Sanchez Energy Corp
Form S-1/A
November 25, 2011

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As filed with the Securities and Exchange Commission on November 25, 2011

Registration No. 333-176613

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 3

to

FORM S-1

REGISTRATION STATEMENT

UNDER THE SECURITIES ACT OF 1933

SANCHEZ ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**1311**	**45-3090102**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(IRS Employer Identification Number)

1111 Bagby Street

Suite 1600

Houston, Texas 77002

(713) 783-8000

(Address, including zip code, and telephone number, including

area code, of registrant s principal executive offices)

Antonio R. Sanchez, III

1111 Bagby Street

Suite 1600

Houston, Texas 77002

(713) 783-8000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

David P. Elder **Patrick J. Hurley** **Akin Gump Strauss Hauer & Feld LLP** **1111 Louisiana Street, 44th Floor** **Houston, Texas 77002** **(713) 220-5881**	**Robert G. Reedy** **E. James Cowen** **Porter Hedges LLP** **1000 Main Street, 36th Floor** **Houston, Texas 77002** **(713) 226-6674**

Approximate date of commencement of proposed sale to the public:

As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

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

Large accelerated filer ¨ Accelerated filer ¨
Non-accelerated filer x Smaller reporting company ¨
(Do not check if a smaller reporting company)

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Proposed Maximum Aggregate Offering Price(1)(2)**	**Amount of Registration Fee(3)**
Common Stock, par value $0.01 per share	$287,500,000	$33,172.50

(1) Includes shares of common stock issuable upon exercise of the underwriters option to purchase additional shares of common stock.
(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o).
(3) Of this amount, $17,415.00 has previously been paid.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED NOVEMBER 25, 2011

PRELIMINARY PROSPECTUS

10,000,000 Shares

Sanchez Energy Corporation

COMMON STOCK

Sanchez Energy Corporation is offering 10,000,000 shares of its common stock. This is the initial public offering of our common stock and no public market currently exists for our common stock. We currently estimate that the initial public offering price of our common stock will be between $24.00 and $26.00 per share. We have applied to list our common stock on the New York Stock Exchange under the symbol SN.

Investing in our common stock involves risks. See Risk Factors beginning on page 19.

	Per Share	Total
Initial Public Offering Price	$	$
Underwriting Discounts and Commissions	$	$
Proceeds, Before Expenses, to Us	$	$

The underwriters may also purchase up to an additional 1,500,000 shares of common stock from us at the public offering price, less the underwriting discounts and commissions, within 30 days of the date of this prospectus to cover any over-allotments. If the underwriters exercise this option in full, the total underwriting discounts and commissions will be $, and our total proceeds, after underwriting discounts and commissions, will be $.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to purchasers on , 2011.

Johnson Rice & Company L.L.C. **Macquarie Capital**

Simmons & Company

International

Canaccord Genuity

Capital One Southcoast

Cowen and Company

Stifel Nicolaus Weisel

, 2011

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You should rely only on the information contained in this prospectus or in any free writing prospectus we may authorize to be delivered to you. Neither we nor the underwriters have authorized anyone to provide you with additional or different information. We and the underwriters are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted.

This prospectus contains forward-looking statements that are subject to a number of risks and uncertainties, many of which are beyond our control. Please read Risk Factors and Forward-Looking Statements.

Industry and Market Data

The market data and certain other statistical information used throughout this prospectus are based on independent industry publications, government publications or other published independent sources. Although we believe these third-party sources are reliable and that the information is accurate and complete, we have not independently verified the information nor have we ascertained the underlying economic or operational assumptions relied upon therein.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. Because this summary provides only a brief overview of the key aspects of the offering, it does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, including Risk Factors beginning on page 19, Management s Discussion and Analysis of Financial Condition and Results of Operations beginning on page 55 and the financial statements and the related notes appearing elsewhere in this prospectus, before making an investment decision. The information presented in this prospectus assumes that the underwriters do not exercise their option to purchase additional shares of common stock from us, unless otherwise indicated.

As used in this prospectus, unless otherwise indicated: (i) the company, we, our, us or similar terms refer collectively to Sanchez Energy Corporation and its operating subsidiaries after giving effect to the formation transactions described under Formation Transactions ; (ii) SOG refers to Sanchez Oil & Gas Corporation, a Delaware corporation; (iii) SEP I refers to Sanchez Energy Partners I, LP, a Delaware limited partnership; (iv) Sanchez Group refers to SOG, SEP I and their affiliates (but excludes the company); (v) SEP Holdings III refers to SEP Holdings III, LLC, a Delaware limited liability company and a wholly owned subsidiary of SEP I, which will be contributed to us as part of the formation transactions; and (vi) Marquis LLC refers to the Delaware limited liability company that will be contributed to us by a private seller in connection with the Marquis acquisition described below. See Organizational Structure of Sanchez Energy Corporation for additional information.

On November 8, 2011, we entered into a contribution agreement with a private seller to acquire, through the acquisition of Marquis LLC, approximately 54,900 net undeveloped acres in Fayette, Lavaca, Atascosa, Webb and DeWitt Counties of South Texas. This transaction is referred to as the Marquis acquisition throughout this prospectus and is one of the formation transactions described under Formation Transactions. The Marquis acquisition is subject to a limited number of closing conditions, including completion of this offering, and is expected to close immediately after the closing of this offering. See Recent Developments and The Marquis Acquisition. Our net acreage, the number of identified drilling locations and wells, and capital expenditures are presented throughout this prospectus after giving effect to the Marquis acquisition.

Our estimated proved reserve information as of December 31, 2010 and June 30, 2011 is based on reports prepared by Ryder Scott Company, L.P., or Ryder Scott, our independent reserve engineers. We have included a glossary of some of the oil and natural gas terms used in this prospectus in Appendix A.

Overview

We are an independent exploration and production company focused on the exploration, acquisition and development of unconventional oil and natural gas resources and recently formed for the purpose of acquiring unconventional oil and natural gas assets, including those that will be contributed to us as part of the formation transactions. We have accumulated approximately 92,000 net leasehold acres in the oil and condensate, or black oil and volatile oil, windows of the Eagle Ford Shale in Gonzales, Zavala, Frio, Fayette, Lavaca, Atascosa, Webb and DeWitt Counties of South Texas. Approximately 54,900 net acres of the 92,000 net acres are attributable to the properties to be acquired as part of the Marquis acquisition. We use the term black oil to describe a quality of oil with an API gravity of 40º or less and with a gas-to-oil ratio of 500 cubic feet per barrel or less. We use the term volatile oil to describe a quality of oil with an API gravity greater than 40º and with a gas-to-oil ratio of greater than 500 cubic feet per barrel. The majority of our capital expenditure budget for the period from January 2012 through December 2013 will be focused on the development and expansion of our oil focused Eagle Ford Shale acreage and operations. We plan to continue to aggressively pursue additional leasehold and strategic acquisitions in the Eagle Ford Shale.

Our management team and the Sanchez Group have a proven track record in identifying, acquiring, and executing large drilling programs and have operated a wide range of drilling projects over the last 40 years, primarily focused as an operator in the South Texas and onshore Gulf Coast areas. Various members of the

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Sanchez Group have been in the oil and natural gas business since 1972, have drilled or participated in over 900 wells, directly and through joint ventures, and have invested substantial amounts of capital in the oil and natural gas industry. During this period, they have carefully cultivated their relationships with mineral and surface rights owners in and around our South Texas and onshore Gulf Coast areas, which we believe gives us a competitive advantage in acquiring additional leasehold positions in these areas.

Our Eagle Ford Shale acreage is comprised of approximately 9,400 net acres in Gonzales County, Texas, which we refer to as our Palmetto area, approximately 27,700 net acres in Zavala and Frio Counties, Texas, which we refer to as our Maverick area, and approximately 54,900 net acres in Fayette, Lavaca, Atascosa, Webb and DeWitt Counties of South Texas included in the Marquis acquisition, which we refer to as the Marquis area. Hilcorp Energy Company, together with its affiliates, or Hilcorp, recently closed the sale of 141,000 net acres in the Eagle Ford Shale, including its 50% ownership interest in our Palmetto area, to Marathon Oil Corporation, or Marathon, for approximately $3.5 billion, or an average of $24,822 per net acre, before adjusting for acquired production and reserves and subject to closing adjustments. Marathon is now our 50/50 working interest partner in our Palmetto area, as successor to Hilcorp.

We own all rights and depths on the majority of our Eagle Ford Shale acreage. We believe this acreage to be prospective for other zones, including the Buda Limestone, Austin Chalk and Pearsall Shale formations that lie above and below the Eagle Ford Shale. We are currently evaluating these other zones, which may present us with additional drilling locations. Several of our existing wells are either producing from or have logged pay in the Buda Limestone and the Austin Chalk formations.

In addition, we have approximately 1,250 net acres in the Haynesville Shale in Natchitoches Parish, Louisiana, which are operated by Chesapeake Energy Corporation. We do not currently anticipate spending any capital on our Haynesville acreage in the near future. The majority of our Haynesville leases extend through 2012 and 2013, giving us and our partners the option to accelerate drilling should natural gas prices increase. Finally, we have amassed approximately 82,000 net acres in northern Montana, which we believe may be prospective for the Heath, Three Forks and Bakken Shales.

Our capital expenditure budget for the period from January 2012 through December 2013 is approximately $413 million, and is anticipated to consist of the following:

- Approximately $350 million for drilling and completing wells in the Eagle Ford Shale;

- Approximately $50 million for expansion of our Eagle Ford Shale acreage position; and

- Approximately $13 million for construction of central facilities for our Eagle Ford Shale acreage.

The following table presents summary data for each of our primary project areas as of September 30, 2011, unless otherwise indicated:

					Capital Expenditure Budget from January 2012 through December 2013			
		Net Acreage	**Identified Drilling Locations[1] Gross**	**Identified Drilling Locations[1] Net**	**Gross Wells**	**Net Wells**	**Drilling Capex (in millions)**	**Estimated Net Proved Reserves[2] (mmboe)**
Palmetto	Gonzales[3]	9,392	156	76	39	19	$ 165	2.9
Maverick	Zavala, Frio	27,711	285	230	18	9	50	0.1
Marquis	Fayette, Lavaca, Atascosa, Webb and DeWitt	54,868	457	457	18	18	135	-
Total Eagle Ford Shale		91,971	898	763	75	46	$ 350	3.0

Haynesville Shale	1,252	60	15	-	-		-	0.2
Heath, Three Forks and Bakken Shales	82,274	-	-	-	-		-	-
Total	175,497	958	778	75	46	$	350	3.2

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(1) Total identified drilling locations are calculated using approximately 120 acre spacing in our Eagle Ford Shale areas and approximately 80 acre spacing in our Haynesville Shale area on the undeveloped portion of our acreage. We are currently evaluating our acreage in the Heath, Three Forks and Bakken Shales and have not identified any drilling locations on that acreage.

(2) Based on Ryder Scott estimated proved reserve report as of June 30, 2011.

(3) In our Palmetto area, we have 19 gross (9.5 net) locations that are classified as proved undeveloped at June 30, 2011. We plan to drill all of those proved undeveloped locations within the next five years.

The table above identifies a total of up to 958 gross (778 net) drilling locations, of which over 90% are located in our Eagle Ford Shale acreage position. Our Ryder Scott estimated proved reserve report dated as of June 30, 2011 attributed proved undeveloped reserves to 20 gross locations of these total identified locations, one of which was placed on production subsequent to June 30, 2011. In addition, this reserve report attributed probable undeveloped reserves to 84 gross locations and possible undeveloped reserves to 75 gross locations.

Our Properties

Eagle Ford Shale

The Eagle Ford Shale is one of the fastest growing unconventional shale trends in North America. According to the Smith Weekly Rig Count, since January 2010, the rig count in the Eagle Ford Shale has grown 659% from 27 rigs to 205 rigs as of November 11, 2011. Based on a recent study by the Society of Petroleum Engineers, the aerial extent of the trend is thought to be approximately 11 million acres. Based on publicly available information, we believe that average drilling and completion costs in the trend have ranged between $5.5 million and $9.5 million per well with average estimated ultimate recoveries, or EURs, ranging from 225,000 to 850,000 boe per well, and initial 30-day average production has ranged between 200 to 2,000 boe/d per well. There have been a number of recent publicly-reported transactions in the trend that have yielded per acre valuations ranging from approximately $5,000 per acre to $25,000 per acre. Based on our experience and that of other companies operating in this trend, we believe that the Eagle Ford Shale can be characterized as having low geologic risks and repeatable drilling opportunities.

In the Eagle Ford Shale, we have assembled approximately 92,000 net acres with an average working interest of approximately 85%. Using approximately 120 acre well-spacing for horizontal well development, we believe that there could be up to 898 gross (763 net) locations for potential future drilling on our acreage. Consistent with other operators in this area, we plan to perform multi-stage hydraulic fracturing with 12 to 20 stages on each lateral well. For the period from January 2012 through December 2013, we plan to spend approximately $350 million on drilling 75 gross (46 net) wells on our Eagle Ford Shale acreage.

In our Palmetto area, we have approximately 9,400 net acres in Gonzales County, Texas with an average working interest of approximately 49%. We believe that our Palmetto acreage lies in the volatile oil window where we anticipate drilling, completion and facilities costs on our acreage to be between $7.5 million and $9.5 million per well based on publicly available information. We have participated in the drilling of four gross wells on our acreage that had an average initial 30-day per well choke restricted production rate of 788 boe/d (665 bopd and 737 mcf/d). We have identified up to 156 gross (76 net) locations based on 120 acre spacing for potential future drilling in our Palmetto area. For the period from January 2012 through December 2013, we plan to spend approximately $165 million to drill 39 gross (19 net) wells in our Palmetto area.

In our Maverick area, we have approximately 27,700 net operated acres in Zavala and Frio Counties, Texas with an average working interest of approximately 81%. We believe that our Maverick acreage lies in the black oil window, where we anticipate drilling, completion and facilities costs on our acreage to be between $5.5 million and $6.5 million per well based on publicly available information. We have identified up to 285 gross (230 net) locations based on 120 acre spacing for potential future drilling on our Maverick acreage.

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We have drilled one horizontal well that had an initial 30-day average production rate of 242 bopd. We are currently drilling one vertical well to also test the feasibility of a vertical development program and compare horizontal and vertical completion economic returns. For the period from January 2012 through December 2013, we plan to spend approximately $50 million to drill 18 gross (9 net) wells in our Maverick area.

In our Marquis area, we have approximately 54,900 net operated acres, the majority of which are in southwest Fayette and northeast Lavaca Counties, Texas with a 100% working interest. We believe that our Marquis acreage lies in the volatile oil window where we anticipate drilling, completion and facilities costs on our acreage to be between $6.5 million and $8.5 million per well based on publicly available information. We have identified up to 457 gross and net locations based on 120 acre spacing for potential future drilling on our Marquis acreage. Other operators in this project area have recently reported initial per well production rates of 1,000 to 1,200 boe/d. For the period from January 2012 through December 2013, we plan to spend approximately $135 million to drill 18 gross (18 net) wells in our Marquis area. Our net acreage, the number of identified drilling locations and wells, and capital expenditures are presented throughout this prospectus after giving effect to the Marquis acquisition.

Haynesville Shale

We have assembled approximately 1,250 net acres in Natchitoches Parish, Louisiana that are prospective for the Haynesville Shale. We have an average working interest of approximately 25% and the operator on our Haynesville Shale acreage is Chesapeake Energy Corporation. Three gross wells have been drilled to date, and we have participated in one of those wells. We believe that our acreage position is in the core of the Haynesville Shale fairway. We anticipate drilling, completion and facilities costs on our acreage to be between $8.0 and $10.0 million per well. We have identified 60 gross and 15 net locations for potential future drilling on our acreage. We do not currently anticipate spending any capital on our Haynesville Shale acreage in the near term. The majority of our Haynesville Shale leases extend through 2012 and 2013, giving us and our partners the option to accelerate drilling should natural gas prices increase.

Heath, Three Forks and Bakken Shales

We have acquired approximately 82,000 net acres in Lewis and Clark, Meagher, and Cascade Counties of Montana that we believe may be prospective for the Heath, Three Forks and Bakken Shales. We plan to monitor industry activity in our area as we develop our plans. Our lease terms are for five years with an option to renew for another five years at $10 per acre, giving us time to allow industry activity to develop the trend before we devote significant drilling capital to our acreage position.

Our Business Strategies

Our primary business objective is to increase stockholder value by building reserves, production and cash flows at an attractive return on invested capital. To achieve our objective, we intend to execute the following business strategies:

- A*ggressively Develop Our Eagle Ford Shale Leasehold Positions.* We intend to aggressively drill and develop our acreage position to maximize the value of our resource potential. The up to 898 gross (763 net) locations for potential future drilling that we have identified in our Eagle Ford Shale area will be our primary targets in the near term as we believe the Eagle Ford Shale to be the highest rate of return project that we currently possess. We anticipate drilling 75 gross (46 net) wells through December 2013 with an aggregate drilling and completion capital expenditure budget of approximately $350 million.

- *Pursue Strategic Acquisitions and Grow Our Leasehold Position in the Eagle Ford Shale and Seek Entry into New Basins*. We believe that we will be able to identify and acquire additional

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acreage and producing assets in the Eagle Ford Shale. We recently entered into a definitive agreement to acquire approximately 54,900 net acres from a private seller for approximately $89 million in cash, subject to adjustment, and $20 million in shares of our common stock, or 800,000 shares of our common stock assuming an initial public offering price of $25.00 per share (the midpoint of the price range on the cover page of this prospectus), and a previously conveyed overriding royalty interest in what is now our Marquis area. By leveraging our longstanding relationships in South Texas, we plan on continuing to expand our Eagle Ford Shale acreage position at what we believe to be attractive valuations, and we have budgeted $50 million for additional leasehold acquisitions in the Eagle Ford Shale for the period between January 2012 and December 2013. We also plan to selectively target additional domestic basins that would allow us to employ our strategies on large undeveloped acreage positions similar to our Eagle Ford Shale acreage.

Leverage our Relationship with Our Affiliates to Expand Unconventional Oil Assets. Our largest stockholder is controlled by certain members of the Sanchez Group. Various members of the Sanchez Group have drilled or participated in over 900 wells, directly and through joint ventures, and have invested substantial amounts of capital in the oil and natural gas industry since 1972. During this period, they have carefully cultivated their relationships with mineral and surface rights owners in and around our South Texas and onshore Gulf Coast areas and compiled an extensive technological database, which we believe gives us a competitive advantage in acquiring additional leasehold positions in these areas. We will have access to the unrestricted, proprietary portions of the technological database related to our properties, and SOG will otherwise be required to interpret and use the database, to the extent relating to our properties for our benefit. The majority of the database covers the South Texas and onshore Gulf Coast areas and includes more than 6,400 square miles of 3D seismic data and 48,000 miles of 2D seismic data used for regional interpretation, 395,000 well logs, 13,000 LAS files and 30,000 scanned well documents, as well as a fully integrated suite of the latest interpretive geologic software. We plan on leveraging our affiliates expertise, industry relationships and size to opportunistically expand reserves and our leasehold positions in the Eagle Ford Shale and other onshore unconventional oil resources.

Enhance Returns by Focusing on Operational and Cost Efficiencies. We are focused on continuous improvement of our operating measures and have significant experience in successfully converting early-stage resource opportunities into cost-efficient development projects. We believe the magnitude and concentration of our acreage within our project areas provide us with the opportunity to capture economies of scale, including the ability to drill multiple wells from a single drilling pad, utilizing centralized production and fluid handling facilities and reducing the time and cost of rig mobilization.

Adopt and Employ Leading Drilling and Completion Techniques. We are focused on enhancing our drilling and completion techniques to maximize recovery. Industry techniques with respect to drilling and completion have significantly evolved over the last several years, resulting in increased initial production rates and recoverable hydrocarbons per well through the implementation of longer laterals and more tightly spaced fracturing stimulation stages. We continuously evaluate industry drilling results and monitor the results of other operators to improve our operating practices, and we expect our drilling and completion techniques will continue to evolve.

Maintain Substantial Financial Liquidity to Capitalize on Opportunity and Limit Commodity Price Volatility. Following the completion of this offering and the other transactions described under Formation Transactions, we will have approximately $92 million in cash, assuming

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an initial public offering price of $25.00 per share (the midpoint of the price range set forth on the cover page of this prospectus) and no outstanding indebtedness. We believe this strong liquidity position will allow us to grow production and proved reserves, to capitalize on acreage acquisition opportunities and to weather any potential volatility in commodity prices. We currently expect that the net proceeds from this offering and our expected cash flows from operations will not require us to obtain any material debt financing to finance our planned capital expenditure program through December 2013. However, we anticipate that we will arrange a borrowing facility in the future to increase our available liquidity options.

Our Competitive Strengths

We believe that the following competitive strengths will allow us to successfully execute our business strategies:

Geographically Concentrated Leasehold Position in One of North America s Leading Unconventional Oil Resource Trends. We have assembled a current leasehold position of approximately 92,000 net leasehold acres in the Eagle Ford Shale, which we believe to be one of the highest rates of return unconventional oil and natural gas areas in North America. Our geographically concentrated acreage position allows us to establish economies of scale with respect to drilling, production, operating and administrative costs in addition to further leveraging our base of technical expertise in our project areas. We believe that offset operator activity and well results around our project areas have significantly de-risked our acreage positions such that we believe that there are low geologic risks and repeatable drilling opportunities across our acreage position.

Large, Multi-Year Inventory. We have an inventory of up to 898 gross (763 net) locations for potential future drilling on our Eagle Ford Shale acreage position and 60 gross (15 net) locations for potential future drilling on our Haynesville acreage position. For the period from January 2012 through December 2013, we plan on drilling 75 gross (46 net) wells on our Eagle Ford Shale acreage. The drilling and completion of these wells would represent approximately 8% of the total gross identified locations and approximately 6% of the total net identified locations on our Eagle Ford Shale acreage. As the industry continues to refine drilling and completion technologies, we may be able to enhance total recovery and inventory through the drilling of in-fill locations on our acreage positions. In addition, we have amassed approximately 82,000 net acres in Lewis and Clark, Meagher, and Cascade Counties of Montana that we believe may be prospective for the Heath, Three Forks and Bakken Shales. If we are successful in developing this acreage, we could materially expand our multi-year inventory.

Our Relationship with Members of the Sanchez Group and Our Services Agreement Provide Us with Extensive Technical Expertise and Access to Long Standing Relationships with Mineral Owners. Certain members of the Sanchez Group have been in the oil and natural gas business since 1972 and have drilled or participated in over 900 wells, directly and through joint ventures, in and around our South Texas and onshore Gulf Coast areas. This long operating history in the basins in which we operate provides us with extensive knowledge of the basins and the ability to leverage longstanding relationships with mineral owners. We believe that this expertise and these relationships, together with our services agreement, should allow us to develop our assets efficiently and increase our acreage position.

Significant Financial Flexibility. Following the completion of this offering and the other transactions described under Formation Transactions, we will have approximately $92 million in cash, assuming an initial public offering price of $25.00 per share (the midpoint

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of the price range set forth on the cover page of this prospectus) and no outstanding indebtedness. We will use this cash to fund our capital expenditures, and, in particular, our drilling, exploration and acquisition programs through December 2013, our other operating expenses, and for general corporate purposes. We currently expect that the net proceeds from this offering and our expected cash flows from operations will not require us to obtain any material debt financing to finance our planned capital expenditure program through December 2013. However, we anticipate that we will arrange a borrowing facility in the future to increase our available liquidity options.

Eagle Ford Shale Well Results

In July 2011, we completed our first Maverick area Eagle Ford horizontal well, the Alpha Ware #1H, in Zavala County, Texas. This well was a 6,513 foot lateral well and was completed using a 20 stage hydraulic fracture stimulation. The 30-day average initial production rate from this well was 242 bopd. Through October 10, 2011, the Alpha Ware #1H has produced a total of approximately 14,262 bo. We are the operator of the well and have a 60% working interest in the well.

In February 2011, we completed our fourth Eagle Ford horizontal well in our Palmetto area, the Barnhart #4H, in Gonzales County, Texas. This well was a 5,507 foot lateral well and was completed using a 16 stage hydraulic fracture stimulation. The 30-day average initial production rate from this well was 893 boe/d (713 bopd and 1,080 mcf/d) using a 15/64 inch restricted choke. Through October 10, 2011, the Barnhart #4H has produced a total of approximately 153,066 boe (115,815 bo and 223,507 mcf). We have a 50% working interest in the well.

In November 2010, we completed our third Eagle Ford horizontal well in our Palmetto area, the Barnhart #3H, in Gonzales County, Texas. This well was a 5,320 foot lateral well and was completed using a 16 stage hydraulic fracture stimulation. The 30-day average initial production rate from this well was 663 boe/d (618 bopd and 271 mcf/d) using a 15/64 inch restricted choke. Through October 10, 2011, the Barnhart #3H has produced a total of approximately 99,843 boe (94,510 bo and 31,995 mcf). We have a 50% working interest in the well.

In October 2010, we completed our second Eagle Ford horizontal well in our Palmetto area, the Barnhart #2H, in Gonzales County, Texas. This well was a 5,100 foot lateral well and was completed using a 12 stage hydraulic fracture stimulation. The 30-day average initial production rate from this well was 1,102 boe/d (880 bopd and 1,330 mcf/d) using a 13/64 inch restricted choke. Through October 10, 2011, the Barnhart #2H has produced a total of approximately 153,268 boe (117,945 bo and 211,935 mcf). We have a 50% working interest in the well.

In July 2010, we completed our first Eagle Ford horizontal well in our Palmetto area, the Barnhart #1H, in Gonzales County, Texas. This well was a 3,902 foot lateral well and was completed using a 12 stage hydraulic fracture stimulation. The 30-day average initial production rate from this well was 491 boe/d (447 bopd and 268 mcf/d) using a 17/64 inch restricted choke. Through October 10, 2011, the Barnhart #1H has produced a total of approximately 77,504 boe (66,856 bo and 63,886 mcf). We have a 50% working interest in the well.

Recent Developments

On November 8, 2011, we entered into a contribution agreement, or the Marquis Contribution Agreement, with a private seller to acquire Marquis LLC, which owns a 100% working interest and an approximate 75% net revenue interest in approximately 54,900 net acres in Fayette, Lavaca, Atascosa, Webb and DeWitt Counties of South Texas. We have agreed to pay the seller approximately $89 million in cash, subject to customary pre- and post-closing adjustments (and exclusive of certain costs and expenses for which we have agreed to reimburse the seller in cash at closing), and $20 million in shares of our common stock, or 800,000 shares of our common stock assuming an initial public offering price of $25.00 per share (the midpoint of the price range set forth on the cover page of this prospectus). The acreage that we are acquiring is subject to an overriding royalty interest that was previously conveyed by the seller to an affiliate as part of the transactions contemplated by the Marquis Contribution

Agreement. Approximately 48,600 net acres are located in what we believe to be the volatile oil window of the Eagle Ford Shale in southwest Fayette and northeast Lavaca Counties, Texas. For the period from January 2012 through December 2013, we plan to spend approximately $135 million to drill 18 gross (18 net) wells in our Marquis area. See The Marquis Acquisition for additional information.

Since the end of the third quarter of 2011, we have drilled our fifth and sixth Eagle Ford Shale horizontal wells in our Palmetto area, the Barnhart #5H and #6H, in Gonzales County, Texas. We are currently finishing completion activities on these two wells and expect them to commence production in December 2011.

Our Principal Business Relationships

SEP I will be our largest stockholder following consummation of this offering and the other transactions described under Formation Transactions, holding approximately 67.3% of our post-offering outstanding common stock, assuming an initial offering price of $25.00 per share (the midpoint of the price range set forth on the cover page of this prospectus) and that the underwriters do not exercise their over-allotment option. SEP I was formed in late 2007 in order to facilitate the expansion of exploration activities previously begun in the early 2000 s by SOG and several independent parties to joint exploration agreements. SOG and the other parties contributed their assets to the newly formed SEP I and a second phase of equity fundraising was completed in early 2008. As a result, SOG and its affiliates became the largest limited partner in SEP I as well as its general partner. Collectively, SOG and its affiliates own approximately 24% of the limited partnership interests in SEP I. The unconventional assets acquired by SEP I are being contributed to us in exchange for cash and common stock in the transactions described under Formation Transactions.

Immediately following the consummation of this offering, SEP I will own a majority of our outstanding shares and, except for the lock-up period described under Underwriting and Conflicts of Interest, SEP I will not be subject to any contractual obligation to maintain its ownership in us. For more information on the potential effects of a disposition of our common stock by SEP I, please read Risk Factors Risks Relating to This Offering A substantial portion of our total outstanding shares may be sold into the market. This could cause the market price of our common stock to drop significantly, even if our business is doing well.