 2020 or December 31, 2019. The Company is open to examination by taxing authorities beginning with the 2014 tax year.

NOTE 15 — Concentrations

As of September 30, 2020, two customers accounted for 95% of the Company’s total accounts receivable. As of December 31, 2019, two customers accounted for 81% of the Company’s total accounts receivable.

During the three months ended September 30, 2020, 85% of the Company’s revenues were earned from three customers. During the three months ended September 30, 2019, 82% of the Company’s revenues were earned from four customers. During the nine months ended September 30, 2020, 69% of the Company’s revenues were earned from three customers. During the nine months ended September 30, 2019, 74% of the Company’s revenues were earned from four customers.

As of September 30, 2020, three vendors accounted for 59% of the Company’s accounts payable. As of December 31, 2019, one vendor accounted for 26% of the Company’s accounts payable.

During the three months ended September 30, 2020, two suppliers accounted for 70% of the Company’s cost of goods sold. During the three months ended September 30, 2019, two suppliers accounted for 57% of the Company’s cost of goods sold. During the nine months ended September 30, 2020, two suppliers accounted for 64% of the Company’s cost of goods

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sold. During the nine months ended September 30, 2019, two suppliers accounted for 53% of the Company's cost of goods sold.

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

NOTE 16 — 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 September 30, 2020 are as follows:

Remainder of 2020	\$	—
2021		2,418
2022		2,466
2023		2,716
2024		2,469
Thereafter		30,117
Total	\$	40,186

Litigation

In addition to the matters described below, we may be subject to various legal proceedings, claims and governmental inspections, audits or investigations arising out of the Company's 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 would not have a material adverse effect on the Company's financial statements.

U.S. Well Services, LLC

On January 14, 2019, Smart Sand, Inc. (plaintiff) filed suit against U.S. Well Services, LLC (defendant) ("U.S. Well") in the Superior Court of the State of Delaware in and for New Castle County (C.A. No. N19C-01-144-PRW [CCLD]). In the suit, plaintiff alleges that defendant is in breach of contract for failure to pay amounts due and payable under a long-term take-or-pay Master Product Purchase Agreement and coterminous Railcar Usage Agreement and is seeking unspecified monetary damages and other appropriate relief. Plaintiff is also seeking a declaratory judgment that the relevant agreements continued in full force and effect (until the term expired on April 30, 2020) despite defendant's purported notice of termination to the contrary. Defendant has filed an Answer, Affirmative Defenses and Amended Counterclaim seeking unspecified monetary damages and declaratory relief. Discovery is substantially complete and the Company intends to continue to vigorously prosecute its claims and defend against U.S. Well's counterclaims. At this time, the Company is unable to express an opinion as to the likely outcome of the matter.

The Company recorded \$0 and \$16,343 of revenue for the three months ended September 30, 2020 and 2019, respectively, related to U.S. Well. The Company recorded \$17,170 and \$31,893 of revenue for the nine months ended September 30, 2020 and 2019, respectively, related to U.S. Well. As of September 30, 2020 and December 31, 2019, \$54,592 and \$37,422 of accounts and unbilled receivables, respectively, is attributable to U.S. Well. Amounts recorded as accounts receivable do not represent the full amounts sought in this lawsuit.

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

The following discussion and analysis summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity and cash flows of the Company as of and for the periods presented below. The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and related information contained herein and our audited financial statements as of December 31, 2019. We use EBITDA, Adjusted EBITDA and contribution margin herein as non-GAAP measures of our financial performance. For further discussion of EBITDA, Adjusted EBITDA and contribution margin, see the section entitled "Non-GAAP Financial Measures." We define various terms to simplify the presentation of information in this Report. All share amounts are presented in thousands.

Forward-Looking Statements

This discussion contains forward-looking statements that are based on the beliefs of our management, as well as assumptions made by, and information currently available to our management. Actual results could differ materially from those discussed in or implied by forward-looking statements as a result of various factors, including those discussed herein and in the section entitled "Risk Factors" in our Form 10-K for the year ended December 31, 2019 and in this Form 10-Q. Our estimates and forward-looking statements are primarily based on our current expectations and estimates of future events and trends, which affect or may affect our business and operations. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to several risks and uncertainties and are made in light of information currently available to us. Important factors, in addition to the factors described in this quarterly report, may adversely affect our results as indicated in forward-looking statements. You should read this quarterly report and the documents that we have filed as exhibits hereto completely and with the understanding that our actual future results may be materially different from what we expect. The words "may," "will," "should," "could," "expect," "plan," "anticipate," "believe," "estimate," "predict," "intend," "potential," "might," "would," "continue" or the negative of these terms or other comparable terminology and similar words are intended to identify estimates and forward-looking statements. Estimates and forward-looking statements speak only as of the date they were made, and, except to the extent required by law, we undertake no obligation to update, to revise or to review any estimate and/or forward-looking statement because of new information, future events or other factors. Estimates and forward-looking statements involve risks and uncertainties and are not guarantees of future performance. As a result of the risks and uncertainties described above, the estimates and forward-looking statements discussed in this quarterly report might not occur and our future results, level of activity, performance or achievements may differ materially from those expressed in these forward-looking statements due to, including, but not limited to, the factors mentioned above, and the differences may be material and adverse. Because of these uncertainties, you should not place undue reliance on these forward-looking statements.

Overview

The Company

We are a fully integrated frac sand supply and services company, offering complete mine to wellsite proppant supply and logistics solutions to our customers. We produce low-cost, high quality Northern White frac sand, which is used to enhance hydrocarbon recovery rates in the hydraulic fracturing of oil and natural gas wells. We also offer proppant logistics and wellsite storage solutions through our SmartSystems™ products. We currently market our products and services primarily to oil and natural gas exploration and production companies and oilfield service companies, sell our sand under a combination of take-or-pay contracts and spot sales in the open market, and provide wellsite proppant storage and management solutions services and equipment under flexible contract terms custom tailored to meet customers' needs. 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 and SmartPath™ transloader, and the industry experience of our senior management team make us a highly attractive provider of frac sand and proppant logistics services from the mine to the wellsite.

We own and operate a frac sand mine and related processing facility near Oakdale, Wisconsin, at which we have approximately 316 million tons of proven recoverable sand reserves as of December 31, 2019. We incorporated in Delaware in July 2011 and began operations with 1.1 million tons of annual nameplate processing capacity in July 2012. After several

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expansions, our current annual nameplate processing capacity at our Oakdale facility is approximately 5.5 million tons of frac sand. Our integrated Oakdale facility, with on-site rail infrastructure and wet and dry sand processing facilities, has access to two Class I rail lines and enables us to process and cost-effectively deliver products to our customers.

We operate a unit train capable transloading terminal in Van Hook, North Dakota to service the Bakken Formation in the Williston Basin. Since operations commenced in April 2018, we have been providing Northern White sand in-basin at this terminal to our contracted and spot sales customers.

We also offer to our customers portable wellsite proppant storage and management solutions through our SmartSystems products and services. Our SmartSystems 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. 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.

Business Combination

On September 18, 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”), for aggregate consideration of approximately \$2.1 million. In satisfaction of the purchase price, we issued to Eagle 1,503,759 shares of our common stock. 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 acquisition. We determined our acquisition of Eagle Proppants Holdings is not a significant acquisition in accordance with the final rules adopted as part of the SEC’s disclosure effectiveness initiative. Management does not believe that pro forma financial information would enhance a user’s understanding of the acquired business and has not included pro forma financial information in this discussion.

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 Class I rail line through the Peru, Illinois transload facility.

The estimated aggregate fair value of the net assets acquired is \$41.9 million, which exceeds the total consideration and results in a bargain purchase gain of \$39.9 million on the acquisition date, which is included in net income for the three and nine months ended September 30, 2020.

In connection with our acquisition of Eagle Proppants Holdings, the Company, as borrower, also entered into a \$5.0 million Acquisition Liquidity Support Facility. We may draw on the Acquisition Liquidity Support Facility to support our working capital needs of the acquired business during the twelve month period ending September 18, 2021. Beginning with the calendar quarter ending December 31, 2021, any outstanding amounts borrowed will amortize over the following three years. There were no borrowings outstanding on this facility as of September 30, 2020.

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 believe we will be able to expand our footprint into new basins, gain access to new and enhanced logistics options, broaden our customer base and complement our mine to wellsite supply and logistics capabilities.

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Market Trends

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:

We generally expect the price of frac sand to correlate with the level of drilling and completions activity for oil and natural gas. In recent years, the increasing supply of sand, particularly in-basin sand, relative to demand, has led to a continued depression of frac sand prices. The willingness of exploration and production companies to engage in drilling and completing new wells 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 acquire the sand at 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 tend to correlate with drilling activity.

Recently, oil prices declined to all-time lows as a result of decreased demand for oil from the COVID-19 coronavirus pandemic, as well as an increase in global oil supply driven by disagreements with respect to oil pricing between Russia and members of the Organization of the Petroleum Exporting Countries ("OPEC"), particularly Saudi Arabia. The COVID-19 coronavirus pandemic has caused a global decrease in all means of travel, the closure of borders between countries and a general slowing of economic activity worldwide which has decreased the demand for oil. In early March, discussions between Russia and Saudi Arabia deteriorated and the countries ended a three-year supply level agreement, which resulted in each country increasing its oil production. Subsequently, Russia and OPEC agreed to certain production cuts to mitigate the decline in the price of oil; however, such cuts may not be sufficient to stabilize the oil market if the decline in demand due to the COVID-19 coronavirus pandemic continues. Oil and natural gas prices are expected to continue to be depressed as a result of the increase of near-term supply and the decrease in overall demand caused by these events, and we cannot predict when prices will improve or stabilize.

In response to market conditions, we have reduced our total capital expenditure budget, primarily as a reduction to our SmartSystems manufacturing plans. We have also put in place several cost-cutting measures, including headcount reductions at our Oakdale and Saskatoon, Canada operating facilities, salary reductions and suspension of certain variable cash compensation programs for all employees, and reduced compensation for board members. We have also taken steps to limit cash outflows in the near-term by negotiating for deferred payments on certain of our operating leases, debt and minimum royalty payments. We have put in place multiple initiatives to protect the health and well-being of our workforce, including work-from-home arrangements for all employees that are able to do so and implementing social distancing requirements as prescribed by the federal, state and local government authorities.

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GAAP Results of Operations

Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019

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

	Three Months Ended September 30,		Change	
	2020	2019	Dollars	Percentage
	(in thousands)			
Revenues	\$ 23,409	\$ 65,690	\$ (42,281)	(64)%
Cost of goods sold	18,227	38,555	(20,328)	(53)%
Gross profit	5,182	27,135	(21,953)	(81)%
Operating expenses:				
Salaries, benefits and payroll taxes	2,058	2,958	(900)	(30)%
Depreciation and amortization	440	623	(183)	(29)%
Selling, general and administrative	3,933	2,693	1,240	46 %
Change in the estimated fair value of contingent consideration	—	(1,215)	1,215	(100)%
Impairment loss	—	7,628	(7,628)	(100)%
Total operating expenses	6,431	12,687	(6,256)	(49)%
Operating (loss) income	(1,249)	14,448	(15,697)	(109)%
Other income (expenses):				
Gain on bargain purchase	39,889	—	39,889	Not meaningful
Interest expense, net	(497)	(968)	471	(49)%
Other income	80	15	65	433 %
Total other expenses, net	39,472	(953)	40,425	(4,242)%
Income before income tax expense	38,223	13,495	24,728	183 %
Income tax expense	1,941	2,569	(628)	(24)%
Net income	\$ 36,282	\$ 10,926	\$ 25,356	232 %

Revenues

Revenues were \$23.4 million for the three months ended September 30, 2020, during which time we sold approximately 309,000 tons of sand. Revenues for the three months ended September 30, 2019 were \$65.7 million, during which time we sold approximately 611,000 tons of sand. The key factors contributing to the decrease in revenues for the three months ended September 30, 2020 as compared to the three months ended September 30, 2019 were as follows:

- Sand sales revenue decreased from \$29.7 million for the three months ended September 30, 2019 to \$12.4 million for the three months ended September 30, 2020 as a result of lower total volumes sold. The volumes sold during the third quarter of 2020 were negatively impacted by depressed oil prices driven by continued oversupply relative to the decreased demand due to the COVID-19 coronavirus pandemic.
- Logistics revenue, which includes freight for certain mine gate sand sales, railcar usage, logistics services, and SmartSystems rentals, was approximately \$4.1 million for the three months ended September 30, 2020 compared to \$20.4 million for the three months ended September 30, 2019. The decrease in logistics revenue was due primarily to depressed oil prices and the COVID-19 coronavirus pandemic.
- We had \$6.8 million of contractual shortfall revenue for the three months ended September 30, 2020 compared to \$15.6 million of contractual shortfall revenue for the three months ended September 30, 2019. Our customer contracts

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dictate whether shortfall is earned quarterly or at the end of their respective contract year. We recognize revenue to the extent of the unfulfilled minimum contracted quantity at the shortfall price per ton as stated in the contract.

Cost of Goods Sold

Cost of goods sold was \$18.2 million and \$38.6 million for the three months ended September 30, 2020 and 2019, respectively. Cost of goods sold decreased for the three months ended September 30, 2020 as compared to the same period in 2019, primarily due to lower overall sales volumes and expense reduction efforts put in place.

Gross Profit

Gross profit was \$5.2 million for the three months ended September 30, 2020, compared to \$27.1 million for the three months ended September 30, 2019. The decline in profitability for the three months ended September 30, 2020 was primarily due to lower total volumes sold in the current period.

Operating Expenses

Operating expenses were \$6.4 million and \$12.7 million for the three months ended September 30, 2020 and 2019, respectively. Salaries, benefits, and payroll taxes declined by \$0.9 million due to headcount and salary reductions, which was partially offset by \$0.8 million in acquisition costs related to our acquisition of Eagle Proppants Holdings. There was no adjustment to the fair value of contingent consideration in the current period and depreciation and amortization and selling, general and administrative expenses remained relatively constant year over year.

Operating expenses for the three months ended September 30, 2019 include an impairment charge of \$7.6 million related to the Quickload system that we acquired in connection with our acquisition of Quickthree in 2018. We had no plans to actively market the Quickload system, which resulted in the impairment charge. All developed technology intangible assets related to the Quickload system have been impaired as of September 30, 2019.

Gain on Bargain Purchase

During the three months ended September 30, 2020, we recorded a gain on bargain purchase of \$39.9 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 \$41.9 million, which exceeded the total consideration paid to Eagle for such assets of \$2.1 million.

Interest Expense

We incurred \$0.5 million and \$1.0 million of net interest expense for the three months ended September 30, 2020 and 2019, respectively. The decrease in interest expense for the three months ended September 30, 2020 was primarily due to reduced interest rates and lower total debt outstanding.

Income Tax Expense

For the three months ended September 30, 2020 and 2019, our effective tax rate was approximately 5.1% and 19.0%, respectively, based on the annual effective tax rate net of discrete federal and state taxes. The computation of the effective tax rate includes modifications from the statutory rate such as income tax credits, carrybacks and state apportionment changes, among other items. The bargain purchase gain related to our acquisition of Eagle Proppants Holdings that we recorded during the three months ended September 30, 2020 is not taxable.

Net Income

Net income was \$36.3 million and \$10.9 million for the three months ended September 30, 2020 and 2019, respectively. The increase in net income for the three months ended September 30, 2020 as compared to net income for the same period in the prior year was primarily due to the gain on bargain purchase related to our acquisition of Eagle Proppants Holdings, partially offset by lower tons sold in the current period and impairment of intangible assets in the prior period.

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Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019

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

	Nine Months Ended September 30,		Change	
	2020	2019	Dollars	Percentage
	(in thousands)			
Revenues	\$ 97,003	\$ 185,406	\$ (88,403)	(48)%
Cost of goods sold	71,221	122,228	(51,007)	(42)%
Gross profit	25,782	63,178	(37,396)	(59)%
Operating expenses:				
Salaries, benefits and payroll taxes	7,115	8,466	(1,351)	(16)%
Depreciation and amortization	1,354	1,954	(600)	(31)%
Selling, general and administrative	10,393	8,283	2,110	25 %
Change in the estimated fair value of contingent consideration	(1,020)	(2,757)	1,737	(63)%
Impairment loss	—	7,628	(7,628)	(100)%
Total operating expenses	17,842	23,574	(5,732)	(24)%
Operating income	7,940	39,604	(31,664)	(80)%
Other income (expenses):				
Gain on bargain purchase	39,889	—	39,889	Not meaningful
Interest expense, net	(1,576)	(2,943)	1,367	(46)%
Other income	162	89	73	82 %
Total other expenses, net	38,475	(2,854)	41,329	(1,448)%
Income before income tax expense	46,415	36,750	9,665	26 %
Income tax expense	5,576	7,515	(1,939)	(26)%
Net income	\$ 40,839	\$ 29,235	\$ 11,604	40 %

Revenues

Revenues were \$97.0 million for the nine months ended September 30, 2020, during which time we sold approximately 1,273,000 tons of sand. Revenues for the nine months ended September 30, 2019 were \$185.4 million, during which time we sold approximately 2,000,000 tons of sand. The key factors contributing to the decrease in revenues for the nine months ended September 30, 2020 as compared to the nine months ended September 30, 2019 were as follows:

- Sand sales revenue decreased from \$86.7 million for the nine months ended September 30, 2019 to \$50.8 million for the nine months ended September 30, 2020 as a result of lower total volumes of sand sold. The volumes sold during the second and third quarter of 2020 were negatively impacted by depressed oil prices driven by continued oversupply relative to the decreased demand due to the COVID-19 coronavirus pandemic.
- Logistics revenue, which includes freight for certain mine gate sand sales, railcar usage, logistics services, and SmartSystems rentals, was approximately \$24.0 million for the nine months ended September 30, 2020 compared to \$61.1 million for the nine months ended September 30, 2019. The decrease in logistics revenue was due to lower total volumes sold.
- We had \$22.1 million of contractual shortfall revenue for the nine months ended September 30, 2020 compared to \$37.7 million of contractual shortfall revenue for the nine months ended September 30, 2019. Our customer contracts dictate whether shortfall is earned quarterly or at the end of their respective contract year. We recognize revenue to the extent of the unfulfilled minimum contracted quantity at the shortfall price per ton as stated in the contract.

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Cost of Goods Sold

Cost of goods sold was \$71.2 million and \$122.2 million for the nine months ended September 30, 2020 and September 30, 2019, respectively. Cost of goods sold decreased for the nine months ended September 30, 2020 as compared to the same period in September 30, 2019, primarily due to lower freight costs from reduced total sales volumes driven by lower oil prices and due to oversupply and lower demand due to the COVID-19 coronavirus pandemic.

Gross Profit

Gross profit was \$25.8 million and \$63.2 million for the nine months ended September 30, 2020 and September 30, 2019, respectively. The decrease in gross profit for the nine months ended September 30, 2020 was primarily due to lower total sales volumes and reduced shortfall revenue.

Operating Expenses

Operating expenses were \$17.8 million and \$23.6 million for the nine months ended September 30, 2020 and September 30, 2019, respectively. Salaries, benefits and payroll taxes were reduced to \$7.1 million, as compared to \$8.5 million for the nine months ended September 30, 2020 and September 30, 2019, respectively, as we reduced headcount and salaries for all employees. Depreciation and amortization decreased from \$2.0 million for the nine months ended September 30, 2019 to \$1.4 million for the nine months ended September 30, 2020 primarily as a result of reduced amortization of certain intangible assets that were previously impaired. Selling, general and administrative expenses increased from \$8.3 million for the nine months ended September 30, 2019 to \$10.4 million for the nine months ended September 30, 2020, primarily as a result of increased professional fees due primarily to ongoing litigation and acquisition costs related to our purchase of Eagle Proppants Holdings.

Operating expenses for the nine months ended September 30, 2019 include an impairment charge of \$7.6 million related to the Quickload system that we acquired in connection with our acquisition of Quickthree in 2018. We had no plans to actively market the Quickload system, which resulted in the impairment charge. All developed technology intangible assets related to the Quickload system have been impaired of as of September 30, 2019.

Gain on Bargain Purchase

During the nine months ended September 30, 2020, we recorded a gain on bargain purchase of \$39.9 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 \$41.9 million, which exceeded the total consideration paid to Eagle for such assets of \$2.1 million.

Interest Expense

We incurred \$1.6 million and \$2.9 million of net interest expense for the nine months ended September 30, 2020 and September 30, 2019, respectively. The decrease in interest expense for the three months ended September 30, 2020 was primarily due to reduced interest rates on lower average total debt outstanding.

Income Tax Expense

For the nine months ended September 30, 2020 and September 30, 2019, our effective tax rate was approximately 12.0% and 20.4%, respectively, based on the annual effective tax rate net of discrete federal and state taxes. The computation of the effective tax rate includes modifications from the statutory rate such as income tax credits, carrybacks and state apportionment changes, among other items. The bargain purchase gain related to our acquisition of Eagle Proppants Holdings that we recorded during the nine months ended September 30, 2020 is not taxable.

Net Income

Net income was \$40.8 million and \$29.2 million for the nine months ended September 30, 2020 and 2019, respectively. The increase in net income for the nine months ended September 30, 2020 as compared to net income for the same period in the prior year was primarily due to the gain on bargain purchase related to our acquisition of Eagle Proppants Holdings, partially offset by lower tons sold during the current period and impairment of intangible assets in the prior period.

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Non-GAAP Financial Measures

EBITDA, Adjusted EBITDA and contribution margin 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. Net income (loss) is the GAAP measure most directly comparable to EBITDA and Adjusted EBITDA and gross profit is the GAAP measure most directly comparable to contribution margin. 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 EBITDA, Adjusted EBITDA or contribution margin in isolation or as substitutes for an analysis of our results as reported under GAAP. Because EBITDA, Adjusted EBITDA and contribution margin may be defined differently by other companies in our industry, our definitions of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

EBITDA and Adjusted EBITDA

We define EBITDA as net income (loss), plus: (i) depreciation, depletion and amortization expense; (ii) income tax expense; (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; and
- our operating performance as compared to those of other companies in our industry without regard to the impact of financing methods or capital structure;

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 (loss) 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 (loss) for each of the periods indicated.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands)			
Net income	\$ 36,282	\$ 10,926	\$ 40,839	\$ 29,235
Depreciation, depletion and amortization	5,529	6,992	16,466	19,885
Income tax expense	1,941	2,569	5,576	7,515
Interest expense	506	969	1,605	2,947
Franchise taxes	63	56	212	234
EBITDA	\$ 44,321	\$ 21,512	\$ 64,698	\$ 59,816
Gain (loss) on sale of fixed assets	(27)	(15)	248	(41)
Equity compensation ⁽¹⁾	832	663	2,600	2,047
Acquisition and development costs ⁽²⁾	823	(1,208)	145	(2,732)
Non-cash impairment of intangible asset	—	7,628	—	7,628
Gain on bargain purchase	(39,889)	—	(39,889)	—
Cash charges related to restructuring and retention of employees	—	—	82	82
Accretion of asset retirement obligations	88	178	239	623
Adjusted EBITDA	\$ 6,148	\$ 28,758	\$ 28,123	\$ 67,423

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

(2) Includes acquisition cost of \$817 and \$875 for the three and nine months ended September 30, 2020 and acquisition and development costs of \$1,023, offset by \$1,020 fair value adjustment of contingent consideration for the nine months ended September 30, 2020. The three and nine months ended September 30, 2019 include adjustments to the fair value of contingent consideration of \$1,215 and \$2,757, respectively.

Adjusted EBITDA was \$6.1 million for the three months ended September 30, 2020 compared to \$28.8 million for the three months ended September 30, 2019. The decrease in Adjusted EBITDA for the three months ended September 30, 2020, as compared to the corresponding period in the prior year, was primarily due to lower total volumes sold and decreased shortfall revenue in the current period.

Adjusted EBITDA was \$28.1 million for the nine months ended September 30, 2020 compared to \$67.4 million for the nine months ended September 30, 2019. The decrease in Adjusted EBITDA for the nine months ended September 30, 2020, as compared to the corresponding period in the prior year, was primarily due to lower total volumes sold and lower shortfall revenue in the current period.

Contribution Margin

We also 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.

We believe that reporting contribution margin and contribution margin per ton sold provides useful performance metrics to management and external users of our financial statements, such as investors and commercial banks, because these metrics provide an operating and financial measure of our ability, as a combined business, to generate margin in excess of our operating cost base.

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.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands)			
Revenue	\$ 23,409	\$ 65,690	\$ 97,003	\$ 185,406
Cost of goods sold	18,227	38,555	71,221	122,228
Gross profit	5,182	27,135	25,782	63,178
Depreciation, depletion, and accretion of asset retirement obligations	5,177	6,547	15,351	18,554
Contribution margin	\$ 10,359	\$ 33,682	\$ 41,133	\$ 81,732
Contribution margin per ton	\$ 33.52	\$ 55.13	\$ 32.31	\$ 40.87
Total tons sold	309	611	1,273	2,000

Contribution margin was \$10.4 million and \$33.7 million, or \$33.52 and \$55.13 per ton sold, for the three months ended September 30, 2020 and 2019, respectively. The decrease in overall contribution margin was due primarily to lower total volumes sold. The lower contribution margin per ton in the current period was due to the contribution margin being spread over reduced total volumes sold during the period and decreased shortfall revenue.

Contribution margin was \$41.1 million and \$81.7 million, or \$32.31 and \$40.87 per ton sold, for the nine months ended September 30, 2020 and 2019, respectively. The decrease in contribution margin was due primarily to lower total tons sold in the current period. The contribution margin per ton sold was lower for the nine months ended September 30, 2020 as compared to the corresponding period in the prior year. The current period was negatively impacted by lower total volumes and decreased shortfall revenue.

Liquidity and Capital Resources

Our primary sources of liquidity are cash on hand, cash flow generated from operations and available borrowings under the ABL Credit Facility and the Acquisition Liquidity Support Facility. As of September 30, 2020, cash on hand was \$11.0 million and we had \$9.6 million in undrawn availability on our ABL Credit Facility and \$5.0 million in undrawn availability on the Acquisition Liquidity Support Facility.

With the decline in the price of frac sand and instability in the market, we have taken steps to mitigate near term liquidity issues, including a reduction to our budgeted capital expenditures, primarily as a reduction to our SmartSystems manufacturing plans. We have also put in place several cost cutting measures, including headcount reductions at our Oakdale and Saskatoon operating facilities, salary reductions and suspension of certain variable cash compensation programs for all employees. We have also taken steps to limit cash outflows in the near-term by negotiating for deferred payments on certain of our operating leases, debt and minimum royalty payments.

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.

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Working Capital

The following table presents the components of our working capital as of September 30, 2020 compared to December 31, 2019.

	September 30, 2020	December 31, 2019
	(in thousands)	
Total current assets	\$ 111,381	\$ 92,177
Total current liabilities	40,981	40,018
Working capital	<u>\$ 70,400</u>	<u>\$ 52,159</u>

Our working capital was \$70.4 million at September 30, 2020 compared to \$52.2 million at December 31, 2019. The increase in working capital was primarily due to cash collections and reductions in spending efforts as certain vendor and lease contracts were modified. As of September 30, 2020 and December 31, 2019, \$54.6 million and \$37.4 million, respectively, of total accounts and unbilled receivables is attributable to a customer with which we have pending litigation.

Summary Cash Flows for the Nine Months Ended September 30, 2020 and September 30, 2019:

	Nine Months Ended September 30,	
	2020	2019
	(in thousands)	
Net cash provided by operating activities	\$ 22,224	\$ 40,328
Net cash used in investing activities	\$ (7,393)	\$ (19,518)
Net cash used in financing activities	\$ (6,476)	\$ (20,178)

Net Cash Provided by Operating Activities

Net cash provided by operating activities was \$22.2 million for the nine months ended September 30, 2020, which included net income of \$40.8 million, net non-cash items of \$(20.2) million, and a decrease of \$1.6 million in operating assets and liabilities.

Net cash provided by operating activities was \$40.3 million for the nine months ended September 30, 2019. Operating cash flows include net income of \$29.2 million offset by cost of goods sold, general and administrative expenses and cash interest expense, adjusted for changes in working capital.

Net Cash Used in Investing Activities

Net cash used in investing activities was \$7.4 million for the nine months ended September 30, 2020, which was primarily for manufacturing of our SmartDepot silos.

Net cash used in investing activities was \$19.5 million for the nine months ended September 30, 2019, which was primarily for manufacturing of our SmartDepot silos and plant upgrades and maintenance capital.

Net Cash Used in Financing Activities

Net cash used in financing activities was \$6.5 million for the nine months ended September 30, 2020, which consisted primarily of \$2.5 million of net repayments on our ABL Credit Facility, \$2.7 million of net repayment for notes payable and finance leases, \$1.0 million of share repurchases, and \$0.3 million of payments of contingent consideration related to the manufacture of our SmartSystem equipment.

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Net cash used in financing activities was \$20.2 million for the nine months ended September 30, 2019, which consisted primarily of \$22.0 million of net repayments on our Credit Facility, \$1.6 million of payments of contingent consideration related to the manufacture of our SmartSystem equipment, partially offset by \$4.7 million of net proceeds from the issuance of notes payable.

Indebtedness

The follow summarizes the maturity of our debt:

	Oakdale Equipment Financing, Net	ABL Credit Facility	Notes Payable (in thousands)	Finance Leases	Total
Remainder 2020	\$ 767	\$ —	\$ 503	\$ 30	\$ 1,300
2021	3,406	—	3,177	122	6,705
2022	3,620	—	3,196	116	6,932
2023	3,847	—	2,241	234	6,322
2024	7,537	—	1,144	—	8,681
Thereafter	382	—	—	—	382
Total	\$ 19,559	\$ —	\$ 10,261	\$ 502	\$ 30,322

Oakdale Equipment Financing

On December 13, 2019, we received net proceeds of \$23.0 million in an equipment financing arrangement with Nexseer. Substantially all of our 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%. We 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 March 13, 2025.

ABL Credit Facility

On December 13, 2019, we entered into a \$20.0 million five-year senior secured asset-based credit facility with Jefferies Finance LLC. The available borrowing amount under the ABL Credit Facility as of September 30, 2020 was \$20.0 million and is based on our eligible accounts receivable and inventory. As of September 30, 2020, there were no amounts outstanding under the ABL Credit Facility, \$1.1 million letters of credit and \$9.6 million was available to be drawn. We use this facility primarily as a source for working capital needs. There were no borrowings during the three months ended September 30, 2020. The weighted average interest rate on borrowings for the nine months ended September 30, 2020 was 3.31%.

Notes Payable

We have various financing arrangements secured primarily by our manufactured SmartSystems equipment. Title to the equipment is held by the financial institutions as collateral, though the equipment is included in our property, plant and equipment. In June 2020, we executed a note payable to defer certain near-term minimum royalty payments. All notes payable bear interest at rates between 4.00% and 7.49%.

Acquisition Liquidity Support Facility

In connection our acquisition of Eagle Proppants Holdings, the Company, as borrower, also entered into a Loan Agreement with Eagle, as lender, secured by certain property rights and assets of the acquired business, whereby the Company may draw loans in an aggregate amount up to \$5.0 million during the twelve month period ending September 18, 2021. Beginning with the calendar quarter ending December 31, 2021, any amounts outstanding will amortize over the following three years. The facility bears interest at 6.00% during the draw period and 8.00% during the repayment period. There were no borrowings outstanding on this facility as of September 30, 2020.

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Capital Requirements

The recent decline in oil prices resulting from a combination of oversupply from Russia and Saudi Arabia and reduced demand related to the COVID-19 coronavirus pandemic has led many exploration and production companies and oilfield service companies to announce plans to slow or stop well completions activity. In response, we have reduced our total capital expenditure budget by up to \$20 million for the year ended December 31, 2020, including a significant reduction in our SmartSystems manufacturing plans. We now estimate that full year 2020 capital expenditures will be less than \$10.0 million. For the nine months ended September 30, 2020, we spent approximately \$7.4 million on capital expenditures.

Share Repurchases

We are authorized to repurchase shares through open market purchases at prevailing market prices or through privately negotiated transactions as permitted by securities laws and other legal requirements. On November 8, 2018, the Company announced that the board of directors authorized the Company to repurchase up to 2,000,000 shares of the Company's common stock during the twelve-month period following the announcement of the share repurchase program. On September 11, 2019, the board of directors reauthorized the existing share repurchase program for an additional twelve months. At September 30, 2020, the maximum number of shares that the Company may repurchase under the current repurchase authority was 633,500 shares. There were no shares repurchased during the three months ended September 30, 2020.

The program allows the Company to repurchase shares at its discretion. Market conditions, price, corporate and regulatory requirements, alternative investment opportunities, and other economic conditions will influence the timing of the repurchase and the number of shares repurchased, if any. The program does not obligate the Company to repurchase any specific number of shares and, subject to compliance with applicable securities laws and other legal requirements, may be suspended or terminated at any time without prior notice.

Off-Balance Sheet Arrangements

We had outstanding performance bonds of \$10.4 million and \$7.9 million at September 30, 2020 and December 31, 2019, respectively. The increase in performance bonds was primarily due to our acquisition of Eagle Proppants Holdings.

Contractual Obligations

As of September 30, 2020, we had contractual obligations for the Oakdale Equipment Financing, ABL Credit Facility, Acquisition Liquidity Support Facility, notes payable, operating and finance leases, minimum payments for the rights to mine land, capital expenditures, asset retirement obligations, and other commitments to municipalities for maintenance.

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 at our wet processing plant. While our dry plants are able to process finished product volumes evenly throughout the year, our excavation and our wet sand processing activities 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

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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. During the fourth quarter of 2017, we finished construction of a new wet plant, which is an indoor facility that allows 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. In addition, the wet plant at the facility we acquired in Utica, Illinois as a result of our acquisition of Eagle Proppants Holdings is also an indoor facility allowing for year-round operation. 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 nine months ended September 30, 2020, revenue from Rice Energy (a subsidiary of EQT Corporation), Liberty, and U.S. Well Services accounted for 29.4%, 20.5%, and 18.9%, respectively, of total revenue. For the nine months ended September 30, 2019, sales to Liberty, Rice Energy, and U.S. Well Services accounted for 26.5%, 19.0%, and 17.2%, respectively, of total revenue.

Critical Accounting Policies and Estimates

There have been no material changes in our critical accounting policies and procedures during the nine months ended September 30, 2020.

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; existing sand reserves and their impact on calculating the depletion expense under the units-of-production method; depreciation and amortization associated with property, plant and equipment and definite-lived intangible assets, impairment considerations of assets (including impairment of identified intangible assets and other long-lived assets); estimated cost of future asset retirement obligations; fair values of acquired assets and assumed 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 COVID-19 coronavirus pandemic has caused a significant amount of volatility in the oilfield services sector and is expected to result in a continued depression of oil prices. Subsequently, Russia and OPEC agreed to certain production cuts, to mitigate the decline in the price of oil; however, such cuts may not be sufficient to stabilize the oil market if the decline in demand due to the COVID-19 coronavirus pandemic continues. We are actively monitoring these global events, but given the rapidly changing nature of these events, we are currently unable to estimate the impact of these events on our future financial position and results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have considered changes in our exposure to market risks during the nine months ended September 30, 2020 and have determined that there have been no material changes to our exposure to market risks from those described in our Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on February 26, 2020.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

During the quarter ended June 30, 2020, the Company identified an error in costs of goods sold in the Company's audited financial statements for the year ended December 31, 2018. The error related to a vendor rebate of \$5,300 the company received during the current period, \$1,800 of which related to expenses attributable to fiscal year 2018. As a result of the error, the Company reduced costs of goods sold by \$1,800 and increased income tax expense by \$387 in its audited financial statements for the year ended December 31, 2018, and increased prepaid expenses and other current assets by \$1,800, increased deferred tax liability by \$387 and increased retained earnings by \$1,413 in its audited financial statements for the year ended December 31, 2019. Additionally, certain 2019 balance sheet items have been reclassified to conform to the current financial statement presentation. These reclassifications have no effect on previously reported net income.

Pursuant to the guidance of Staff Accounting Bulletin ("SAB") No. 99, "Materiality", the Company evaluated the materiality of these errors quantitatively and qualitatively and concluded that the errors described above were not material to any of its prior annual or quarterly financial statements or trends of financial results. However, due to reduced activity and the current economic environment, the errors could be considered material to the Company's current period financial statements. As such, the Company has revised the prior period financial statements in accordance with SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." The Company expects to similarly revise previously presented historical financial statements for these immaterial errors in future filings, including the annual audited financial statements to be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

Management has determined that the omission of accounting for the vendor contract described above is a significant deficiency. Management has reassessed its internal control over financial reporting and added new review controls to ensure its contracts are evaluated and accounted for completely.

There have been no other changes in internal control over financial reporting for the quarter ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time we may be involved in litigation relating to claims arising out of our operations in the normal course of business. The disclosure called for by Part II, Item 1 regarding our legal proceedings is incorporated by reference herein from Part I, Item 1. Note 15 - Commitments and Contingencies - Litigation of the notes to the condensed consolidated financial statements in this Form 10-Q for the three and nine months ended September 30, 2020.

ITEM 1A. RISK FACTORS

Except as set forth below, there have been no material changes to the risk factors described in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019.

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.

Recently, oil prices declined to all-time lows as a result of decreased demand for oil from the COVID-19 coronavirus pandemic, as well as an increase in global oil supply driven by disagreements with respect to oil pricing between Russia and members of OPEC, particularly Saudi Arabia. The COVID-19 coronavirus pandemic has caused a global decrease in all means of travel, the closure of borders between countries and a general slowing of economic activity worldwide which has decreased the demand for oil. In early March, discussions between Russia and Saudi Arabia deteriorated and the countries ended a three-year supply level agreement, which resulted in each country increasing its oil production. Subsequently, Russia and OPEC agreed to certain production cuts to mitigate the decline in the price of oil; however, such cuts may not be sufficient to stabilize the oil market if the decline in demand due to the COVID-19 coronavirus pandemic continues. Oil and natural gas prices are expected to continue to be depressed as a result of the increase of near-term supply and the decrease in overall demand caused by these events, and the Company cannot predict when prices will improve or stabilize.

In response to market conditions, the Company has reduced its total capital expenditure budget, primarily a reduction to its SmartSystems manufacturing plans. The Company has also put in place several cost-cutting measures, including headcount reductions at our Oakdale and Saskatoon, Canada operating facilities, salary reductions and suspension of certain its variable cash compensation programs for all employees, and reduced compensation for board members. The Company has also taken steps to limit cash outflows in the near-term by negotiating for deferred payments on certain of its operating leases, debt and minimum royalty payments. The Company has put in place multiple initiatives to protect the health and well-being of its workforce and its customers, including work-from-home arrangements for all employees that are able to do so and implementing social distancing requirements as prescribed by the federal, state and local government authorities.

The ultimate disruption caused by these events is uncertain; however they may result in a material adverse impact on the Company's financial position, results of operations and cash flows. Possible effects may include, but are not limited to, disruption to the Company's customers and revenue, absenteeism in the Company's labor workforce, unavailability of products and supplies used in operations, a decline in value of assets held by the Company, including accounts receivable, inventories, property, plant and equipment and intangible assets, and a decrease in liquidity due to lower cash flows from operations being generated, a reduction in the availability to borrow under the ABL Credit Facility and inability to access other sources of liquidity and capital, such as equipment financings or the capital markets.

A prolonged reduction in oil and natural gas prices or a sustained lack of key resources that affect drilling activity 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, 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 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 system and markets and a severe economic contraction either regionally or worldwide, in each case resulting from current efforts to contain the COVID-19 coronavirus or other factors, 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.

All of our sand sales are generated at one facility, and that facility is primarily served by one rail line. Any adverse developments at that facility or on the primary 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 facility located near Oakdale, Wisconsin, which is served primarily by a Class I rail line owned by Canadian Pacific. Any adverse development at this facility or on the rail line due to catastrophic events or weather, or any other event that would cause us to curtail, suspend or terminate operations at our Oakdale facility, could result in us being unable to meet our contracted sand deliveries. Specifically, an outbreak of COVID-19 coronavirus at our Oakdale facility or among Canadian Pacific personnel could require us to significantly curtail or temporarily cease our operations at Oakdale. Although we have access to a second Class I rail line owned by Union Pacific at our transloading facility in Byron, Wisconsin, we could not facilitate all shipments of product from the Byron facility. We maintain insurance coverage to cover a portion of these types of risks; however, there are certain 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.

A substantial portion of our accounts and unbilled receivables consists of shortfall payments due from one customer under a long-term take-or-pay contract, which is currently subject to litigation.

A substantial portion of our accounts and unbilled receivables consists of shortfall payments due from one customer under a long-term take-or-pay contract. We are currently in litigation with such customer regarding, among other things, nonpayment of shortfall amounts due. Litigation, by its nature, can be costly, time consuming, and unpredictable, and we can provide no assurance that the outstanding amounts due will be collected in a timely manner, if at all. As of September 30, 2020 and December 31, 2019, \$54.6 million and \$37.4 million, respectively, of accounts and unbilled receivables were from the foregoing customer.

Risks Related to our Recent Acquisition

Our acquisition of Eagle Oil and Gas Proppants Holdings LLC may not achieve its intended results, and we may be unable to successfully integrate the operations of Eagle Oil and Gas Proppants Holdings LLC.

On September 18, 2020, we entered into an equity purchase and sale agreement with Eagle Materials Inc. pursuant to which we acquired all of the issued and outstanding interests in Eagle Oil and Gas Proppants Holdings LLC, which, together with its subsidiaries, constituted the entirety of the assets and operations of the oil and gas proppants business of Eagle Materials Inc., from Eagle Materials Inc. in exchange for aggregate consideration of approximately \$2.1 million. In satisfaction of the purchase price, we issued to Eagle 1,503,759 shares of our common stock. The primary assets of Eagle Oil and Gas Proppants Holdings LLC 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 Class I rail line through the Peru, Illinois transload facility.

We expect that the acquisition of Eagle Oil and Gas Proppants Holdings LLC will result in various benefits, including, among other things, expanding our asset base. Achieving the anticipated benefits of the acquisition is subject to a number of uncertainties, including whether we can integrate the business of Eagle Oil and Gas Proppants Holdings LLC in an efficient and effective manner.

Our results of operations could be adversely affected by any issues attributable to Eagle Oil and Gas Proppants Holdings LLC's operations that arise from or are based on events or actions that occurred prior to the closing of the acquisition, including unknown liabilities of Eagle Oil and Gas Proppants Holdings LLC 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.

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

During the three months ended September 30, 2020, no shares were sold by the Company without registration under the Securities Act of 1933, as amended.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We are authorized to repurchase shares through open market purchases at prevailing market prices or through privately negotiated transactions as permitted by securities laws and other legal requirements. On November 8, 2018, we announced that our board of directors authorized the repurchase up to 2,000,000 shares of the Company's common stock during the twelve-month period following the announcement of the share repurchase program. On September 11, 2019, our board of directors reauthorized the existing share repurchase program for an additional twelve months.

The program allows us to repurchase shares at our discretion. Market conditions, price, corporate and regulatory requirements, alternative investment opportunities, and other economic conditions will influence the timing of the repurchase and the number of shares repurchased, if any. The program does not obligate us to repurchase any specific number of shares and, subject to compliance with applicable securities laws and other legal requirements, may be suspended or terminated at any time without prior notice. The following table presents specified information about the Company's repurchases of ordinary shares for the three months ended September 30, 2020:

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced plans or programs	Maximum number of shares that may yet be purchased under plans or programs
July 2020	—	\$ —	—	633,500
August 2020	—	\$ —	—	633,500
September 2020	—	\$ —	—	633,500
Total	—	\$ —	—	—

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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, 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. Smart Sand also adheres to the National Industrial Sand Association’s (“NISA”) 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.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

2.1	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 the Company's Current Report on Form 8-K filed with the SEC on September 18, 2020)
3.1	Second Amended and Restated Certificate of Incorporation of Smart Sand, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on November 15, 2016)
3.2	Second Amended and Restated Bylaws of Smart Sand, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on November 15, 2016)
10.1	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 the Company's Current Report on Form 8-K filed with the SEC on September 18, 2020)
10.2*‡	Second Amendment to Master Product Purchase Agreement and second amendment to Railcar Usage Agreement, dated September 28, 2020, by and between Smart Sand, Inc. and Rice Drilling B, LLC
10.3*	First Amendment to ABL Credit Agreement, dated July 8, 2020, by and between Smart Sand, Inc. and Jefferies Finance LLC
10.4*	Second Amendment to ABL Credit Agreement, dated September 18, 2020, by and between Smart Sand, Inc. and Jefferies Finance LLC
10.5*	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
31.1*	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
31.2*	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
32.1*†	Certification Pursuant to 18 U.S.C. adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*†	Certification Pursuant to 18 U.S.C. adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
95.1*	Mine Safety Disclosure Exhibit
101.INS	Extracted XBRL Instance Document - the instance document does not appear in the Interactive Data File as XBRL tags are embedded in the Inline XBRL 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.

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

‡ Portions of this exhibit have been redacted in compliance with Regulation S-K Item 601(b)(10).

Signatures

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

Smart Sand, Inc.

November 9, 2020 By: /s/ Charles E. Young
Charles E. Young, Chief Executive Officer
(Principal Executive Officer)

Smart Sand, Inc.

November 9, 2020 By: /s/ Lee E. Beckelman
Lee E. Beckelman, Chief Financial Officer
(Principal Financial Officer)

SPECIFIC TERMS IN THIS EXHIBIT HAVE BEEN REDACTED BECAUSE SUCH TERMS ARE NOT MATERIAL AND WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED. SUCH TERMS HAVE BEEN MARKED AT THE APPROPRIATE PLACE WITH THREE ASTERISKS (***)

Exhibit 10.2

SECOND AMENDMENT TO MASTER PRODUCT PURCHASE AGREEMENT AND SECOND AMENDMENT TO RAILCAR USAGE AGREEMENT

This **Second Amendment to Master Product Purchase Agreement and Second Amendment to Railcar Usage Agreement** (the “**Amendment**”) is entered into on September 28, 2020, by and between Smart Sand, Inc., a Delaware corporation (“**Smart Sand**”), and Rice Drilling B LLC, a Delaware limited liability company (“**Buyer**”).

Recitals

Whereas, Smart Sand and Buyer have entered into (i) a Master Product Purchase Agreement, dated effective as of January 1, 2017, as amended by a First Amendment to Master Product Purchase Agreement and First Amendment to Railcar Usage Agreement, dated June 21, 2019 (as amended, the “**PPA**”), and (ii) a Railcar Usage Agreement, dated effective as of January 1, 2017, as amended by a First Amendment to Master Product Purchase Agreement and First Amendment to Railcar Usage Agreement, dated June 21, 2019 (as amended, the “**RUA**”, and together with the PPA, the “**Agreements**”);

Whereas, Smart Sand and Buyer desire to amend the PPA and RUA; and

Whereas, pursuant to Section 15.1 of the PPA and Section 8 of the RUA, the Agreements may not be changed or amended except by a writing executed by both parties.

Now, Therefore, in consideration of the foregoing recitals and the mutual promises set forth herein, sufficiency of which is acknowledged by the undersigned, the Buyer and Smart Sand hereby agree as follows:

1. Amendment to the PPA. The PPA shall be amended as follows:

1.1 The table contained in Section 1.1 of the PPA shall be deleted in its entirety and restated as follows:

Contract Year	Minimum Tons per Year
1	***
2	***
3	***
4	***
5	***

1.2 The first three sentences of Section 2.1 of the PPA shall be deleted in its entirety and restated as follows:

“The pricing for each of the Products for each Contract Year shall be as set forth on Appendix C attached hereto and incorporated by reference (“**Contract Price**”). The parties agree that all Products ordered by Buyer will be loaded onto Buyer or Smart Sand supplied railcars (which Smart Sand railcars shall consist of up to *** railcars for Products), and shipped as specified in the purchase order, provided, however, that (i) Buyer agrees to comply with all freight scheduling mechanisms and timeframes designated by Smart Sand in writing to Buyer from time to time, and (ii) all railcars and trucks supplied by Buyer will be set up to receive unpackaged Products, and (iii) delivery of the Products shall occur upon the transfer of Products into the applicable railcar or truck, as the case may be, via a delivery chute. Delivery will be, and all prices are quoted, FCA Smart Sand’s rail spur facility located in Oakdale, Wisconsin, or such other Smart Sand facility as determined by Smart Sand, Incoterms 2010; provided, however, that notwithstanding anything to the contrary set forth in this Agreement, at the request of Buyer and subject to transload availability, as determined by Smart Sand in its sole discretion, Products may be delivered DAP Tidewater’s transload facility in Steubenville, Ohio (the “**Terminal**”), Incoterms 2010. All Products delivered to the Terminal shall count towards satisfying the Minimum Tons per Year under the PPA. Buyer must pay in full for any order for Products to be delivered to the Terminal that is subsequently cancelled if Smart Sand has ordered locomotive power for such order and provided written notice and supporting documentation to Buyer that it has ordered such locomotive power, in each case, prior to Smart Sand’s receipt of notification of such cancellation.”

1.3 The following shall be added to the end of Section 5 of the PPA:

“Irrespective of where the Products are being delivered, all testing for Specifications shall occur at Smart Sand’s Oakdale, Wisconsin facility.”

1.4 The reference in Section 4.2 of the PPA to “December 31, 2020” shall be deleted in its entirety and replaced with “December 31, 2021”.

1.5 The reference in Section 7.1 of the PPA to “Contract Year 4” shall be deleted in its entirety and replaced with “Contract Year 5”.

1.6 The reference in Section 12 of the PPA to “James D. Young” in the contact information for Fox Rothschild LLP shall be deleted in its entirety and replaced with “Vincent A. Vietti”.

1.7 The following shall be added to Appendix C as a new subparagraph 4):

“The Contract Price for Products shipped to the Terminal shall be \$***/ton, which amount is, notwithstanding anything to the contrary contained in the Agreement, (i) inclusive of ***; and (ii) not subject to any annual percentage increase. The foregoing price does not include ***, all of which shall be paid by Buyer. The Contract Price set forth in this paragraph (a) shall not be used for calculating the Deferment Payment under Section 1.4 of the PPA, and (b) is contingent upon shipment of unit trains having ***. In the event that a shipment of Products to the Terminal will be less than *** (“**Railcar Underage**”), and such Railcar Underage will result in a higher Contract Price for such shipment, then in such case, (x) if (and only if) Buyer approves the Contingency Notice (as defined below), the Contract Price set forth in this paragraph shall be adjusted upwards by ***; and (y) Smart Sand shall notify Buyer in writing at least twenty-four (24) hours prior to such shipment departing from Smart Sand’s production facility (“**Contingency Notice**”), which Contingency Notice shall set forth ***, together with reasonable supporting documentation thereof. Within twenty-four (24) hours of its receipt of the Contingency Notice, Buyer may provide written notice to Smart Sand of Buyer’s election to (1) cancel the applicable shipment, (2) receive the applicable shipment and pay ***, or (3) add a number of additional railcars to eliminate the Railcar Underage. In the event that Buyer fails to provide such written notice to Smart Sand

within such twenty-four (24) hour period, then in such case, Buyer shall be deemed to have cancelled the applicable shipment.

The Contract Price for delivery to the Terminal includes all of the rail freight charges and fees (including rail fuel surcharges) currently assessed by Smart Sand's rail carrier for the shipment of Products (the "**Base Rail Charge**"). If following the date hereof, the Base Rail Charge is increased by Smart Sand's rail carrier for the shipment of Products to the Terminal (such charge, the "**New Rail Charge**"), then, following Smart Sand's provision of written notice and reasonable supporting documentation of such increase to Buyer, the Contract Price shall be adjusted by an amount equal to the difference between the New Rail Charge per ton and the Base Rail Charge per ton."

2. Amendment to the RUA. The RUA shall be amended as follows:

2.1 Section B of the Recitals of the RUA shall be deleted in its entirety and replaced with the following:

"B. Smart Sand and Borrower desire to provide for the terms under which Smart Sand will dedicate to Borrower, and Borrower may use, up to *** railcars from Smart Sand's fleet of railcars during the period ending upon termination or expiration of the PPA."

2.2 Section 1.A of the RUA shall be deleted in its entirety and replaced with the following:

"A. Borrower may use Smart Sand's railcars dedicated from Smart Sand's fleet, solely for the purpose of shipping frac sand pursuant to the PPA from Smart Sand's designated sand mining and processing facilities (each, a "Facility" and collectively, the "Facilities"). As consideration for the usage of railcars, during the Term, Borrower shall pay to Smart Sand \$*** per ton of Products purchased or required to be purchased under the PPA, other than for Products that are delivered DAP or DAT to a rail terminal, Incoterms 2010. Borrower understands that the dedicated railcars will be interchangeable with other railcars in Smart Sand's railcar fleet in Smart Sand's sole discretion."

2.3 The reference to "December 31, 2020" in Section 2 of the RUA shall be deleted and replaced with "December 31, 2021".

3. General Provisions.

3.1 Defined Terms. Capitalized terms used and not defined herein shall have those definitions as set forth in the Agreements.

3.2 Successors and Assigns. The terms and conditions of this Amendment shall inure to the benefit of and be binding upon the respective successors and assigns of the parties. Nothing in this Amendment, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Amendment, except as expressly provided in this Amendment.

3.3 Counterparts; Facsimile. This Amendment may be executed and delivered by facsimile or pdf signature and in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

3.4 Severability. The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision.

3.5 No Other Changes. Except as expressly amended by this Amendment, all of the terms of the Agreements shall remain in full force and effect.

3.6 Entire Agreement. This Amendment, the Agreements and the agreements and documents referred to herein, together with all the Exhibits hereto and thereto, constitute the entire agreement and understanding of the parties with respect to the subject matter of this Amendment, and supersede any and all prior understandings and agreements, whether oral or written, between or among the parties hereto with respect to the specific subject matter hereof.

In Witness Whereof, the parties hereto have executed this **Second Amendment to Master Product Purchase Agreement and Second Amendment to Railcar Usage Agreement** as of the date first written above.

SMART SAND, INC.

By: /s/ John Young

Name: John Young

Title: COO

RICE DRILLING B, LLC

By: /s/ Toby Rice

Name: Toby Rice

Title: President & CEO

FIRST AMENDMENT TO ABL CREDIT AGREEMENT

This **FIRST AMENDMENT TO ABL CREDIT AGREEMENT**, dated as of July 8, 2020 (this “**Amendment**”), is entered into by and among SMART SAND, INC., a Delaware corporation (“**Parent**”), each Subsidiary (as defined in the Credit Agreement referred to below) of Parent party to the Credit Agreement as a “Borrower” (each, a “**Borrower**” and collectively, the “**Borrowers**”), each Subsidiary Guarantor party to the Credit Agreement (each a “**Guarantor**” and collectively, the “**Guarantors**”), the Lenders, and JEFFERIES FINANCE LLC, as agent (in such capacity, including any successor thereto, the “**Agent**”) for the Lenders, and is made with reference to the Credit Agreement referred to below.

PRELIMINARY STATEMENTS

WHEREAS, the Borrowers, Subsidiary Guarantors, Parent, the Lenders party thereto, and the Agent previously entered into that certain ABL Credit Agreement dated as of December 13, 2019 (as amended, amended and restated, supplemented or otherwise modified prior to the date hereof, the “**Credit Agreement**”); and

WHEREAS, the Borrowers have requested that the Agent and the Lenders make certain amendments to the Credit Agreement which Agent and the Lenders have agreed to make, subject to the terms and provisions set forth in this Amendment.

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. Definitions. Except as otherwise defined herein, capitalized terms used but not defined herein shall have the meanings assigned to such terms in the Credit Agreement.

SECTION 2. Additional Definitions. Section 1.01 to the Credit Agreement is hereby amended by adding thereto, in addition and not in limitation, the following defined terms:

- (a) “**Amendment No. 1**” shall mean the First Amendment to ABL Credit Agreement, dated as of July 8, 2020, by and among the Borrower, the Guarantors party thereto, the Agent and the Lenders party thereto.
- (b) “**Amendment No. 1 Effective Date**” shall mean July 8, 2020.
- (c) “**Reinstatement Date**” shall have the meaning assigned to such term in the definition of “Applicable Margin”.

SECTION 3. Amendment to the Definition of Applicable Margin. The definition of “**Applicable Margin**” as set forth in Section 1.01 to the Credit Agreement is hereby amended and restated in its entirety as follows:

““**Applicable Margin**” shall mean, for any day, with respect to Revolving Loans (a) 1.00%, in the case of ABR Loans, and (b) 2.00%, in the case of Eurodollar Loans; provided that from the Amendment No. 1 Effective Date until the date that clause (p) of the definition of Eligible Receivables as set forth in Section 1.01 of the Credit Agreement is reinstated in the determination of whether any Receivable is an Eligible Receivable (such date being referred to as the “**Reinstatement Date**”), the “Applicable Margin” shall be, for any day, with respect to Revolving Loans (A) 2.50%, in the case of ABR Loans, and (B) 3.50%, in the case of Eurodollar Loans.”

SECTION 4. Amendment to the Definition of Eligible Receivables. Clause (p) of the definition of “**Eligible Receivables**” as set forth in Section 1.01 to the Credit Agreement is hereby amended and restated in its entirety as follows:

“(p) (i) in the case of any single Customer and its Affiliates, such Receivables constitute more than 50% of all otherwise Eligible Receivables (but the portion of the Receivables not in excess of such percentage may be deemed Eligible Receivables); and (ii) in the case of any two Customers and their Affiliates, such Receivables constitute, in the aggregate, more than 75% of all otherwise Eligible Receivables (but the portion of the Receivables not in excess of such percentage may be deemed Eligible Receivables); provided that from the Amendment No. 1 Effective Date until September 30, 2020, or such later date as the Agent may elect, the eligibility criteria set forth in this clause (p) shall not apply in the determination of whether any Receivable is an Eligible Receivable;”

SECTION 5. Maximum Amount of Cash Permitted to be Retained by Loan Parties. The Loan Parties covenant and agree that, if the Loan Parties have an average amount of cash and cash equivalents in excess of \$4,000,000 in the aggregate during any five (5) consecutive Business Day period from and after the Amendment No. 1 Effective Date, then the Borrowers shall repay the Revolving Loans in the amount of such excess on the immediately following Business Day; provided that (i) all payments made pursuant to this Section 5 shall be made without premium or penalty and (ii) no payments by the Borrowers pursuant to Section 2.16 of the Credit Agreement shall be required in connection with any prepayment made as a result of this Section 5.

SECTION 6. Conditions to Effectiveness. This Amendment shall become effective only upon the satisfaction of all of the following conditions precedent:

- a. the Agent, each Loan Party and Lenders shall have executed this Amendment, and each such Loan Party and Lender shall have delivered its executed counterpart to this Amendment to the Agent; and
- b. the Borrowers shall have paid to the Agent all fees, costs and expenses incurred by the Agent in connection with the preparation, execution and delivery of this Amendment (including, without limitation, reasonable attorneys’ fees).

SECTION 7. Representations and Warranties. In order to induce the Agent and the Lenders to enter into this Amendment and to amend the Credit Agreement in the manner provided herein, each Loan Party hereby represents and warrants to the Agent and the Lenders that, on and as of the Amendment No. 1 Effective Date:

- a. (i) each Loan Party has the power and authority to execute, deliver this Amendment and perform its obligations under this Amendment and the Credit Agreement, (ii) this Amendment has been duly authorized by all requisite corporate, partnership, limited liability company, and, if required, stockholder, partner or member action, as applicable, of each Loan Party, and (iii) this Amendment has been duly executed and delivered by each Loan Party;
- b. this Amendment constitutes a legal, valid and binding obligation of each Loan Party enforceable against such Loan Party in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law;
- c. each Loan Party's execution, delivery and performance of this Amendment and each Loan Party's performance of the Credit Agreement (i) will not violate any provision of the certificate or articles of incorporation or certificate of formation or other constitutive documents or by-laws, partnership agreement or limited liability company agreement of such Loan Party, (ii) (A) any provision of law, statute, rule or regulation, (B) any order of or undertaking with any Governmental Authority or (C) any provision of any indenture, agreement or other instrument to which any Loan Party is a party or by which any of them or any of their property is bound, except such violation as could not reasonably be expected to have a Material Adverse Effect, (iii) will not be in conflict with, result in a breach of or constitute (alone or with notice or lapse of time or both) a default under, or give rise to any right to accelerate or to require the prepayment, repurchase or redemption of any obligation under any such indenture, agreement or other instrument, except where the consequences thereof could not reasonably be expected to have a Material Adverse Effect, or (iv) will not require any consent or approval of, registration or filing with, certificate, certification, permit, license or authorization from, or any other action by any Governmental Authority, in each case, except for (A) such as have been made or obtained and are in full force and effect and (B) those, which the failure to obtain could not reasonably be expected to have a Material Adverse Effect;
- d. at the time of and immediately after giving effect to this Amendment, no Default or Event of Default has occurred and is continuing or would result therefrom; and
- e. the representations and warranties set forth in Article III of the Credit Agreement and in each other Loan Document are true and correct in all material respects on and as of the Amendment No. 1 Effective Date with the same effect as though made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date, in which case such representations and warranties were true and correct in all material respects as of such earlier date; *provided* that any representation and warranty that is qualified as to "materiality," "Material Adverse Effect" or similar language is (or was) true and correct (after giving effect to any qualification contained therein) in all respects.

SECTION 8. Reference to and Effect on the Credit Agreement.

- a. Except as expressly set forth herein, this Amendment shall not by implication or otherwise limit, impair, constitute a waiver of or otherwise affect the rights and remedies of the Agent, any Lender or any Secured Party under the Credit Agreement or any Loan Documents, and shall not alter, modify, amend or in any way affect any of the Obligations or any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any other provision of the Credit Agreement or of any Loan Documents, all of which are ratified and affirmed in all respects and shall continue in full force and effect. Nothing herein shall be deemed to entitle any Loan Party to a consent to, or a waiver, amendment, modification or other change of, any of the Obligations or any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any Loan Documents in similar or different circumstances.

- b. On the Amendment No. 1 Effective Date, the Credit Agreement shall be amended as provided herein. On and after the Amendment No.1 Effective Date, each reference in the Credit Agreement to “this Agreement,” “hereunder,” “hereof,” “herein” or words of like import referring to the Credit Agreement, and each reference in the Loan Documents to the “Credit Agreement,” “thereunder,” “thereof” or words of like import referring to the Credit Agreement shall mean and be a reference to the Credit Agreement as amended by this Amendment. The parties hereto acknowledge and agree that: (i) this Amendment and any other document or instrument executed and delivered in connection herewith do not constitute a novation or termination of the Obligations as in effect prior to the Amendment No.1 Effective Date; (ii) the Obligations are in all respects continuing with only the terms thereof being modified to the extent provided in this Amendment; and (iii) the guarantees and the Liens and security interests as granted or purported to be granted under or pursuant to the Credit Agreement and the Loan Documents securing payment of the Obligations are in all such respects continuing in full force and effect and secure the payment of the Obligations as provided therein.

SECTION 9. Severability. In the event any one or more of the provisions contained in this Amendment should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby (it being understood that the invalidity of a particular provision in a particular jurisdiction shall not in and of itself affect the validity of such provision in any other jurisdiction). The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 10. Counterparts. This Amendment may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original but all of which when taken together shall constitute a single contract, and shall become effective as provided in Section 6. Delivery of an executed signature page to this

Amendment by facsimile or other customary means of electronic transmission, including by PDF file, shall be as effective as delivery of a manually signed counterpart of this Agreement.

SECTION 11. Successors and Assigns. Whenever in this Amendment any of the parties hereto is referred to, such reference shall be deemed to include the permitted successors and assigns of such party; and all covenants, promises and agreements by or on behalf of Loan Parties, Agent, the Issuing Banks or the Lenders that are contained in this Amendment shall bind and inure to the benefit of their respective permitted successors and assigns.

SECTION 12. Governing Law; Miscellaneous. This Amendment, and the rights and obligations of the parties under this Amendment, shall be governed by, and construed and interpreted in accordance with, the law of the State of New York. The provisions of Sections 9.07, 9.11 and 9.15 of the Credit Agreement are hereby incorporated by reference, *mutatis mutandis*, and shall apply with like effect to this Amendment as if fully set forth herein.

SECTION 13. Headings. Section headings used herein are for convenience of reference only, are not part of this Amendment and are not to affect the construction of, or to be taken into consideration in interpreting, this Amendment.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective duly authorized officers as of the day and year first above written.

SMART SAND, INC., as Parent, a Borrower and Administrative Loan Party

By: /s/ Lee E. Beckelman
Name: Lee E. Beckelman
Title: Chief Financial Officer

SMART SAND OAKDALE LLC, as a Borrower

By: SMART SAND, INC., its sole Member

By: /s/ Lee E. Beckelman
Name: Lee E. Beckelman
Title: Chief Financial Officer

QUICKTHREE TECHNOLOGY, LLC, as a Borrower

By: SMART SAND, INC., its sole Member

By: /s/ Lee E. Beckelman
Name: Lee E. Beckelman
Title: Chief Financial Officer

SSI BAKKEN I, LLC, as a Borrower

By: SMART SAND, INC., its sole Member

By: /s/ Lee E. Beckelman
Name: Lee E. Beckelman
Title: Chief Financial Officer

SMART SAND HIXTON LLC, as a Subsidiary Guarantor

By: SMART SAND, INC., its sole Member

By: /s/ Lee E. Beckelman

Name: Lee E. Beckelman

Title: Chief Financial Officer

FAIRVIEW CRANBERRY COMPANY, LLC., as a Subsidiary Guarantor

By: SMART SAND, INC., its Manager

By: /s/ Lee E. Beckelman

Name: Lee E. Beckelman

Title: Chief Financial Officer

WILL LOGISTICS, LLC., as a Subsidiary Guarantor

By: SMART SAND, INC., its Manager

By: /s/ Lee E. Beckelman

Name: Lee E. Beckelman

Title: Chief Financial Officer

AGENT:

JEFFERIES FINANCE LLC, as sole Lender and as Agent

By: /s/ J.R. Young

Name: J.R. Young

Title: Managing Director

SECOND AMENDMENT TO ABL CREDIT AGREEMENT

This **SECOND AMENDMENT TO ABL CREDIT AGREEMENT**, dated as of September 18, 2020 (this "**Amendment**"), is entered into by and among SMART SAND, INC., a Delaware corporation ("**Parent**"), the other Borrowers party hereto, each Guarantor party hereto, the Lenders party hereto, and JEFFERIES FINANCE LLC, as agent (in such capacity, including any successor thereto, the "**Agent**") for the Lenders, and is made with reference to the Credit Agreement referred to below.

PRELIMINARY STATEMENTS

WHEREAS, Parent, the other Borrowers party hereto, the Guarantors party hereto, the Agent and the Lenders have entered into that certain ABL Credit Agreement dated as of December 13, 2019, as amended by that certain First Amendment to ABL Credit Agreement dated as of July 8, 2020 (as may be further amended, amended and restated, supplemented or otherwise modified prior to the date hereof, the "**Credit Agreement**");

WHEREAS, pursuant to that certain Equity Purchase and Sale Agreement dated as of the date hereof, by and among Eagle Materials Inc., a Delaware corporation (the "**Seller**"), and Parent (the "**Purchase Agreement**"), Parent is acquiring (the "**Eagle Acquisition**") all of the Equity Interests of Eagle Oil and Gas Proppants Holdings LLC, a Delaware limited liability company ("**Eagle Holdings**"), Eagle Oil and Gas Proppants LLC, a Delaware limited liability company ("**Eagle Oil**"), Northern White Sand LLC, a Delaware limited liability company ("**Northern**"), and CRS Proppants LLC, a Delaware limited liability company ("**CRS**" and, together with Eagle Holdings, Eagle Oil and Northern, each an "**Eagle Party**" and collectively, the "**Eagle Parties**");

WHEREAS, in connection with the Eagle Acquisition, Parent and the Eagle Parties will be entering into that certain Loan and Security Agreement dated as of the date hereof with the Seller (the "**Eagle Financing Documents**") pursuant to which the Seller will make loans to the Parent in an aggregate principal amount not to exceed at any given time outstanding, \$5,000,000 (the "**Eagle Indebtedness**"), which Eagle Indebtedness will be secured by the Eagle Collateral (as hereinafter defined) and guaranteed by the Eagle Parties, all as more particularly set forth in the Eagle Financing Documents (collectively, the "**Eagle Financing Transaction**");

WHEREAS, the Eagle Financing Transaction does not meet the requirements of Section 6.01 or Section 6.02 of the Credit Agreement and the Borrowers have requested that the Agent and the Lenders make certain amendments to the Credit Agreement which the Agent and the Lenders have agreed to make, subject to the terms and provisions set forth in this Amendment.

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. Definitions. Except as otherwise defined herein, capitalized terms used but not defined herein shall have the meanings assigned to such terms in the Credit Agreement.

SECTION 2. Additional Definitions. Section 1.01 to the Credit Agreement is hereby amended by adding thereto, in addition and not in limitation, the following defined terms:

- a. **“Amendment No. 2”** shall mean the Second Amendment to ABL Credit Agreement, dated as of September 18, 2020, by and among the Borrowers party thereto, the Guarantors party thereto, the Agent and the Lenders party thereto.
- b. **“Amendment No. 2 Effective Date”** shall mean September 18, 2020.
- c. **“Eagle Collateral”** shall have the meaning given to the term “Seller Collateral” in the Eagle Intercreditor Agreement as in effect on the Amendment No. 2 Effective Date.
- d. **“Eagle Indebtedness”** shall have the meaning set forth in the recitals to Amendment No. 2.
- e. **“Eagle Intercreditor Agreement”** shall mean that certain Lien Intercreditor and Use Agreement dated as of the Amendment No. 2 Effective Date by and between the Agent and the Seller (as defined in the Amendment No. 2) and acknowledged by Parent and the Eagle Parties.
- f. **“Eagle Parties”** shall have the meaning set forth in the recitals to Amendment No. 2.

SECTION 3. Amendment to Section 6.01 (Indebtedness). Section 6.01(g) of the Credit Agreement is hereby amended and restated in its entirety as follows:

“(g) the Eagle Indebtedness;”

SECTION 4. Amendment to Section 6.02 (Liens). Section 6.02 of the Credit Agreement is hereby amended by (a) deleting “; and” at the end of clause (x) and replacing it with “;”, (b) deleting the period at the end of clause (y) and replacing it with “; and”, and (c) adding the following new subclause immediately following clause (y) thereof:

“(z) Liens on the Eagle Collateral to secure the Eagle Indebtedness.”

SECTION 5. Amendment to Credit Agreement, Signature Page to Amendment No. 1 to Credit Agreement and Schedule 1.01(a). The parties hereto hereby agree that the “Lender” on the Closing Date incorrectly referred to “Agent” or “Jefferies Finance LLC” (as applicable) in various places in the Credit Agreement and should have instead been a reference to “JFIN Business Credit Fund I LLC”. In connection with that error, the parties hereto hereby agree that, effective as of the Closing Date, without any conditions to effectiveness herein:

- a. the signature page to the Credit Agreement is hereby amended by deleting the reference to “as a Lender,” after the reference to “JEFFERIES FINANCE LLC”;
- b. the signature page to Amendment No. 1 is hereby amended by deleting the reference to “as sole Lender and” after the reference to “JEFFERIES FINANCE LLC”;
- c. Schedule 1.01(a) to the Credit Agreement is hereby deleted in its entirety and a new Schedule 1.01(a) in the form of Schedule A attached hereto is inserted in replacement thereof; and

- d. JFIN Business Credit Fund I LCC by its signature to this Amendment hereby agrees that, effective as of the Closing Date, (i) its Revolving Commitment and its Pro Rata Percentage are as set forth on Schedule 1.01(a) attached hereto and (ii) it is and shall continue to be bound by the provisions of the Credit Agreement as a Lender thereunder and does and shall continue to have the obligations of a Lender thereunder, including, with respect to its Commitment

SECTION 6. Conditions to Effectiveness. This Amendment (other than the amendments in Section 5 hereof) shall become effective only upon the satisfaction of all of the following conditions precedent:

- a. The execution and delivery of this Amendment by the Agent, the Lenders and each Loan Party;
- b. The Agent shall have received the results of a search of the Uniform Commercial Code filings (or equivalent filings), tax lien filings and judgment lien filings made with respect to the Eagle Parties in the states (or other jurisdictions) of formation of such Persons, jurisdictions in which the chief executive office of each such Person is located and in the other jurisdictions in which such Persons maintain real property, together with copies of the financing statements (or similar documents) disclosed by such search, and accompanied by evidence reasonably satisfactory to the Agent that the Liens indicated in any such financing statement (or similar document) would be Permitted Liens or have been or will be contemporaneously released or terminated;
- c. The execution and delivery of the Eagle Intercreditor Agreement.
- d. The Agent shall have received true and correct copies of each of the documents executed in connection with the Eagle Acquisition and the Eagle Financing Transaction; and
- e. Borrowers shall have paid to the Agent all fees, costs and expenses incurred by the Agent in connection with the preparation, execution and delivery of this Amendment (including, without limitation, reasonable attorneys' fees).

SECTION 7. Conditions Subsequent. The continuing effectiveness of this Amendment (other than the amendments contained in Section 5 hereof) is subject to the fulfillment, on or before the date applicable thereto, of the following conditions:

- a. on the Amendment No. 2 Effective Date, the Agent shall have received duly executed copies of the documents set forth on Annex A hereto which are not otherwise addressed below;
- b. on or before the date which is 5 Business Days after the Amendment No. 2 Effective Date (or such later date as the Agent shall agree in its Permitted Discretion), the Agent shall have received certificates of insurance with respect to the New Borrowers as required by Section 5.02 of the Credit Agreement;
- c. on or before the date which is 30 days after the after the Amendment No. 2 Effective Date (or such later date as the Agent shall agree in its Permitted Discretion), the Agent shall have received Account Control Agreements relating to the Eagle Parties Deposit Accounts with Wells Fargo Bank, National Association, which control agreements shall be consistent with the requirements of Section 3.03(k) of the Guarantee and Collateral Agreement; and

- d. the Loan Parties shall use commercially reasonable efforts to deliver to Agent, on or before the date which is 45 days after the after the Amendment No. 2 Effective Date (or such later date as the Agent shall agree in its Permitted Discretion), Collateral Access Agreements for each leased location listed on Schedule 1.01(d) to the Joinder No. 1 to Credit Agreement where Eligible Inventory will be located.

SECTION 8. Representations and Warranties. In order to induce the Agent and the Lenders to enter into this Amendment and to amend the Credit Agreement in the manner provided herein, each Loan Party hereby represents and warrants to the Agent and the Lenders that, on and as of the Amendment No. 2 Effective Date:

- a. (i) each Loan Party has the power and authority to execute, deliver this Amendment and perform its obligations under this Amendment and the Credit Agreement, (ii) this Amendment has been duly authorized by all requisite corporate, partnership, limited liability company, and, if required, stockholder, partner or member action, as applicable, of each Loan Party, and (iii) this Amendment has been duly executed and delivered by each Loan Party;
- b. this Amendment constitutes a legal, valid and binding obligation of each Loan Party enforceable against such Loan Party in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law;
- c. each Loan Party's execution, delivery and performance of this Amendment and each Loan Party's performance of the Credit Agreement (i) will not violate any provision of the certificate or articles of incorporation or certificate of formation or other constitutive documents or by-laws, partnership agreement or limited liability company agreement of such Loan Party, (ii) (A) any provision of law, statute, rule or regulation, (B) any order of or undertaking with any Governmental Authority or (C) any provision of any indenture, agreement or other instrument to which any Loan Party is a party or by which any of them or any of their property is bound, except such violation as could not reasonably be expected to have a Material Adverse Effect, (iii) will not be in conflict with, result in a breach of or constitute (alone or with notice or lapse of time or both) a default under, or give rise to any right to accelerate or to require the prepayment, repurchase or redemption of any obligation under any such indenture, agreement or other instrument, except where the consequences thereof could not reasonably be expected to have a Material Adverse Effect, or (iv) will not require any consent or approval of, registration or filing with, certificate, certification, permit, license or authorization from, or any other action by any Governmental Authority, in each case, except for (A) such as have been made or obtained and are in full force and effect and (B) those, which the failure to obtain could not reasonably be expected to have a Material Adverse Effect;
- d. at the time of and immediately after giving effect to this Amendment, no Default or Event of Default has occurred and is continuing or would result therefrom; and
- e. the representations and warranties set forth in Article III of the Credit Agreement and in each other Loan Document are true and correct in all material respects on and as of the Amendment No. 2 Effective Date with the same effect as though made on and as of such date, except to the extent such representations and

warranties expressly relate to an earlier date, in which case such representations and warranties were true and correct in all material respects as of such earlier date; *provided* that any representation and warranty that is qualified as to “materiality,” “Material Adverse Effect” or similar language is (or was) true and correct (after giving effect to any qualification contained therein) in all respects.

SECTION 9. Reference to and Effect on the Credit Agreement.

- a. Except as expressly set forth herein, this Amendment shall not by implication or otherwise limit, impair, constitute a waiver of or otherwise affect the rights and remedies of the Agent, any Lender or any Secured Party under the Credit Agreement or any Loan Documents, and shall not alter, modify, amend or in any way affect any of the Obligations or any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any other provision of the Credit Agreement or of any Loan Documents, all of which are ratified and affirmed in all respects and shall continue in full force and effect. Nothing herein shall be deemed to entitle any Loan Party to a consent to, or a waiver, amendment, modification or other change of, any of the Obligations or any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any Loan Documents in similar or different circumstances.
- b. Except as set forth in Section 5 (which amendments contained in such Section shall be effective as of the Closing Date), on the Amendment No. 2 Effective Date, the Credit Agreement shall be amended as provided herein. On and after the Amendment No. 2 Effective Date, each reference in the Credit Agreement to “this Agreement,” “hereunder,” “hereof,” “herein” or words of like import referring to the Credit Agreement, and each reference in the Loan Documents to the “Credit Agreement,” “thereunder,” “thereof” or words of like import referring to the Credit Agreement shall mean and be a reference to the Credit Agreement as amended by this Amendment. The parties hereto acknowledge and agree that: (i) this Amendment and any other document or instrument executed and delivered in connection herewith do not constitute a novation or termination of the Obligations as in effect prior to the Amendment No. 2 Effective Date; (ii) the Obligations are in all respects continuing with only the terms thereof being modified to the extent provided in this Amendment; and (iii) the guarantees and the Liens and security interests as granted or purported to be granted under or pursuant to the Credit Agreement and the Loan Documents securing payment of the Obligations are in all such respects continuing in full force and effect and secure the payment of the Obligations as provided therein.

SECTION 10. Severability. In the event any one or more of the provisions contained in this Amendment should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby (it being understood that the invalidity of a particular provision in a particular jurisdiction shall not in and of itself affect the validity of such provision in any other jurisdiction). The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid

provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 11. Counterparts. This Amendment may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original but all of which when taken together shall constitute a single contract and shall become effective as provided in Section 6. Delivery of an executed signature page to this Amendment by facsimile or other customary means of electronic transmission, including by PDF file, shall be as effective as delivery of a manually signed counterpart of this Agreement.

SECTION 12. Successors and Assigns. Whenever in this Amendment any of the parties hereto is referred to, such reference shall be deemed to include the permitted successors and assigns of such party; and all covenants, promises and agreements by or on behalf of Loan Parties, the Agent, the Issuing Banks or the Lenders that are contained in this Amendment shall bind and inure to the benefit of their respective permitted successors and assigns.

SECTION 13. Governing Law; Miscellaneous. This Amendment, and the rights and obligations of the parties under this Amendment, shall be governed by, and construed and interpreted in accordance with, the law of the State of New York. The provisions of Sections 9.07, 9.11 and 9.15 of the Credit Agreement are hereby incorporated by reference, *mutatis mutandis*, and shall apply with like effect to this Amendment as if fully set forth herein.

SECTION 14. Headings. Section headings used herein are for convenience of reference only, are not part of this Amendment and are not to affect the construction of, or to be taken into consideration in interpreting, this Amendment.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective duly authorized officers as of the day and year first above written.

SMART SAND, INC., as Parent, a Borrower and Administrative Loan Party

By:

Name: Lee E. Beckelman

Title: Chief Financial Officer

SMART SAND OAKDALE LLC, as a Borrower

By: SMART SAND, INC., its sole Member

By:

Name: Lee E. Beckelman

Title: Chief Financial Officer

QUICKTHREE TECHNOLOGY, LLC, as a Borrower

By: SMART SAND, INC., its sole Member

By:

Name: Lee E. Beckelman

Title: Chief Financial Officer

SSI BAKKEN I, LLC, as a Borrower

By: SMART SAND, INC., its sole Member

By:

Name: Lee E. Beckelman

Title: Chief Financial Officer

SMART SAND HIXTON LLC, as a Subsidiary Guarantor

By: SMART SAND, INC., its sole Member

By:
Name: Lee E. Beckelman
Title: Chief Financial Officer

FAIRVIEW CRANBERRY COMPANY, LLC., as a Subsidiary Guarantor

By: SMART SAND, INC., its Manager

By:
Name: Lee E. Beckelman
Title: Chief Financial Officer

WILL LOGISTICS, LLC., as a Subsidiary Guarantor

By: SMART SAND, INC., its Manager

By:
Name: Lee E. Beckelman
Title: Chief Financial Officer

JEFFERIES FINANCE LLC,
as Agent

By:
Name: J.R. Young
Title: Managing Director

JFIN BUSINESS CREDIT FUND I LLC,
as Sole Lender

By:
Name: J.R. Young
Title: Managing Director

**Schedule A to
Second Amendment to ABL Credit Agreement**

Schedule 1.01(a)
Lenders and Revolving Credit Commitments

Lender	Commitment	Percentage
JFIN BUSINESS CREDIT FUND I LLC c/o Jefferies Finance LLC 520 Madison Avenue New York, NY 10022 Attention: J.R. Young Telephone: (212) 284-8191 Email: jyoung@jefferies.com Facsimile: (212) 284-3444	\$20,000,000	100%
Total:	\$20,000,000	100%

**Annex A to
Second Amendment to ABL Credit Agreement**

See attached.

GUARANTEE AND COLLATERAL AGREEMENT

SUPPLEMENT, dated as of September 18, 2020 (this “**Supplement**”), made by EAGLE OIL AND GAS PROPPANTS HOLDINGS LLC, a Delaware limited liability company (“**Proppants Holdings**”), EAGLE OIL AND GAS PROPPANTS LLC, a Delaware limited liability company (“**Proppants**”), NORTHERN WHITE SAND LLC, a Delaware limited liability company (“**Northern**”) and CRS PROPPANTS LLC, a Delaware limited liability (“**CRS**” and, together with Proppants Holdings, Proppants and Northern, collectively, the “**Additional Grantors**” and each an “**Additional Grantor**”), in favor of JEFFERIES FINANCE LLC, as Agent for the Secured Parties (in such capacity and together with its successors and permitted assigns, the “**Agent**”). Capitalized terms not defined herein shall have the meaning assigned to such terms in the Guarantee and Collateral Agreement (as defined below or if not defined therein, in the Credit Agreement (as defined below)).

WITNESSETH:

WHEREAS, Smart Sand, Inc., a Delaware corporation (the “**Administrative Loan Party**”) and the other Borrowers from time to time party thereto (collectively, the “**Borrowers**” and each, a “**Borrower**”), the Guarantors from time to time party thereto, each lender from time to time party thereto (collectively, the “**Lenders**”), each Issuing Bank and Agent have entered into that certain Credit Agreement, dated as of December 13, 2019 (as amended, restated, supplemented and/or otherwise modified from time to time, the “**Credit Agreement**”);

WHEREAS, in connection with the Credit Agreement, Borrowers and Guarantors have entered into that certain Guarantee and Collateral Agreement, dated as of December 13, 2019 (as amended, restated, supplemented and/or otherwise modified from time to time, the “**Guarantee and Collateral Agreement**”), in favor of the Agent for the Secured Parties;

WHEREAS, the Credit Agreement requires each Additional Grantor to become a party to the Guarantee and Collateral Agreement; and

WHEREAS, each Additional Grantor has agreed to execute and deliver this Supplement in order to become a party to the Guarantee and Collateral Agreement;

NOW, THEREFORE, IT IS AGREED:

1. SECURITY AGREEMENT. By executing and delivering this Supplement, each Additional Grantor, as provided in Section 7.12 of the Guarantee and Collateral Agreement, hereby becomes a party to the Guarantee and Collateral Agreement as a Grantor thereunder with the same force and effect as if originally named therein as a Grantor and, without limiting the generality of the foregoing, hereby expressly assumes all obligations and liabilities of a Grantor thereunder. As security for the payment and performance in full of the Secured Obligations of the Additional Grantors (including, if such Additional Grantor is a Guarantor, the Secured Obligations of such Additional Grantor arising under the Guaranty), hereby pledges to the Agent, its successors and permitted assigns, for the benefit of the Secured Parties, and hereby grants to

the Agent, its successors and permitted assigns, for the benefit of the Secured Parties, a security interest in (a) all right, title and interest in, to and under any and all of Pledged Collateral now owned or at any time hereafter acquired by such Grantor or in which such Grantor now has or at any time in the future may acquire any right, title or interest and (b) all right, title or interest in or to any and all of the Article 9 Collateral now owned or at any time hereafter acquired by such Grantor or in which such Grantor now has or at any time in the future may acquire any right, title or interest other than the Eagle Collateral. The information set forth in Annex 1-A is hereby added to the information set forth in Schedules I, II and III to the Guarantee and Collateral Agreement. Each Additional Grantor hereby represents and warrants that each of the representations and warranties contained in Sections 2.03 and 3.02 of the Guarantee and Collateral Agreement is true and correct in all material respects on and as the date hereof (after giving effect to this Supplement) as if made on and as of such date, except to the extent that such representations and warranties specifically refer to an earlier date, they shall be true and correct in all material respects as of such earlier date; *provided* that any representation and warranty that is qualified as to “materiality”, “Material Adverse Effect” or similar language shall be true and correct (after giving effect to any qualification therein) in all respects on such date or such earlier date, as the case may be.

2. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

[Signature Pages Follow]

IN WITNESS WHEREOF, the undersigned has caused this Supplement to be duly executed and delivered by its authorized officer as of the date first above written.

EAGLE OIL AND GAS PROPPANTS HOLDINGS LLC

By: /s/ Lee E. Beckelman
Name: Lee E. Beckelman
Title: Chief Financial Officer

EAGLE OIL AND GAS PROPPANTS LLC

By: /s/ Lee E. Beckelman
Name: Lee E. Beckelman
Title: Chief Financial Officer

NORTHERN WHITE SAND LLC

By: /s/ Lee E. Beckelman
Name: Lee E. Beckelman
Title: Chief Financial Officer

CRS PROPPANTS LLC

By: /s/ Lee E. Beckelman
Name: Lee E. Beckelman
Title: Chief Financial Officer

Acknowledged and accepted:

JEFFERIES FINANCE LLC, as Agent

By: /s/ J.R. Young
Name: J.R. Young
Title: Managing Director

CERTIFICATION BY PRINCIPAL EXECUTIVE OFFICER

I, Charles E. Young, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Smart Sand, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 9, 2020

/s/ Charles E. Young

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

CERTIFICATION BY PRINCIPAL FINANCIAL OFFICER

I, Lee E. Beckelman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Smart Sand, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 9, 2020

/s/ Lee E. Beckelman

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

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Smart Sand, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lee E. Beckelman, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 9, 2020

/s/ Lee E. Beckelman

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

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Smart Sand, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles E. Young, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 9, 2020

/s/ Charles E. Young

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

MINE SAFETY DISCLOSURES

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

Mine Safety Information

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

Mine Safety Data

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

- *Section 104 S&S Citations:* Citations received from MSHA under section 104 of the Mine Act for violations of mandatory health or safety standards that could significantly and substantially contribute to the cause and effect of a mine safety or health hazard.
- *Section 104(b) Orders:* Orders issued by MSHA under section 104(b) of the Mine Act, which represents a failure to abate a citation under section 104(a) within the period of time prescribed by MSHA. This results in an order of immediate withdrawal from the area of the mine affected by the condition until MSHA determines that the violation has been abated.
- *Section 104(d) Citations and Orders:* Citations and orders issued by MSHA under section 104(d) of the Mine Act for an unwarrantable failure to comply with mandatory health or safety standards.
- *Section 110(b)(2) Violations:* Flagrant violations issued by MSHA under section 110(b)(2) of the Mine Act.
- *Section 107(a) Orders:* Orders issued by MSHA under section 107(a) of the Mine Act for situations in which MSHA determined an “imminent danger” (as defined by MSHA) existed.

Pattern or Potential Pattern of Violations

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

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

Pending Legal Actions

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

- *Contest Proceedings:* A contest proceeding may be filed by an operator to challenge the issuance of a citation or order issued by MSHA.
- *Civil Penalty Proceedings:* A civil penalty proceeding may be filed by an operator to challenge a civil penalty MSHA has proposed for a violation contained in a citation or order. The operator does not institute civil penalty proceedings based solely on the assessment amount of proposed penalties. Any initiated adjudications address substantive matters of law and policy instituted on conditions that are alleged to be in violation of mandatory standards of the Mine Act.
- *Discrimination Proceedings:* Involves a miner's allegation that he or she has suffered adverse employment action because he or she engaged in activity protected under the Mine Act, such as making a safety complaint. Also includes temporary reinstatement proceedings involving cases in which a miner has filed a complaint with MSHA stating that he or she has suffered discrimination and the miner has lost his or her position.
- *Compensation Proceedings:* A compensation proceeding may be filed by miners entitled to compensation when a mine is closed by certain closure orders issued by MSHA. The purpose of the proceeding is to determine the amount of compensation, if any, due to miners idled by the orders.
- *Temporary Relief:* Applications for temporary relief are applications filed under section 105(b)(2) of the Mine Act for temporary relief from any modification or termination of any order.
- *Appeals:* An appeal may be filed by an operator to challenge judges' decisions or orders to the Commission, including petitions for discretionary review and review by the Commission on its own motion.

For the Three Months Ended September 30, 2020:

Mine (1)	Oakdale, WI
Section 104 citations for violations of mandatory health or safety standards that could significantly and substantially contribute to the cause and effect of a mine safety or health hazard (#)	—
Section 104(b) orders (#)	—
Section 104(d) citations and orders (#)	—
Section 110(b)(2) violations (#)	—
Section 107(a) orders (#)	—
Proposed assessments under MSHA (2)	\$357
Mining-related fatalities (#)	—
Section 104(e) notice	No
Notice of the potential for a pattern of violations under Section 104(e)	No
Legal actions before the FMSHRC initiated (#)	—
Legal actions before the FMSHRC resolved (#)	—
Legal actions pending before the FMSHRC, end of period:	
Contests of citations and orders referenced in Subpart B of 29 CFR Part 2700 (#)	—
Contests of proposed penalties referenced in Subpart C of 29 CFR Part 2700 (#)	—
Complaints for compensation referenced in Subpart D of 29 CFR Part 2700 (#)	—
Complaints of discharge, discrimination or interference referenced in Subpart E of 29 CFR Part 2700 (#)	—
Applications for temporary relief referenced in Subpart F of 29 CFR Part 2700 (#)	—
Appeals of judges' decisions or orders referenced in Subpart H of 29 CFR Part 2700 (#)	—
Total pending legal actions (#)	—

(1) The definition of mine under section 3 of the Mine Act includes the mine, as well as other items used in, or to be used in, or resulting from, the work of extracting minerals, such as land, structures, facilities, equipment, machines, tools and minerals preparation facilities. Unless otherwise indicated, any of these other items associated with a single mine have been aggregated in the totals for that mine. MSHA assigns an identification number to each mine and may or may not assign separate identification numbers to related facilities such as preparation facilities. We are providing the information in the table by mine

rather than MSHA identification number because that is how we manage and operate our mining business and we believe this presentation will be more useful to investors than providing information based on MSHA identification numbers.

(2) Represents the total dollar value of the proposed assessments from MSHA under the Mine Act, for the three months preceding September 30, 2020, for all citations / orders assessed, not just those disclosed in the rows preceding such dollar value.