Sanchez Energy Corp
Form 10-Q
November 10, 2014

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2014

OR

o **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	**45-3090102**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1111 Bagby Street, Suite 1800 **Houston, Texas**	**77002**
(Address of principal executive offices)	(Zip Code)

(713) 783-8000
(Registrant's telephone number, including area code)

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 ý No o

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 ý No o

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

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

Number of shares of registrant's common stock, par value $0.01 per share, outstanding as of November 5, 2014: 58,597,837.

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We were previously considered an "emerging growth company" as defined under the Jumpstart Our Business Startups Act of 2012, commonly referred to as the "JOBS Act." The JOBS Act permits a company to be classified as an "emerging growth company" for up to five years from the date of the completion of its initial public offering or until the earlier of (1) the last day of the fiscal year in which its total annual gross revenues exceed $1 billion, (2) the date that it becomes a "large accelerated filer" as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which would occur if the market value of its common equity that is held by non-affiliates is $700 million or more as of the last business day of its most recently completed second fiscal quarter or (3) the date on which it has issued more than $1 billion in non-convertible debt during the preceding three year period. However, during the second quarter of 2014, the Company issued non-convertible debt such that we have now issued more than $1 billion in non-convertible debt during the preceding three year period. As such, we are no longer considered an "emerging growth company" under the JOBS Act.

Further, as of June 30, 2014, the market value of our common equity held by non-affiliates was greater than $700 million. As such, the Company will become a large accelerated filer as defined in Rule 12b-2 under the Exchange Act on December 31, 2014.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q, 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. Such statements are subject to a number of assumptions, risks and uncertainties, many of which are beyond our control. 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 our various acquisitions and other assets and liabilities assumed in connection therewith;
- 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;

the timing and extent of changes in prices for, and demand for, crude oil and condensate, natural gas liquids ("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 "Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations," "Part II, Item 1A. Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q and in our other public filings with the Securities and Exchange Commission (the "SEC").

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.

Sanchez Energy Corporation
Form 10-Q
For the Quarterly Period Ended September 30, 2014

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PART I FINANCIAL INFORMATION

Item 1. Unaudited Financial Statements

Sanchez Energy Corporation

Condensed Consolidated Balance Sheets (Unaudited)

(in thousands, except share amounts)

	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 596,272	$ 153,531
Oil and natural gas receivables	93,865	51,960
Joint interest billings receivables	16,855	5,803
Fair value of derivative instruments	9,748	
Deferred tax asset	4,717	6,882
Other current assets	12,103	1,386
Total current assets	733,560	219,562
Oil and natural gas properties, at cost, using the full cost method:		
Unproved oil and natural gas properties	378,323	244,570
Proved oil and natural gas properties	2,305,583	1,297,961
Total oil and natural gas properties	2,683,906	1,542,531
Less: Accumulated depreciation, depletion, amortization and impairment	(381,007)	(157,043)
Total oil and natural gas properties, net	2,302,899	1,385,488
Other assets:		
Debt issuance costs, net	50,003	19,806
Fair value of derivative instruments	3,075	1,304
Other assets	14,813	2,993
Total assets	$ 3,104,350	$ 1,629,153
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 17,306	$ 46,900
Accounts payable related entities	1,218	961
Other payables	4,708	2,963

Accrued liabilities	196,108	102,455
Deferred premium liability	4,017	717
Fair value of derivative instruments	38	4,623
Total current liabilities	223,395	158,619
Long term debt, net of premium (discount)	1,746,162	593,258
Asset retirement obligations	24,048	4,130
Deferred tax liability	30,649	10,868
Deferred premium liability	1,233	4,891
Fair value of derivative instruments	131	78
Total liabilities	2,025,618	771,844
Commitments and Contingencies (Note 15)		
Stockholders' equity:		
Preferred stock ($0.01 par value, 15,000,000 shares authorized; 1,838,985 and 3,000,000 shares issued and outstanding as of September 30, 2014 and December 31, 2013 of 4.875% Convertible Perpetual Preferred Stock, Series A, respectively; 3,532,330 and 4,500,000 shares issued and outstanding as of September 30, 2014 and December 31, 2013 of 6.500% Convertible Perpetual Preferred Stock, Series B, respectively)	53	75
Common stock ($0.01 par value, 150,000,000 shares authorized; 58,560,817 and 46,368,713 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively)	586	464
Additional paid-in capital	1,077,712	867,108
Retained earnings (Accumulated deficit)	381	(10,338)
Total stockholders' equity	1,078,732	857,309
Total liabilities and stockholders' equity	$ 3,104,350	$ 1,629,153

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

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Sanchez Energy Corporation

Condensed Consolidated Statements of Operations (Unaudited)

(in thousands, except per share amounts)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
REVENUES:				
Oil sales	$ 157,907	$ 87,436	$ 414,484	$ 171,635
Natural gas liquid sales	27,309	3,190	43,918	6,166
Natural gas sales	22,134	3,574	35,171	6,520
Total revenues	207,350	94,200	493,573	184,321
OPERATING COSTS AND EXPENSES:				
Oil and natural gas production expenses	34,380	11,026	64,203	21,098
Production and ad valorem taxes	10,916	5,531	29,161	10,942
Depreciation, depletion, amortization and accretion	93,463	38,372	225,297	76,368
General and administrative (inclusive of stock-based compensation expense of $10 and $6,657, respectively, for the three months ended September 30, 2014 and 2013, and $25,888 and $14,369, respectively, for the nine months ended September 30, 2014 and 2013)	12,821	15,195	60,999	35,564
Total operating costs and expenses	151,580	70,124	379,660	143,972
Operating income	55,770	24,076	113,913	40,349
Other income (expense):				
Interest and other income	82	32	97	104
Interest expense	(27,612)	(9,460)	(58,145)	(17,613)
Net gains (losses) on commodity derivatives	47,416	(14,436)	6,399	(13,812)
Total other income (expense)	19,886	(23,864)	(51,649)	(31,321)
Income before income taxes	75,656	212	62,264	9,028
Income tax expense (benefit)	26,625	(3,668)	21,946	(3,668)
Net income	49,031	3,880	40,318	12,696
Less:				
Preferred stock dividends	(4,274)	(5,485)	(29,599)	(13,041)
Net income allocable to participating securities	(2,068)		(495)	

Net income (loss) attributable to common stockholders	$	42,689	$	(1,605)	$	10,224	$	(345)
Net income (loss) per common share basic	$	0.77	$	(0.05)	$	0.20	$	(0.01)
Weighted average number of shares used to calculate net income (loss) attributable to common stockholders basic		55,732		34,737		51,153		33,651
Net income (loss) per common share diluted	$	0.69	$	(0.05)	$	0.20	$	(0.01)
Weighted average number of shares used to calculate net income (loss) attributable to common stockholders diluted		68,340		34,737		51,153		33,651

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

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Sanchez Energy Corporation

Condensed Consolidated Statement of Stockholders' Equity for the Nine Months Ended September 30, 2014

(Unaudited)

(in thousands)

	Series A Preferred Stock		Series B Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
	Shares	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**			
BALANCE, December 31, 2013	3,000	$ 30	4,500	$ 45	46,369	$ 464	$ 867,108	$ (10,338)	$ 857,309
Common shares issued					5,000	50	167,469		167,519
Preferred stock dividends								(12,302)	(12,302)
Restricted stock awards, net of forfeitures					1,653	17	(17)		
Exchange of preferred stock for common stock	(1,161)	(12)	(968)	(10)	5,539	55	17,264	(17,297)	
Stock-based compensation							25,888		25,888
Net income								40,318	40,318
BALANCE, September 30, 2014	1,839	$ 18	3,532	$ 35	58,561	$ 586	$ 1,077,712	$ 381	$ 1,078,732

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

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Sanchez Energy Corporation

Condensed Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 40,318	$ 12,696
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, amortization and accretion	225,297	76,368
Stock-based compensation expense	25,888	14,369
Net (gains) losses on commodity derivative contracts	(6,399)	13,812
Net cash settlement paid on commodity derivative contracts	(9,652)	(3,083)
Premiums paid on derivative contracts	(241)	(528)
Amortization of debt issuance costs	7,215	5,830
Accretion of debt discount (premium)	654	32
Deferred taxes	21,946	(3,668)
Changes in operating assets and liabilities:		
Accounts receivable	(52,957)	(29,903)
Other current assets	(10,734)	(301)
Accounts payable	(29,594)	8,427
Accounts payable related entities	257	(12,672)
Other payables	1,818	932
Accrued liabilities	58,864	26,413
Net cash provided by operating activities	272,680	108,724
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for oil and natural gas properties	(532,300)	(295,670)
Payments for other property and equipment	(9,581)	(1,665)
Acquisitions of oil and natural gas properties	(558,113)	(402,669)
Purchases of investments		(10,000)
Sale of investments		11,591
Net cash used in investing activities	(1,099,994)	(698,413)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	100,000	236,000
Repayment of borrowings	(100,000)	(236,000)
Issuance of senior notes, net of premium (discount)	1,152,250	593,000
Issuance of common stock	176,250	253,920
Issuance of preferred stock		225,000
Payments for offering costs	(8,731)	(20,861)
Financing costs	(37,412)	(23,104)
Preferred dividends paid	(12,302)	(7,556)
Purchase of common stock		(1,058)
Net cash provided by financing activities	1,270,055	1,019,341

Increase in cash and cash equivalents		442,741		429,652
Cash and cash equivalents, beginning of period		153,531		50,347
Cash and cash equivalents, end of period	$	596,272	$	479,999

NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Asset retirement obligations	$	19,236	$	2,833
Change in accrued capital expenditures		34,789		38,842
Capital expenditures in accounts payable				18,352
Purchase of oil and natural gas properties in exchange for common stock				7,520
Accrued preferred stock dividends				5,485
Common stock issued in exchange for preferred stock		123,731		
SUPPLEMENTAL DISCLOSURE:				
Cash paid for interest	$	24,527	$	2,020

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

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Sanchez Energy Corporation

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

Note 1. Organization

Sanchez Energy Corporation (together with our consolidated subsidiaries, the "Company," "we," "our," "us" or similar terms) is an independent exploration and production company, formed in August 2011 as a Delaware corporation, 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 the Tuscaloosa Marine Shale ("TMS") in Mississippi and Louisiana. We have accumulated net leasehold acreage in the oil and condensate, or black oil and volatile oil, windows of the Eagle Ford Shale and 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.

Note 2. Basis of Presentation and Summary of Significant Accounting Policies

The accompanying condensed consolidated financial statements are unaudited and were prepared from the Company's records. The condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP" or "U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The Company derived the condensed consolidated balance sheet as of December 31, 2013 from the audited financial statements filed in its Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (the "2013 Annual Report"). Because this is an interim period filing presented using a condensed format, it does not include all of the disclosures required by U.S. GAAP. These condensed consolidated financial statements should be read in connection with the consolidated financial statements and notes thereto included in the 2013 Annual Report, which contains a summary of the Company's significant accounting policies and other disclosures. In the opinion of management, these financial statements include the adjustments and accruals, all of which are of a normal recurring nature, which are necessary for a fair presentation of the results for the interim periods. These interim results are not necessarily indicative of results to be expected for the entire year.

As of September 30, 2014, the Company's significant accounting policies are consistent with those discussed in Note 2 in the notes to the Company's consolidated financial statements contained in its 2013 Annual Report.

Use of Estimates

The condensed consolidated financial statements are prepared in conformity with U.S. GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates pertain to proved oil and natural gas reserves and related cash flow estimates used in the calculation of depletion and impairment of oil and natural gas properties, fair value accounting for acquisitions, the evaluation of unproved properties for impairment, the fair value of commodity derivative contracts and asset retirement obligations, accrued oil and natural gas revenues and expenses and the allocation of general and administrative expenses. Actual results could differ materially from those estimates.

Sanchez Energy Corporation

Notes to the Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Note 2. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP.

The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard in 2017.

Note 3. Acquisitions

Our acquisitions are accounted for under the acquisition method of accounting in accordance with Accounting Standards Codification, or ASC, Topic 805, "Business Combinations." A business combination may result in the recognition of a gain or goodwill based on the measurement of the fair value of the assets acquired at the acquisition date as compared to the fair value of consideration transferred, adjusted for purchase price adjustments. The initial accounting for acquisitions may not be complete and adjustments to provisional amounts, or recognition of additional assets acquired or liabilities assumed, may occur as more detailed analyses are completed and additional information is obtained about the facts and circumstances that existed as of the acquisition dates. The results of operations of the properties acquired in our acquisitions have been included in the condensed consolidated financial statements since the closing dates of the acquisitions.

Catarina Acquisition

On June 30, 2014, we completed our acquisition of the Catarina properties (the "Catarina acquisition") for an aggregate adjusted purchase price of $559.3 million. The effective date of the transaction was January 1, 2014. The purchase price was funded with a portion of the proceeds from the issuance of the $850 million senior unsecured 6.125% notes due 2023 (the "Original 6.125% Notes") and cash on hand. The purchase price allocation for the Catarina acquisition is preliminary and is subject to further adjustments and the settlement of certain post-closing adjustments with the

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Sanchez Energy Corporation

Notes to the Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Note 3. Acquisitions (Continued)

seller. The total purchase price was allocated to the assets purchased and liabilities assumed based upon their fair values on the date of acquisition as follows (in thousands):

Proved oil and natural gas properties	$	443,349
Unproved properties		127,945
Other assets acquired		2,682
Fair value of assets acquired		573,976
Asset retirement obligations		(14,723)
Fair value of net assets acquired	$	559,253

Wycross Acquisition

On October 4, 2013, we completed our acquisition of the Wycross properties (the "Wycross acquisition") for an aggregate adjusted purchase price of $229.6 million. The effective date of the transaction was July 1, 2013. The purchase price was funded with proceeds from the issuance of the Additional 7.75% Notes (defined in Note 6 "Long-Term Debt"), the issuance of 11,040,000 shares of common stock, and cash on hand. The total purchase price was allocated to the assets purchased and liabilities assumed based upon their fair values on the date of acquisition as follows (in thousands):

Proved oil and natural gas properties	$	215,265
Unproved properties		13,095
Other assets acquired		1,523
Fair value of assets acquired		229,883
Asset retirement obligations		(158)
Other liabilities assumed		(113)
Fair value of net assets acquired	$	229,612

Cotulla Acquisition

On May 31, 2013, we completed our acquisition of the Cotulla properties (the "Cotulla acquisition") for an aggregate adjusted purchase price of $280.9 million. The effective date of the transaction was March 1, 2013.

The purchase price was funded with borrowings under the Company's Amended and Restated Credit Agreement (defined in Note 6 "Long-Term Debt"), cash on hand, and proceeds from the Company's private placement of the Series B Convertible Perpetual Preferred Stock. The total purchase

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Sanchez Energy Corporation

Notes to the Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Note 3. Acquisitions (Continued)

price was allocated to the assets purchased and liabilities assumed based upon their fair values on the date of acquisition as follows (in thousands):

Proved oil and natural gas properties	$	265,466
Unproved properties		16,745
Fair value of assets acquired		282,211
Asset retirement obligations		(1,138)
Other liabilities assumed		(190)
Fair value of net assets acquired	$	280,883

Pro Forma Operating Results

The following pro forma combined results for the three and nine months ended September 30, 2014 and 2013 reflect the consolidated results of operations of the Company as if the Catarina acquisition and related financing had occurred on January 1, 2013 and the Wycross and Cotulla acquisitions and related financings had occurred on January 1, 2012. The pro forma information includes adjustments primarily for revenues and expenses from the acquired properties, depreciation, depletion, amortization and accretion, interest expense and debt issuance cost amortization for acquisition debt, and stock dividends for the issuance of preferred stock.

The unaudited pro forma combined financial statements give effect to the events set forth below:

The Catarina acquisition completed on June 30, 2014.

Issuance of the Original 6.125% Notes to finance a portion of the Catarina acquisition, and the related adjustments to interest expense.

The Cotulla acquisition completed on May 31, 2013.

The increase in borrowings under the Amended and Restated Credit Agreement to finance a portion of the Cotulla acquisition, and the related adjustments to interest expense.

Issuance of Series B Convertible Perpetual Preferred Stock and related adjustments to preferred dividends.

The Wycross acquisition completed on October 4, 2013.

Issuance of the 7.75% Notes (defined in Note 6 "Long-Term Debt") to finance a portion of the Wycross acquisition, and the related adjustments to interest expense.

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Sanchez Energy Corporation

Notes to the Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Note 3. Acquisitions (Continued)

Issuance of common stock to finance a portion of the Wycross acquisition and the related effect on net income (loss) per common share (in thousands, except per share amounts).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Revenues	$ 207,350	$ 229,517	$ 652,913	$ 577,380
Net income attributable to common stockholders	$ 47,829	$ 13,295	$ 39,523	$ 23,496
Net income per common share, basic	$ 0.86	$ 0.37	$ 0.77	$ 0.66
Net income per common share, diluted	$ 0.76	$ 0.35	$ 0.77	$ 0.66

The pro forma combined financial information is for informational purposes only and is not intended to represent or to be indicative of the combined results of operations that the Company would have reported had the Catarina, Wycross and Cotulla acquisitions and related financings been completed as of the date set forth in this pro forma combined financial information and should not be taken as indicative of the Company's future combined results of operations. The actual results may differ significantly from that reflected in the pro forma combined financial information for a number of reasons, including, but not limited to, differences in assumptions used to prepare the pro forma combined financial information and actual results.

Post-Acquisition Operating Results

The amounts of revenue and excess of revenues over direct operating expenses included in the Company's condensed consolidated statements of operations for the three and nine months ended September 30, 2014 and 2013, for the Catarina, Wycross and Cotulla acquisitions are shown in the table that follows. Direct operating expenses include lease operating expenses and production and ad valorem taxes (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Revenues	$ 116,279	$ 40,267	$ 225,687	$ 48,741

Excess of revenues over direct operating expenses	$	83,841	$	29,890	$	170,346	$	34,819

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Sanchez Energy Corporation

Notes to the Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Note 4. Cash and Cash Equivalents

As of September 30, 2014 and December 31, 2013, cash and cash equivalents consisted of the following (in thousands):

	September 30, 2014	December 31, 2013
Cash at banks	$ 96,228	$ 48,326
Money market funds	500,044	105,205
Total cash and cash equivalents	$ 596,272	$ 153,531

Note 5. Oil and Natural Gas Properties

The Company's oil and natural gas properties are accounted for using the full cost method of accounting. All direct costs and certain indirect costs associated with the acquisition, exploration and development of oil and natural gas properties are capitalized. Once evaluated, these costs, as well as the estimated costs to retire the assets, are included in the amortization base and amortized to depletion expense using the units-of-production method. Depletion is calculated based on estimated proved oil and natural gas reserves. Proceeds from the sale or disposition of oil and natural gas properties are applied to reduce net capitalized costs unless the sale or disposition causes a significant change in the relationship between costs and the estimated quantity of proved reserves.

Full Cost Ceiling Test Capitalized costs (net of accumulated depreciation, depletion and amortization and deferred income taxes) of proved oil and natural gas properties are subject to a full cost ceiling limitation. The ceiling limits these costs to an amount equal to the present value, discounted at 10%, of estimated future net cash flows from estimated proved reserves less estimated future operating and development costs, abandonment costs (net of salvage value) and estimated related future income taxes. In accordance with SEC rules, the oil and natural gas prices used to calculate the full cost ceiling are the 12-month average prices, calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period prior to the end of the reporting period, unless prices are defined by contractual arrangements. Prices are adjusted for "basis" or location differentials. Prices are held constant over the life of the reserves. If unamortized costs capitalized within the cost pool exceed the ceiling, the excess is charged to expense and separately disclosed during the period in which the excess occurs. Amounts thus required to be written off are not reinstated for any subsequent increase in the cost center ceiling. No impairment expense was recorded for the three and nine month periods ended September 30, 2014 or 2013.

Investments in unproved properties and major development projects are capitalized and excluded from the amortization base until proved reserves associated with the projects can be determined or until impairment occurs. Once the assessment of unproved properties is complete and when major development projects are evaluated, the costs previously excluded from amortization are transferred to the full cost pool subject to periodic amortization. The Company assesses the carrying value of its unproved properties that are not subject to amortization for impairment periodically. If the results of an assessment indicate that the properties are impaired, the amount of the asset impaired is added to the full cost pool subject to both periodic amortization and the ceiling test.

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Notes to the Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Note 6. Long-Term Debt

Long-term debt as of September 30, 2014 consisted of $1.15 billion face value of 6.125% senior notes (the "6.125% Notes," consisting of $850 million in Original 6.125% Notes and $300 million in Additional 6.125% Notes (defined below), which were issued at a premium to face value of $2.3 million) maturing on January 15, 2023, and $600 million principal amount of 7.75% senior notes (the "7.75% Notes," consisting of $400 million in Original 7.75% Notes (defined below) and $200 million in Additional 7.75% Notes, which were issued at a discount to face value of $7.0 million) maturing on June 15, 2021. As of September 30, 2014, the Company's long-term debt consisted of the following:

	Interest Rate	Maturity date	Amount Outstanding (in thousands)
Second Amended and Restated Credit Agreement	Variable	June 30, 2019	$
7.75% Notes	7.75%	June 15, 2021	600,000
6.125% Notes	6.125%	January 15, 2023	1,150,000
			1,750,000
Unamortized discount on Additional 7.75% Notes			(6,063)
Unamortized premium on Additional 6.125% Notes			2,225
Total long-term debt			$ 1,746,162

Interest expense in the Company's condensed consolidated income statement includes (if applicable for a given period): (i) interest on our 7.75% Notes, (ii) interest on our 6.125% Notes, (iii) interest expense and commitment fees on our Amended and Restated Credit Agreement, (iv) interest expense and commitment fees on our Second Amended and Restated Credit Agreement (defined below), (v) amortization of debt issuance costs, (vi) amortization of the discount to face value on the Additional 7.75% Notes and (vii) amortization of the premium to face value on the Additional 6.125% Notes. For the three and nine months ended September 30, 2014 and 2013, the Company's interest expense consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Interest on senior notes	$ (25,316)	$ (8,198)	$ (48,999)	$ (9,731)
Interest expense and commitment fees on credit agreements	(384)		(1,277)	(2,020)
Amortization of debt issuance costs	(1,710)	(1,230)	(7,215)	(5,830)
Amortization of discount on Additional 7.75% Notes	(227)	(32)	(679)	(32)
Amortization of premium on Additional 6.125% Notes	25		25	
Total interest expense	$ (27,612)	$ (9,460)	$ (58,145)	$ (17,613)

Credit Facility

Previous Credit Agreement: On May 31, 2013, we and our subsidiaries, SEP Holdings III, LLC ("SEP III"), SN Marquis LLC ("SN Marquis") and SN Cotulla Assets, LLC ("SN Cotulla"), collectively, as the borrowers, entered into a revolving credit facility represented by a $500 million

Sanchez Energy Corporation

Notes to the Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Note 6. Long-Term Debt (Continued)

Amended and Restated Credit Agreement with Royal Bank of Canada as the administrative agent, Capital One, National Association as the syndication agent and RBC Capital Markets as sole lead arranger and sole book runner and each of the other lenders party thereto (the "Amended and Restated Credit Agreement"). The Amended and Restated Credit Agreement was to mature on May 31, 2018.

On May 12, 2014, the Company borrowed $100 million under the Amended and Restated Credit Agreement. The Company used proceeds from the issuance of the Original 6.125% Notes to repay the $100 million outstanding.

Second Amended and Restated Credit Agreement: On June 30, 2014, the Company, as borrower, and SEP III, SN Marquis, SN Cotulla, SN Operating, LLC, SN TMS, LLC and SN Catarina, LLC as loan parties, entered into a revolving credit facility represented by a $1.5 billion Second Amended and Restated Credit Agreement with Royal Bank of Canada as the administrative agent, Capital One, National Association as the syndication agent, Compass Bank and SunTrust Bank as co-documentation agents, RBC Capital Markets as sole lead arranger and sole book runner and the lenders party thereto (the "Second Amended and Restated Credit Agreement"). The Company has elected an available commitment amount under the Second Amended and Restated Credit Agreement of $300 million. Additionally, the Second Amended and Restated Credit Agreement provides for the issuance of letters of credit, limited in the aggregate to the lesser of $50 million and the total availability thereunder. As of September 30, 2014, there were no borrowings and no letters of credit outstanding under the Second Amended and Restated Credit Agreement. Availability under the Second Amended and Restated Credit Agreement is at all times subject to customary conditions and the then applicable borrowing base and elected commitment. The borrowing base under the Second Amended and Restated Credit Agreement was set at $362.5 million upon issuance of the Additional 6.125% Notes. However, the Company elected a commitment amount of $300 million, with the ability to increase the available commitment up to the $362.5 million approved borrowing base upon written notice from the Company and compliance with certain conditions, including the consent of any lenders whose commitment is increased. All of the elected commitment was available for future revolver borrowings as of September 30, 2014.

The Second Amended and Restated Credit Agreement matures on June 30, 2019. The borrowing base under the Second Amended and Restated Credit Agreement can be subsequently redetermined up or down by the lenders based on, among other things, their evaluation of the Company's and its restricted subsidiaries' oil and natural gas reserves. Redeterminations of the borrowing base are scheduled to occur semi-annually on or before April 1 and October 1 of each year, beginning on October 1, 2014. The borrowing base is also subject to (i) automatic reduction by 25% of the amount of any increase in the Company's high yield debt, (ii) interim redetermination at the request of the Company once between each scheduled redetermination and (iii) if the required lenders so direct in connection with asset sales and swap terminations involving more than 10% of the value in the most recent reserve report. The current redetermination of the Company's borrowing base is in process, and we expect the redetermination to be completed in November 2014.

The Company's obligations under the Second Amended and Restated Credit Agreement are secured by a first priority lien on substantially all of the Company's assets and the assets of its existing and future subsidiaries not designated as "unrestricted subsidiaries," including a first priority lien on all

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Sanchez Energy Corporation

Notes to the Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Note 6. Long-Term Debt (Continued)

ownership interests in existing and future subsidiaries not designated as "unrestricted subsidiaries." The obligations under the Second Amended and Restated Credit Agreement are guaranteed by all of the Company's existing and future subsidiaries not designated as "unrestricted subsidiaries."

At the Company's election, borrowings under the Second Amended and Restated Credit Agreement may be made on an alternate base rate or an adjusted eurodollar rate basis, plus an applicable margin. The applicable margin varies from 0.50% to 1.50% for alternate base rate borrowings and from 1.50% to 2.50% for eurodollar borrowings, depending on the utilization of the borrowing base. Furthermore, the Company is also required to pay a commitment fee on the unused committed amount at a rate varying from 0.375% to 0.50% per annum, depending on the utilization of the elected commitment.

The Second Amended and Restated Credit Agreement contains various affirmative and negative covenants and events of default that limit the Company's ability to, among other things, incur indebtedness, make restricted payments, grant liens, consolidate or merge, dispose of certain assets, make certain investments, engage in transactions with affiliates, hedge transactions and make certain acquisitions. The Second Amended and Restated Credit Agreement also provides for cross default between the Second Amended and Restated Credit Agreement and the other debt (including debt under the 6.125% Notes and the 7.75% Notes) and obligations in respect of hedging agreements (on a mark to market basis), of the Company and its restricted subsidiaries, in an aggregate principal amount in excess of $10 million. Furthermore, the Second Amended and Restated Credit Agreement contains financial covenants that require the Company to satisfy certain specified financial ratios, including (i) current assets to current liabilities of at least 1.0 to 1.0 at all times, commencing with the fiscal quarter ending September 30, 2014 and (ii) net debt to consolidated EBITDA of not greater than 4.0 to 1.0 as of the last day of any fiscal quarter, commencing with the fiscal quarter ending September 30, 2014.

From time to time, the agents, arrangers, book runners and lenders under the Second Amended and Restated Credit Agreement and their affiliates have provided, and may provide in the future, investment banking, commercial lending, hedging and financial advisory services to the Company and its affiliates in the ordinary course of business, for which they have received, or may in the future receive, customary fees and commissions for these transactions. As of September 30, 2014, the Company was in compliance with the covenants of the Second Amended and Restated Credit Agreement.

Bridge Commitment: In connection with the Catarina acquisition we obtained a commitment (the "Bridge Commitment") from Royal Bank of Canada, RBC Capital Markets, Credit Suisse AG, Credit Suisse Securities (USA) LLC, Capital One, National Association and SunTrust Bank to provide, arrange, bookrun and agent, as applicable, a senior unsecured bridge facility (the "Bridge Facility"), in an aggregate amount up to $300 million (reduced by the aggregate principal amount of the Additional 6.125% Notes). The Bridge Commitment was set to expire upon the earliest to occur of (a) August 19, 2014, (b) the date of execution and delivery of definitive bridge documentation by us and the lenders under the Bridge Facility or (c) the termination of the commitments by us. The Company terminated the Bridge Commitment upon the execution of the Second Amended and Restated Credit Agreement on June 30, 2014 and wrote off $3.9 million in costs associated with obtaining the Bridge Commitment to interest expense at that time.

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Notes to the Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Note 6. Long-Term Debt (Continued)

7.75% Senior Notes Due 2021

On June 13, 2013, we completed a private offering of $400 million in aggregate principal amount of our 7.75% senior notes that will mature on June 15, 2021 (the "Original 7.75% Notes"). Interest is payable on each June 15 and December 15. We received net proceeds from this offering of approximately $388 million, after deducting initial purchasers' discounts and offering expenses, which we used to repay outstanding indebtedness under our credit facilities. The Original 7.75% Notes are senior unsecured obligations and are guaranteed on a joint and several senior unsecured basis by, with certain exceptions, substantially all of our existing and future subsidiaries.

On September 18, 2013, we issued an additional $200 million in aggregate principal amount of our 7.75% senior notes due 2021 (the "Additional 7.75% Notes" and, together with the Original 7.75% Notes, the 7.75% Notes) in a private offering at an issue price of 96.5% of the Additional 7.75% Notes. We received net proceeds of $188.8 million (after deducting the initial purchasers' discounts and offering expenses of $4.2 million) from the sale of the Additional 7.75% Notes. The Company also received cash for accrued interest from June 13, 2013 through the date of issuance of $4.1 million. The Additional 7.75% Notes were issued under the same indenture as the Original 7.75% Notes, and are therefore treated as a single class of securities under the indenture. We used the net proceeds from the offering to partially fund the Wycross acquisition completed in October 2013, a portion of the 2013 and 2014 capital budgets, and for general corporate purposes.

The 7.75% Notes are senior unsecured obligations and rank equally in right of payment with all of our existing and future senior unsecured indebtedness. The 7.75% Notes rank senior in right of payment to our future subordinated indebtedness. The 7.75% Notes are effectively junior in right of payment to all of our existing and future secured debt (including under our Second Amended and Restated Credit Agreement) to the extent of the value of the assets securing such debt. The 7.75% Notes are fully and unconditionally guaranteed on a joint and several senior unsecured basis by the subsidiary guarantors party to the indenture governing the 7.75% Notes. To the extent set forth in the indenture governing the 7.75% Notes, certain of our subsidiaries will be required to fully and unconditionally guarantee the 7.75% Notes on a joint and several senior unsecured basis in the future.

The indenture governing the 7.75% Notes, among other things, restricts our ability and our restricted subsidiaries' ability to: (i) incur, assume or guarantee additional indebtedness or issue certain types of equity securities; (ii) pay distributions on, purchase or redeem shares or purchase or redeem subordinated debt; (iii) make certain investments; (iv) enter into certain transactions with affiliates; (v) create or incur liens on their assets; (vi) sell assets; (vii) consolidate, merge or transfer all or substantially all of their assets; (viii) restrict distributions or other payments from the Company's restricted subsidiaries; and (ix) designate subsidiaries as unrestricted subsidiaries.

We have the option to redeem all or a portion of the 7.75% Notes, at any time on or after June 15, 2017 at the applicable redemption prices specified in the indenture plus accrued and unpaid interest. We may also redeem the 7.75% Notes, in whole or in part, at a redemption price equal to 100% of their principal amount plus a make whole premium, together with accrued and unpaid interest and additional interest, if any, to the redemption date, at any time prior to June 15, 2017. In addition, we may redeem up to 35% of the 7.75% Notes prior to June 15, 2016 under certain circumstances with an amount not greater than the net cash proceeds of one or more equity offerings at the redemption

Sanchez Energy Corporation

Notes to the Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Note 6. Long-Term Debt (Continued)

price specified in the indenture. We may also be required to repurchase the 7.75% Notes upon a change of control or if we sell certain of our assets.

On July 18, 2014, we completed an exchange offer of $600 million aggregate principal amount of the 7.75% Notes that had been registered under the Securities Act of 1933, as amended (the "Securities Act"), for an equal amount of the 7.75% Notes that had not been registered under the Securities Act.

6.125% Senior Notes Due 2023

On June 27, 2014, the Company completed a private offering of the Original 6.125% Notes. Interest is payable on each July 15 and January 15. The Company received net proceeds from this offering of approximately $829 million, after deducting initial purchasers' discounts and estimated offering expenses, which the Company used to repay all of the $100 million in borrowings outstanding under its Amended and Restated Credit Agreement and to finance a portion of the purchase price of the Catarina acquisition. We intend to use the remaining proceeds from the offering to fund a portion of the remaining 2014 capital budget and for general corporate purposes. The Original 6.125% Notes are the senior unsecured obligations of the Company and are guaranteed on a joint and several senior unsecured basis by, with certain exceptions, substantially all of the Company's existing and future subsidiaries.

On September 12, 2014, we issued an additional $300 million in aggregate principal amount of our 6.125% senior notes due 2023 (the "Additional 6.125% Notes" and, together with the Original 6.125% Notes, the 6.125% Notes and, together with the 7.75% Notes, the "Senior Notes") in a private offering at an issue price of 100.75% of the Additional 6.125% Notes. We received net proceeds of $295.9 million, after deducting the initial purchasers' discounts, adding premiums to face value of $2.3 million and deducting estimated offering expenses of $6.4 million. The Company also received cash for accrued interest from June 27, 2014 through the date of the issuance of $3.8 million, for total net proceeds of $299.7 million from the sale of the Additional 6.125% Notes. The Additional 6.125% Notes were issued under the same indenture as the Original 6.125% Notes, and are therefore treated as a single class of securities under the indenture. We intend to use the net proceeds from the offering to fund a portion of the 2014 and 2015 capital budgets, and for general corporate purposes.

The 6.125% Notes are senior unsecured obligations and rank equally in right of payment with all of our existing and future senior unsecured indebtedness. The 6.125% Notes rank senior in right of payment to the Company's future subordinated indebtedness. The 6.125% Notes are effectively junior in right of payment to all of the Company's existing and future secured debt (including under the Second Amended and Restated Credit Agreement) to the extent of the value of the assets securing such debt. The 6.125% Notes are fully and unconditionally guaranteed on a joint and several senior unsecured basis by the subsidiary guarantors party to the indenture governing the 6.125% Notes. To the extent set forth in the indenture governing the 6.125% Notes, certain of our subsidiaries will be required to fully and unconditionally guarantee the 6.125% Notes on a joint and several senior unsecured basis in the future.

The indenture governing the 6.125% Notes, among other things, restricts our ability and our restricted subsidiaries' ability to: (i) incur, assume or guarantee additional indebtedness or issue certain

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Notes to the Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Note 6. Long-Term Debt (Continued)

types of equity securities; (ii) pay distributions on, purchase or redeem shares or purchase or redeem subordinated debt; (iii) make certain investments; (iv) enter into certain transactions with affiliates; (v) create or incur liens on their assets; (vi) sell assets; (vii) consolidate, merge or transfer all or substantially all of their assets; (viii) restrict distributions or other payments from the Company's restricted subsidiaries; and (ix) designate subsidiaries as unrestricted subsidiaries.

The Company has the option to redeem all or a portion of the 6.125% Notes, at any time on or after July 15, 2018 at the applicable redemption prices specified in the indenture plus accrued and unpaid interest. The Company may also redeem the 6.125% Notes, in whole or in part, at a redemption price equal to 100% of their principal amount plus a make whole premium, together with accrued and unpaid interest and additional interest, if any, to the redemption date, at any time prior to July 15, 2018. In addition, the Company may redeem up to 35% of the 6.125% Notes prior to July 15, 2017 under certain circumstances with an amount not greater than the net cash proceeds of one or more equity offerings at the redemption price specified in the indenture. The Company may also be required to repurchase the 6.125% Notes upon a change of control or if we sell certain Company assets.

Note 7. Derivative Instruments

To reduce the impact of fluctuations in oil and natural gas prices on the Company's revenues, or to protect the economics of property acquisitions, the Company periodically enters into derivative contracts with respect to a portion of its projected oil and natural gas production through various transactions that fix or, through options, modify the future prices to be realized. These transactions may include price swaps whereby the Company will receive a fixed price for its production and pay a variable market price to the contract counterparty. Additionally, the Company may enter into collars, whereby it receives the excess, if any, of the fixed floor over the floating rate or pays the excess, if any, of the floating rate over the fixed ceiling price. In addition, the Company enters into option transactions, such as puts or put spreads, as a way to manage its exposure to fluctuating prices. The Company further uses enhanced swaps for a portion of its commodity price hedging activities. An enhanced swap is a product created by simultaneously selling an out of the money put and using the premium value from the sale to modify or "enhance" the value of a swap executed at the same time. The transaction provides an absolute minimum price at the enhanced swap strike price until the put strike price level is reached at which point the Company receives the market price plus the difference between the enhanced swap price and the put strike price. These hedging activities are intended to support oil and natural gas prices at targeted levels and to manage exposure to oil and natural gas price fluctuations. It is never the Company's intention to enter into derivative contracts for speculative trading purposes.

Under ASC Topic 815, "Derivatives and Hedging," all derivative instruments are recorded on the condensed consolidated balance sheets at fair value as either short-term or long-term assets or liabilities based on their anticipated settlement date. The Company will net derivative assets and liabilities for counterparties where it has a legal right of offset. Changes in the derivatives' fair values are recognized currently in earnings since the Company has elected not to designate its current derivative contracts as hedges.

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Notes to the Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Note 7. Derivative Instruments (Continued)

As of September 30, 2014, the Company had the following crude oil swaps, collars, and put spreads covering anticipated future production:

Contract Period	Derivative Instrument	Barrels	Purchased	Sold	Pricing Index
October 1, 2014 - December 31, 2014	Swap	69,000	$ 92.00	n/a	NYMEX WTI
October 1, 2014 - December 31, 2014	Swap	69,000	$ 91.35	n/a	NYMEX WTI
October 1, 2014 - December 31, 2014	Swap	69,000	$ 92.45	n/a	NYMEX WTI
October 1, 2014 - December 31, 2014	Swap	92,000	$ 95.45	n/a	NYMEX WTI
October 1, 2014 - December 31, 2014	Swap	92,000	$ 93.25	n/a	NYMEX WTI
January 1, 2015 - December 31, 2015[(1)]	Swap	365,000	$ 89.65	n/a	NYMEX WTI
January 1, 2015 - December 31, 2015[(1)]	Swap	365,000	$ 90.05	n/a	NYMEX WTI
January 1, 2015 - December 31, 2015[(1)]	Swap	365,000	$ 88.48	n/a	NYMEX WTI
January 1, 2015 - December 31, 2015	Swap	365,000	$ 88.35	n/a	NYMEX WTI
October 1, 2014 - December 31, 2014	Collar	92,000	$ 90.00	$ 99.10	NYMEX WTI
October 1, 2014 - December 31, 2014	Put Spread	92,000	$ 90.00	$ 75.00	NYMEX WTI

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(1) In October 2014, the Company modified these crude oil swaps to create crude oil enhanced swaps. See Note 17 "Subsequent Events" for a description of the modified transactions covering anticipated future production.

As of September 30, 2014, the Company had the following crude oil enhanced swaps covering anticipated future production:

Contract Period	Barrels	Purchased	Put	Pricing Index
January 1, 2015 - December 31, 2015	365,000	$ 91.46	$ 75.00	NYMEX WTI
January 1, 2015 - December 31, 2015	365,000	$ 93.13	$ 75.00	NYMEX WTI
January 1, 2015 - December 31, 2015	365,000	$ 92.20	$ 75.00	NYMEX WTI
January 1, 2015 - December 31, 2015	365,000	$ 91.46	$ 75.00	NYMEX WTI
January 1, 2015 - December 31, 2015	182,500	$ 92.00	$ 75.00	NYMEX WTI

As of September 30, 2014, the Company had the following natural gas swaps and collars covering anticipated future production:

Contract Period	Derivative Instrument	Mmbtu	Purchased	Sold	Pricing Index
October 1, 2014 - December 31, 2014	Swap	184,000	$ 4.23	n/a	NYMEX NG
October 1, 2014 - December 31, 2014	Swap	184,000	$ 4.23	n/a	NYMEX NG
October 1, 2014 - December 31, 2014	Swap	184,000	$ 4.24	n/a	NYMEX NG
October 1, 2014 - December 31, 2014	Swap	184,000	$ 4.61	n/a	NYMEX NG
January 1, 2015 - December 31, 2015	Swap	3,650,000	$ 4.01	n/a	NYMEX NG
October 1, 2014 - December 31, 2014	Collar	184,000	$ 4.00	$ 4.50	NYMEX NG

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Sanchez Energy Corporation

Notes to the Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Note 7. Derivative Instruments (Continued)

As of September 30, 2014, the Company had the following natural gas enhanced swaps covering anticipated future production:

Contract Period	Mmbtu	Purchased	Put	Pricing Index
January 1, 2015 - December 31, 2015	2,190,000	$ 4.44	$ 3.75	NYMEX NG
January 1, 2015 - December 31, 2015	1,095,000	$ 4.40	$ 3.75	NYMEX NG
January 1, 2015 - December 31, 2015	730,000	$ 4.50	$ 3.75	NYMEX NG
January 1, 2015 - December 31, 2015	3,650,000	$ 4.21	$ 3.75	NYMEX NG

As of September 30, 2014, the Company had the following three-way crude oil collar contracts that combine a long and short put with a short call:

Contract Period	Barrels	Short Put	Long Put	Short Call	Pricing Index
October 1, 2014 - December 31, 2014	138,000	$ 65.00	$ 85.00	$ 102.25	NYMEX WTI
October 1, 2014 - December 31, 2014	92,000	$ 75.00	$ 95.00	$ 107.50	LLS
October 1, 2014 - December 31, 2014	92,000	$ 75.00	$ 90.00	$ 96.22	NYMEX WTI
January 1, 2015 - December 31, 2015	365,000	$ 70.00	$ 85.00	$ 95.00	NYMEX WTI
January 1, 2015 - December 31, 2015	365,000	$ 70.00	$ 85.00	$ 95.00	NYMEX WTI
January 1, 2015 - December 31, 2015	365,000	$ 70.00	$ 85.00	$ 94.75	NYMEX WTI
January 1, 2015 - December 31, 2015	365,000	$ 75.00	$ 90.00	$ 97.00	NYMEX WTI
January 1, 2015 - December 31, 2015	365,000	$ 75.00	$ 90.00	$ 97.25	NYMEX WTI

As of September 30, 2014, the Company had the following three-way natural gas contracts that combine a long and short put with a short call:

Contract Period	Mmbtu	Short Put	Long Put	Short Call	Pricing Index
October 1, 2014 - December 31, 2015	2,285,000	$ 3.50	$ 4.00	$ 4.90	NYMEX NG
October 1, 2014 - December 31, 2015	2,285,000	$ 3.50	$ 4.00	$ 4.90	NYMEX NG

The Company deferred the payment of premiums associated with certain of its oil derivative instruments. On September 30, 2014 and December 31, 2013, the balances of deferred payments totaled $5.2 million and $5.6 million, respectively. The monthly premiums are being paid to the counterparty with each monthly settlement until maturity in January 2015 and 2016, respectively.

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(Unaudited)

Note 7. Derivative Instruments (Continued)

The following table sets forth a reconciliation of the changes in fair value of the Company's commodity derivatives for the nine months ended September 30, 2014 and the year ended December 31, 2013 (in thousands):

	September 30, 2014	December 31, 2013
Beginning fair value of commodity derviatives	$ (3,397)	$ 2,145
Net gains (losses) on crude oil derivatives	5,614	(16,891)
Net gains (losses) on natural gas derivatives	785	(47)
Net settlements on derivative contracts:		
Crude oil	9,382	5,755
Natural gas	270	32
Net premiums incurred on derivative contracts:		
Crude oil		