ABRAXAS PETROLEUM CORP
Form S-4/A
January 12, 2005

As filed with Securities and Exchange Commission on January 12, 2005
Registration No. 333-120989

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

AMENDMENT NO. 1

TO

FORM S-4

REGISTRATION STATEMENT
Under THE SECURITIES ACT OF 1933

Abraxas Petroleum Corporation
Eastside Coal Company, Inc.
Sandia Oil & Gas Corporation
Sandia Operating Corp.
Wamsutter Holdings, Inc.
Western Associated Energy Corporation

(Exact Name of Registrants as Specified in their Charters)

(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)
Nevada	1331	74-258403
Colorado	1331	74-227540
Texas	1331	74-236896
Texas	1331	74-246870
Wyoming	1331	74-289701
Texas	1331	74-193787

500 North Loop 1604 East, Suite 100, San Antonio, Texas 78232, (210) 490-4788

(Address, including zip code, and telephone number,
including area code, of registrants' principal executive offices)

Robert L. G. Watson
President and Chief Executive Officer
Abraxas Petroleum Corporation
500 North Loop 1604 East, Suite 100
San Antonio, Texas 78232
(210) 490-4788

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

With a copy to:

Cox Smith Matthews Incorporated

112 East Pecan, Suite 1800
San Antonio, Texas 78205
Attn: Steven R. Jacobs
(210) 554-5500

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE OF THE SECURITIES TO THE PUBLIC: As soon as practicable after this Registration Statement becomes effective.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. [ ]

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

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

THE REGISTRANTS HEREBY AMEND THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANTS SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

The information in this prospectus is not complete and may be changed. Abraxas may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer is not permitted.

SUBJECT TO COMPLETION, DATED JANUARY __, 2005

PROSPECTUS

ABRAXAS PETROLEUM CORPORATION
OFFER TO EXCHANGE UP TO

$125,000,000 PRINCIPAL AMOUNT FLOATING RATE SENIOR SECURED NOTES DUE 2009, SERIES B AND GUARANTEES THEREOF

FOR ANY AND ALL OUTSTANDING

$125,000,000 PRINCIPAL AMOUNT FLOATING RATE SENIOR SECURED NOTES DUE 2009, SERIES A AND GUARANTEES THEREOF

THE SERIES A/B EXCHANGE OFFER WILL EXPIRE AT midnight, NEW YORK CITY TIME, ON __________, 2005, UNLESS EXTENDED.

The Floating Rate Senior Secured Notes due 2009, Series A

- were originally offered and sold on October 28, 2004 in an aggregate principal amount of $125,000,000;
- will mature on December 1, 2009;
- accrue interest from the date of issuance at a per annum floating rate of six-month LIBOR plus 7.50, initially being 9.72% per annum;
- interest is payable semi-annually on each June 1 and December 1, commencing June 1, 2005;
- are guaranteed by each of Abraxas' current subsidiaries other than Grey Wolf Exploration Inc., including Sandia Oil & Gas Corporation, Sandia Operating Corp., Wamsutter Holdings, Inc., Western Associated Energy Corporation and Eastside Coal Company, Inc. and will be guaranteed by all of Abraxas' future subsidiaries;
- are secured by a shared lien on all of Abraxas' current and future properties and assets, including, but not limited to, Abraxas' natural gas and crude oil properties; and
- are not listed on any national securities exchange.

The Floating Rate Senior Secured Notes due 2009, Series B

- are offered in exchange for an equal principal amount of the outstanding Series A notes;
- evidence the same indebtedness as the outstanding Series A notes and are entitled to the benefits of the indenture under which those notes were issued; and
- are not listed on any national securities exchange.

The Series A/B Exchange Offer

- expires at midnight, New York City time, on __________, 2005, unless extended;
- is Abraxas' offer to exchange Abraxas' Series B notes, or exchange notes, and guarantees thereof for an equal amount of our validly tendered outstanding Series A notes, or outstanding notes, and guarantees thereof;
- is not a taxable exchange for U.S. Federal income tax purposes; and
- is not subject to any condition other than that the Series A/B exchange offer not violate applicable law or any applicable interpretation of the staff of the Securities and Exchange Commission.

You should carefully consider the risk factors beginning on page 17 of this prospectus before participating in the Series A/B exchange offer.

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Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Each broker-dealer that receives exchange notes for its own account pursuant to the Series A/B exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such exchange notes. The Letter of Transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act. This Prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of exchange notes received in exchange for Securities where such Securities were acquired by such broker-dealer as a result of market-making activities or other trading activities. Abraxas has agreed that, for a period of 180 days after the Expiration Date (as defined herein), it will make this Prospectus available to any broker-dealer for use in connection with any such resale. See "Plan of Distribution".

The date of this prospectus is January __, 2005.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER THIS CHAPTER WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with different information. We are not making an offer to sell, or a solicitation of an offer to buy, these securities in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus speaks only as of the date of this prospectus.

This prospectus contains summaries of certain provisions contained in some of the documents described herein, but reference is made to the actual documents for complete information. All of the summaries are qualified in their entirety by the actual documents. Copies of documents referred to in this prospectus will be made available to prospective investors by Abraxas upon written request.

FORWARD-LOOKING STATEMENTS

We make forward-looking statements throughout this prospectus. Whenever you read a statement that is not simply a statement of historical fact (such as statements including words like "believe," "expect," "anticipate," "intend," "plan," "seek," "estimate," "could," "potentially" or similar expressions), you must remember that these are forward looking statements, and that our expectations may not be correct, even though we believe they are reasonable. The forward-looking information contained in this prospectus is generally located in the material set forth under the headings "Summary," "Risk Factors," "Business," and "Management's Discussion and Analysis of Financial Condition and Results of Operations" but may be found in other locations as well. These forward-looking statements generally relate to our plans and objectives for future operations and are based upon our management's reasonable estimates of future results or trends. The factors that may affect our expectations regarding our operations include, among others, the following:

- our high debt level;
- our success in development, exploitation and exploration activities;
- our ability to make planned capital expenditures;
- declines in our production of natural gas and crude oil;
- prices for natural gas and crude oil;
- our ability to raise equity capital or incur additional indebtedness;
- political and economic conditions in oil producing countries, especially those in the Middle East;
- price and availability of alternative fuels;
- our restrictive debt covenants;
- our acquisition and divestiture activities;
- results of our hedging activities; and
- other factors discussed elsewhere in this prospectus.

SUMMARY

The following summarizes the more detailed information appearing elsewhere in this prospectus. It is not complete and may not contain all of the information that you should consider before engaging in the Series A/B exchange offer. For a more complete understanding of our business and of all the terms of the notes, you should carefully read this entire prospectus. As used in this prospectus, unless the context otherwise requires, or as used in "Description of the Exchange Notes," or as otherwise noted, "Abraxas" refers to Abraxas Petroleum Corporation and all of its subsidiaries other than Grey Wolf. "Grey Wolf" refers only to Abraxas' wholly-owned Canadian subsidiary, Grey Wolf Exploration Inc., and "we," "our" and "us" refer to Abraxas and all of its subsidiaries. Except as otherwise noted, (i) the reserve data reported in this prospectus is based on the reserve estimates of our independent petroleum engineers and (ii) all dollar amounts referenced in this prospectus are references to U.S. dollars. Except as otherwise noted, or as used in "Description of the Exchange Notes," the terms "on a pro forma basis" or "pro forma" refer to our business, financial condition and results of operations, as applicable, as if (i) Grey Wolf were not included as part of our operations or in our consolidated financial information, as applicable, (ii) the refinancing described in this prospectus had occurred at the times indicated and (iii) as a result, the January 2003 financial restructuring described in this prospectus did not take place. See "Glossary of Terms" for definitions of some technical terms used in this prospectus.

Our Company

We are an independent energy company primarily engaged in the development and production of natural gas and crude oil. Historically, we have grown through the acquisition and subsequent development and exploitation of producing properties, principally through the redevelopment of old fields utilizing new technologies such as modern log analysis and reservoir modeling techniques as well as 3-D seismic surveys and horizontal drilling. As a result of these activities, we believe that we have a substantial inventory of low risk development opportunities, which provide a basis for significant production and reserve increases. In addition, we intend to expand upon our exploitation and development activities with complementary low risk exploration projects in our core areas of operation.

Abraxas' core areas of operation are in south and west Texas and east central Wyoming. Abraxas' current producing properties are typically characterized by long-lived reserves, established production profiles and an emphasis on natural gas. Grey Wolf conducts operations in western Canada. The following table sets forth certain information relating to Abraxas' and Grey Wolf's proved reserves at December 31, 2003:

				Percentage of PV-10		
	Reserves	Reserve Life	PV-10	Developed	Natural Gas	O
	(Bcfe)	(in years)	(in millions)			
Abraxas.......	100.1	16.2	$161.6	64%	80%	

Grey Wolf.....	21.0	19.1	$ 55.2	76%	77%

In January 2003, we completed a series of transactions, which we sometimes refer to as the January 2003 financial restructuring, including the sale of most of our Canadian properties and the issuance of Abraxas' existing 11 1/2% secured notes due 2007. The terms of those notes limited our ability to make capital expenditures exceeding $10 million per year, which caused us to put a priority on those projects which allowed us to maintain our leasehold positions and comply with drilling requirements on non-operated properties, rather than on those opportunities which we believed had the greatest potential for increasing our production and reserves. Despite this limitation on capital expenditures, we increased average daily production from the producing properties that we continued to own after the Canadian sale in January 2003 from approximately 19 MMcfe in January 2003 to approximately 24 MMcfe in June 2004, while drilling a total of 43 wells with a 93% success rate. In addition, during 2003, we added 16 Bcfe of proved reserves at a finding cost of $1.15 per Mcfe.

Abraxas believes that its high quality asset base, high degree of operational control and large inventory of drilling projects position it for future growth. Abraxas' properties are concentrated in locations that facilitate substantial economies of scale in drilling and production operations and efficient reservoir management practices.

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Abraxas operates 94% of its propertiesaccounting for approximately 90% of its PV-10, giving Abraxas substantial control over the timing and incurrence of operating and capital expenditures. In addition, Abraxas has 47 proved undeveloped locations and has identified over 100 drilling and recompletion opportunities on its existing U.S. acreage, the successful development of which Abraxas believes could significantly increase its daily production and proved reserves.

The Refinancing

On October 28, 2004, in order to provide Abraxas with greater flexibility in conducting its business, including increasing capital spending and exploiting its additional drilling opportunities, Abraxas refinanced all of its then existing indebtedness by redeeming its 11 1/2% secured notes due 2007 and terminating its previous credit facility with the net proceeds from:

- o the private issuance of $125.0 million aggregate principal amount of the Floating Rate Senior Secured Notes due 2009, Series A;
- o the proceeds of its new $25.0 million second lien increasing rate bridge loan; and
- o the payment to Abraxas by Grey Wolf of $35.0 million from the proceeds of Grey Wolf's new $35.0 million term loan.

As a part of the refinancing, Abraxas also entered into a new $15.0 million revolving credit facility, under which Abraxas currently has availability of approximately $13.6 million.

Abraxas anticipates making capital expenditures on U.S. properties for 2005 of approximately $20.0 million, which Abraxas anticipates will include the development activities related to approximately 23 projects.

Series A/B Exchange Offer

Simultaneously with the issuance of the outstanding notes, Abraxas entered into an exchange and registration rights agreement with Guggenheim Capital Markets, LLC, the initial purchaser of those notes. Under the terms of the exchange and registration rights agreement, Abraxas agreed to file with the SEC and cause to become effective, a registration statement relating to an offer to exchange the outstanding notes and guarantees thereof for the exchange notes and guarantees thereof described in this prospectus (the outstanding notes and the exchange notes are sometimes referred to in this prospectus as the "notes"). Under the exchange and registration rights agreement, Abraxas must deliver this prospectus to holders of the outstanding notes and must complete the Series A/B exchange offer by June 6, 2005, subject to any extension that may be legally required. If Abraxas fails to file the required registration statement, the SEC does not declare the required registration statement effective or if Abraxas does not complete the Series A/B exchange offer, in each case within the applicable time periods required, Abraxas has agreed to pay additional interest to the holders of the outstanding notes. You may exchange your outstanding notes and guarantees thereof for exchange notes and guarantees thereof in the Series A/B exchange offer (discussion of the exchange of outstanding notes for exchange notes in this prospectus also includes the exchange of the respective guarantees of each series of notes). You should read the discussion under the heading "Summary of Terms of the Exchange Notes" and "Description of the Exchange Notes" for further information regarding the exchange notes.

We believe that holders of the outstanding notes, upon completion of the Series A/B exchange offer, may resell the exchange notes without complying with the registration and prospectus delivery provisions of the Securities Act, if certain conditions are met. You should read the discussion under the headings "Summary of the Series A/B Exchange Offer", "Plan of Distribution" and "The Series A/B Exchange Offer-Resales of Exchange Notes" for further information regarding the Series A/B exchange offer and resales of the exchange notes.

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The exchange notes will be recorded at the same carrying value as the outstanding notes. Accordingly, no gain or loss for accounting purposes will be recognized upon the closing of the Series A/B exchange offer. Costs associated with the Series A/B exchange offer will be expensed as incurred.

Corporate Information

Abraxas was originally incorporated in Texas in 1977 and re-incorporated in Nevada in 1990 when it became a public company. Abraxas' common stock is listed on the American Stock Exchange under the symbol "ABP." Abraxas' principal offices are located at 500 North Loop 1604 East, Suite 100, San Antonio, Texas 78232, and its telephone number is (210) 490-4788. Abraxas' Internet website address is www.abraxaspetroleum.com.

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Summary of the Series A/B Exchange Offer

The following is a brief summary of certain terms of the Series A/B exchange offer.

Registration Rights................... Abraxas issued the outstanding notes on

October 28, 2004 to the initial purchaser in a private offering. The initial purchaser, in turn, resold those notes to (i) qualified institutional buyers in reliance on Rule 144A under the Securities Act, (ii) institutional investors that qualified as accredited investors as defined under Rule 501(a)(1), (2), (3), (7) (8) under the Securities Act, (iii) a limited number of individuals who qualified as accredited investors as defined under Rule 501(a)(4), (5), (6) under the Securities Act and (iv) outside the United States in compliance with Regulation S under the Securities Act. Simultaneously with the initial issuance of the outstanding notes, Abraxas agreed to provide the holders of the outstanding notes with certain exchange and registration rights. The exchange and registration rights agreement provides for the Series A/B exchange offer.

You may exchange your outstanding notes for exchange notes. After the Series A/B exchange offer is completed, you generally will not be entitled to any further rights to exchange your outstanding notes for exchange notes.

Series A/B Exchange Offer............. Abraxas is offering to exchange $125,000,000 aggregate principal amount of its Floating Rate Senior Secured Notes due 2009, Series B and guarantees thereof, the offering of which has been registered under the Securities Act, for all outstanding Floating Rate Senior Secured Notes due 2009, Series A and guarantees thereof. To participate in the Series A/B exchange offer, you must have properly tendered your outstanding notes, and Abraxas must have accepted them. Abraxas will exchange all outstanding notes that you validly tender and do not validly withdraw. Abraxas will issue registered exchange notes at or promptly after the end of the Series A/B exchange offer.

Resales............................ Based on the SEC staff's letters to third parties in other similar transactions, Abraxas believes that you can offer for resale, resell or otherwise transfer the exchange notes without complying with the registration and prospectus delivery requirements of the Securities Act if:

o you are acquiring the exchange notes in the ordinary course of your business;

- you are not participating, do not intend to participate, and have no arrangement or understanding with any person to participate in, the distribution of the exchange notes; and
- you are not an "affiliate" of Abraxas, as defined in Rule 405 of the Securities Act.

If any of these conditions is not satisfied and you transfer any exchange notes without delivering a proper prospectus or without qualifying for a registration exemption, you may incur

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liability under the Securities Act. We will not assume or indemnify you against such liability.

Abraxas will not seek its own interpretive letter, and cannot assure you that the SEC staff will take the same position on the Series A/B exchange offer as it did in interpretive letters to other parties.

Each broker-dealer that receives exchange notes for its own account in exchange for outstanding notes that such broker-dealer acquired through market-making or other trading activities must acknowledge that it will deliver a proper prospectus when it transfers any exchange notes. A broker-dealer may use this prospectus for a limited period for an offer to resell, a resale or other transfer of the exchange notes.

ExpirationT.......................... The Series A/B exchange offer expires at midnight, New York City time, on ____________, 2005, unless we extend the expiration time.

Conditions to the Series A/B Exchange Offer................................ The Series A/B exchange offer is subject to customary conditions, some of which Abraxas may waive. You should read the discussion under the heading "The Series A/B Exchange Offer--Conditions to the Series A/B Exchange Offer" in this prospectus for more information.

Accrued Interest on the Exchange Notes. The exchange notes will bear interest from October 28, 2004.

Procedures for Tendering Outstanding Notes	Abraxas issued the outstanding notes in global form. When the outstanding notes were issued in October 2004, Abraxas deposited global notes with U.S. Bank National Association as custodian for Cede & Co., the nominee for The Depository Trust Company, or DTC, the book-entry depositary. Beneficial interests in the outstanding notes, which are held by direct or indirect participants in DTC, are shown on records maintained in book-entry form by DTC. You may tender your outstanding notes held in book-entry form through book-entry transfer in accordance with DTC's Automated Tender Offer Program, or ATOP.
Special Procedures for Beneficial Owners	If you are a beneficial owner whose outstanding notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and wish to tender your outstanding notes in the Series A/B exchange offer, please contact the registered holder as soon as possible and instruct it to tender on your behalf and comply with the instructions set forth elsewhere in this prospectus.
Withdrawal Rights	You may withdraw the tender of your outstanding notes at any time before midnight, New York City time, on the expiration date by following the procedures for withdrawal set forth under the heading "The Series A/B Exchange Offer--Withdrawal Rights".

Appraisal or Dissenter's Rights	Holders of outstanding notes do not have any appraisal or dissenters' rights in the Series A/B exchange offer. If you do not tender your outstanding notes or Abraxas rejects your tender, you will not be entitled to any further rights to exchange your outstanding notes for exchange notes. If you do not tender your outstanding notes, they will remain outstanding and entitled to the benefits of the indenture governing the notes. You should read the discussion under the heading "Risk Factors--Risks Related to the Series A/B Exchange Offer" for further information.

Federal Tax Consequences..............	The exchange of notes generally is not a taxable exchange for United States federal income tax purposes. You generally will not recognize any taxable gain or loss or any interest income as a result of such exchange. For additional information regarding the federal tax consequences of participating in the Series A/B exchange offer and holding the notes, you should read the discussion under the heading "Certain U. S. Federal Income Tax Considerations."
Exchange Agent........................	U.S. Bank National Association is serving as the exchange agent in the Series A/B exchange offer. The exchange agent's address, and telephone and facsimile numbers are listed in the section of this prospectus entitled "The Series A/B Exchange Offer--Exchange Agent" and in the accompanying letter of transmittal.
Use of Proceeds......................	We will not receive any proceeds from the Series A/B exchange offer, and we will pay the expenses of the Series A/B exchange offer.

Risk Factors

Participating in the Series A/B exchange offer involves substantial risk. You should carefully consider the information under the caption "Risk Factors" and all other information included in this prospectus before participating in the Series A/B exchange offer.

Summary of Terms of the Exchange Notes

The exchange notes represent the same debt as the outstanding notes, except that the exchange notes will be registered under the Securities Act. As a result, the exchange notes will not bear legends restricting their transfer and will not contain the registration rights and damages provisions contained in the outstanding notes, with certain limited exceptions in accordance with the terms of the exchange and registration rights agreement. The outstanding notes and the exchange notes are governed by the same indenture, and both series of notes are sometimes interchangeably referred to herein as the "notes."

Issuer................................	Abraxas Petroleum Corporation.
Exchange Notes Offered.................	$125 million aggregate principal amount of Floating Rate Senior Secured Notes due 2009, Series B.
Maturity Date..........................	December 1, 2009.

Interest Rate........................Interest on the exchange notes accrues at a per annum floating rate of six-month LIBOR plus 7.50%. The initial interest rate on the exchange notes is 9.72% per annum. The interest rate will be reset semi-annually on each June 1 and December 1, commencing on June 1, 2005.

Interest Payment Dates.................Interest is payable semi-annually in arrears on June 1 and December 1 of each year, commencing on June 1, 2005.

Regular Record Dates...................The 15th day of the month immediately preceding the month in which the related interest payment date occurs.

Ranking and Lien Priority
of the Exchange Notes..................The notes are senior secured obligations of Abraxas. The notes rank equally among themselves and with all of Abraxas' unsubordinated and unsecured indebtedness, including Abraxas' new revolving credit facility, and senior in right of payment to Abraxas' existing and future subordinated indebtedness, including the bridge loan. The notes are effectively senior to Abraxas' existing and future unsecured indebtedness to the extent of the value of the collateral securing the notes and available to the holders of the notes under the intercreditor agreement.

The provisions of the intercreditor agreement among Abraxas, the subsidiary guarantors, Wells Fargo Foothill, Inc., Guggenheim Corporate Funding, LLC and U.S. Bank National Association provide that upon notice of an event of default with respect to the notes, the new revolving credit facility or the bridge loan and so long as an event of default exists, payments made by Abraxas and the subsidiary guarantors will be applied, together with any proceeds from any disposition of collateral:

- if a minimum collateral coverage ratio of three times the outstanding obligations under the new revolving credit facility is met, (i) to the payment of interest on the notes only if and when all accrued and unpaid interest on the new revolving credit facility has been paid and (ii) to the payment of principal of the notes after the entire principal amount outstanding under the new revolving credit facility has been repaid; or

- if that minimum collateral coverage ratio is not then met, to the payment of interest on and principal of the notes only if and when all outstanding interest on and principal of the new revolving credit facility have been paid.

See "Description of the Exchange Notes--Brief Description of the Exchange Notes and the Subsidiary Guarantees; Ranking and Lien Priority" and "Intercreditor Agreement."

Subsidiary Guarantees................. Each of Abraxas' current subsidiaries other than Grey Wolf and its future restricted subsidiaries have unconditionally guaranteed, jointly and severally, the payment of the principal of, and premium and interest (including any additional interest) on, the notes on a senior secured basis. In addition, any other subsidiary or affiliate of Abraxas, including Grey Wolf, that in the future guarantees any other indebtedness of Abraxas or its restricted subsidiaries will also be required to guarantee the notes. Except under the limited circumstances described in this prospectus, the notes are not, and will not be, guaranteed by Grey Wolf, and are structurally subordinated in right of payment to all of its obligations, including Grey Wolf's term loan and trade payables and other debt of Grey Wolf.

The subsidiary note guarantee of each subsidiary guarantor is the senior secured obligation of the subsidiary guarantor, ranks equally with all of its unsubordinated and unsecured indebtedness and senior in right of payment to its existing and future subordinated indebtedness, including its guarantee of the bridge loan. The subsidiary guarantee is effectively senior to that subsidiary guarantor's existing and future unsecured indebtedness to the extent of the value of the collateral securing that subsidiary note guarantee and available to the holders of the notes under the intercreditor agreement.

Security............................. The notes and the subsidiary note guarantees, together with the new revolving credit facility and the subsidiary guarantors' guarantees thereof, are secured by shared first priority perfected security interests, subject to certain permitted encumbrances, in all of Abraxas' and each of its restricted subsidiaries' material property and assets, including substantially all of their natural gas and crude oil properties and all of the capital stock (or in the case of an unrestricted subsidiary that is a controlled foreign corporation, up to 65% of the outstanding capital stock) in any entity, other than Grey Wolf, owned by Abraxas and its restricted subsidiaries (all of which is collectively referred to in this prospectus as the collateral). The notes are not secured by any of the property or assets of Grey Wolf (unless it becomes a restricted subsidiary). The shares of capital stock of Grey Wolf owned by Abraxas do not constitute a part of the collateral.

See "Description of the Exchange Notes--Security."

Intercreditor Agreement................The holders of the notes, together with the lenders under Abraxas' new revolving credit facility and bridge loan, are subject to an intercreditor agreement.

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The intercreditor agreement among other things, (i) creates security interests in collateral in favor of a collateral agent for the benefit of the holders of the notes, the new revolving credit facility lenders and the bridge loan lenders and (ii) governs the priority of payments among such parties upon notice of an event of default under the indenture, the new revolving credit facility or the bridge loan.

So long as no such event of default exists, the collateral agent will not collect payments under the new revolving credit facility documents, the indenture and other note documents or the bridge loan documents, and all payments will be made directly to the respective creditor. Upon notice of an event of default and for so long as an event of default exists, payments to each new revolving credit facility lender, holder of the notes and bridge loan lender from Abraxas and the subsidiary guarantors, and proceeds from any disposition of any collateral, will, subject to limited exceptions, be collected by the

	collateral agent for deposit into a collateral account and then distributed as described under "Intercreditor Agreement--Priority of Distributions."
	The collateral agent will act in accordance with the intercreditor agreement and as directed by the control party. Prior to the occurrence of any event of default, the control party will be the holders of the notes and the new revolving credit facility lenders, acting as a single class, by vote of the holders of a majority of the aggregate principal amount of outstanding obligations under the notes and the new revolving credit facility. Upon notice of any such event of default, the bridge loan lenders will be the control party for 240 days following such notice. If a stay under the Bankruptcy Code occurs during such 240-day period, that period will be extended by the number of days during which that stay was effective. If the new revolving credit facility lenders and holders of the notes have not been paid in full by the end of such specified period, they will become the control party, acting as a single class, by vote of the holders of a majority of the aggregate principal amount of outstanding obligations under the notes and the new revolving credit facility.
	For more information regarding the Intercreditor Agreement, you should read "Intercreditor Agreement."
Optional Redemption....................	After April 28, 2007, Abraxas may redeem all or a portion of the notes at the redemption prices set forth under "Description of the Exchange Notes--Optional Redemption," plus accrued and unpaid interest to the date of redemption. Prior to that date, Abraxas may redeem up to 35% of the aggregate original principal amount of the notes using the net proceeds of one or more equity offerings, in each case at the redemption price calculated as set forth under "Description of the Exchange Notes--Optional Redemption."
Repurchase at the Option of Holders Upon the Occurrence of Certain Asset Sales.................	If the bridge loan lenders exercise their right under certain... circumstances to require Abraxas to sell assets, including assets comprising the collateral, the net proceeds will be applied in the following order, to the extent available to:

- first, pay any interest then due and payable under the new

revolving credit facility;

- second, pay any interest then due and payable on the notes;
- third, pay any accrued and unpaid interest on the new revolving credit facility that was not paid under clause "first" of this paragraph;
- fourth, pay any outstanding principal of the new revolving credit facility;
- fifth, if the remaining aggregate amount of such net cash proceeds, together with any net cash proceeds in the bridge loan asset sale proceeds account from a previous asset sale consummated in accordance with the provisions described in "Description of the Exchange Notes--Repurchase at the Option of Holders Upon the Occurrence of Certain Asset Sales," exceeds $5.0 million, the entire amount in the bridge loan asset sale proceeds account is to be used to make a net proceeds offer to purchase notes from all holders of the notes as if such net cash proceeds remaining after any payment made pursuant to clause "first," "second," "third" or "fourth" above, and any other net cash proceeds in the bridge loan asset sale proceeds account, are excess proceeds (see "Description of the Exchange Notes--Certain Covenants--Limitation on Asset Sales"); and
- sixth, after the payment of all amounts required by a net proceeds offer made in accordance with clause "fifth" above repay all amounts outstanding under the bridge loan.

See "Description of the Exchange Notes--Repurchase at the Option of Holders Upon the Occurrence of Certain

Asset Sales."

Change Of Control...................... If Abraxas experiences specific kinds of change of control events, each holder of notes may require Abraxas to repurchase all or any portion of such holder's notes at a purchase price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest to the date of repurchase. See "Description of the Exchange Notes-- Repurchase at the Option of Holders Upon a Change of Control."

Covenants............................ The indenture governing the exchange notes contains covenants that, among other things, limit Abraxas' ability to:

- incur or guarantee additional indebtedness and issue certain types of preferred stock or redeemable stock;
- transfer or sell assets;
- create liens on assets;
- pay dividends or make other distributions on capital stock

or make other restricted payments, including repurchasing, redeeming or retiring capital stock or subordinated debt or making certain investments or acquisitions;
- engage in transactions with affiliates;
- guarantee other indebtedness;
- permit restrictions on the ability of its subsidiaries to distribute or lend money to Abraxas;
- cause a restricted subsidiary to issue or sell its capital stock; and
- consolidate, merge or transfer all or substantially all of the consolidated assets of Abraxas and its restricted subsidiaries.

These covenants are subject to important

	exceptions and qualifications, which are described under "Description of the Exchange Notes--Certain Covenants."
Events of Default......................	The indenture governing the notes contains customary events of default, including nonpayment of principal or interest, violations of covenants, cross default and cross acceleration to certain other indebtedness, including the new revolving credit facility and bridge loan, bankruptcy, and material judgments and liabilities.
Absence of a Public Market for Exchange Notes.....................	For additional information regarding the exchange notes, you should read the discussion under the heading "Description of the Exchange Notes" below.

Summary Historical Consolidated and Pro Forma Financial Data

The information for the years ended December 31, 2001, 2002 and 2003 is derived from our audited financial statements. The information for the nine months ended September 30, 2003 and 2004 is derived from our unaudited financial statements. It is important that you read this financial data along with "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Selected Historical Financial Data" and our consolidated financial statements and the notes thereto included elsewhere in this prospectus.

The pro forma financial data presented below is unaudited and has been derived from our consolidated financial statements included in this prospectus and from unaudited historical and pro forma consolidated financial data. The pro forma financial information presented below for the year ended December 31, 2003 and for the nine months ended September 30, 2004 reflects consolidated statement of operations data relating to Abraxas and each of the subsidiary guarantors of the notes and gives effect to:

- the exclusion of Grey Wolf from Abraxas' statement of operations;
- the consummation of the October 2004 financial restructuring; and
- the exclusion of the January 2003 financial restructuring described under "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The pro forma condensed balance sheet reflects the consolidated balance sheet data relating to Abraxas and each of the subsidiary guarantors of the notes and gives effect to the exclusion of balance sheet data relating to Grey Wolf as of September 30, 2004.

Grey Wolf, through which we conduct our Canadian operations and hold our properties and assets located in Canada, is excluded from the pro forma results because:

- except under the limited circumstances described in this prospectus, the notes are not, and will not be, guaranteed by Grey Wolf, and are structurally subordinated in right of payment to all of its obligations, including Grey Wolf's term loan and trade payables and other debt of Grey Wolf;
- the notes are not secured by any of the property or assets of Grey Wolf (unless it becomes a restricted subsidiary); and
- the shares of capital stock of Grey Wolf owned by Abraxas do not constitute a part of the collateral.

Accordingly, the notes are effectively junior to all the liabilities, including all trade payables and other debt, of Grey Wolf.

The pro forma information set forth below is not necessarily indicative of the results that actually would have been achieved if the Grey Wolf operations had not been part of Abraxas' operations or the refinancing had been consummated as of the dates indicated. The pro forma information in these tables should be read in conjunction with "Unaudited Pro Forma Financial Information" included in this prospectus.

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Summary Historical Consolidated and Pro Forma Statement of Operations

	Years Ended December 31,				
Statement of Operations Data:	2001(1)	2002(1)	2003(1)	Pro Forma, 2003	200
				(dollars in thousands)	
Revenue:					
Oil and gas production revenue.....	$ 73,201	$ 50,862	$ 38,105	$ 29,710	29
Gas processing revenue............	2,438	2,420	133	--	
Rig revenue.......................	756	635	663	663	
Other revenue.....................	848	403	118	7	
Total operating revenue (2)..........	$ 77,243	$ 54,320	$ 39,019	$ 30,380	$ 29
Operating costs and expenses:					
Lease and other operating expenses(3)	19,318	15,807	10,208	8,951	7
Depreciation, depletion and amortization expense............	32,484	26,539	10,803	7,608	7
Proved property impairment...........	2,638	115,993	--	--	
General and administrative expense...	6,445	6,884	5,360	3,995	3
Stock-based compensation............	(2,767)	--	1,106	1,106	
Total Operating expense.............	58,118	165,223	27,477	21,660	19
Operating income (loss).............	19,125	(110,903)	11,542	8,720	10
Other (income) expense:					
Interest expense, net of interest					

income (4)	31,445	34,058	16,925	15,120	12
Amortization of deferred financing fee	2,268	2,095	1,678	2,260	1
Financing cost	--	967	4,406	4,406	4
(Gain) loss on sale of foreign subsidiaries	--	--	(68,933)	(68,933)	(67
(Gain) loss on sale of equity investment	845	--	--	--	
Other	207	201	774	100	
Income (loss) before income taxes, minority interest and cumulative effect of accounting change	(15,640)	(148,224)	56,692	55,767	58
Income tax provision	2,402	(29,697)	377	--	
Minority interest	1,676	--	--	--	
Cumulative effect of accounting change	--	--	395	395	
Net earnings (loss)	$(19,718)	$(118,527)	$ 55,920	$ 55,372	$ 57
Income (loss) per common share:					
Basic	$ (0.76)	$ (3.95)	$ 1.58	$ 1.57	$
Diluted	$ (0.76)	$ (3.95)	$ 1.55	$ 1.54	$
Other Data:					
Capital expenditures (including acquisitions)	$ 57,056	$ 38,912	$ 18,349	$ 9,194	$ 16
Statement of Cash Flows Data Net cash provided by (used in):					
Operating activities	$ 16,263	$ (8,336)	$ 23,850		$ 9
Investing activities	$(30,797)	$ (5,036)	$ 67,461		$ 70
Financing activities	$ 20,685	$ 10,836	$ (95,622)		$(82

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	As at September 30, 2	
	Historical	Pro For
	(dollars in	thousan
Balance Sheet Data:		
Cash and cash equivalents	$ 3,601	$ 2,8
Net property and equipment	114,233	75,4
Total assets	129,067	94,9
Total other liabilities	14,938	6,5
Total debt	190,516	150,0
Total stockholders' deficit	(76,387)	(61,5

(1) Data for 2001, 2002 and the first 23 days of 2003 includes Canadian subsidiaries sold in January 2003.

(2) Consists of natural gas and crude oil production sales, revenue from rig operations and other miscellaneous revenue, net of hedging activities.

(3) Consists of lease operating expenses, production taxes and rig operations.

(4) Interest expense on our indebtedness includes cash interest expense on our existing credit facility and non-cash interest expense on the existing notes (through the issuance of additional notes).

Summary Historical and Pro Forma Operating Data

The historical operating data presented below sets forth a summary of our production and per unit sales price of crude oil, NGLs and natural gas and our per unit expenses for the periods indicated. The pro forma operating data presented below for the year ended December 31, 2003 and for the nine months ended September 30, 2004 reflects the consolidated operating data for Abraxas and each of the restricted subsidiaries and gives effect to the exclusion of operating data relating to Grey Wolf.

	Years Ended December 31,				
	2001(1)	2002(1)	2003(1)	Pro Forma 2003	2
			(dollars in thousands, except per un		
Total Sales:					
Natural gas and crude oil sales........................	$73,201	$50,862	$38,105	$29,710	$2
Production:					
Crude oil (MBbls)............	454	292	252	220	
NGLs (MBbls)..................	278	242	37	9	
Natural gas (MMcf)...........	17,496	15,453	6,189	4,781	
Gas and Oil Sales (MMcfe).....	21,888	18,657	7,923	6,155	
Average daily sales (MMcfe)...	60.0	51.1	21.7	16.9	
Average Sales Price:(2)					
Crude oil (per Bbl)...........	$ 24.63	$24.34	$ 30.32	$ 30.43	$
NGLs (per Bbl)................	21.51	17.94	24.47	20.47	
Natural gas (per Mcf).........	3.20	2.55	4.78	4.77	
Per Mcfe......................	3.34	2.73	4.81	4.82	
Cost of production (per Mcfe):					
Lease operating expense.......	$ 0.85	$ 0.82	$ 1.21	$ 1.36	$
Depreciation, depletion and amortization................	$ 1.48	$ 1.42	$ 1.36	$ 1.24	$
General and administrative....	$ 0.29	$ 0.37	$ 0.68	$ 0.65	$
Interest expense..............	$ 1.44	$ 1.83	$ 2.14	$ 2.01	$

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(1) Data for 2001, 2002 and the first 23 days of 2003 includes Canadian

subsidiaries sold in January 2003.

(2) Average sales prices include effects of hedging activities.

Summary Historical and Pro Forma Reserve Data

The historical reserve data presented below sets forth a summary of our estimated proved crude oil, NGLs and natural gas reserves as of the dates indicated. The pro forma reserve data presented below for the year ended December 31, 2003 reflects the consolidated reserve data for Abraxas and each of the restricted subsidiaries and gives effect to and reflects the exclusion of reserve data relating to Grey Wolf.

The reserve estimates were prepared in accordance with guidelines established by the SEC regarding the present value of reserves and future net revenues. The process of estimating natural gas and crude oil reserves is complex and involves decisions and assumptions in the evaluation of available geological, geophysical, engineering and economic data. Therefore, these estimates are imprecise. See "Risk Factors--Estimates of our proved reserves and future net revenue are uncertain and inherently imprecise."

	2001	2002	2003
		(dollars in thousands)	
Estimated Proved Reserves(1):			
Crude oil and NGLs (MBbls)	6,802	4,605	4,134
Natural gas (MMcf)	188,757	138,832	96,284
Natural gas equivalents (MMcfe)	229,569	166,462	121,088
% Proved developed (based on volume)	59%	65%	54%
Estimated future net revenue before income taxes	$386,762	$460,987	$416,756
PV-10	$209,666	$254,853	$216,823
% Proved developed (based on value)	82%	81%	67%

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(1) The weighted average prices utilized for the purposes of estimating our proved reserves and future net revenues were $2.20, $3.79, $5.05 and $5.13 per Mcf at December 31, 2001, 2002, 2003 and pro forma 2003, respectively, and $18.26, $29.69, $31.03 and $31.03 per Bbl at December 31, 2001, 2002, 2003 and pro forma 2003, respectively.

The following table sets forth our developed and undeveloped acreage for the period indicated:

	As of December 31, 2003		
	US	Canada	T
Acreage:			
Gross acres:			
Developed	26,871	18,238	
Undeveloped	63,375	155,246	
Total	90,246	173,484	
Net acres:			
Developed	22,178	9,075	
Undeveloped	58,235	93,866	
Total	80,413	102,941	

RISK FACTORS

You should consider carefully these risks together with all of the other information included in this prospectus before deciding whether to exchange your outstanding notes in the Series A/B exchange offer.

The risk factors noted in this section and other factors contained in this prospectus describe examples of risks, uncertainties and events that may cause our actual results to differ materially from those contained in any forward-looking statement. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, actual outcomes may vary materially from those described in this prospectus.

Risks Related to the Series A/B Exchange Offer

If you do not exchange your outstanding notes, they will continue to be subject to restrictions on transfer and may be difficult to resell.

If you do not exchange your outstanding notes in the Series A/B exchange offer, you may be unable to freely sell your outstanding notes because, without the benefit of an effective shelf registration statement, any outstanding notes not exchanged will remain subject to the restrictions on transfer provided for under the Securities Act. These restrictions on transfer of your outstanding notes exist because Abraxas issued the outstanding notes pursuant to an exemption from the registration requirements of the Securities Act and applicable state securities laws.

Generally, the outstanding notes that are not exchanged for the exchange notes pursuant to the Series A/B exchange offer will remain restricted securities. Accordingly, any such outstanding notes may be resold only:

- to Abraxas (upon their redemption or otherwise);

- pursuant to an effective registration statement under the Securities Act;
- so long as the outstanding notes are eligible for resale pursuant to Rule 144A under the Securities Act to a qualified institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A;
- outside the United States to a foreign person pursuant to the exemption from the registration requirements of the Securities Act provided by Regulation S under the Securities Act;
- pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available); or
- pursuant to another available exemption from the registration requirements of the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States.

To the extent any outstanding notes are tendered and accepted in the Series A/B exchange offer, the trading market, if any, for the outstanding notes that remain outstanding after the Series A/B exchange offer is completed would be adversely affected due to a reduction in market liquidity.

If you do not comply with the Series A/B exchange offer procedures, you will not receive new, freely tradable exchange notes, and your outstanding notes will continue to be subject to restrictions on transfer.

If you do not comply with the Series A/B exchange offer procedures, you will not receive exchange notes and your outstanding notes will continue to be subject to restrictions on transfer. Delivery of exchange notes in exchange of your outstanding notes tendered and accepted for exchange pursuant to the Series A/B exchange offer will be made only if you do one of the following prior to the expiration or termination of the Series A/B exchange offer:

- tender your outstanding notes by sending the certificates for your outstanding notes, in proper form for transfer, a properly completed and duly executed letter of transmittal; or

- tender your outstanding notes by using book-entry transfer procedures and transmitting a properly completed and duly executed letter of transmittal or an agent's message instead of the letter of transmittal, to the exchange agent.

Therefore, holders of outstanding notes who would like to tender outstanding notes in exchange for exchange notes should be sure to allow enough time for the outstanding notes to be delivered on time. We are not required to notify you of defects or irregularities in tenders of outstanding notes for exchange. Outstanding notes that are not tendered or that are tendered but we do not accept for exchange will, following consummation of the Series A/B exchange offer, continue to be subject to the existing transfer restrictions under the Securities Act and, upon consummation of the Series A/B exchange offer, certain registration and other rights under the registration rights agreement will terminate.

There is currently no active trading market for the exchange notes, the value of the exchange notes may fluctuate significantly and any market for the exchange notes may be illiquid.

Although upon the completion of the Series A/B exchange offer, the exchange notes will generally be freely transferable, there is currently no public market for the exchange notes. Abraxas cannot assure you that an active market for the exchange notes will develop, or, if such a market develops, that such market will be liquid or that you will be able to sell your exchange notes in the future at an acceptable price to you, if at all. Abraxas does not presently intend to apply for the exchange notes to be listed on any national securities exchange or to arrange for any quotation system to quote them. The exchange notes have been declared eligible for trading in The PORTAL Market. The liquidity of the market for the exchange notes will depend upon the amount outstanding, the number of holders thereof and the interest of securities dealers in maintaining a market in such exchange notes. If a liquid market were to exist, the exchange notes could trade at prices that may be lower than the principal amount or purchase price, depending on many factors, including prevailing interest rates, the market for similar notes, Abraxas' financial performance and other factors beyond Abraxas' control. The liquidity of, and trading market for, the exchange notes also may be adversely affected by general declines in the market for high yield securities. Such declines may adversely affect the liquidity and trading markets for the notes.

Risks Related to Our Business

We have a highly leveraged capital structure, which limits our operating and financial flexibility.

We have a highly leveraged capital structure. Abraxas currently has total indebtedness, including the notes, of approximately $150.0 million, all of which is secured indebtedness.

Our highly leveraged capital structure will have several important effects on our future operations, including:

- A substantial amount of our cash flow from operations will be required to service our indebtedness (including cash interest payments on the notes), which will reduce the funds that would otherwise be available for operations, capital expenditures and expansion opportunities, including developing our properties;

- The covenants contained in Abraxas' new revolving credit facility and bridge loan require Abraxas to meet certain financial tests and comply with certain other restrictions, including limitations on capital expenditures. These restrictions, together with those in the indenture governing the notes, limit Abraxas' ability to undertake certain activities and respond to changes in its business and its industry;

- The covenants contained in the new Grey Wolf term loan limit Grey Wolf's ability to make distributions or pay dividends to Abraxas. As a result, Grey Wolf's cash flow from operations is no longer available to Abraxas to meet its debt service obligations and operating requirements;

- Our debt level may impair our ability to obtain additional capital, through equity offerings or debt financings, for working capital, capital expenditures or refinancing of indebtedness;

- Our debt level makes us more vulnerable to economic downturns and adverse developments in our industry (especially declines in natural gas and crude oil prices) and the economy in general; and

- The notes and the new revolving credit facility are subject to variable interest rates which makes us vulnerable to interest rate increases.

We may not be able to fund the substantial capital expenditures that will be required for us to increase our reserves and our production.

We are required to make substantial capital expenditures to develop our existing reserves and to discover new reserves. Historically, we have financed our capital expenditures primarily with cash flow from operations, borrowings under credit facilities and sales of producing properties. In addition to using its cash flow from operations, Abraxas expects to use the new revolving credit facility to fund capital expenditures. We cannot assure you that we will have sufficient capital resources in the future to finance our capital expenditures.

Volatility in natural gas and crude oil prices, the timing of our drilling program and our drilling results will affect our cash flow from operations. Lower prices and/or lower production will also decrease revenues and cash flow, thus reducing the amount of financial resources available to meet our capital requirements, including reducing the amount available to pursue our drilling opportunities. If our cash flow from operations does not increase as a result of our planned capital expenditures, a greater percentage of our cash flow from operations will be required for debt service (including cash interest payments on the notes) and our planned capital expenditures would, by necessity, be decreased.

The borrowing base under the new revolving credit facility will be determined from time to time by Abraxas' lenders under the new revolving credit facility, consistent with their customary natural gas and crude oil lending practices. Reductions in estimates of Abraxas' natural gas and crude oil reserves could result in a reduction in Abraxas' borrowing base, which would reduce the amount of financial resources available under the new revolving credit facility to meet Abraxas' capital requirements. Such a reduction could be the result of lower commodity prices or production, inability to drill or unfavorable drilling results, changes in natural gas and crude oil reserve engineering, the lenders' inability to agree to an adequate borrowing base or adverse changes in the lenders' practices regarding estimation of reserves.

If cash flow from operations or Abraxas' borrowing base decrease for any reason, Abraxas' ability to undertake exploitation and development activities could be adversely affected. As a result, Abraxas' ability to replace production may be limited. In addition, if the borrowing base under Abraxas' new revolving credit facility is reduced, Abraxas would be required to reduce its borrowings under the new revolving credit facility so that such borrowings do not exceed the borrowing base. This could further reduce the cash available to Abraxas for capital spending and, if Abraxas did not have sufficient capital to reduce its borrowing level, could cause Abraxas to default under the new revolving credit facility, the notes and the bridge loan.

We have sold producing properties to provide us with liquidity and capital resources in the past and may do so in the future. After any such sale, we would expect to utilize the proceeds to drill new wells. If we cannot replace the production lost from properties sold with production from new properties, our cash flow from operations will likely decrease which, in turn, would decrease the amount of cash available for debt service and additional capital spending.

We may be unable to acquire or develop additional reserves, in which case our results of operations and financial condition would be adversely affected.

Our future natural gas and crude oil production, and therefore our success, is highly dependent upon our ability to find, acquire and develop additional reserves that are profitable to produce. The rate of production from our natural gas and crude oil properties and our proved reserves will decline as our reserves are produced unless we acquire additional properties containing proved reserves, conduct successful exploration, development and exploitation activities or, through engineering studies, identify additional behind-pipe zones or secondary recovery reserves. We cannot assure you that our exploration, exploitation and development activities will result in increases in our proved reserves. While we have had some success in pursuing these activities, we have not been able to fully replace the production volumes lost from natural field declines and property sales. As our proved reserves, and consequently our production, decline, our cash flow from operations and the amount that Abraxas is able to borrow under the new revolving credit facility will also decline. In addition, approximately 36% of Abraxas' total estimated proved reserves at December 31, 2003 were undeveloped. By their nature, estimates of undeveloped reserves are less certain. Recovery of such reserves will require significant capital expenditures and successful drilling operations.

Prior to the January 2003 financial restructuring, we implemented a number of measures to conserve our cash resources, including postponement of drilling projects. While these measures helped conserve our cash resources, they also limited our ability to replenish our depleting reserves. We have also postponed drilling projects as a result of the capital spending limitations that 0existed in the 11 1/2% secured notes due 2007 which have been called for redemption. As a result, our current producing properties have continued to deplete and we have not been able to drill new wells at a rate that we would have desired in the absence of these limitations. The terms of the new revolving credit facility and the bridge loan place limits on Abraxas' capital expenditures, which will limit Abraxas' ability to replenish its reserves and increase production.

Abraxas may incur additional indebtedness, which may exacerbate the risks described above, including its ability to service indebtedness.

Abraxas may incur additional indebtedness. Although the terms of the notes, and Abraxas' new revolving credit facility and bridge loan restrict Abraxas' ability to incur additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and under certain circumstances, indebtedness incurred in compliance with these restrictions could be substantial. Also, these restrictions do not prevent Abraxas from incurring obligations that do not constitute indebtedness. Any additional indebtedness or other obligations could exacerbate the risks described herein related to our highly leveraged capital structure.

Restrictive debt covenants could limit Abraxas' growth and its ability to finance its operations, fund its capital needs, respond to changing conditions and engage in other business activities that may be in its best interests.

The new revolving credit facility, bridge loan and the indenture governing the notes contain a number of significant covenants that, among other things, limit Abraxas' ability to: o incur or guarantee additional indebtedness and issue certain types of preferred stock or redeemable stock;

- transfer or sell assets;

- create liens on assets;

- pay dividends or make other distributions on capital stock or make other restricted payments, including repurchasing, redeeming or retiring capital stock or subordinated debt or making certain investment or acquisitions;

- o engage in transactions with affiliates;
- o guarantee other indebtedness;
- o make any change in the principal nature of its business;

- o prepay, redeem, purchase or otherwise acquire any of its or its restricted subsidiaries' indebtedness;
- o permit a change of control;
- o directly or indirectly make or acquire any investment;
- o cause a restricted subsidiary to issue or sell its capital stock; and
- o consolidate, merge or transfer all or substantially all of the consolidated assets of the Company and its restricted subsidiaries.

In addition, the new revolving credit facility and bridge loan require Abraxas to maintain compliance with specified financial ratios and satisfy certain financial condition tests. Abraxas' ability to comply with these ratios and financial condition tests may be affected by events beyond its control, and it cannot assure you that it will meet these ratios and financial condition tests. These financial ratio restrictions and financial condition tests could limit Abraxas' ability to obtain future financings, make needed capital expenditures, withstand a future downturn in its business or the economy in general or otherwise conduct necessary or desirable corporate activities.

A breach of any of these covenants or Abraxas' inability to comply with the required financial ratios or financial condition tests could result in a default under the new revolving credit facility and bridge loan and the notes. A default, if not cured or waived, could result in all of Abraxas' indebtedness, including the notes, becoming immediately due and payable. If that should occur, Abraxas may not be able to pay all such debt or to borrow sufficient funds to refinance it. Even if new financing were then available, it may not be on terms that are acceptable to Abraxas. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Long-Term Indebtedness" and "Description of the Exchange Notes--Events of Default and Remedies."

The marketability of our production depends largely upon the availability, proximity and capacity of natural gas gathering systems, pipelines and processing facilities.

The marketability of our production depends in part upon processing and transportation facilities. Transportation space on such gathering systems and pipelines is occasionally limited and at times unavailable due to repairs or improvements being made to such facilities or due to such space being utilized by other companies with priority transportation agreements. Our access to transportation options can also be affected by U.S. Federal and state, and Canadian Federal and provincial regulation of natural gas and crude oil production and transportation, general economic conditions and changes in supply and demand. These factors and the availability of markets are beyond our control. If market factors dramatically change, the financial impact on us could be substantial and adversely affect our ability to produce and market natural gas and crude oil.

Hedging transactions have in the past and may in the future impact Abraxas' cash flow from operations.

Abraxas enters into hedging arrangements from time to time to reduce its exposure to fluctuations in natural gas and crude oil prices and to achieve more predictable cash flow. In 2001, 2002 and 2003, we experienced hedging losses of $12.1 million, $3.2 million and $842,000, respectively, resulting from the price ceilings we established being exceeded by the index prices. Currently, we believe our hedging arrangements, which are in the form of price floors, do not expose us to significant financial risk. Although Abraxas' hedging activities may limit its exposure to declines in natural gas and crude oil prices, such activities may also limit, and have in the past limited, additional revenues from increases in natural gas and crude oil prices.

Abraxas cannot assure you that the hedging transactions it has entered into, or will enter into, will adequately protect it from financial loss due to circumstances such as:

- highly volatile natural gas and crude oil prices;
- Abraxas' production being less than expected; or
- a counterparty to one of Abraxas' hedging transactions defaulting on its contractual obligations.

We have experienced recurring significant operating losses.

We recorded net losses for 1998, 1999, 2001 and 2002 of $84.0 million, $36.7 million, $19.7 million and $118.5 million, respectively.

Although we recorded net income of $8.4 million for 2000, we experienced a significant gain on the sale of an interest in a partnership, absent which we would have experienced a net loss of $25.5 million for that year. Similarly, although we recorded net income of $55.9 million for 2003, if the gain on the sale of certain of our Canadian properties were excluded, we would have experienced a net loss for the year of $13.0 million. We cannot assure you that we will become profitable in the future.

Lower natural gas and crude oil prices increase the risk of ceiling limitation write-downs.

We use the full cost method to account for our natural gas and crude oil operations. Accordingly, we capitalize the cost to acquire, explore for and develop natural gas and crude oil properties. Under full cost accounting rules, the net capitalized cost of natural gas and crude oil properties may not exceed a "ceiling limit" which is based upon the present value of estimated future net cash flows from proved reserves, discounted at 10%, plus the lower of cost or fair market value of unproved properties. If net capitalized costs of natural gas and crude oil properties exceed the ceiling limit, we must charge the amount of the excess to earnings. This is called a "ceiling limitation write-down." This charge does not impact cash flow from operating activities, but does reduce our stockholders' equity and earnings. The risk that we will be required to write-down the carrying value of natural gas and crude oil properties increases when natural gas and crude oil prices are low. In addition, write-downs may occur if we experience substantial downward adjustments to our estimated proved reserves. An expense recorded in one period may not be reversed in a subsequent period even though higher natural gas and crude oil prices may have increased the ceiling applicable to the subsequent period.

We have incurred ceiling limitation write-downs in the past. At June 30, 2002, for example, we recorded a ceiling limitation write-down of $116 million. We cannot assure you that we will not experience additional ceiling limitation write-downs in the future.

Use of our net operating loss carryforwards may be limited.

At December 31, 2003, Abraxas had, subject to the limitation discussed below, $100.6 million of net operating loss carryforwards for U.S. tax purposes. These loss carryforwards will expire through 2022 if not utilized. In connection with the January 2003 financial restructuring, certain of the loss carryforwards were utilized. In addition, as to a portion of the U.S. net operating loss carryforwards, the amount of such carryforwards that we can use annually is limited under U.S. tax law. Moreover, uncertainties exist as to the future utilization of the operating loss carryforwards under the criteria set forth under FASB Statement No. 109. Therefore, we have established a valuation allowance of $99.1 million and $76.1 million for deferred tax assets at December 31, 2002 and 2003, respectively.

Abraxas depends on its Chairman, President and CEO and the loss of his services could have an adverse effect on our operations.

Abraxas depends to a large extent on Robert L. G. Watson, its Chairman of the Board, President and Chief Executive Officer, for its management and business and financial contacts. Mr. Watson may terminate his employment agreement with Abraxas at any time on 30 days notice, but, if he terminates without cause, he would not be entitled to the severance benefits provided under the terms of that agreement. Mr. Watson is not precluded from working for, with or on behalf of a competitor upon termination of his employment with Abraxas. If Mr. Watson were no longer able or willing to act as our Chairman, the loss of his services could have an adverse effect on our operations.

Risks Related to Our Industry

We may not find any commercially productive natural gas or crude oil reservoirs.

We cannot assure you that the new wells we drill will be productive or that we will recover all or any portion of our capital investment. Drilling for natural gas and crude oil may be unprofitable. Dry holes and wells that are productive but do not produce sufficient net revenues after drilling, operating and other costs are unprofitable. The inherent risk of not finding commercially productive reservoirs will be compounded by the fact that 36% of Abraxas' total estimated proved reserves at December 31, 2003 were undeveloped. By their nature, estimates of undeveloped reserves are less certain. Recovery of such reserves will require significant capital expenditures and successful drilling operations. In addition, our properties may be susceptible to drainage from production by other operations on adjacent properties. If the volume of natural gas and crude oil we produce decreases, our cash flow from operations will decrease.

We operate in a highly competitive industry which may adversely affect our operations, including our ability to secure drilling equipment to service our core areas.

We operate in a highly competitive environment. The principal resources necessary for the exploration and production of natural gas and crude oil are leasehold prospects under which natural gas and crude oil reserves may be discovered, drilling rigs and related equipment to explore for such reserves and knowledgeable personnel to conduct all phases of natural gas and crude oil operations. We must compete for such resources with both major natural gas and crude oil companies and independent operators. Many of these competitors have financial and other resources substantially greater than ours. In the past, we have had difficulty securing drilling equipment in certain of our core areas. Although we believe our current operating and financial resources are adequate to preclude any significant disruption of our operations in the immediate future, we cannot assure you that such materials and resources will be available to us.

Market conditions for natural gas and crude oil, and particularly volatility of prices for natural gas and crude oil, could adversely affect our revenue, cash flows, profitability and growth.

Our revenue, cash flows, profitability and future rate of growth depend substantially upon prevailing prices for natural gas and crude oil. Natural gas prices affect us more than crude oil prices because most of our production and reserves are natural gas. Prices also affect the amount of cash flow available for capital expenditures and our ability to borrow money or raise additional capital. Lower prices may also make it uneconomical for us to increase or even continue current production levels of natural gas and crude oil.

Prices for natural gas and crude oil are subject to large fluctuations in response to relatively minor changes in the supply and demand for natural gas and crude oil, market uncertainty and a variety of other factors beyond our control, including:

- changes in foreign and domestic supply and demand for natural gas and crude oil;
- political stability and economic conditions in oil producing countries, particularly in the Middle East;
- general economic conditions;
- domestic and foreign governmental regulation; and
- the price and availability of alternative fuel sources.

In addition to decreasing our revenue and cash flow from operations, low or declining natural gas and crude oil prices could have additional material adverse effects on us, such as:

- reducing the overall volume of natural gas and crude oil that we can produce economically, thereby adversely affecting our revenue, profitability and cash flow and our ability to perform our obligations with respect to the notes; and

- impairing our borrowing capacity and our ability to obtain equity capital.

Estimates of our proved reserves and future net revenue are uncertain and inherently imprecise.

The process of estimating natural gas and crude oil reserves is complex, involving decisions and assumptions in evaluating available geological, geophysical, engineering and economic data. Accordingly, these estimates are imprecise. Actual future production, natural gas and crude oil prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable natural gas and crude oil reserves most likely will vary from those estimated. Any significant variance could materially affect the estimated quantities and present value of reserves set forth in this prospectus. In addition, we may adjust estimates of proved reserves to reflect production history, results of exploration and development, prevailing natural gas and crude oil prices and other factors, many of which are beyond our control.

The estimates of our reserves are based upon various assumptions about future production levels, prices and costs that may not prove to be correct over time. In particular, estimates of natural gas and crude oil reserves, future net revenue from proved reserves and the PV-10 thereof for the natural gas and crude oil properties described in this prospectus are based on the assumption that future natural gas and crude oil prices remain the same as natural gas and crude oil prices at December 31, 2003. The average sales prices as of such date used for purposes of such estimates were $31.03 per Bbl of crude oil, $27.19 per Bbl of NGLs and $5.05 per Mcf of natural gas. These estimates also assume that we will make future capital expenditures of approximately $50.4 million in the aggregate through 2019, which are necessary to develop and realize the value of proved undeveloped reserves on our properties. Any significant variance in actual results from these assumptions could also materially affect the estimated quantity and value of reserves set forth in this prospectus.

The present value of future net revenues referred to in this prospectus may not be the current market value of our estimated natural gas and crude oil reserves. In accordance with SEC requirements, the estimated discounted future net cash flows from proved reserves are generally based on prices and costs as of the end of the period of the estimate. Actual future prices and costs may be materially higher or lower than the prices and costs as of the end of the year of the estimate. Any changes in consumption by natural gas purchasers or in governmental regulations or taxation will also affect actual future net cash flows. The timing of both the production and the expenses from the development and production of natural gas and crude oil properties will affect the timing of actual future net cash flows from proved reserves and their present value. In addition, the 10% discount factor, which is required by the SEC to be used in calculating discounted future net cash flows for reporting purposes, is not necessarily the most accurate discount factor. The effective interest rate at various times and the risks associated with us or the natural gas and crude oil industry in general will affect the accuracy of the 10% discount factor.

Our operations are subject to numerous risks of natural gas and crude oil drilling and production activities.

Our natural gas and crude oil drilling and production activities are subject to numerous risks, many of which are beyond our control. These risks include the risk of fire, explosions, blow-outs, pipe failure, abnormally pressured formations and environmental hazards. Environmental hazards include oil spills, natural gas leaks, ruptures and discharges of toxic gases. In addition, title problems, weather conditions and mechanical difficulties or shortages or delays in delivery of drilling rigs, work boats and other equipment could negatively affect our operations. If any of these or other similar industry operating risks occur, we could have substantial losses. Substantial losses also may result from injury or loss of life, severe damage to or destruction of property, clean-up responsibilities, regulatory investigation and penalties and suspension of operations. In accordance with industry practice, we maintain insurance against some, but not all, of the risks described above. We cannot assure you that our insurance will be adequate to cover losses or liabilities. Also, we cannot predict the continued availability of insurance at premium levels that justify its purchase.

Our natural gas and crude oil operations are subject to various U.S. Federal, state and local and Canadian Federal and provincial governmental regulations that materially affect our operations.

Matters regulated include discharge permits for drilling operations, drilling and abandonment bonds, reports concerning operations, the spacing of wells and unitization and pooling of properties and taxation. At various times,

regulatory agencies have imposed price controls and limitations on production. In order to conserve supplies of natural gas and crude oil, these agencies have restricted the rates of flow of natural gas and crude oil wells below actual production capacity. Federal, state, provincial and local laws regulate production, handling, storage, transportation and disposal of natural gas and crude oil, by-products from natural gas and crude oil and other substances and materials produced or used in connection with natural gas and crude oil operations. To date, our expenditures related to complying with these laws and for remediation of existing environmental contamination have not been significant. We believe that we are in substantial compliance with all applicable laws and regulations. However, the requirements of such laws and regulations are frequently changed. We cannot predict the ultimate cost of compliance with these requirements or their effect on our operations.

Risks Related to the Notes

Our ability to generate the significant amount of cash that will be required to service our indebtedness depends on many factors beyond our control, and any failure to meet our debt service obligations could harm our business, financial condition and results of operations.

Our ability to make payments on our indebtedness, including the notes, will depend on our ability to generate cash from operations in the future and our ability to successfully increase production. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control, including the prices that we receive for natural gas and crude oil. It is also dependent upon our ability to successfully complete our drilling opportunities.

We cannot assure you that Abraxas will generate sufficient cash flow from operations to pay its indebtedness, including the notes, as well as to continue drilling new wells. If Abraxas' cash flow from operations and capital resources are insufficient to fund Abraxas' debt service obligations, Abraxas may be forced to decrease its drilling activities, sell assets, seek additional equity capital or restructure its debt. We cannot assure you that any of these alternatives could, if necessary, be effected on commercially reasonable terms, or at all. Our cash flow from operations and capital resources may be insufficient for payment of interest on and principal of our debt in the future, including payments on the notes, and any such alternative measures may be unsuccessful or may not permit us to meet scheduled debt service obligations, which could cause us to default on our obligations, including the notes, and could impair our liquidity.

The notes are subject to an intercreditor agreement that places limitations, which would not otherwise exist, on the ability of the noteholders to deal with Abraxas with respect to certain matters.