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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2017

OR

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

For the Transition Period from ____ to ____

Commission file number 001-37936

SMART SAND, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

24 Waterway Avenue, Suite 350
The Woodlands, Texas 77380
(Address of principal executive offices) (Zip Code)

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

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

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

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☐ Emerging Growth Company ☒
(do not check if a smaller reporting company)

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

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

Number of shares of Common Stock outstanding, par value \$0.001 per share, as of May 4, 2017: 40,340,674

TABLE OF CONTENTS

	<u>PAGE</u>
PART I	
<u>FINANCIAL INFORMATION</u>	
ITEM 1. <u>Financial Statements</u>	1
<u>Condensed Consolidated Balance Sheets March 31, 2017 (Unaudited) and December 31, 2016</u>	1
<u>Condensed Consolidated Income Statements for the Three Months Ended March 31, 2017 and 2016 (Unaudited)</u>	2
<u>Condensed Consolidated Statements of Changes in Stockholders' Equity for the Three Months Ended March 31, 2017 (Unaudited)</u>	3
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2017 and 2016 (Unaudited)</u>	4
<u>Notes to the Condensed Consolidated Financial Statements (Unaudited)</u>	5
ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
ITEM 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	29
ITEM 4. <u>Controls and Procedures</u>	31
PART II	
<u>OTHER INFORMATION</u>	
ITEM 1. <u>Legal Proceedings</u>	32
ITEM 1A. <u>Risk Factors</u>	32
ITEM 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	32
ITEM 3. <u>Defaults upon Senior Securities</u>	32
ITEM 4. <u>Mine Safety Disclosures</u>	32
ITEM 5. <u>Other Information</u>	33
ITEM 6. <u>Exhibits</u>	33
<u>SIGNATURES</u>	34
<u>EXHIBIT INDEX</u>	35

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SMART SAND, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2017 (unaudited)	December 31, 2016
	(in thousands, except share amounts)	
Assets		
Current assets:		
Cash	\$ 72,671	\$ 46,563
Restricted cash	972	971
Accounts receivable	9,440	5,339
Unbilled receivables	1,357	404
Inventories	9,080	10,344
Prepaid expenses and other current assets	1,584	1,403
Total current assets	95,104	65,024
Inventories, long-term	111	3,155
Property, plant and equipment, net	104,403	104,096
Deferred financing costs, net	1,236	1,154
Other assets	23	23
Total assets	\$ 200,877	\$ 173,452
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 2,168	\$ 1,663
Accrued and other expenses	5,225	2,430
Deferred revenue	-	1,615
Income taxes payable	7,249	7,058
Current portion of equipment financing obligations	640	674
Current portion of notes payable	278	282
Total current liabilities	15,560	13,722
Equipment financing obligations, net of current portion	502	572
Notes payable, net of current portion	288	288
Deferred tax liabilities, long-term, net	15,368	15,044
Asset retirement obligation	1,404	1,384
Total liabilities	33,122	31,010
Commitments and contingencies (Note 20)		
Stockholders' equity		
Common stock, \$0.001 par value, 350,000,000 shares authorized; 40,406,068 issued and 40,338,474 outstanding at March 31, 2017; 38,884,068 issued and 38,816,474 outstanding at December 31, 2016	40	39
Treasury stock, at cost, 67,594 shares at March 31, 2017 and December 31, 2016, respectively	(539)	(539)
Additional paid-in capital	157,222	132,879
Retained earnings	11,032	10,063
Total stockholders' equity	167,755	142,442
Total liabilities and stockholders' equity	\$ 200,877	\$ 173,452

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

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

	Three Months Ended March 31,	
	2017	2016
	(in thousands, except per share amounts)	
Revenues	\$ 25,059	\$ 10,359
Cost of goods sold	19,662	5,337
Gross profit	5,397	5,022
Operating expenses:		
Salaries, benefits and payroll taxes	1,697	1,184
Depreciation and amortization	108	129
Selling, general and administrative	2,034	875
Total operating expenses	3,839	2,188
Operating income	1,558	2,834
Other income (expenses):		
Preferred stock interest expense	-	(1,500)
Other interest expense	(111)	(795)
Other income	37	80
Total other (expenses), net	(74)	(2,215)
Income before income tax expense	1,484	619
Income tax expense	515	237
Net income	\$ 969	\$ 382
Net income per common share:		
Basic	\$ 0.02	\$ 0.02
Diluted	\$ 0.02	\$ 0.01
Weighted-average number of common shares:		
Basic	39,697	22,135
Diluted	39,874	26,410

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

SMART SAND, INC.

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

	Common Stock		Treasury Stock		Additional		Total
	Outstanding				Paid-in	Retained	Stockholders'
	Shares	Par Value	Shares	Amount	Capital	Earnings	Equity
	(in thousands, except share amounts)						
Balance at December 31, 2016	38,816,474	\$ 39	67,594	\$ (539)	\$ 132,879	\$ 10,063	\$ 142,442
Vesting of restricted stock	22,000	-	-	-	-	-	-
Stock-based compensation	-	-	-		176	-	176
Proceeds from equity issuance, net of transaction costs	1,500,000	1			24,167		24,168
Net income	-	-	-	-	-	969	969
Balance at March 31, 2017	40,338,474	\$ 40	67,594	\$ (539)	\$ 157,222	\$ 11,032	\$ 167,755

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

SMART SAND, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March 31,	
	2017	2016
	(in thousands)	
Operating activities:		
Net income	\$ 969	\$ 382
Adjustments to reconcile net income to net cash provided by operating activities:	-	-
Depreciation, depletion and amortization of asset retirement obligation	1,687	1,632
Gain on disposal of assets	(37)	(26)
Loss on derivatives	-	5
Amortization of deferred financing cost	106	37
Accretion of debt discount	-	74
Deferred income taxes (benefit)	324	(1,700)
Stock-based compensation, net	176	189
Non-cash interest expense on Series A preferred stock	-	1,500
Changes in assets and liabilities:		
Accounts Receivable	(4,101)	4,026
Unbilled Receivables	(953)	(3,340)
Inventories	4,308	518
Prepaid expenses and other assets	(181)	563
Deferred revenue	(1,615)	(303)
Accounts payable	77	(264)
Accrued and other expenses	2,893	(1,523)
Income taxes payable	191	1,049
Net cash provided by operating activities	3,844	2,819
Investing activities:		
Purchases of property, plant and equipment	(1,623)	(647)
Proceeds from disposal of assets	14	-
Net cash used in investing activities	(1,609)	(647)
Financing activities:		
Repayments of notes payable	(4)	(338)
Payments under equipment financing obligations	(102)	(98)
Payment of deferred financing costs	(188)	2
Proceeds from equity issuance	26,251	-
Payment of equity transaction costs	(2,083)	-
Repayment of revolving credit facility	-	(5,216)
Cash dividend on Series A preferred stock	-	(1)
Net cash provided by financing activities	23,874	(5,651)
Net increase (decrease) in cash and restricted cash	26,109	(3,479)
Cash and restricted cash at beginning of year	47,534	3,896
Cash and restricted cash at end of year	\$ 73,643	\$ 417
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 15	\$ 1,180
Cash paid for taxes	\$ 29	\$ 4
Non-cash financing activities:		
Equipment purchased with debt	\$ -	\$ 1,080
Capitalized expenditures in accounts payable and accrued expenses	\$ 500	\$ 1,081

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)

1. Organization and Nature of Business

Smart Sand, Inc. and its subsidiaries (collectively, the “Company”) are headquartered in The Woodlands, Texas. Smart Sand, Inc. was incorporated in July 2011. The Company is engaged in the excavation, processing and sale of industrial sand, or proppant, for use in hydraulic fracturing operations for the oil and gas industry. The Company completed construction of the first phase of its primary facility in Oakdale, Wisconsin and commenced operations in July 2012, and subsequently expanded its operations in 2014 and 2015.

2. Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements (“interim statements”) of the Company have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), issued by the SEC. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments and disclosures necessary for a fair presentation of these interim statements have been included. The results reported in these interim statements are not necessarily indicative of the results that may be reported for the entire year. The consolidated balance sheet as of December 31, 2016 was derived from the audited consolidated financial statements as of and for the year ended December 31, 2016. These interim statements should be read in conjunction with the Company’s consolidated financial statements for the year ended December 31, 2016.

On November 9, 2016, in connection with its Initial Public Offering (“IPO”), the Company’s Second Amended and Restated Certificate of Incorporation became effective to provide for a stock split of all issued and outstanding shares of common stock at a ratio of 2,200 for 1 (the “Stock Split”) and increased the authorized number of shares of common stock to 350,000 shares. Owners of fractional shares outstanding after the Stock Split were paid cash for such fractional interests. The effective date of the Stock Split was November 9, 2016. All common stock share amounts disclosed in this Form 10-Q reflect the Stock Split.

3. Summary of Significant Accounting Policies

Use of Estimates

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

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery of products has occurred, the sales price charged is fixed or determinable, collectability is reasonably assured, and the risk of loss is transferred to the customer. The Company’s sales are generally free carrier (“FCA”), payment made at the origination point at the Company’s facility, title passes as the product is loaded into rail cars hired by the customer, and revenue is recognized when title transfers at the Company’s facility. Certain spot-rate customers have shipping terms of FCA, payment made at the destination; the Company recognizes this revenue when the sand is received at the destination.

The Company derives its revenue by mining and processing sand that its customers purchase. Its revenues are primarily a function of the price per ton realized and the volumes sold. In some instances, its revenues also include transportation costs it charges its customers, a monthly charge to reserve sand capacity and shortfall payments due from customers for minimum volume commitments. The Company’s transportation revenue fluctuates based on a number of factors, including the volume of product it transports and the distance between its plant and customers. The Company’s reservation and shortfall revenues are based on negotiated contract terms and are recognized when rights of use are expired.

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

The Company sells a limited amount of its products under short term price agreements or at prevailing market rates. The majority of the Company's revenues are realized through take-or-pay supply agreements with four customers. The expiration dates of these contracts range from 2019 through 2020. These agreements define, among other commitments, the volume of product that its customers must purchase, the volume of product that the Company must provide, and the price that the Company will charge and that its customers will pay for each ton of contracted product. Prices under these agreements are generally indexed to the Average Cushing Oklahoma WTI Spot Prices and contain provisions allowing for adjustments including: (i) annual percentage price increases; or (ii) market factor increases, including a natural gas surcharge and a propane surcharge which are applied if the Average Natural Gas Price or the Average Quarterly Mont Belvieu TX Propane Spot Price, respectively, as listed by the U.S. Energy Information Administration, are above the benchmark set in the contract for the preceding calendar quarter. As a result, the Company's realized prices may not grow at rates consistent with broader industry pricing. For example, during periods of rapid price growth, its realized prices may grow more slowly than those of competitors, and during periods of price decline, its realized prices may outperform industry averages. With respect to the take-or-pay arrangements, if the customer is not allowed to make up deficiencies, the Company recognizes revenues of the minimum contracted quantity and minimum contract price, assuming payment has been received or is reasonably assured. If deficiencies can be made up, amounts billed and collected in excess of actual sales are recognized as deferred revenues until production is actually taken by the customer or the right to make up deficiencies expires. These agreements generally provide that, if the Company is unable to deliver the contracted minimum volumes, the customer has the right to purchase replacement product from alternative sources, provided that the inability to supply is not the result of an excusable delay, as defined in these agreements. In the event that the price of the replacement product exceeds the contract price and the inability to supply the contracted minimum volume is not the result of an excusable delay, the Company is responsible for the difference.

The Company also recognizes revenue on the rental of its leased rail car fleet to customers either under long-term contracts or on an as-used basis. For the three months ended March 31, 2017 and 2016, the Company recognized \$1,683 and \$1,553, respectively, of rail car revenue.

For the three months ended March 31, 2017 and 2016, the Company recognized \$0 and \$2,997, respectively, of revenue for shortfall payments relating to minimum commitments under take-or-pay contracts.

For the three months ended March 31, 2017 and 2016, the Company recognized \$7,500 and \$2,769, respectively, of monthly reservation charges required under certain customer contracts.

At March 31, 2017 and December 31, 2016, the Company determined that no amounts related to minimum commitments under customer contracts were due or payable to the Company.

Accounts Receivable and Unbilled Receivables

Accounts receivable represents customer transactions that have been invoiced as of the balance sheet date; unbilled receivables represent customer transactions that have not yet been invoiced as of the balance sheet date. Accounts receivable are due within 30, or in accordance with terms agreed upon with customers, and are stated at amounts due from customers net of any allowance for doubtful accounts. The Company considers accounts outstanding longer than the payment terms are past due. The Company determines the allowance by considering a number of factors, including the length of time trade accounts receivable are past due, previous loss history, the customer's current ability to pay its obligation, and the condition of the general economy and the industry as a whole. Accounts receivables are written off when they are deemed uncollectible, and payments subsequently received on such receivables are credited to bad debt expense. As of March 31, 2017 and December 31, 2016, the Company determined no allowance for doubtful accounts were necessary.

Deferred Revenue

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

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

The Company may receive an advance payment from a customer, based on the terms of the customer's long-term contract, for a certain volume of product to be delivered. Revenue is recognized as product is delivered and the deferred revenue is reduced. The deferred revenue balance at March 31, 2017 and December 31, 2016 was \$0 and \$1,615, respectively, and classified as a current liability in the accompanying condensed consolidated balance sheets.

Transportation

Revenue generated from transportation was \$6,604 and \$0, respectively, for the three months ended March 31, 2017 and 2016. Transportation costs are classified as cost of goods sold. Transportation costs consist of railway transportation and transload costs to deliver products to customers. Cost of sales generated from shipping was \$7,302 and \$0 for the three months ended March 31, 2017 and 2016, respectively.

Inventories

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

Sand inventory is stated at the lower of cost or net realizable value using the average cost method. For the three months ended March 31, 2017 and 2016, the Company had no write-down of inventory as a result of any lower of cost or net realizable value assessment. Costs applied to the inventory include direct excavation costs, processing costs, overhead allocation, depreciation and depletion. Stockpile tonnages are calculated by measuring the number of tons added and removed from the stockpile. Costs are calculated on a per ton basis and are applied to the stockpiles based on the number of tons in the stockpile. The Company performs quarterly physical inventory measurements to verify the quantity of inventory on hand. Due to variation in sand density and moisture content and production processes utilized to manufacture the Company's products, physical inventories will not necessarily detect all variances. To mitigate this risk, the Company recognizes a yield adjustment on its inventories.

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

Deferred Financing Charges

Direct costs incurred in connection with the revolving credit facility have been capitalized and are being amortized using the straight-line method, which approximates the effective interest method, over the life of the debt. Fees attributable to the lender and third parties are presented as components of deferred financing costs since there is no outstanding balance on the revolving credit facility as of March 31, 2017 and there was no outstanding balance on the revolving credit facility as of December 31, 2016.

Amortization expense of the deferred financing charges of \$106 and \$37 is included in interest expense for each of the three months ended March 31, 2017 and 2016, respectively. Accretion of debt discount costs of \$0 and \$74 is included in interest expense for the three months ended March 31, 2017 and 2016, respectively.

Financial Instruments

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

SMART SAND, INC.

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

Property, Plant and Equipment

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

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

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

Fair Value Measurements

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

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

Stock-Based Compensation

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

For restricted stock issued to employees and members of the board of directors of the Company (the "Board") for their services on the Board, the Company estimates the grant date fair value of each share of restricted stock at issuance. For awards subject to service-based vesting conditions, the Company recognizes stock-based compensation expense equal to the grant date fair value of restricted stock on a straight-line basis over the requisite service period, which is generally the vesting term. Forfeitures are accounted for when incurred. For awards subject to both performance and service-based vesting conditions, the Company recognizes stock-based compensation expense using the straight-line recognition method when it is probable that the performance condition will be achieved. For awards subject to the Company's performance as compared to a defined peer group, the Company recognizes stock-based compensation expense over the requisite service period; grant date fair value is determined using a monte carlo simulation.

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

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

Income Taxes

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

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

Environmental Matters

The Company is subject to various federal, state and local laws and regulations relating to the protection of the environment. Management has established procedures for the ongoing evaluation of the Company's operations, to identify potential environmental exposures and to comply with regulatory policies and procedures. Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and do not contribute to current or future revenue generation are expensed as incurred. Liabilities are recorded when environmental costs are probable, and the costs can be reasonably estimated. The Company maintains insurance which may cover in whole or in part certain environmental expenditures. As of March 31, 2017 and December 31, 2016, there were no probable environmental matters.

Comprehensive Income

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

Segment Information

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

SMART SAND, INC.

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

Basic and Diluted Net Income Per Share of Common Stock

Basic net income per share of common stock is computed by dividing net income attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period, excluding the dilutive effects of Series A Preferred Stock, warrants to purchase common stock and 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 Series A Preferred Stock and warrants to purchase common stock, and restricted stock outstanding during the period calculated in accordance with the treasury stock method, although these shares, restricted stock and warrants are excluded if their effect is anti-dilutive. During the fourth quarter of 2016, the Series A Preferred Stock was fully redeemed and the warrants to purchase common stock were fully exercised. Therefore, for the three months ended March 31, 2017, these items have no impact on diluted weighted-average common stock. The following table reconciles the weighted-average common shares outstanding used in the calculation of basic net income per share to the weighted average common shares outstanding used in the calculation of diluted net income per share:

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Determination of Shares		
Weighted average common shares outstanding	39,697	22,135
Assumed conversion of warrants	-	3,999
Assumed conversion of restricted stock	177	276
Diluted weighted average common stock outstanding	<u>39,874</u>	<u>26,410</u>

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-15, “Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”). ASU 2016-15 eliminates the diversity in practice related to the classification of certain cash receipts and payments for debt prepayment or extinguishment costs, the maturing of a zero-coupon bond, the settlement of contingent liabilities arising from a business combination, proceeds from insurance settlements, distributions from certain equity method investees and beneficial interests obtained in a financial asset securitization. ASU 2016-15 designates the appropriate cash flow classification, including requirements to allocate certain components of these cash receipts and payments among operating, investing and financing activities. The guidance is effective for the Company beginning after December 15, 2017, although early adoption is permitted. The Company is currently evaluating the effects of ASU 2016-15 on its consolidated financial statements.

In May 2016, the FASB issued ASU 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients” (“ASU 2016-12”). The amendments in ASU 2016-12 provide clarifying guidance in certain narrow areas and add some practical expedients. Specifically, the amendments in this update (1) clarify the objective of the collectability criterion in step 1, and provides additional clarification for when to recognize revenue for a contract that fails step 1, (2) permit an entity, as an accounting policy election, to exclude amounts collected from customers for all sales (and other similar) taxes from the transaction price (3) specify that the measurement date for noncash consideration is contract inception, and clarifies that the variable consideration guidance applies only to variability resulting from reasons other than the form of the consideration, (4) provide a practical expedient that permits an entity to reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations, (5) clarifies that a completed contract for purposes of transition is a contract for which all (or substantially all) of the revenue was recognized under legacy GAAP before the date of initial application. Further, accounting for elements of a contract that do not affect revenue under legacy GAAP are irrelevant to the assessment of whether a contract is complete. In addition, the amendments permit an entity to apply the modified retrospective transition method either to all contracts or only to contracts that are not completed contracts, and (6) clarifies that an entity that retrospectively applies the guidance in Topic 606 to each prior reporting period is not required to disclose the effect of the accounting change for the period of adoption. However, an entity is still required to disclose the effect of the changes on any prior periods retrospectively adjusted. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in Topic 606. The guidance is effective for the Company beginning January 1, 2018, although early adoption is permitted beginning January 1, 2017. Although the Company is still in the process of assessing the impact of the adoption of ASU 2014-09, it does not currently anticipate a material impact on its financial statements.

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

In May 2016, the FASB issued ASU 2016-11, "Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815)" ("ASU 2014-09"): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting. ASU 2016-11 rescinds several SEC Staff Announcements that are codified in Topic 605, including, among other items, guidance relating to accounting for shipping and handling fees and freight services. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in Topic 606. The guidance is effective for the Company beginning January 1, 2018, although early adoption is permitted beginning January 1, 2017. The Company is currently evaluating the effects of ASU 2016-11 on its consolidated financial statements.

In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing" ("ASU 2016-10"). The amendments in ASU 2016-10 clarify the following two aspects of Topic 606: (a) identifying performance obligations; and (b) the licensing implementation guidance. The amendments do not change the core principle of the guidance in Topic 606. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in Topic 606. The guidance is effective for the Company beginning January 1, 2018, although early adoption is permitted beginning January 1, 2017. The Company is currently evaluating the effects of ASU 2016-10 on its consolidated financial statements.

In March 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2016-09, "Stock Compensation (ASC 718) – Improvements to Employee Share-Based Payment Accounting", which is intended to simplify the tax accounting impacts of stock compensation. Additionally, the new standard provides accounting policy elections regarding vesting and forfeiture accounting. The new standard is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. The Company elected to early adopt this standard in its December 31, 2016 consolidated financial statements. The Company accounts for forfeitures when they occur.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (ASC 842)" ("ASU 2016-02"), which replaces the existing guidance in ASC 840, "Leases." ASC 842 requires lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right of use assets. The new lease standard does not substantially change lessor accounting. The new standard is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Company is currently in the process of evaluating the impact of the adoption on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). The objective of ASU 2014-09 is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most of the existing revenue recognition guidance, including industry specific guidance. The core principle of ASU 2014-09 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the new guidance, an entity will (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the contract's performance obligations; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification. The new guidance is effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2017 for public companies. Early adoption is only permitted as of annual reporting periods beginning after December 15, 2016. Entities have the option of using either a full retrospective or modified approach to adopt ASU 2014-09. The Company is currently evaluating the new guidance and has not determined the impact this standard may have on its consolidated financial statements nor decided upon the method of adoption. Although the Company is still in the process of assessing the impact of the adoption of ASU 2014-09, it does not currently anticipate a material impact on its financial statements.

4. Cash and Restricted Cash

Cash

Cash is maintained at financial institutions and, at times, balances may exceed federally insured limits of \$250 at each financial institution. The Company has not experienced any losses related to these balances.

Restricted Cash

Restricted cash represents cash held as collateral relating to an outstanding short term bond assuring performance under an agreement with a pipeline common carrier.

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

5. Inventories

Inventories consisted of the following:

	March 31, 2017	December 31, 2016
Raw material	\$ 264	\$ 229
Work in progress	8,398	12,758
Finished goods	474	451
Spare parts	55	61
Total inventory	9,191	13,499
Less: current portion	9,080	10,344
Total inventory, net of current portion	<u>\$ 111</u>	<u>\$ 3,155</u>

6. Prepaid Expenses and Other Current Assets

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

	March 31, 2017	December 31, 2016
Prepaid insurance	\$ 449	\$ 514
Prepaid expenses	895	861
Other receivables	240	28
Total prepaid expenses and other current assets	<u>\$ 1,584</u>	<u>\$ 1,403</u>

7. Property, Plant and Equipment, net

Net property, plant and equipment consisted of:

	March 31, 2017	December 31, 2016
Machinery, equipment and tooling	\$ 5,474	\$ 4,841
Vehicles	1,035	953
Furniture and fixtures	308	305
Plant and building	64,439	64,390
Real estate properties	3,607	3,503
Railroad and sidings	7,932	7,927
Land and improvements	13,339	13,317
Asset retirement obligation	1,324	1,324
Mineral properties	9,785	9,785
Deferred mining costs	417	417
Construction in progress	17,740	16,715
	125,400	123,477
Less: accumulated depreciation and depletion	20,997	19,381
Total property, plant and equipment, net	<u>\$ 104,403</u>	<u>\$ 104,096</u>

Depreciation expense was \$1,662 and \$1,603 for the three months ended March 31, 2017 and 2016, respectively. Depletion expense was \$5 and (\$4) for the three months ended March 31, 2017 and 2016, respectively.

The Company capitalized \$0 and \$132 for the three months ended March 31, 2017 and 2016, respectively, of interest expense associated with the construction of new plant and equipment.

SMART SAND, INC.

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

8. Accrued and Other Expenses

Accrued and other expenses were comprised of the following:

	March 31, 2017	December 31, 2016
Employee related expenses	\$ 677	\$ 955
Accrued construction	-	19
Accrued legal expenses	231	22
Accrued professional fees	229	350
Accrued freight and delivery charges	2,508	383
Accrued revolving credit facility interest	42	-
Derivative liability	-	-
Other accrued liabilities	1,538	701
Total accrued liabilities	<u>\$ 5,225</u>	<u>\$ 2,430</u>

From time to time, the Company enters into fixed-price purchase obligations to purchase propane or natural gas (which are used in its production operations). The contracts specify the quantity of propane or natural gas to be delivered over a specified period of time and at a specified fixed price. The Company has historically concluded that these obligations are precluded from recognition in its consolidated financial statements in accordance with the normal sales and normal purchases exclusion as provided in ASC 815 "Derivatives and Hedging". However, as the Company did not take physical delivery under a fixed-price propane agreement entered into during 2015, the Company accounted for this agreement under derivative accounting. As of December 31, 2015, the liability for this agreement was marked to market and was settled in February 2016 for \$460. The settlement is presented as part of the change in accrued and other expenses in operating activities on the condensed consolidated statement of cash flows.

9. Credit Facilities

Below is a description of the Company's former and existing revolving credit facilities and other financing arrangements.

Former Revolving Credit Agreement

On March 28, 2014, the Company entered into a \$72.5 million revolving credit and security agreement ("Credit Agreement") with PNC Bank, National Association, as administrative agent and collateral agent. The revolving credit facility under the Credit Agreement had a maturity date of March 28, 2019. On November 9, 2016, the former revolving credit facility was paid in full and terminated using a portion of the proceeds from the IPO.

As of March 31, 2017 and December 31, 2016, \$0 and \$132, respectively, of interest expense were capitalized into property, plant and equipment in the consolidated balance sheets.

Existing Revolving Credit Facility

On December 8, 2016, the Company entered into a \$45 million three-year senior secured Revolving Credit Facility (the "Facility") with Jefferies Finance LLC as administrative and collateral agent. Substantially all of the assets of the Company are pledged as collateral under the Facility. The Facility expires on December 8, 2019 and has the following terms and conditions (the "New Credit Agreement"):

SMART SAND, INC.

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

Letters of Credit: A portion of the Facility, not in excess of \$10 million, is available for the issuance of letters of credit to be issued by the administrative agent or any other lender approved by the administrative agent and the Company that is willing to become a letter of credit issuer. A per annum fee equal to the interest rate margin for LIBOR loans under the Facility will be payable to the lenders (other than a defaulting lender (as defined in the New Credit Agreement) which has not provided cash collateral for its pro rata share of any letter of credit exposure) and accrue on the aggregate undrawn face amount of outstanding letters of credit under the facility, payable in arrears at the end of each quarter and on the date the commitments under the Facility are terminated, calculated based upon the actual number of days elapsed over a 360-day year. Additionally, a fronting fee equal to 0.25% per annum will be payable to the applicable letter of credit issuer payable on the aggregate undrawn face amount of outstanding letters of credit issued by such issuer under the facility, payable in arrears at the end of each quarter and on the date the commitments under the Facility are terminated, calculated based upon the actual numbers of days elapsed over a 360-day year.

Commitment Fees: The Company will pay each lender under the Facility (other than a defaulting lender (as defined in the New Credit Agreement)) a commitment fee of 0.375% per annum on the average daily unused portion of the Facility, payable in arrears at the end of each quarter and on the date the commitments under the Facility are terminated, calculated based upon the actual number of days elapsed over a 360-day year.

Interest Rates: The interest rates under the Facility will be based on the leverage ratio (as defined in the New Credit Agreement) for the most recently ended fiscal quarter. Interest will be payable in arrears (a) for loans accruing interest at a rate based on LIBOR (plus an applicable margin ranging from 3.00% - 4.00%, depending on the leverage ratio), at the end of each interest period and, for interest periods of greater than three months, every three months, and on the maturity date of the Facility and (b) for loans accruing interest based on the ABR (plus an applicable margin ranging from 2.00% - 3.00%, depending on the leverage ratio), quarterly in arrears and on the maturity date of the Facility.

Default Rate: Upon the occurrence and during the continuance of any payment event of default, with respect to overdue principal and interest, the applicable interest rate plus 2.00% per annum, and with respect to overdue fees, the interest rate applicable to ABR loans plus 2.00% per annum, and in each case will be payable on demand.

The Facility contains various reporting requirements, negative covenants, restrictive provisions and requires maintenance of financial covenants, including a fixed charge coverage ratio and a leverage ratio (each as defined in the New Credit Agreement). As of March 31, 2017, no amounts were outstanding under the Facility and the Company was in compliance with all covenants.

10. Equipment Lease Obligations

The Company entered into various lease arrangements to lease equipment. The equipment with a cost of \$2,853 has been capitalized and included in the Company's property, plant and equipment as of both March 31, 2017 and December 31, 2016. Depreciation expense under lease assets was approximately \$73 for each of the three months ended March 31, 2017 and 2016.

Future minimum lease payments for equipment lease obligations as of March 31, 2017 are as follows:

	Amount
2018	\$ 678
2019	512
Total minimum lease payments	1,190
Amount representing interest at 0% - 4.95%	(48)
Present value of payments	1,142
Less: current portion	(640)
Total equipment financing obligations, net of current portion	<u>\$ 502</u>

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

11. Notes Payable

The Company financed certain land and equipment purchases by entering into various debt agreements. Interest rates on these notes ranged from 0.00% to 4.75%. Aggregate maturities of notes payable as of March 31, 2017 are as follows:

	Amount
2018	\$ 278
2019	288
Total	566
Less: current portion	(278)
Total notes payable, net current portion	<u>\$ 288</u>

12. Asset Retirement Obligation

The Company had a post-closure reclamation and site restoration obligation of \$1,404 as of March 31, 2017. The following is a reconciliation of the total reclamation liability for asset retirement obligations:

Balance at December 31, 2016	\$ 1,384
Additions to liabilities	-
Accretion expenses	20
Balance at March 31, 2017	<u>\$ 1,404</u>

13. Mandatorily Redeemable Series A Preferred Stock

On September 13, 2011, the Company entered into a financing agreement with an investor (the "Series A Investor"). The agreement provided for the sale of Series A Preferred Stock ("Series A Preferred Stock") to the Series A Investor in multiple tranches. As part of this agreement, the Series A Investor received 22 shares of Series A Preferred Stock with an issuance price of \$1,000 per share as well as 14,300 shares of common stock in exchange for gross proceeds of \$22,000 in September 2011. The second tranche of 26 shares of Series A Preferred Stock was issued in January 2012, in exchange for gross proceeds of \$26,000.

Dividends accrued and accumulated on the Series A Preferred Stock, whether or not earned or declared, at the rate of 15% per annum and compound quarterly on April 1, July 1, October 1 and January 1. Dividends were paid in-kind with additional Series A Preferred Stock; fractional share portions of calculated dividends were paid in cash. In-kind dividends were accounted for as interest expense and were accrued as part of the long-term liability in the consolidated balance sheets. The Company issued 0 and 1 Series A Preferred Stock for dividends in the three months ended March 31, 2017 and 2016, respectively. For the three months ended March 31, 2017 and 2016, the Company incurred \$0 and \$1,559 of interest expense related to the Preferred Shares, respectively. Of this expense, \$0 and \$132 were capitalized into property, plant and equipment in the consolidated balance sheets as of March 31, 2017 and December 31, 2016, respectively.

On November 9, 2016, the Series A Preferred Stock was fully redeemed at a total redemption value of \$40,329 using a portion of the proceeds from the IPO.

14. Common Stock

As disclosed in Note 2 – Basis of Presentation, on November 9, 2016, the Second Amended and Restated Certificate of Incorporation of the Company became effective and, among other things:

- provided for a 2,200 for 1 stock split;
- increased the authorized number of shares of common stock to 350,000 shares;
- authorized 10,000 shares of undesignated preferred stock that may be used from time to time by the Company's board of directors in one or more series.

SMART SAND, INC.

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

On November 9, 2016, the Company consummated the IPO of 11,700 shares of common stock at a price of \$11.00 per share, generating net proceeds of \$121.0 million after underwriting discounts and expenses. The Company used a portion of the net proceeds from the IPO to redeem all of its outstanding Series A Preferred Stock and to repay the outstanding indebtedness under its former revolving credit facility. On November 23, 2016, the underwriters exercised in full their option to purchase additional shares of common stock from the Company and the Selling Shareholders. On November 29, 2016, the Company consummated the sale of 878 shares of common stock to the underwriters pursuant to the underwriters' exercise of their over-allotment option at a price of \$11.00 per share, generating proceeds of \$9.7 million before underwriting discounts and expenses. The Company received no proceeds from the sale of common stock to the underwriters by the Selling Stockholders. The Company intends to use the net proceeds of the IPO for general corporate purposes.

On February 1, 2017, the Company entered into an Underwriting Agreement providing for the offer and sale of 1,500 shares of common stock at a price of \$17.50 per share, generating net proceeds to the Company of approximately \$24.2 million after underwriting discounts and expenses. The Company intends to use the net proceeds from this offering for current capital projects and general corporate services. The offering closed on February 7, 2017. Additionally, the Selling Shareholders sold 4,450 shares of common stock at a price of \$17.50 per share. The Company received no proceeds from the sale of common stock by the Selling Shareholders. The Selling Shareholders granted the underwriters an option for a period of 30 days to purchase up to an additional 893 shares of common stock. On February 10, 2017, the underwriters exercised in full their option to purchase additional shares of common stock from the Selling Shareholders. The Company received no proceeds from the sale of common stock to the underwriters by the Selling Shareholders.

15. Warrants

Contemporaneous with the financing transaction in 2011 described in Note 13, the Company issued certain management stockholders warrants to purchase 3,999 shares of common stock for a purchase price of \$0.0045 per share. The warrants were exercisable upon the achievement of certain triggering events, as defined in the warrant agreements. On December 2, 2016, a triggering event, as defined in the warrant agreement, had been achieved and all warrants were fully exercised.

16. Stock-Based Compensation

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

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

SMART SAND, INC.

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

During the three months ended March 31, 2017 and 2016, 266 and 161 shares of restricted stock were issued under the Plans, respectively. The grant date fair value of all the outstanding restricted stock per share was \$1.89 - \$19.00. The shares vest over one to five years from their respective grant dates. For Awards issued under the 2016 Plan, the grant date fair value was the either the actual market price of the Company's shares or an adjusted price using a monte carlo simulation for awards subject to the Company's performance as compared to a defined peer group. For Awards issued under the 2012 Plan, the grant date fair value was calculated based on a weighted analysis of (i) publicly-traded companies in a similar line of business to the Company (market comparable method)—Level 2 inputs, and (ii) discounted cash flows of the Company—Level 3 inputs. The Company recognized, in operating expenses on the consolidated income statements, \$176 and \$189 of compensation expense for the restricted stock during the three months ended March 2017 and 2016, respectively. At March 31, 2017, the Company had unrecognized compensation expense of \$5,325 related to granted but unvested stock awards. That expense is to be recognized as follows:

2018	\$	2,239
2019		1,545
2020		1,086
2021		455
	\$	<u>5,325</u>

The following table summarizes restricted stock activity under the Plans from December 31, 2016 through March 31, 2017:

	Number of Shares	Weighted Average
Unvested, December 31, 2016	273	\$ 7.35
Granted	266	15.82
Vested	(22)	(8.06)
Forfeiture	-	-
Unvested March 31, 2017	<u>517</u>	<u>\$ 13.37</u>

17. Income Taxes

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

The computation of the annual expected effective tax rate at each interim period requires certain estimates and assumptions including, but not limited to, the expected operating income for the year, projections of the proportion of income (or loss) earned and taxed in foreign jurisdictions, permanent and temporary differences, and the likelihood of recovering deferred tax assets generated in the current year. The accounting estimates used to compute the provision for income taxes may change as new events occur, more experience is acquired or additional information is obtained. The computation of the annual effective tax rate includes modifications, which were projected for the year, for share based compensation, the domestic manufacturing deduction and state research and development credits among others.

For the three months ended March 31, 2017 and 2016, the Company's statutory rate was 35.0%; the effective tax rate was approximately 34.7% and 45.0%, respectively, based on the statutory federal rate net of discrete federal and state taxes. The computation of the annual effective tax rate includes modifications which were projected for the year, the domestic manufacturing deduction, and state income tax credits among others. The main drivers of the difference for 2017 were the domestic manufacturing deduction and state income tax credits. The main drivers of the difference for 2016 were domestic manufacturing deduction, state income tax credits and non-deductible interest expense.

The Company has evaluated its tax provisions taken as of March 31, 2017 and December 31, 2016 and believes all positions taken would be upheld under examination from income taxing authorities. Therefore, no liability for the effects of uncertain tax provisions has been recorded in the accompanying consolidated balance sheets as of March 31, 2017 and December 31, 2016. The Company is open to examination by taxing authorities since incorporation.

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

18. Concentrations

As of March 31, 2017, four customers accounted for 84% of the Company's total accounts receivable. As of December 31, 2016, three customers accounted for 92% of the Company's total accounts receivable.

During the three months ended March 31, 2017, 81% of the Company's revenues were earned from four customers. During the three months ended March 31, 2016, 98% of the Company's revenues were earned from three customers.

As of March 31, 2017, three vendors accounted for 35% of the Company's accounts payable. As of December 31, 2016, one vendor accounted for 35% of the Company's accounts payable.

During the three months ended March 31, 2017, one supplier accounted for 11% of the company's cost of goods sold. During the three months ended March 31, 2016, two suppliers accounted for 53% of the Company's cost of goods sold.

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

19. Related Party Transactions

In January 2016, the Company provided a one-year, 0% loan to its Chief Executive Officer in the amount of \$61. This loan was fully forgiven and included as compensation in September 2016.

For each the three months ended March 31, 2017 and 2016, the Company reimbursed the Series A Investor \$7 for certain out of pocket and other expenses in connection with certain management and administrative support services provided.

20. Commitments and Contingencies

Leases

The Company is obligated under certain operating leases and rental agreements for rail cars, office space, and other equipment. Future minimum annual commitments under such operating leases at March 31, 2017 are as follows:

2018	\$	8,087
2019		6,927
2020		5,440
2021		3,129
2022		1,436
Thereafter		285

Expense related to operating leases and rental agreements was \$1,975 and \$1,805 for the three months ended March 31, 2017 and 2016, respectively. Lease expense related to rail cars are included in cost of goods sold in the consolidated income statements.

Litigation

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

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

Employment Agreements

Certain of the Company's executives are employed under employment agreements, the terms of which provide for, among other things, a base salary plus additional compensation including an annual bonus based on the percentage as defined and agreed upon by the Board based on service and/or performance in a given calendar year. The agreements, which contain one-year automatic renewals, provide for benefits that are customary for senior-level employees. The Company is required to pay severance under these agreements under certain conditions, as defined, in the event employment of these key executives is terminated. The Company's commitment under these agreements is \$1,250 as of March 31, 2017. The agreements are scheduled to expire by May 2017.

Consulting Agreements

On August 1, 2010, the Company entered into a consulting agreement related to the purchase of land with a third party. The third party acted as an agent for the Company to obtain options to purchase certain identified real property in Wisconsin, as well as obtain permits and approvals necessary to open, construct and operate a sand mining and processing facility on such real property. The third party's ongoing compensation consists of reimbursement of certain expenses, and \$1 per each acre purchased as a closing fee. For the three months ended March 31, 2017 and 2016, the Company incurred no expense reimbursements and \$3 of closing costs.

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

In addition to the aforementioned fees, the third-party agreement provides for tonnage fees based upon mining operations. The payment of \$0.50 per sold ton of certain grades of sand that have been mined and sold from the properties acquired under the consulting agreement continues indefinitely. The minimum annual tonnage fee is \$200 per contract year, which runs from August 1 to July 31. During the three months ended March 31, 2017 and 2016, the Company incurred \$117 and \$45 related to tonnage fees, respectively.

Bonds

The Company entered into a performance bond with Jackson County, Wisconsin and Monroe County, Wisconsin for \$4,400 and \$900, respectively. The Company provided this performance bond to assure performance under the reclamation plan filed with each respective county. The Company entered into permit bonds amounting to \$1,350 with certain towns and counties in which it operates to use designated town and county roadways. The Company provided these permit bonds to assure maintenance and restoration of the roadways. The Company has an outstanding \$1,943 bond to assure performance under its agreement with a pipeline common carrier. As of March 31, 2017 and December 31, 2016, \$972 and \$971, respectively, of cash is being held as collateral related to the bond and is presented as restricted cash on the consolidated balance sheet.

21. Subsequent Events

The company has evaluated events and transactions subsequent to the balance sheet date and through the date the financial statements were available to be issued. Based on this evaluation, the Company is not aware of any events or transactions that occurred subsequent to March 31, 2017 that would require recognition or disclosures in these financial statements.

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

The following discussion and analysis summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity and cash flows of our company as of and for the periods presented below. The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and related information contained herein and our audited financial statements as of December 31, 2016. 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. We use Adjusted EBITDA and production costs herein as a non-GAAP measure of our financial performance. See further discussion of Adjusted EBITDA and production costs at Item 2 – Management's Discussion and Analysis. We define various terms to simplify the presentation of information in this Report. References to "we," "us," "our" or the "Company" are to Smart Sand, Inc. and its consolidated subsidiaries.

Overview

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

We own and operate a raw frac sand mine and related processing facility near Oakdale, Wisconsin, at which we have approximately 332 million tons of proven recoverable sand reserves as of December 31, 2016. We began operations with 1.1 million tons of annual processing capacity in July 2012, expanded to 2.2 million tons of annual processing capacity in August 2014, and increased to 3.3 million tons of annual processing capacity in September 2015. Our integrated Oakdale facility, with onsite rail infrastructure and wet and dry sand processing facilities, has access to two Class I rail lines and enables us to process and cost effectively deliver up to approximately 3.3 million tons of raw frac sand per year. Based on our assessment of increased demand for our products, particularly fine mesh sand, we plan to increase the wet and dry plant processing capacity at our Oakdale facility in order to produce up to approximately 4.4 million tons of raw frac sand per year.

On November 9, 2016, we completed our initial public offering (the "IPO") of 11,700,000 shares of our common stock at a price to the public of \$11.00 per share (\$10.34 per share, net of the underwriting discount) pursuant to a Registration Statement on Form S-1, as amended (File No. 333-213692), initially filed with the SEC on September 19, 2016 pursuant to the Securities Act. The material provisions of the IPO are described in the IPO prospectus. We granted the underwriters an option for a period of 30 days to purchase up to an additional 877,500 shares of Common Stock at the initial offering price, and the Selling Shareholders granted the underwriters an option for a period of 30 days to purchase up to an aggregate additional 877,500 shares of Common Stock at the initial offering price. On November 23, 2016, the underwriters exercised in full their option to purchase additional shares of common stock from us and the Selling Shareholders. We received no proceeds from the sale of common stock by the Selling Shareholders.

On February 1, 2017, we entered into an Underwriting Agreement providing for the offer and sale of 1,500,000 shares of common stock at a price of \$17.50 per share, generating net proceeds to us of approximately \$24.2 million after underwriting discounts and expenses. We intend to use the net proceeds from this offering for future capital projects and general corporate services. The offering closed on February 7, 2017. Additionally, the Selling Shareholders sold 4,450,000 shares of common stock at a price of \$17.50 per share. We received no proceeds from the sale of common stock by the Selling Shareholders. The Selling Shareholders granted the underwriters an option for a period of 30 days to purchase up to an additional 892,500 shares of common stock. On February 10, 2017, the underwriters exercised in full their option to purchase additional shares of common stock from the Selling Shareholders. We received no proceeds from the sale of common stock to the underwriters by the Selling Shareholders.

Note Regarding Non-GAAP Financial Measures

Production costs, EBITDA and Adjusted EBITDA 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. Costs of goods sold is the GAAP measure most directly comparable to production costs and net income is the GAAP measure most directly comparable to EBITDA and Adjusted EBITDA. Our non-GAAP financial measures should not be considered as alternatives to the most directly comparable GAAP financial measure. Each of these non-GAAP financial measures has important limitations as analytical tools because they exclude some but not all items that affect the most directly comparable GAAP financial measures. You should not consider production costs, EBITDA or Adjusted EBITDA in isolation or as substitutes for an analysis of our results as reported under GAAP. Because production costs, EBITDA and Adjusted EBITDA may be defined differently by other companies in our industry, our definitions of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

EBITDA and Adjusted EBITDA

We define EBITDA as our net income, plus (i) depreciation, depletion and amortization expense; (ii) income tax expense (benefit); (iii) interest expense and (iv) franchise taxes. We define Adjusted EBITDA as EBITDA, plus (i) gain or loss on sale of fixed assets or discontinued operations, (ii) integration and transition costs associated with specified transactions, including our IPO, (iii) restricted stock compensation; (iv) development costs; (v) cash charges related to restructuring, retention and other similar actions, (vi), earnout and contingent consideration obligations, and (vii) noncash charges and unusual or nonrecurring 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; and
- 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 and 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 is the GAAP measure most directly comparable to EBITDA and Adjusted EBITDA. EBITDA and Adjusted EBITDA should not be considered alternatives to net income presented in accordance with GAAP. Because EBITDA and Adjusted EBITDA may be defined differently by other companies in our industry, our definitions of EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures of other companies, thereby diminishing their utility. The following table presents a reconciliation of EBITDA and Adjusted EBITDA to net income for each of the periods indicated.

	Three Months Ended March 31,	
	2017	2016
	(in thousands)	
Net Income	\$ 969	\$ 382
Depreciation and depletion	1,667	1,599
Income tax expense	515	237
Interest expense	173	2,295
Franchise taxes	228	7
EBITDA	\$ 3,552	\$ 4,520
Gain on sale of fixed assets (1)	(39)	(26)
Restricted stock compensation (2)	176	189
Non-cash charges (3)	20	53
Adjusted EBITDA	<u>\$ 3,709</u>	<u>\$ 4,736</u>

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

(2) Represents the non-cash expenses for stock-based awards issued to our employees and outside directors.

(3) Represents accretion of asset retirement obligations and loss on derivatives. For the three months ended March 31, 2016, the Company incurred a loss of \$5 related to a propane derivative contract.

Production Costs

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

	Three Months Ended March 31,	
	2017	2016
	(in thousands)	
Cost of goods sold	\$ 19,662	\$ 5,337
Depreciation, depletion, and accretion of asset retirement obligations	(1,579)	(1,487)
Freight charges	(9,228)	(1,461)
Production costs	\$ 8,855	\$ 2,389
Production costs per ton	\$ 15.84	\$ 18.52

Factors Impacting Comparability of Our Financial Results

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

- *We will incur additional operating expenses as a publicly traded corporation.* We expect we will incur approximately \$1.4 million annually in additional operating expenses as a publicly traded corporation that we have not previously incurred, including costs associated with compliance under the Exchange Act, annual and quarterly reports to common stockholders, registrar and transfer agent fees, audit fees, incremental director and officer liability insurance costs and director and officer compensation. We additionally expect to incur \$1.0 million in non-recurring costs related to our transition to a publicly traded corporation. These incremental expenses exclude the costs of our IPO, as well as the costs associated with the initial implementation of our Sarbanes-Oxley Section 404 internal control reviews and testing.
- *We fully redeemed the Series A Preferred Stock on November 9, 2016.* On November 9, 2016, our Series A redeemable preferred stock (the "Series A Preferred Stock") was fully redeemed at a total redemption value of \$40.3 million using a portion of the proceeds from our IPO. Therefore, we will no longer incur the interest expense associated with the Series A Preferred Stock. For the three months ended March 31, 2016, we incurred \$1.6 million of interest expense.
- *Market Trends.* Beginning in late 2014, the market prices for crude oil and refined products began a steep and protracted decline which continued into 2016. This greatly impacted the demand for frac sand as drilling and completion of new oil and natural gas wells was significantly curtailed in North America. As a result, we experienced significant downward pressure on pricing. However, commodity prices stabilized in the middle of 2016, leading to an improvement in drilling and completions activity during the second half of 2016. Drilling and completions activity has continued to show improvement in the first quarter of 2017, and should oil and natural gas prices remain in or improve from current trading levels, we anticipate that drilling and completions activity will continue at current levels or better for the remainder of 2017.

Results of Operations

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

	Three Months Ended March 31,	
	2017	2016
	(in thousands, except per share amounts)	
Revenues	\$ 25,059	\$ 10,359
Cost of goods sold	19,662	5,337
Gross profit	5,397	5,022
Operating expenses:		
Salaries, benefits and payroll taxes	1,697	1,184
Depreciation and amortization	108	129
Selling, general and administrative	2,034	875
Total operating expenses	3,839	2,188
Income from operations	1,558	2,834
Preferred stock interest expense	-	(1,500)
Other interest expense	(111)	(795)
Other income	37	80
Total other expenses, net	(74)	(2,215)
Income before income tax expense	1,484	619
Income tax expense	515	237
Net income	<u>\$ 969</u>	<u>\$ 382</u>

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016

Revenue

Revenue was \$25.1 million for the three months ended March 31, 2017, during which time we sold approximately 558,500 tons of sand. Total revenue for the three months ended March 31, 2016 was \$10.4 million, during which time we sold approximately 129,300 tons of sand. Revenue increased for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016 as a result of higher sales volume in the current period offset by lower average selling prices due to reservation charges being spread over a larger amount of contractual volumes sold in the first quarter 2017 in comparison to the same period in 2016.

The key factors contributing to the increase in revenues for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016 were as follows:

- Sand sales revenue increased to \$16.7 million for the three months ended March 31, 2017 compared to \$5.8 million for the three months ended March 31, 2016. Tons sold increased by over 300% due to increased exploration and production activity in the oil and natural gas industry in the first quarter of 2017, compared to the same period in 2016.
- Average selling price per ton, which includes reservation charges, decreased to \$29.98 for the three months ended March 31, 2017 from \$44.92 for the three months ended March 31, 2016 due to increased volumes, which led to reservation charges being allocated to a greater number of tons sold.

- Reservation and contractual shortfall revenues were \$7.5 million and \$0 million, respectively, for the three months ended March 31, 2017. Reservation and contractual shortfall revenues were \$2.8 million and \$3.0 million, respectively, for the three months ended March 31, 2016, which helped to mitigate the lower sales volume and average selling price in the 2016 quarter. Certain customers are required to pay a fixed-price monthly reservation charge based on a minimum contractual volume over the remaining life of their contract, which may be applied as a per ton credit to the sales price up to a certain contractually specified monthly volume or credited against any applicable shortfall payments. With respect to shortfall revenues, our customer contracts dictate whether customers are invoiced quarterly or at the end of their respective contract year for shortfall payments. We recognize revenue to the extent of the unfulfilled minimum contracted quantity at the shortfall price per ton as stated in the contract once payment is received or reasonably assured.
- Transportation revenue was approximately \$8.3 million for the three months ended March 31, 2017 compared to \$1.6 million for the three months ended March 31, 2016. The increase in transportation revenue was due to the increased sales volume in the quarter as compared to the first quarter of 2016. Rail car rental revenue was \$1.7 million for the three months ended March 31, 2017, increasing by approximately \$0.1 million compared to the three months ended March 31, 2016 due to an increase in the number of rail cars rented to our customers under long-term contracts. We incur transportation costs and recurring rail car rental expenses under our long-term rail car operating agreements. Our transportation and rail car rental revenues currently represent the pass through of these costs to our customers; therefore, these revenues do not have a material impact on our gross profit.

Cost of Goods Sold and Production Costs

Cost of goods sold was \$19.7 million and \$5.3 million, or \$35.17 and \$41.37 per ton sold, for the three months ended March 31, 2017 and 2016, respectively. Of this amount, production costs were \$8.9 million and \$2.4 million, or \$15.84 and \$18.52 per ton sold, and freight charges, which consist of transportation costs and rail car rental and storage expense, were \$9.2 million and \$1.5 million for the three months ended March 31, 2017 and 2016, respectively. Cost of goods sold increased and per ton cost of goods sold decreased for the three months ended March 31, 2017 in comparison to the same period in 2016 due to higher sales volume and increased rail car rental and railway freight costs. Depreciation, depletion and accretion of asset retirement obligation included in cost of goods sold were \$1.6 million and \$1.5 million, respectively, for the three months ended March 31, 2017 and 2016. For the definition of production costs and a reconciliation to its most directly comparable financial measure calculated and presented in accordance with GAAP, please read "Note Regarding Non-GAAP Financial Measures".

Gross Profit

Gross profit equals revenues less cost of goods sold. Gross profit was \$5.4 million and \$5.0 million for the three months ended March 31, 2017 and 2016, respectively.

Operating Expenses

Operating expenses were \$3.8 million and \$2.2 million for the three months ended March 31, 2017 and 2016, respectively. Operating expenses are comprised primarily of wages and benefits, professional services fees and other administrative expenses. Salaries, benefits and payroll taxes were \$1.7 million and \$1.2 million for the three months ended March 31, 2017 and 2016, respectively, with the approximate \$0.5 million increase due to additional headcount and accrued bonus expense for the board-approved 2017 incentive plan. The 2016 bonus plan was not approved by the board until the fourth quarter 2016. Selling, general and administrative expenses increased as a result of additional insurance, consulting and legal costs incurred as a publicly traded corporation.

Preferred Stock and Other Interest Expense

We incurred \$0.2 million and \$2.3 million of interest expense for the three months ended March 31, 2017 and 2016, respectively. Interest expense for the three months ended March 31, 2017 is derived primarily from deferred finance fees and unused line fees for our existing revolving credit facility. Interest expense for the three months ended March 31, 2016 was derived primarily from paid-in-kind interest on the Series A Preferred Stock as well as interest on our former revolving credit facility. Interest on the Series A Preferred Stock and former revolving credit facility accounted for \$1.5 million and \$0.8 million for the three months ended March 31, 2016, respectively. On November 9, 2016, the Series A Preferred Stock was fully redeemed and the former revolving credit facility was paid in full and terminated using a portion of the proceeds from our IPO.

Income Tax Expense

For the three months ended March 31, 2017 and 2016, our statutory tax rate was 35.0% and our effective tax rate was approximately 34.7% and 45.0%, respectively, based on the statutory federal rate net of discrete federal and state taxes. The computation of the annual effective tax rate includes modifications, which were projected for the year, for share-based compensation, the domestic manufacturing deduction and state income tax credit among others. The computation for the three months ended March 31, 2016 also included modifications for non-deductible interest expense on the Series A Preferred Stock. The primary drivers of the difference between 2017 and 2016 were the change in the forecasted pretax income between quarters relative to the projected modifications to the tax rate, as well as the full redemption of the Series A Preferred Stock in November 2016.

Net Income and Adjusted EBITDA

Net income was \$1.0 million for the three months ended March 31, 2017 compared to net income of \$0.4 million for the three months ended March 31, 2016. Adjusted EBITDA was \$3.7 million for the three months ended March 31, 2017 compared to \$4.7 million for the three months ended March 31, 2016. The increase in net income resulted from an increase in gross profit due to higher volumes sold, lower interest expense due to the full redemption of Series A Preferred Stock in November 2016, and no outstanding balance on our existing credit facility, offset by additional costs incurred as a publicly traded corporation. The decrease in Adjusted EBITDA resulted from average selling price per ton decreasing as a result of reservation charges being allocated to a greater number of tons sold for the three months ended March 31, 2017 and \$3.0 million shortfall revenue recognized during the three months ended March 31, 2016. For the definition of Adjusted EBITDA and a reconciliation to its most directly comparable financial measure calculated and presented in accordance with GAAP, please read "Note Regarding Non-GAAP Financial Measures."

Working Capital

The following table presents the components of our working capital as of March 31, 2017 compared to December 31, 2016.

	March 31, 2017	December 31, 2016
	(in thousands)	
Total current assets	\$ 95,104	\$ 65,024
Total current liabilities	15,560	13,722
Working capital	<u>\$ 79,544</u>	<u>\$ 51,302</u>

March 31, 2017 Compared to December 31, 2016

Our working capital surplus was \$79.5 million at March 31, 2017 compared to a working capital surplus of \$51.3 million at December 31, 2016. On February 7, 2017, we closed on an equity offering of 1,500,000 shares of our common stock, generating net proceeds of approximately \$24.2 million.

Liquidity and Capital Resources

Sources of Liquidity

Prior to the IPO, our primary sources of liquidity were from funds generated through operations and our former revolving credit facility.

On November 9, 2016, we consummated the IPO of 11,700,000 shares of common stock at a price of \$11.00 per share, generating net proceeds to us of \$121.0 million after underwriting discounts and expenses. We used a portion of the net proceeds from the IPO to redeem all of our outstanding Series A Preferred Stock and to repay the outstanding indebtedness under our existing revolving credit facility, which was terminated. We intend to use the remaining net proceeds for general corporate purposes.

On November 23, 2016, the underwriters exercised in full their option to purchase additional shares of common stock from us and the Selling Stockholders. On November 29, 2016, we consummated the sale of 877,500 shares of common stock to the underwriters pursuant to the underwriters' exercise of their over-allotment option at a price of \$11.00 per share, generating proceeds to us of \$9.7 million before underwriting discounts and expenses. We received no proceeds from the sale of common stock to the underwriters by the Selling Stockholders. We intend to use the net proceeds of the IPO for general corporate purposes.

On February 1, 2017 we entered into an Underwriting Agreement providing for the offer and sale of 1,500,000 shares of common stock at a price of \$17.50 per share, generating net proceeds to us of approximately \$24.2 million after underwriting discounts and expenses. We intend to use the net proceeds from this offering for future capital projects and general corporate services. The offering closed on February 7, 2017. Additionally, the Selling Shareholders sold 4,450,000 shares of common stock at a price of \$17.50 per share. We received no proceeds from the sale of common stock by the Selling Shareholders.

On February 10, 2017, the underwriters exercised in full their option to purchase additional shares of common stock from the Selling Shareholders. On February 15, 2017, the Selling Shareholders consummated the sale of 892,500 shares of common stock to the underwriters pursuant to the underwriters' exercise of their over-allotment option at a price of \$17.50 per share. We received no proceeds from the sale of common stock to the underwriters by the Selling Shareholders.

Liquidity

The following table sets forth a summary of our cash flows for the periods indicated:

Summary Cash Flows for the three Months Ended March 31, 2017 and 2016:

	Three Months Ended March 31,	
	2017	2016
	(in thousands)	
Net cash provided by operating activities	\$ 3,844	\$ 2,819
Net cash used in investing activities	\$ (1,609)	\$ (647)
Net cash provided by (used in) financing activities	\$ 23,874	\$ (5,651)

Cash Provided by Operating Activities

Net cash provided by operating activities was \$3.8 million and \$2.8 million for the three months ended March 31, 2017 and 2016, respectively. Operating cash flows include net income of \$1.0 million and \$0.4 million in net earnings generated from the sale of raw frac sand to our customers in the three months ended March 31, 2017 and 2016, respectively, offset by production costs, general and administrative expenses and cash interest expense, adjusted for changes in working capital to the extent they are positive or negative.

Cash Used in by Investing Activities

Net cash used in investing activities was \$1.6 million for the three months ended March 31, 2017 compared to \$0.6 million used for the three months ended March 31, 2016. The \$1.0 million increase was primarily the result of an increase in capital expenditures.

Cash Provided by (Used In) Financing Activities

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

Net cash used in financing activities was \$5.7 million for the three months ended March 31, 2016, which was comprised primarily of \$5.2 million of repayment on former revolving credit facility and \$0.4 million in payments on equipment financing obligations and notes payable.

Credit Facilities

Our Credit Facility and Other Arrangements

Below is a description of our former and existing revolving credit facilities and other financing arrangements.

Former Revolving Credit Facility

On March 28, 2014, we entered into a \$72.5 million revolving credit and security agreement ("Credit Agreement") with PNC Bank, National Association, as administrative agent and collateral agent (the "Credit Agreement"). The revolving credit facility under the Credit Agreement had a maturity date of March 28, 2019. We refer to this facility as the former revolving credit facility.

On November 9, 2016, the former revolving credit facility was paid in full and terminated using a portion of the proceeds from the IPO.

Existing Revolving Credit Facility

On December 8, 2016, we entered into a \$45 million 3-year senior secured Revolving Credit Facility (the “Facility”) with Jefferies Finance LLC as administrative and collateral agent. Substantially all of our assets are pledged as collateral under the Credit Agreement. The Facility expires on December 8, 2019 and has the following terms and conditions (the “New Credit Agreement”):

Letters of Credit: A portion of the Facility, not in excess of \$10 million, is available for the issuance of letters of credit to be issued by the administrative agent or any other lender approved by the administrative agent and us that is willing to become a letter of credit issuer. A per annum fee equal to the interest rate margin for LIBOR loans under the Facility will be payable to the lenders (other than a defaulting lender (as defined in the New Credit Agreement) which has not provided cash collateral for its pro rata share of any letter of credit exposure) and accrue on the aggregate undrawn face amount of outstanding letters of credit under the facility, payable in arrears at the end of each quarter and on the date the commitments under the Facility are terminated, calculated based upon the actual number of days elapsed over a 360-day year. Additionally, a fronting fee equal to 0.25% per annum will be payable to the applicable letter of credit issuer payable on the aggregate undrawn face amount of outstanding letters of credit issued by such issuer under the facility, payable in arrears at the end of each quarter and on the date the commitments under the Facility are terminated, calculated based upon the actual numbers of days elapsed over a 360-day year.

Commitment Fees: We will pay each lender under the Facility (other than a defaulting lender (as defined in the New Credit Agreement)) a commitment fee of 0.375% per annum on the average daily unused portion of the Facility, payable in arrears at the end of each quarter and on the date the commitments under the Facility are terminated, calculated based upon the actual number of days elapsed over a 360-day year.

Interest Rates: The interest rates under the Facility will be based on the leverage ratio (as defined in the New Credit Agreement) for the most recently ended fiscal quarter. Interest will be payable in arrears (a) for loans accruing interest at a rate based on LIBOR (plus an applicable margin ranging from 3.00% - 4.00%, depending on the leverage ratio), at the end of each interest period and, for interest periods of greater than three months, every three months, and on the maturity date of the Facility and (b) for loans accruing interest based on the ABR (plus an applicable margin ranging from 2.00% - 3.00%, depending on the leverage ratio), quarterly in arrears and on the maturity date of the Facility.

Default Rate: Upon the occurrence and during the continuance of any payment event of default, with respect to overdue principal and interest, the applicable interest rate plus 2.00% per annum, and with respect to overdue fees, the interest rate applicable to ABR loans plus 2.00% per annum, and in each case will be payable on demand.

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

Capital Requirements

As of March 31, 2017, we had commitments related to certain expansion and replacement capital projects of approximately \$1.7 million. We expect to incur approximately \$85 million during 2017 in expansion and replacement capital expenditures. Expansion capital expenditures are anticipated to support incremental growth and efficiency initiatives. These projects are expected to provide efficiencies in our plant operations and improve our logistics capabilities to further position us to capitalize upon growth opportunities that we anticipate will continue to develop with both current and potential new customers. We expect to fund these expansion capital expenditures with cash flow from operations and proceeds from our IPO and February 2017 equity offering and potential borrowings under our existing revolving credit facility.

Environmental Matters

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

Contractual Obligations

As of March 31, 2017, we had contractual obligations for the existing revolving credit facility, equipment lease obligations, notes payable, operating leases, capital expenditures and asset retirement obligations. Operating leases are primarily for railcars.

In the three months ended March 31, 2017, there have been no material changes to our contractual obligations as reported in the 2016 annual report. As disclosed in Notes 9 and 13, respectively, to the Condensed Consolidated Financial Statements in this Report, the former revolving credit facility was fully repaid and terminated and the Series A Preferred Stock was fully redeemed.

Off-Balance Sheet Arrangements

At March 31, 2017 and December 31, 2016, we had outstanding performance bonds of \$8.6 million and \$8.3 million, respectively.

Seasonality

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

Customer Concentration

For the three months ended March 31, 2017, sales to Rice Pressure Pumping, Weatherford, and US Well Services accounted for 38.6%, 18.1%, and 14.5%, respectively, of total revenue. For the three months ended March 31, 2016, sales to Weatherford, US Well Services, and C&J Energy Services accounted for 41.4%, 35.9%, and 20.4%, respectively, of total revenue.

Critical Accounting Policies and Estimates

There have been no material changes in our critical accounting policies and procedures during the three months ended March 31, 2017. For more information, please read our disclosure of critical accounting policies in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the United States Securities and Exchange Commission on March 16, 2017.

Forward-Looking Statements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Commodity Price Risk

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

Interest Rate Risk

As of March 31, 2017, we had no amounts outstanding under our existing revolving credit facility, which bears interest at our option at either:

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

On November 9, 2016, the former revolving credit facility was paid in full and terminated using a portion of the proceeds from the IPO.

On December 8, 2016, the Company entered into a \$45 million three-year senior secured Revolving Credit Facility (the "Facility"), which has a similar interest rate risk to the former revolving credit facility, with Jefferies Finance LLC as administrative and collateral agent. The Facility expires on December 8, 2019 and has the following terms and conditions (the "New Credit Agreement"):

Letters of Credit: A portion of the Facility, not in excess of \$10 million, is available for the issuance of letters of credit to be issued by the administrative agent or any other lender approved by the administrative agent and the Company that is willing to become a letter of credit issuer. A per annum fee equal to the interest rate margin for LIBOR loans under the Facility will be payable to the lenders (other than a defaulting lender (as defined in the New Credit Agreement) which has not provided cash collateral for its pro rata share of any letter of credit exposure) and accrue on the aggregate undrawn face amount of outstanding letters of credit under the facility, payable in arrears at the end of each quarter and on the date the commitments under the Facility are terminated, calculated based upon the actual number of days elapsed over a 360-day year. Additionally, a fronting fee equal to 0.25% per annum will be payable to the applicable letter of credit issuer payable on the aggregate undrawn face amount of outstanding letters of credit issued by such issuer under the facility, payable in arrears at the end of each quarter and on the date the commitments under the Facility are terminated, calculated based upon the actual numbers of days elapsed over a 360-day year.

Commitment Fees: The Company will pay each lender under the Facility (other than a defaulting lender (as defined in the New Credit Agreement)) a commitment fee of 0.375% per annum on the average daily unused portion of the Facility, payable in arrears at the end of each quarter and on the date the commitments under the Facility are terminated, calculated based upon the actual number of days elapsed over a 360-day year.

Interest Rates: The interest rates under the Facility will be based on the leverage ratio (as defined in the New Credit Agreement) for the most recently ended fiscal quarter. Interest will be payable in arrears (a) for loans accruing interest at a rate based on LIBOR (plus an applicable margin ranging from 3.00% - 4.00%, depending on the leverage ratio), at the end of each interest period and, for interest periods of greater than three months, every three months, and on the maturity date of the Facility and (b) for loans accruing interest based on the ABR (plus an applicable margin ranging from 2.00% - 3.00%, depending on the leverage ratio), quarterly in arrears and on the maturity date of the Facility.

Default Rate: Upon the occurrence and during the continuance of any payment event of default, with respect to overdue principal and interest, the applicable interest rate plus 2.00% per annum, and with respect to overdue fees, the interest rate applicable to ABR loans plus 2.00% per annum, and in each case will be payable on demand.

The Facility contains various reporting requirements, negative covenants, restrictive provisions and requires maintenance of financial covenants, including a fixed charge coverage ratio and a leverage ratio (each as defined in the New Credit Agreement). As of March 31, 2017 and December 31, 2016, there were no amounts outstanding under the Facility; therefore, these covenants have no impact over the facility as of the balance sheet date.

Credit Risk

Substantially all of our revenue for the three months ended March 31, 2017 and 2016 was generated through long-term take-or-pay contracts with four customers. Our customers are oil and natural gas producers and oilfield service providers, all of which have been negatively impacted by the recent downturn in activity in the oil and natural gas industry in recent years, and may be impacted if the oil and natural gas industry faces another activity downturn. This concentration of counterparties operating in a single industry may increase our overall exposure to credit risk, in that the counterparties may be similarly affected by changes in economic, regulatory or other conditions. If a customer defaults or if any of our contracts expires in accordance with its terms, and we are unable to renew or replace these contracts, our gross profit and cash flows may be adversely affected.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There have been no changes in internal control over financial reporting for the quarter ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time we may be involved in litigation relating to claims arising out of our operations in the normal course of business. We are not currently a party to any legal proceedings that we believe would have a material adverse effect on our financial position, results of operations or cash flows and are not aware of any material legal proceedings contemplated by governmental authorities.

ITEM 1A. RISK FACTORS

As of the date of this Report, there have been no material changes in the risk factors previously included in Item 1A- “Risk Factors,” in our Annual Report on form 10-K for the fiscal year ended December 31, 2016.

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

Use of Proceeds

On November 9, 2016, we completed our IPO of 11,700,000 shares of our common stock at a price to the public of \$11.00 per share (\$10.34 per share, net of the underwriting discount) pursuant to the Registration Statement, which was declared effective on November 3, 2016. We received approximately \$126.0 million in net proceeds after deducting underwriting discounts and commissions. The material provisions of the IPO, including the underwriters, net proceeds, and expenses, are described in the IPO Prospectus. Credit Suisse Securities (USA) LLC, Goldman, Sachs & Co., Jefferies LLC, Piper Jaffray & Co., Tudor, Pickering, Holt & Co. and Deutsche Bank Securities acted as book-running managers of the IPO. We granted the underwriters an option for a period of 30 days to purchase up to an additional 877,500 shares of common stock at the initial offering price, and the Selling Stockholders granted the underwriters an option for a period of 30 days to purchase up to an aggregate additional 877,500 shares of common stock at the initial offering price. On November 23, 2016, the underwriters exercised in full their option to purchase additional shares of our common stock from us and the Selling Stockholders, which was completed on November 29, 2016. We received approximately \$9.1 million in net proceeds after deducting underwriting discounts and commissions. We received no proceeds from the sale of common stock by the Selling Stockholders. We used a portion of the net proceeds from the IPO to redeem all of the outstanding Series A Preferred Stock and to repay the outstanding indebtedness under the revolving credit facility, which was terminated, and we intend to use the remaining net proceeds for general corporate purposes.

On February 1, 2017, we entered into an Underwriting Agreement providing for the offer and sale of 1,500,000 shares of common stock at a price of \$17.50 per share, generating net proceeds to us of approximately \$24.2 million before underwriting discounts and expenses. We intend to use the net proceeds from this offering for future capital projects and general corporate services. The offering closed on February 7, 2017. Additionally, the Selling Shareholders sold 4,450,000 shares of common stock at a price of \$17.50 per share. We received no proceeds from the sale of common stock by the Selling Shareholders. The Selling Shareholders granted the underwriters an option for a period of 30 days to purchase up to an additional 892,500 shares of common stock. On February 10, 2017, the underwriters exercised in full their option to purchase additional shares of common stock from the Selling Shareholders. We received no proceeds from the sale of common stock to the underwriters by the Selling Shareholders.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

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

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†	Master Product Purchase Agreement, dated as of March 8, 2017, between Smart Sand, Inc. and Liberty Oilfield Services, LLC
10.2†	Railcar Usage Agreement, dated as of March 8, 2017, between Smart Sand, Inc. and Liberty Oilfield Services, 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*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

* Filed Herewith.

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

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

Signatures

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

Smart Sand Inc.

May 11, 2017

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

Smart Sand Inc.

May 11, 2017

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

Index to Exhibits

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†	Master Product Purchase Agreement, dated as of March 8, 2017, between Smart Sand, Inc. and Liberty Oilfield Services, LLC
10.2†	Railcar Usage Agreement, dated as of March 8, 2017, between Smart Sand, Inc. and Liberty Oilfield Services, 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*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

* Filed Herewith.

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

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

MASTER PRODUCT PURCHASE AGREEMENT

This Master Product Purchase Agreement (this “**Agreement**”) is made and entered into this 8th day of March, 2017 (the “**Execution Date**”), by and between Smart Sand, Inc. a Delaware corporation, or its designee, with a place of business at 1010 Stony Hill Rd., Suite 175, Yardley, Pennsylvania 19067 (“**Smart Sand**”) and Liberty Oilfield Services, LLC, a Delaware limited liability company with a place of business at 950 17th Street, Suite 2000, Denver, Colorado 80202 (“**Buyer**”).

RECITALS

A. Whereas, Smart Sand mines, processes and sells certain industrial sand products; and

B. Whereas, Smart Sand and Buyer desire to provide for the terms under which Smart Sand will sell such products to Buyer, based on firm monthly and yearly commitments as more particularly described herein.

AGREEMENT

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

1. Products, Forecasts and Quantity Commitments

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

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

Nothing in this Agreement shall be construed as limiting either party’s right to enter into a purchase or sale agreement with respect to any of the Products with a third party at any time.

1.2 For purposes of this Agreement, a “**Contract Year**” shall mean each twelve-month period in which Buyer is required to satisfy its Minimum Tons per Year purchase obligations hereunder. Contract Year 1 shall commence on the later of (i) May 1, 2017, or (ii) the date in which Smart Sand provides written notice to Buyer that Smart Sand is able to provide to Buyer pursuant to the Railcar Usage Agreement (as defined in Section 2.1), *** for the shipment of Products (the “**Commencement Date**”), and shall end at 11:59 p.m. on the day immediately preceding the one-year anniversary of the Commencement Date. All other Contract Years shall commence upon expiration of the immediately preceding Contract Year and shall end at 11:59 p.m. on the day immediately preceding the one-year anniversary of such commencement. For the avoidance of doubt, if the Commencement Date is May 1, 2017, then Contract Year 1 shall be May 1, 2017 through April 30, 2018, Contract Year 2 shall be May 1, 2018 through April 30, 2019, and Contract Year 3 shall be May 1, 2019 through April 30, 2020.

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

1.3 In no event will Smart Sand be required to provide to Buyer, in any given month during the Term, an aggregate amount exceeding *** tons of Products. Buyer shall submit purchase orders on or before the 15th day of each month in order for the Products set forth in such purchase orders to be deemed to be purchased in such month. Buyer shall submit purchase orders containing evenly spaced delivery intervals and similar quantities of Products.

1.4 Subject to Section 1.3 above and Section 1.5 below, in the event that Buyer purchases less than the Minimum Tons per Quarter during any quarter in any Contract Year for any reason other than Smart Sand's inability to deliver Products set forth in purchase orders submitted by Buyer (a "**Shortfall**"), and has not, in the immediately preceding quarter, purchased an amount of Products exceeding the Minimum Tons per Quarter ("**Prior Excess**") equal to or exceeding such Shortfall, Buyer shall pay to Smart Sand on or before the date that is *** following the end of such quarter (or in the case of the fourth quarter of Contract Year 3, *** following the end of the Term) (the "**Quarterly Shortfall Payment Date**") an amount (the "**Quarterly Shortfall Payment**") equal to \$*** multiplied by the difference between the applicable Minimum Tons per Quarter stated above and the actual tons of Products purchased by Buyer during such quarter ("**Quarterly Purchased Tons**") plus the Prior Excess (the resulting amount, the "**Quarterly Net Tons**") (i.e. (i) Quarterly Net Tons = Minimum Tons per Quarter – (Quarterly Purchased Tons + Prior Excess), and (ii) Quarterly Shortfall Payment = Quarterly Net Tons * \$***). If a Shortfall occurs during any quarter in any Contract Year due solely to Smart Sand's inability to deliver Products set forth in purchase orders submitted by Buyer ("**Undelivered Tons**"), Smart Sand shall pay to Buyer on or before the Quarterly Shortfall Payment Date an amount equal to \$*** multiplied by the Undelivered Tons minus any Prior Excess (the "**Smart Sand Payment**") (i.e. Smart Sand Payment = \$*** * (Undelivered Tons – Prior Excess)). If the Quarterly Net Tons or Smart Sand Payment, as the case may be, is equal to or less than ***, then the Quarterly Shortfall Payment or Smart Sand Payment, as the case may be, shall be \$***. If Buyer purchases less than the Minimum Tons per Quarter in any quarter (the "**Product Shortfall Amount**"), except as set forth in Section 1.5 or when such Product Shortfall Amount is due solely to Undelivered Tons, Smart Sand shall have no obligation to deliver to Buyer all or any portion of any Product Shortfall Amount and Buyer shall not be entitled to any refund in connection with any Product Shortfall Amount.

1.5 Buyer may choose to defer the purchase of up to a maximum of *** tons of Products each Contract Year until the end of the Term (each such ton, a "**Deferred Ton**"). Within *** after completion of each Contract Year or earlier termination of this Agreement (each, a "**Determination Date**"), Buyer shall pay to Smart Sand (each, a "**Deferment Payment**") an amount equal to the applicable Contract Price for the Deferred Tons multiplied by the amount of Deferred Tons on such Determination Date. If Buyer purchases more than the Minimum Tons per Quarter in any quarter, (i) such excess shall automatically reduce the Deferred Tons, and (ii) in the following quarter, the Prior Excess shall be reduced by the amount of such excess. By way of example, (i) if the Deferred Tons are *** tons and Buyer purchases *** tons in a quarter, then the Deferred Tons will be automatically decreased to *** and the Prior Excess will be ***, and (ii) if Buyer then purchases *** tons of Products in the subsequent quarter, the Deferred Tons will be reduced to *** and the Prior Excess will be *** tons. If Buyer does not pay any Quarterly Shortfall Payment when due (and fails to cure such nonpayment within *** after such Quarterly Shortfall Payment is due), Smart Sand may, in its sole discretion, eliminate Buyer's deferral right hereunder by providing written notice of such elimination to Buyer, in which case Buyer shall promptly (but in no event greater than *** after Smart Sand's notice) pay to Smart Sand (A) an amount equal to \$*** multiplied by the then outstanding Deferred Tons, and (B) any outstanding Deferment Payments. At no time during any Contract Year during the Term may the Deferred Tons exceed *** tons.

Within *** (in the case of a Deferment Payment for Contract Year 1 or 2) or *** (in the case of a Deferment Payment for Contract Year 3), as the case may be, of receiving the Deferment Payment, Smart Sand shall deliver to Buyer, in one or more shipments to be determined by mutual written agreement of Buyer and Smart Sand, the Deferred Tons. Buyer may, at its option, choose to not take delivery of some or all of the Products to be delivered in connection with the foregoing; provided, however, that if Buyer chooses to not take delivery of such Products, Buyer shall not be entitled to any refund of any portion of the Deferment Payment or any other amounts paid to Smart Sand. Buyer's choice to not take delivery shall be irrevocable and Buyer shall forfeit any title to or right to receive the Products that Buyer has chosen not to receive.

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

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

2. Price and Payment Terms

2.1 The pricing for each of the Products for each Contract Year shall be as set forth on Appendix C attached hereto and incorporated by reference (“**Contract Price**”). The parties agree that all Products ordered by Buyer will be loaded onto Buyer 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, (ii) all railcars 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 via a delivery chute (whether such railcar is supplied by Smart Sand or Buyer) at Smart Sand’s rail spur facility located in Oakdale, Wisconsin, or such other facility as mutually agreed to, in writing, by Smart Sand and Buyer (the “**Facility**”). Delivery will be, and all prices are quoted, FCA Smart Sand’s processing facility, Incoterms 2010. Buyer shall reimburse Smart Sand for any damage to Smart Sand’s railcars that occurs while such railcars are in Buyer’s possession. Likewise, Smart Sand shall reimburse Buyer for any damage to Buyer’s railcars that occurs while such railcars are in Smart Sand’s possession. Upon the mutual written agreement of Buyer and Smart Sand, a portion of the Products may be shipped on the Union Pacific Railroad, provided that Buyer shall pay all additional rail and shipping costs associated with shipping such Products on the Union Pacific Railroad, including a \$*** transloading charge payable to Smart Sand for shipping such Products on the Union Pacific Railroad which \$*** transloading charge shall be inclusive of all costs related to delivering such Products via truck to Smart Sand’s Union Pacific transload site located in Byron Township, Wisconsin (or such other location as mutually determined by Buyer and Smart Sand). For the avoidance of doubt, all rail and shipping costs, fees, expenses, and/or charges, including, without limitation, transloading charges (including transloader related switching fees), diversion charges, demurrage charges, insurance costs, rail fuel surcharges, and delivery point switch fees, shall be borne and paid exclusively by Buyer including with respect to any Smart Sand supplied railcars. Any railcars to be provided by Smart Sand shall be provided in accordance with that certain Railcar Usage Agreement, by and between Smart Sand and Buyer, dated on or about the date hereof (“**Railcar Usage Agreement**”). The Contract Price shall be subject to adjustments implemented during the Term in accordance with the terms set forth in Appendix C.

2.2 Unless stated otherwise in an order, prices quoted by Smart Sand do not include sales, VAT, use or similar taxes. Any such taxes, fees, duties, and customs charges imposed on Smart Sand in the country or area of operations at any time shall be reimbursed to Smart Sand by Buyer. The terms “taxes” and “duties” shall mean all fees or charges imposed, assessed or levied at any time by any governmental or other authority and shall include, but shall not be limited to, property, sales, use taxes, royalties, value added and excise taxes or other charges of a similar nature, customs or other duties, harbour and port dues, demurrage, wharfage, pilotage, stevedoring, customs agent fees and other such charges and other fees. The provisions of this clause shall continue after termination of this Agreement.

2.3 Smart Sand shall invoice Buyer upon shipment of Products or upon the accrual of any other amounts due hereunder. Except as otherwise provided herein or in the Railcar Usage Agreement, payment by Buyer shall be due and payable within *** after the date the invoice is sent by Smart Sand to Buyer. Notwithstanding the foregoing, payment by Buyer of all rail and shipping costs, fees, expenses and/or charges including, without limitation, transloading charges (including transloader related switching fees but not including the *** transloading charge set forth in Section 2.1), diversion charges, demurrage charges, insurance costs, rail fuel surcharges, and delivery point switch fees, shall be due and payable within *** after the date the invoice is sent by Smart Sand to Buyer. Past due invoices are subject to a monthly service charge at a rate equal to ***. Buyer shall have the right to dispute in good faith all or any portion of an invoice by providing written notice of such dispute (together with reasonable detail of the facts underlying such dispute) to Smart Sand on or before *** after the date the invoice is sent by Smart Sand to Buyer. If Buyer, in its sole discretion, disputes any portion of an invoice in good faith, the undisputed portion shall be paid and, when the dispute is resolved, Smart Sand shall issue an adjustment invoice, if applicable, and Buyer shall pay any remaining amount owing as reflected on the adjustment invoice. In no event shall Buyer be liable for payment of interest on amounts disputed in good faith.

2.4 Buyer shall reimburse Smart Sand for reasonable attorneys' fees, court costs, and other expenses incurred by Smart Sand to collect any amounts due hereunder, excluding amounts disputed in accordance with Section 2.3 herein, or enforce the terms and conditions stated herein in the event it is determined, pursuant to a final non-appealable judgment, that Buyer breached the terms and conditions of this Agreement.

3. Specifications

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

4. Delivery

4.1 The Products shall be delivered in accordance with Section 2.1 of this Agreement. Smart Sand reserves the right to charge Buyer a storage fee for any Buyer controlled railcar (including railcars borrowed pursuant to the Railcar Usage Agreement) that remains at Smart Sand's rail facility longer than *** after arrival. The storage fee shall be: (i) *** dollars per railcar per day during the period commencing on the *** after arrival and ending on the *** after arrival; (iii) *** dollars per railcar per day during the period commencing on the *** after arrival and ending on the *** after arrival; and (iv) *** dollars per railcar per day during the period commencing on the *** after arrival. If any Buyer controlled railcar is stored at Smart Sand's rail facility for *** or greater, Smart Sand may, in its sole discretion, continue charging a storage fee of *** dollars per railcar per day, or deem such railcars to be abandoned and take possession of all or any portion of such railcars. Smart Sand may, in its sole discretion, use such railcars in the operation of its business, including without limitation, shipping frac sand products to Smart Sand's customers, or store or transfer such railcars in any manner it deems advisable. Buyer hereby grants to Smart Sand a possessory lien in any and all railcars stored at Smart Sand's rail facility for the purpose of satisfying any amounts that are unpaid, due and owing under this Agreement for *** beyond their due date. Buyer may not, without Smart Sand's prior written consent, have more than *** (including railcars borrowed pursuant to the Railcar Usage Agreement) at Smart Sand's rail facility at any given time. Should Buyer attempt to store in excess of *** at Smart Sand's rail facility, Smart Sand may, in its sole discretion, disallow such railcars to enter such rail facility or transport such railcars to a third-party storage provider. In no event will Smart Sand have any liability related to the storage or transfer of such railcars, and all expenses related to the storage or transfer of such railcars shall be borne exclusively by Buyer. Smart Sand may, in its sole discretion, load any railcars located at its facility with Products in anticipation of future Product shipments. Should Buyer seek the return of the railcars without Products, Smart Sand shall, upon receiving at least *** prior written notice from Buyer, empty such railcars at Buyer's sole cost and expense (including, without limitation, the cost of the total tons of Products contained within the railcars at a "per ton" rate equal to the applicable Contract Price per ton of Products during that Contract Year), which amount shall be paid to Smart Sand in advance of emptying any railcars.

4.2 In the event that Smart Sand is unable to supply Products set forth in purchase orders submitted by Buyer, Buyer's sole and exclusive remedy shall be the Smart Sand Payment (as set forth in Section 1.4).

5. Inspection

Smart Sand shall test the Products in accordance with the testing procedures set forth on Appendix D attached hereto and incorporated by reference for compliance with the Specifications. Smart Sand shall perform a separate sieve analysis (but not any other test) for each railcar of Products delivered to Buyer hereunder. Smart Sand shall retain all testing records for a period of *** and shall, at Buyer's request, supply to Buyer a copy of Smart Sand's test sheets, certified by Smart Sand to be a true copy. Because deliveries made pursuant to this Agreement shall be via large individual loads by rail, any inspection by Buyer shall be made at the point of loading. Buyer may, at its expense at Smart Sand's facility, perform its own analysis of the Products and may have a representative at Smart Sand's facility for the purpose of such inspection. Buyer does not have the right to reject any Products that are in compliance with the Specifications, as determined by Smart Sand pursuant to its testing procedures set forth

on Appendix D or both Parties' analysis, if Buyer elects to perform its own analysis of such Products. Buyer may make claims for Product not meeting the Specifications ("Non-Conforming Product") if Smart Sand's and/or Buyer's analysis of the Products demonstrate that the Product in any railcar received from Smart Sand is Non-Conforming Product. Any such claim must be made in writing prior to any use, disposition, processing, admixture, reaction or other change from the original condition of any part of the Product (except for reasonable test and inspection quantities) by Buyer and must be received by Smart Sand within *** from the date such Non-Conforming Products were delivered. Any use of any Product (except for reasonable tests and inspection quantities) or Buyer's failure to give written notice to Smart Sand of such defect or shortage within such *** period shall constitute an unqualified acceptance of the Product and a waiver by Buyer of all claims with respect thereto. Smart Sand's exclusive liability and Buyer's sole remedy in connection with any Non-Conforming Product shall be for Smart Sand to replace any Non-Conforming Product, at no charge to Buyer, at Smart Sand's facility by such reasonable date as Buyer may request with Smart Sand paying all shipping costs associated with such replacement, or, at the option of Smart Sand, and in the event that Buyer has already paid for the Non-Conforming Product, to reimburse the Buyer for the cost of the Non-Conforming Product only plus all shipping costs and expenses incurred by Buyer. This provision does not cover nonconformity attributable to causes or occurrences beyond Smart Sand's control, including, but not limited to, (a) misuse, mishandling, neglect, improper storage, improper transportation, improper alteration or improper application by Buyer or by any agent of Buyer or (b) unclean or partially-filled railcars or trucks supplied by Buyer or Buyer's carrier (including Smart Sand supplied railcars being used by Buyer), it being understood that Smart Sand shall have no obligation to inspect or remove debris from any such railcars or trucks.

6. Warranty

6.1 Smart Sand warrants to Buyer that Smart Sand shall have complied in all material respects with the testing procedures set forth on Appendix D with respect to each Product.

6.2 Buyer acknowledges that Products may become damaged by improper handling after delivery and during transit and that Smart Sand shall have no obligation to replace such damaged Products.

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

7. Term and Termination

7.1 This Agreement shall be effective on the Execution Date and shall expire at 11:59 p.m. on the last day of Contract Year 3 (the "Term"), unless sooner terminated as provided herein.

7.2 Either party may terminate this Agreement, immediately upon written notice to the other party (i) if such other party is in material breach of any of its obligations under the Agreement and fails to cure such breach within thirty (30) business days (ten (10) business days for the nonpayment of money) after written notice thereof to such other party, or (ii) if such other party is insolvent or makes any arrangement with its creditors generally, or has a receiver appointed for all or a substantial part of its business or properties, or an insolvency, bankruptcy or similar proceeding is brought by or against such other party and involving such other party which is not dismissed within sixty (60) business days of its institution, or if such other party goes into liquidation or otherwise ceases to function as a going concern.

7.3 Subject to Section 7.4 below, in the event of termination of this Agreement as provided in Section 7.2, this Agreement shall immediately become void and there shall be no liability or obligation on the part of any party hereto; provided, that (i) any such termination shall not relieve any party from liability for any willful breach of this Agreement or any fraud, (ii) the provisions of this Section 7.3 (Effect of Termination) and Sections 1.4 (Shortfalls), 1.5 (Deferrals), 2.2 (Taxes), 2.3 (Payments), 2.4 (Credit/Collections), 4.1 (Railcar Storage), 7.4 (Termination Payments), 7.5 (Damages), 8 (Confidentiality), 10 (Limitation of Liability), 12 (Notices), 13 (Resolution of Disputes) and 15 (Miscellaneous) of this Agreement shall remain in full force and effect and survive any termination of this Agreement.

7.4 Notwithstanding anything to the contrary in Section 7.3: (i) in the event Buyer terminates this Agreement pursuant to Section 7.2, Buyer shall pay to Smart Sand, within thirty (30) days of the effective date of termination, all amounts due and owing to Smart Sand for Products delivered by Smart Sand prior to the effective date of termination, all other amounts due and owing under this Agreement and the Railcar Usage Agreement (including without limitation all railcar usage and storage costs, taxes, transportation costs, rail charges, fuel surcharges, collection costs (including court costs and expenses related thereto), attorneys' fees and expenses, and interest) and all other amounts payable by Buyer that have accrued but remain unpaid at the effective date of termination; and (ii) in the event Smart Sand terminates this Agreement pursuant to Section 7.2, Buyer shall pay to Smart Sand, within thirty (30) days of the effective date of termination, an amount equal to:

- (A) all amounts due and owing to Smart Sand, including without limitation, amounts due for Products delivered by Smart Sand prior to the effective date of termination, railcar usage and storage costs, taxes, transportation costs, rail charges, fuel surcharges, collection costs (including court costs and expenses related thereto), attorneys' fees and expenses, interest, and all other amounts payable by Buyer that have accrued but remain unpaid at the effective date of termination; plus
- (B) an amount equal to: (i) \$***, multiplied by (ii) the difference between the *** for all Contract Years of the Term and the actual tons of Products purchased by Buyer during the Term; plus
- (C) all amounts that have accrued or will accrue under the Railcar Usage Agreement and have not been paid (including without limitation with respect to any damage to Smart Sand's railcars that occurs while such railcars are in the possession of Buyer); minus
- (D) ***.

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

8. Confidentiality

8.1 The parties acknowledge that either party may disclose (orally or in writing) to the other confidential and proprietary information relating to the Products or each party's business (together with the terms of this Agreement relating to product mix, pricing, volume, payments, delivery and product specifications, the "**Confidential Information**"). Each party agrees that it will keep the Confidential Information of the other party disclosed to it in confidence by using at least the same degree of care to prevent unauthorized disclosure or use thereof as such party uses to protect its own confidential information of like nature, and that it will not use for its own benefit or disclose, directly or indirectly, any item of Confidential Information to any person, without the prior written consent of the disclosing party, except (i) only to those of the recipient's affiliates, employees or advisors who need to know the same in the performance of their duties for the recipient in connection with this Agreement; or (ii) to comply with any law, rule, regulation, or legal or regulatory process (including without limitation in connection with any Securities and Exchange Commission (the "**SEC**") review process or filing requirements) applicable to such party, provided, that such party shall use reasonable best efforts to obtain confidential treatment from the SEC or any other court or governmental authority with respect to the disclosure of such Confidential Information. Notwithstanding the foregoing, Smart Sand may, in its sole discretion, issue a press release upon entering into this Agreement, provided that such press release shall not contain any pricing or volume information contained herein.

8.2 The parties' non-use and non-disclosure restrictions hereunder shall continue with respect to any item of Confidential Information until the earlier of the expiration of two (2) years following the termination of this Agreement for any reason, or until such item: (a) is or has become publicly available; or (b) was in the possession of, or known by, the recipient without an obligation to keep it confidential; or (c) has been disclosed to the recipient by an unrelated third party, without an obligation to keep it confidential; or (d) has been independently developed by the recipient without regard to the Confidential Information.

9. Excusable Delay

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

10. LIMITATION OF LIABILITY

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

11. PRODUCT NOTIFICATION

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

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

12. Notice

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

To Smart Sand:	Smart Sand, Inc. 1010 Stony Hill Rd., Ste 175, Yardley, Pennsylvania 19067 Attention: Susan Neumann Facsimile: 215.295.7911
With a copy to:	Fox Rothschild LLP 997 Lenox Drive, 3rd Floor Lawrenceville, New Jersey 08648 Attn: James D. Young Facsimile: 609.896.1469
To Buyer:	Liberty Oilfield Services, LLC 950 17th Street, Suite 2000 Denver, Colorado 80202 Attn: Mrs. Janet Hoffman Facsimile: 720-583-6685

13. Resolution of Disputes

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

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

14. Compliance with Law

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

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

15. Miscellaneous.

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

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

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

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

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

15.6 The headings herein are for reference purposes only and are not to be considered in construing this Agreement. This Agreement shall be interpreted and construed without regard to customary principles of interpretation and construction of legal instruments which construe ambiguities against the party causing an instrument to be drafted. For purposes of this Agreement, the neuter shall include the masculine and feminine, the masculine shall include the feminine, the feminine shall include the masculine, the singular shall include the plural, and the plural shall include the singular, as the context may require.

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

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

Smart Sand, Inc.
("Smart Sand")

By: /s/ Lee E. Beckelman
Name: Lee E. Beckelman
Title: CFO

Liberty Oilfield Services, LLC
("Buyer")

By: /s/ Ronald Gusek
Name: Ronald Gusek
Title: President

APPENDIX A

Specifications

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

	ISO 13503-2
Turbidity (NTU)	***
Kumbein Shape Factors:	
Roundness	***
Sphericity	***
Clusters (%)	***
Sieve Analysis:	
<0.1% of sample larger than first specified sieve size	
% In Size ***	***
% In Size ***	***
% In Size ***	***
% In Size ***	***
<1.0% in pan	
Solubility in 12/3 HCL/HF for 0.5 HR @150°F (% Weight Loss)	***

APPENDIX B

Product Mix Parameters

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

The following product mix shall apply commencing on the first day of Contract Year 1:

Product*	Minimum Monthly Volumes (Tons)
***	***
***	***
Total	***

*Subject to availability, as determined by Smart Sand in its sole discretion, Buyer may, in lieu of purchasing *** and *** Products, purchase *** and *** Products at prices mutually agreed to in writing by Buyer and Smart Sand.

APPENDIX C

Product Pricing

Contract Prices are the sum of annual Base Prices, railcar charges, and quarterly fuel surcharges, as detailed below. Pricing for shipments each month shall be based on the Contract Prices for the current quarter.

(1) Base Prices

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

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

(B) Commencing at the beginning of Contract Year 2 and continuing at the beginning of each Contract Year during the remainder of Term of the Agreement, the Base Price shall be increased annually at the beginning of each Contract Year by an amount equal to ***; provided, however, that no such adjustment shall (1) decrease the Base Price, or (2) increase the Base Price in excess of *** annually.

(2) Buyer shall pay to Smart Sand an additional \$*** per ton of Products purchased or required to be purchased hereunder, as set forth in more detail in the Railcar Usage Agreement.

(3) Quarterly natural gas or propane surcharges, starting on the Execution Date, with details below:

Natural Gas Surcharge: A Natural Gas Surcharge will be applied if the Henry Hub Average Natural Gas Price (ANGP) Spot Price as listed on WWW.EIA.DOE.GOV (https://www.eia.gov/dnav/ng/ng_pri_fut_sl_m.htm) for the preceding calendar quarter is above the Bench Mark, set at \$*** per MMBTU, and shall be adjusted at the end of each calendar quarter for the duration of the Agreement. A surcharge of \$*** per ton for every \$*** per MMBTU increase for the ANGP for the preceding calendar quarter will apply in addition to the Base Price for all products. The calculation will be prorated, i.e., if the ANGP for a prior quarter averages \$*** per MMBTU, the surcharge will be \$*** per ton for the following quarter.

As an example, if the average of the monthly closes of ANGP for January, February and March is \$***, then \$*** will be added to the applicable Base Price for April, May and June. Additionally, if the average of the monthly closes of ANGP for April, May and June is \$*** or less, then \$*** will be added to the Base Price for July, August and September.

Propane Surcharge: A Propane Surcharge will be applied if the Average Quarterly Mont Belvieu, TX Propane Spot Price (AMBTX) as listed on WWW.EIA.GOV (http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=p&s=er_epllp_pf4_y44mb_dpg&f=m) for the preceding calendar quarter is above the Bench Mark, set at \$0.75 per gallon of Propane ((Month 1 Average + Month 2 Average + Month 3 Average)/3=AMBTX), and shall be adjusted at the end of each calendar quarter for the duration of the Agreement. A surcharge of \$*** per ton for every \$*** per gallon increase in the AMBTX for the preceding calendar quarter will apply in addition to the Base Price for all products. The calculation will be prorated, i.e., if the AMBTX for a prior quarter averages \$*** per Gallon, the surcharge will be \$*** per ton for the following quarter.

As an example, if the average of the monthly closes of Mont Belvieu, TX Propane Spot for January, February and March is \$***/gallon, then \$*** will be added to the applicable Base Price for April, May and June. Additionally, if the average of the monthly closes of AMBTX propane for April, May and June is \$***/gallon or less, then \$*** will be added to the Base Price for July, August and September.

APPENDIX D

Testing Procedures

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

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

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

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

RAILCAR USAGE AGREEMENT

THIS RAILCAR USAGE AGREEMENT ("Agreement") is dated March 8, 2017 by and between Smart Sand, Inc., having an address of 1010 Stony Hill Rd, Ste 175, Yardley, PA 19067 ("Smart Sand"); and Liberty Oilfield Services, LLC, a Delaware limited liability company with a place of business at 950 17th Street, Suite 2000, Denver, CO 80202 ("Borrower").

BACKGROUND

A. Smart Sand has agreed to sell to Borrower frac sand pursuant to a Master Product Purchase Agreement, dated on or about the date hereof (the "PPA") (all capitalized terms contained herein that are not defined shall have the meanings ascribed to such terms in the PPA), which frac sand shall be shipped from Smart Sand's facility via railcar.

B. Smart Sand and Borrower desire to provide for the terms under which Smart Sand will dedicate to Borrower, and Borrower will use, *** railcars from Smart Sand's fleet of railcars during the period ending upon termination or expiration of the PPA. Borrower understands that the dedicated railcars will be interchangeable in Smart Sand's sole discretion.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties, intending to be legally bound, hereby agree as follows:

1. Railcar Usage. Smart Sand and Borrower hereby agree as follows:

A. Borrower may use Smart Sand's dedicated railcars 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.

B. Borrower will preserve in good condition Smart Sand's railcars and will not alter the structure of such railcars. The railcars shall be used exclusively within the continental United States and/or between Canada and the continental United States. All cross border fees/duty/taxes associated with usage of the railcars to and from Canada shall be borne exclusively by the Borrower. The Borrower shall return the borrowed railcars empty and clean.

C. During the time while the railcars are borrowed, Borrower assumes the entire responsibility for the railcars and shall be responsible and liable to Smart Sand for any and all damage to or destruction of same, except for damage caused by normal wear and tear. Smart Sand shall not be liable for loss of or damage to the product or any part thereof that may be handled or stored in the borrowed railcars. Borrower assumes responsibility for, and indemnifies and holds Smart Sand harmless from, any such loss or damage or claim therefore, except where such loss or damage is caused solely by Smart Sand's negligence. Borrower indemnifies and holds Smart Sand harmless from any liability resulting from injuries to persons or damage to property arising out of or in connection with the use of borrowed railcars except to the extent caused by Smart Sand's negligence.

2. Term. The term of this Agreement shall continue until the termination or expiration of the PPA. Within thirty (30) days of the termination or expiration of the PPA, as applicable, all borrowed railcars will be returned to the Facility, and all outstanding amounts due to Smart Sand hereunder shall be paid.

3. Relationship of Parties. Smart Sand and Borrower acknowledge and agree that their relationship is that of contracting parties and independent contractors only, and neither is the partner, employee, joint venturer or agent of the other.

4. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the internal laws of Delaware without giving effect to that state's conflicts of laws principles or choice of law rules. The parties hereby submit to the personal jurisdiction of, and agree venue is proper in the state courts located in County of New Castle, Delaware, and the federal courts located in the City of Wilmington, Delaware. Any suit arising out of or related to this Agreement shall be brought exclusively in such courts, and the parties irrevocably consent and submit to the exclusive jurisdiction of such courts and waive any objection based on venue or *forum non conveniens*. Service of process, summons, notice, or other document by mail to such party's address set forth herein shall be effective service of process for any suit, action, or other proceeding brought in any such court.

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

6. Interpretation. This Agreement shall be interpreted and construed without regard to customary principles of interpretation and construction of legal instruments which construe ambiguities against the party causing an instrument to be drafted. For purposes of this Agreement, the neuter shall include the masculine and feminine, the masculine shall include the feminine, the feminine shall include the masculine, the singular shall include the plural, and the plural shall include the singular, as the context may require.

7. Counterparts. This Agreement may be executed in one or more counterparts, all of which together shall constitute one and the same instrument. An electronic copy of a signature shall have the same force and effect as an original.

8. Amendment. This Agreement may only be amended by a written document executed by Smart Sand and Borrower.

[signature page follows]

IN WITNESS WHEREOF, the parties to this Agreement have executed this Agreement on the day and year first above written.

SMART SAND, INC.

By: /s/ Lee E. Beckelman
Name: Lee E. Beckelman
Title: CFO

LIBERTY OILFIELD SERVICES, LLC

By: /s/ Ronald Gusek
Name: Ronald Gusek
Title: President

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) 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
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 11, 2017

/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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) 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
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 11, 2017

/s/ Lee E. Beckelman

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

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

In connection with the Quarterly Report of Smart Sand, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles E. Young, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Dated: May 11, 2017

/s/ Charles E. Young

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

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

In connection with the Quarterly Report of Smart Sand, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lee E. Beckelman, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Dated: May 11, 2017

/s/ Lee E. Beckelman

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

MINE SAFETY DISCLOSURES

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

Mine Safety Information

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

Mine Safety Data

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

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

Pattern or Potential Pattern of Violations

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

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

Pending Legal Actions

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

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

For the Three Months Ended March 31, 2017:

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⁾	\$ —
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 Federal Mine Safety and Health Review Commission ("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 assessment from MSHA under the Mine Act pursuant to the citations and/or orders preceding such dollar value in the corresponding row.

