

Sanchez Energy Corp
Form 10-K
March 12, 2014

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[ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA](#)

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number: 1-35372

Sanchez Energy Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

45-3090102

(I.R.S. Employer
Identification No.)

1111 Bagby Street, Suite 1800

Houston, Texas

(Address of principal executive offices)

77002

(Zip Code)

(713) 783-8000

(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

(Title of Class)

Common Stock, par value \$0.01 per share

(Name of Exchange)

New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:

None

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

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

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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.

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

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

Aggregate market value of the voting and non-voting common equity held by non-affiliates of registrant as of June 30, 2013: \$657,235,464

Number of shares of registrant's common stock outstanding as of March 10, 2014: 52,038,569.

Documents Incorporated By Reference:

Portions of the registrant's definitive proxy statement for its 2014 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days of December 31, 2013, are incorporated by reference into Part III of this report for the year ended December 31, 2013.

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We are an "emerging growth company" as defined under the Jumpstart Our Business Startups Act of 2012, commonly referred to as the "JOBS Act". We will remain an "emerging growth company" for up to five years from the date of the completion of our initial public offering, or the IPO, on December 19, 2011, or until the earlier of (1) the last day of the fiscal year in which our total annual gross revenues exceed \$1 billion, (2) the date that we become a "large accelerated filer" as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended, or the Exchange Act, which would occur if the market value of our common equity that is held by non-affiliates is \$700 million or more as of the last business day of our most recently completed second fiscal quarter or (3) the date on which we have issued more than \$1 billion in non-convertible debt during the preceding three year period.

As an "emerging growth company", we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies" including, but not limited to:

not being required to comply with the auditor attestation requirements related to our internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act;

reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements; and

exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved.

In addition, Section 107 of the JOBS Act provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended, or the Securities Act, for complying with new or revised accounting standards. Under this provision, an "emerging growth company" can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to avail ourselves of this exemption from new or revised accounting standards and, therefore, we will not be subject to new or revised accounting standards at the same time as other public companies that are not emerging growth companies.

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**SANCHEZ ENERGY CORPORATION
FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2013**

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains "forward-looking statements" within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this Annual Report on Form 10-K that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements. These statements are based on certain assumptions we made based on management's experience, perception of historical trends and technical analyses, current conditions, anticipated future developments and other factors believed to be appropriate and reasonable by management. When used in this Annual Report on Form 10-K, words such as "will," "potential," "believe," "estimate," "intend," "expect," "may," "should," "anticipate," "could," "plan," "predict," "project," "profile," "model," "strategy," "future" or their negatives or the statements that include these words or other words that convey the uncertainty of future events or outcomes, are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. In particular, statements, express or implied, concerning our future operating results and returns or our ability to replace or increase reserves, increase production, or generate income or cash flows are forward-looking statements. Forward-looking statements are not guarantees of performance. Although we believe that the expectations reflected in our forward-looking statements are reasonable and are based on reasonable assumptions, no assurance can be given that these assumptions are accurate or that any of these expectations will be achieved (in full or at all) or will prove to have been correct. Important factors that could cause our actual results to differ materially from the expectations reflected in the forward looking statements include, among others:

our ability to successfully execute our business and financial strategies;

our ability to replace the reserves we produce through drilling and property acquisitions;

the realized benefits of the acreage acquired in the Tuscaloosa Marine Shale (the "TMS", and such transactions, the "TMS transactions"), the acquisition of assets from Hess Corporation ("Hess", and such acquisition transaction, the "Cotulla acquisition") and liabilities assumed in connection therewith, and the acquisition of the Wycross properties described herein and other assets and liabilities assumed in connection therewith (the "Wycross acquisition");

the extent to which our drilling plans are successful in economically developing our acreage in, and to produce reserves and achieve anticipated production levels from, our existing and future projects;

the accuracy of reserve estimates, which by their nature involve the exercise of professional judgment and may therefore be imprecise;

the extent to which we can optimize reserve recovery and economically develop our plays utilizing horizontal and vertical drilling, advanced completion technologies and hydraulic fracturing;

our ability to successfully execute our hedging strategy and the resulting realized prices therefrom;

competition in the oil and natural gas exploration and production industry for employees and other personnel, equipment, materials and services and, related thereto, the availability and cost of employees and other personnel, equipment, materials and services;

our ability to access the credit and capital markets to obtain financing on terms we deem acceptable, if at all, and to otherwise satisfy our capital expenditure requirements;

the availability, proximity and capacity of, and costs associated with, gathering, processing, compression and transportation facilities;

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the timing and extent of changes in prices for, and demand for, crude oil and condensate, natural gas liquids, or NGLs, natural gas and related commodities;

our ability to compete with other companies in the oil and natural gas industry;

the impact of, and changes in, government policies, laws and regulations, including tax laws and regulations, environmental laws and regulations relating to air emissions, waste disposal, hydraulic fracturing and access to and use of water, laws and regulations imposing conditions and restrictions on drilling and completion operations and laws and regulations with respect to derivatives and hedging activities;

developments in oil-producing and natural gas-producing countries;

our ability to effectively integrate acquired crude oil and natural gas properties into our operations, fully identify existing and potential problems with respect to such properties and accurately estimate reserves, production and costs with respect to such properties;

the extent to which our crude oil and natural gas properties operated by others are operated successfully and economically;

the use of competing energy sources and the development of alternative energy sources;

unexpected results of litigation filed against us;

the extent to which we incur uninsured losses and liabilities or losses and liabilities in excess of our insurance coverage; and

the other factors described under "Item 1A. Risk Factors" in this Annual Report on Form 10-K and any updates to those factors set forth in our subsequent Quarterly Reports on Form 10-Q or Current Reports on Form 8-K.

In light of these risks, uncertainties and assumptions, the events anticipated by our forward-looking statements may not occur, and, if any of such events do, we may not have correctly anticipated the timing of their occurrence or the extent of their impact on our actual results. Accordingly, you should not place any undue reliance on any of our forward-looking statements. Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to correct or update any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by applicable law.

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PART I

Item 1. Business

Overview

Sanchez Energy Corporation (together with our consolidated subsidiaries, the "Company," "we," "our," "us" or similar terms), a Delaware corporation formed in August 2011, is an independent exploration and production company that is focused on the exploration, acquisition and development of unconventional oil and natural gas resources in the onshore U.S. Gulf Coast, with a current focus on the Eagle Ford Shale in South Texas and, to a lesser extent, the TMS in Mississippi and Louisiana. We have accumulated approximately 120,000 net leasehold acres in the oil and condensate, or black oil and volatile oil, windows of the Eagle Ford Shale and approximately 40,000 net leasehold acres in what we believe to be the core of the TMS. We are currently focused on the horizontal development of significant resource potential from the Eagle Ford Shale, with plans to invest approximately 86% of our total 2014 capital budget in this area. We are continuously evaluating opportunities to grow both our acreage and our producing assets through acquisitions. Our successful acquisition of such assets will depend on both the opportunities and the financing alternatives available to us at the time we consider such opportunities. We have included definitions of some of the oil and natural gas terms used in this Annual Report on Form 10-K in the "Glossary of Selected Oil and Natural Gas Terms."

During 2013, we significantly expanded our proved reserves, production and undeveloped acreage through a series of acquisitions beginning with the Cotulla acquisition in the Eagle Ford Shale in South Texas which we closed on May 31, 2013. In this acquisition, we acquired approximately 44,461 net acres in Dimmit, Frio, LaSalle and Zavala Counties, Texas with 53 gross wells producing an estimated average of approximately 4,950 boe/d for the month of May 2013. The acquisition included estimated proved reserves as of March 31, 2013 of 14.2 mboe, 66% oil, 13% NGLs and 21% natural gas, with proved developed reserves estimated to account for approximately 48% of total proved reserves. We combined our new Cotulla assets with our previous Maverick area to form one operating area now known as our Cotulla area.

In July 2013, we acquired approximately 10,300 net acres and approximately 250 boe/d of estimated production in Fayette, Gonzales and Lavaca Counties, Texas. This acquisition, now known as our Five Mile Creek development within our Marquis Area, is directly to the northwest of our Prost development project.

On August 16, 2013, we completed an asset acquisition of approximately 40,000 net undeveloped acres in the TMS in Southwest Mississippi and Southeast Louisiana and the formation of an area of mutual interest and a 50/50 joint venture with our affiliate, SR Acquisition I, LLC (together with its parent company Sanchez Resources, LLC, where applicable, "SR"). The joint venture controls approximately 115,000 gross and 80,000 net acres in what we believe to be the core of the TMS.

On October 4, 2013, we closed our Wycross acquisition in the Eagle Ford Shale. At the effective date of July 1, 2013 this acquisition added approximately 11 MMBOE of net proved reserves, 2,000 boe/d of production and 3,600 net contiguous acres of leasehold in McMullen County, Texas.

Our 2014 capital budget of \$650 - \$700 million is allocated 95% to the drilling and completion of 70 net wells with the remainder allocated to facilities, leasing, and seismic activities.

For 2014, our operating plans largely focus on continued improvement to our manufacturing efficiency with the goal of steady improvement in our capital efficiency. Our 2014 capital budget will be focused on the development of our approximately 120,000 net acres in the Eagle Ford Shale. In the Eagle Ford, we plan on investing \$555 - \$600 million, or 90%, of our drilling and completion budget to spud and complete 68 net wells in 2014. In addition, we intend to invest \$60 - \$65 million on drilling and completing up to 4 gross (2 net) wells in the TMS.

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The following table presents our capital expenditure budget for the 2014 fiscal year:

Project Area	2014 Capital Budget (\$MM)					
	Gross Full Year Rig Count	Net Wells Spud	Net Wells Completed	Capex	% of Operating Capital	% of Drilling and Completion ("D&C") Capital
Marquis	3.0	35	32	\$315	46%	48%
Cotulla	2.0	28	28	205 - 225	32%	33%
Palmetto	0.7	5	8	50 - 60	8%	9%
TMS	1.3	2	2	60 - 65	9%	10%
Total D&C Capital Budget	7.0	70	70	\$665	95%	100%
Facilities, Leasing, and Seismic				35	5%	
Total Capital Budget				\$700	100%	

The following table presents summary data for our Eagle Ford project areas as of December 31, 2013:

	Net Acreage	Average Working Interest	Operator	Identified Drilling Locations(1)		2014 Capital Expenditure Budget		
				Gross	Net	Net Wells Spud	Net Wells Completed	Drilling & Completion Capex (in millions)
Marquis	68,775	100%	Sanchez	900	900	35	32	\$300 - \$315
Cotulla	42,117	83%	Sanchez	850	760	28	28	\$205 - \$225
Palmetto	9,493	48%	Marathon	395	190	5	8	\$50 - \$60
Total	120,385	87%		2,145	1,850	68	68	\$555 - 600

(1)

Using approximately 40 acre well-spacing for our Cotulla and Palmetto areas and approximately 60 acre well-spacing for our Marquis area, and assuming 80% of the acreage is drillable for Cotulla and Marquis and 90% of the acreage is drillable for Palmetto, we believe that there could be up to 2,145 gross (1,850 net) locations for potential future drilling.

Our History

We are a Delaware corporation formed in August 2011 to acquire, explore and develop unconventional oil and natural gas assets. On December 19, 2011, the Company completed its IPO of 10.0 million shares of common stock, par value \$0.01 per share, at a price to the public of \$22.00 per share and received net proceeds of approximately \$203.3 million in cash (net of expenses and underwriting discounts and commissions).

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In connection with its IPO, on December 19, 2011, the Company entered into a contribution, conveyance and assumption agreement whereby Sanchez Energy Partners I, LP ("SEP I"), an affiliate of the Company, contributed to the Company 100% of the limited liability company interests in SEP Holdings III, LLC ("SEP Holdings III"), which owns interests in unconventional oil and natural gas assets consisting of undeveloped leasehold, proved oil and natural gas reserves and related equipment and other assets (the "SEP I Assets") in exchange for approximately 22.1 million shares of the Company's common stock and \$50.0 million in cash. The acquisition of oil and natural gas properties from SEP I was a transaction among entities under common control and, accordingly, the Company recorded the assets and liabilities acquired at their historical carrying values and presented the historical operations of the SEP I Assets on a retrospective basis for all periods prior to the IPO

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presented in its financial statements. In addition, the \$50.0 million payment was reflected as a distribution to SEP I in the financial statements.

Also in connection with its IPO, the Company entered into a contribution agreement whereby it acquired 100% of the limited liability company interests in Marquis LLC, which owns evaluated and unevaluated properties in Fayette, Lavaca, Atascosa, Webb and DeWitt Counties of South Texas (the "Marquis Assets") in exchange for 909,091 shares of the Company's common stock, valued at \$20.0 million, and approximately \$89.0 million in cash from the proceeds of the IPO. The acquisition was accounted for as a purchase of assets and recorded at cost at the acquisition date.

Also in connection with its IPO, on December 19, 2011, the Company entered into a services agreement and other related agreements with Sanchez Oil & Gas Corporation ("SOG" and together with its affiliates (excluding the Company but including SEP I) collectively referred to as members of the "Sanchez Group"), an affiliate of the Company, pursuant to which SOG (directly or through its subsidiaries) agreed to provide the Company with the services and data that the Company believes are necessary to manage, operate and grow its business, and the Company agreed to reimburse SOG for all direct and indirect costs incurred on its behalf.

On June 19, 2012 and September 17, 2012, SEP I distributed substantially all of the approximately 22.1 million shares of the Company's common stock that SEP I owned to the partners of SEP I (the "Distribution"). The 21,932,659 shares of common stock distributed to SEP I's partners constituted 66.5% of the then issued and outstanding shares of the Company's common stock. The Distribution was a return on SEP I's partners' capital contributions to SEP I, thus no consideration was paid to SEP I for the shares of the Company's common stock distributed. Since June 19, 2012, the Company has not been under common control with SEP I.

Our Business Strategies

Our primary business objective is to increase reserves, production and cash flows at an attractive return on invested capital. Our business strategy is currently focused on exploiting long-life, unconventional oil, condensate, NGL and natural gas reserves from the Eagle Ford Shale and the TMS. Key elements of our business strategy include:

Aggressively 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. At December 31, 2013, 58% of our proved reserves were proved undeveloped. As of December 31, 2013, we were producing from 188 wells and have identified over 1,800 net locations for potential future drilling in our Eagle Ford Shale area that will be our primary targets in the near term. In 2014, we plan to invest between \$555 and \$600 million on development drilling and completion in the Eagle Ford Shale to spud and complete approximately 68 net wells. This represents 86% of our total 2014 capital budget.

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 core 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 of reserves. 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

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implementation of longer laterals and more tightly spaced fracture 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.

Leverage our relationship with our affiliates to expand unconventional oil assets. Various members of the Sanchez Group have drilled or participated in over 1,000 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 relationships with mineral and surface rights owners in and around our Eagle Ford and TMS areas and compiled an extensive technological database which we believe gives us a competitive advantage in acquiring additional leasehold positions in these areas. We have unrestricted access to the proprietary portions of the technological database related to our properties and SOG is otherwise required to interpret and use the database for our benefit. We plan to leverage 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. The strength of these relationships is evidenced by the TMS transactions, where our working interest partner is another member of the Sanchez Group.

Pursue strategic acquisitions to 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 acreage and producing assets in the Eagle Ford Shale at attractive valuations by leveraging our longstanding relationships in and knowledge of South Texas. We also plan to selectively target additional domestic basins that would allow us to employ our strategies on attractive acreage positions that we believe are similar to our Eagle Ford Shale acreage. Our 2013 TMS transaction was consistent with this strategy and gives us approximately 40,000 net acres within what we believe to be the core of the TMS.

Maintain substantial financial liquidity and flexibility. As of December 31, 2013, we had approximately \$154 million of cash and cash equivalents available and a borrowing capacity under our revolving credit facility of \$300 million. We believe that this strong liquidity position combined with our cash flow from operations will allow us to continue executing a capital expenditure program that should result in steady growth of production, cash flow and proved reserves. Furthermore, we have entered into and intend to continue executing hedging transactions for a significant portion of our expected production to achieve more predictable cash flow and to reduce our exposure to adverse fluctuations in oil and natural gas prices.

Our Competitive Strengths

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

Geographically concentrated leasehold position in leading North American unconventional oil resource trends. We have assembled a current leasehold position of approximately 120,000 net acres in the Eagle Ford Shale, which we believe to be one of the highest rates of return unconventional oil and natural gas formations in North America. In addition to further leveraging our base of technical expertise in our project areas, 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 our recent well results and offset operator activity in and around our project areas have significantly de-risked our acreage position such that there are low geologic risks and ample repeatable drilling opportunities across our core operating areas. In addition to our Eagle Ford Shale acreage, we have approximately 40,000 net acres in what we

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believe to be the core of the TMS. Recent well results by other operators in the area are encouraging with respect to both strong well performance and decreasing drilling and completion costs, which we believe will be enhanced by the significant amount of additional capital planned to be spent in the TMS during 2014 based on our announced plans and those of other operators in the basin. We plan to allocate approximately 9% of our 2014 capital budget to this area.

Demonstrated ability to drive oil production and reserves growth. Our average production for the fourth quarter of 2013 was 18,810 boe/d, substantially all of which was from the Eagle Ford Shale. This compares to approximately 11,774 boe/d in the third quarter of 2013 and 1,874 boe/d during the same period in 2012. Our total proved reserves at December 31, 2013 was 58.7 mboe, a growth of 177% over the same period a year ago.

Large oil-weighted multi-year drilling inventory. We have an inventory of over 1,800 net locations for potential future drilling on our acreage position in the oil and condensate, or black oil and volatile oil, windows of the Eagle Ford Shale based on spacing varying from 60 acres to 40 acres. In 2014, we plan to spud and complete approximately 68 net wells on our existing Eagle Ford Shale acreage. We expect that our TMS acreage will also provide a multi-year inventory of additional oil-weighted locations. Both we and several other industry participants have announced plans to more aggressively test their TMS acreage in 2014 which we expect to materially increase our knowledge about the potential in this new play.

Experienced management and strong technical team. Our team is comprised of individuals with a long history in the oil and gas business, and a number of our key executives have prior experience as members of public company management teams. Furthermore, members of the Sanchez Group have a 40-plus year operating history in the basins in which we operate, providing us with extensive knowledge of the basins and the ability to leverage longstanding relationships with mineral owners. Through SOG we have access to an experienced staff of oil and gas professionals including geophysicists, geologists, drilling and completion engineers, production and reservoir engineers and technical support staff. This technical team is large enough to support our growth into a significantly larger company relative to our current size. SOG's technical team has significant experience and expertise in applying the most sophisticated technologies used in conventional and unconventional resource style plays including 3-D seismic interpretation capabilities, horizontal drilling, comprehensive multi-stage hydraulic fracture stimulation programs and other exploration, production and processing technologies. We believe this technical expertise is integral to successful exploitation of our assets, including defining new core producing areas in emerging plays.

Core Properties

Eagle Ford Shale

We and our predecessor entities have a long history in the Eagle Ford Shale, where we have assembled approximately 120,000 net leasehold acres with an average working interest of approximately 87%. Using approximately 40 acre well-spacing for our Cotulla and Palmetto areas and approximately 60 acre well-spacing for our Marquis area, and assuming 80% of the acreage is drillable for Cotulla and Marquis and 90% of the acreage is drillable for Palmetto, we believe that there could be over 2,100 gross (1,800 net) locations for potential future drilling. Consistent with other operators in this area, we perform multi-stage hydraulic fracturing up to 30 stages on each well depending upon the length of the lateral section. For the year 2014, we plan to invest substantially all of our capital budget in the Eagle Ford Shale.

In our Marquis area, we have approximately 69,000 net operated acres, the majority of which are in southwest Fayette and northeast Lavaca Counties, Texas with a 100% working interest. We believe

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that our Marquis acreage lies in the volatile oil window where we anticipate drilling, completion and facilities costs on our acreage to be between \$9.0 million and \$11.0 million per well based on our historical well costs. We have drilled 24 horizontal wells in our Prost development project of our Marquis area that had average 30 day production rates of approximately 700 boe/d per well. We have identified up to 900 gross and net locations based on 60 acre well-spacing for potential future drilling on our Marquis acreage. For 2014, we plan to spend \$300 - \$315 million to spud 35 net wells and complete 32 net wells in our Marquis area.

In our Cotulla area, we have approximately 42,000 net acres in Dimmit, Frio, LaSalle, Zavala, and McMullen Counties, Texas with an average working interest of approximately 83%. We believe that our Cotulla acreage lies in the black oil window, where we anticipate drilling, completion and facilities costs on our acreage to be between \$7.0 million and \$9.0 million per well based on our historical well costs. Our primary focus areas in our Cotulla area are our Alexander Ranch and Wycross development projects. In our Alexander Ranch development project, 34 wells have been brought online with average 30 day production rates of approximately 500 boe/d per well. In our Wycross development project, 15 wells have been brought online with average 30 day production rates of approximately 800 boe/d per well. We have identified up to 850 gross (760 net) locations based on 40 acre well-spacing for potential future drilling on our Cotulla area. For 2014, we plan to spend \$205 - \$225 million to spud and complete 28 net wells in our Cotu