

ABRAXAS PETROLEUM CORP
Form PREM14A
July 10, 2009
Table of Contents

Index to Financial Statements

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Abraxas Petroleum Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Edgar Filing: ABRAXAS PETROLEUM CORP - Form PREM14A

x Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:
Common Stock, par value \$0.01 per share

(2) Aggregate number of securities to which transaction applies:
36,952,836

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
Transaction Value of \$35,474,723 calculated by multiplying \$0.96, the average of the high and low sales price of the registrant's common stock on July 9, 2009, as reported on the NASDAQ Stock Market, by 36,952,836, the maximum number of shares issuable in the transaction described in this proxy statement. In accordance with Section 14(g) of the Securities Exchange Act of 1934, as amended, the filing fee was determined by multiplying 0.0000558 by the amount determined in the preceding sentence.

(4) Proposed maximum aggregate value of transaction: \$35,474,723

(5) Total fee paid: \$1,980

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

Index to Financial Statements

ABRAXAS PETROLEUM CORPORATION

18803 Meisner Drive

San Antonio, Texas 78258

(210) 490-4788

[], 2009

Dear Stockholders:

You are cordially invited to attend a Special Meeting of Stockholders of Abraxas Petroleum Corporation, which we refer to as the Special Meeting, to be held on [], [], 2009, at 9:00 a.m., local time, at Abraxas Petroleum's corporate office located at 18803 Meisner Drive, San Antonio, Texas 78258. We have signed an agreement to merge our business with Abraxas Energy Partners, L.P., a Delaware limited partnership, which we refer to as the Merger, the purpose of which is to merge our business with Abraxas Energy's business with us being the surviving entity. We believe that a combination of the two entities will improve the combined company's ability to accelerate our capital expenditure program which should result in significant growth in our core properties and improved access to capital markets while simplifying our organizational structure and reducing costs. The principal purpose of the Special Meeting is to take the actions necessary to complete the Merger, including approving the Merger and the issuance of shares of our common stock in the Merger, and approving an amendment to our 2005 Employee Long-Term Equity Incentive Plan, or LTIP, to increase the authorized number of shares of our common stock issuable under the plan in order to accommodate the restricted units, phantom units and unit options of Abraxas Energy being converted in the Merger.

If the Merger is completed, holders of Abraxas Energy's common units, other than common units held by Abraxas Petroleum and its subsidiaries, will have the right to receive shares of our common stock. The number of shares of our common stock that holders of Abraxas Energy's common units will receive will be based on an exchange ratio determined prior to the date of the Special Meeting. This exchange ratio will be determined by dividing \$6.00 by the volume weighted average closing price of our common stock on the NASDAQ during the 20 trading days ending three business days prior to the date of the Special Meeting, which we refer to as the VWAP. However, if the VWAP is \$1.412 or more, then the exchange ratio will be fixed at 4.25 shares of our common stock for each Abraxas Energy common unit, and if the VWAP is \$1.00 or less, then the exchange ratio will be fixed at 6.00 shares of our common stock for each Abraxas Energy common unit. The mid-point of the exchange ratio is 5.125, or \$1.17 per share.

In the Merger, we will issue a maximum of 36,952,836 shares of our common stock. This would represent approximately 42.6% of our outstanding shares of common stock upon the closing of the Merger. We anticipate that upon completion of the Merger, depending upon the exchange ratio, Abraxas Energy's former unitholders, other than Abraxas Petroleum and its subsidiaries, will own between 34.4% and 42.6% of the shares of our common stock then outstanding. At the mid-point of the exchange ratio, or \$1.17 per share, we would issue 31,563,881 shares of our common stock, or approximately 38.8% of the shares of our common stock then outstanding. Our stockholders will continue to own their existing Abraxas Petroleum shares, which will not be affected by the Merger.

The Abraxas Petroleum board of directors recommends that its stockholders vote FOR the proposals before them. The proxy statement describes the proposed Merger and the actions to be taken at the Special Meeting. We encourage you to read the entire proxy statement carefully, including the section entitled "Risk Factors" beginning on page 19.

Whether or not you expect to attend the Special Meeting, it is important that you vote your shares. We are offering multiple options for voting your shares. All holders may vote their shares by mail or written ballot at the Special Meeting. If you are a beneficial holder, you may also vote your shares by telephone or the Internet using the instructions on each proxy card. In order to vote your shares by mail, please mark, sign, and date the enclosed proxy card and return it promptly in the enclosed envelope. **Your vote is very important.**

Robert L.G. Watson

Chairman of the Board, President,

and Chief Executive Officer

Table of Contents

Index to Financial Statements

ABRAXAS PETROLEUM CORPORATION

18803 Meisner Drive

San Antonio, Texas 78258

(210) 490-4788

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD [], 2009

To the Stockholders of Abraxas Petroleum Corporation:

NOTICE IS HEREBY GIVEN that a Special Meeting of Stockholders of Abraxas Petroleum Corporation will be held at Abraxas Petroleum's corporate office located at 18803 Meisner Drive, San Antonio, Texas 78258, on [], [], 2009, at 9:00 a.m., local time, for the following purposes:

- (1) To approve the transactions contemplated by the Agreement and Plan of Merger dated as of June 30, 2009 by and between Abraxas Petroleum Corporation (Abraxas Petroleum) and Abraxas Energy Partners, L.P. (Abraxas Energy), as such agreement may be amended from time to time, including the merger of Abraxas Energy with and into Abraxas Petroleum (the Merger) and the issuance of shares of Abraxas Petroleum common stock in connection with the Merger;
- (2) If Proposal 1 is approved, to approve an amendment to the Abraxas Petroleum Corporation 2005 Employee Long-Term Equity Incentive Plan (the LTIP) to increase the number of shares of Abraxas Petroleum common stock reserved for issuance under the LTIP; and
- (3) To approve the adjournment of the Special Meeting, if necessary or appropriate, to solicit additional proxies in the event that there are not sufficient votes at the time of the Special Meeting to approve the foregoing proposals.

Our Board recommends that you vote FOR all of the proposals.

Any action may be taken on the foregoing proposals at the Special Meeting on the date specified above or on any date or dates to which the Special Meeting may be postponed or adjourned.

We cordially invite you to attend the Special Meeting in person. Whether or not you expect to attend the Special Meeting, we urge you to mark, sign, date and return the enclosed proxy card as soon as possible in the enclosed envelope. If you are a beneficial holder, you may also vote your shares by telephone or the Internet using the instructions on each proxy card. You may revoke your proxy at any time prior to the Special Meeting, and, if you attend the Special Meeting, you may vote your shares of Abraxas Petroleum common stock in person.

The Board of Directors has fixed the close of business on [], 2009 as the record date for the determination of the stockholders entitled to notice of and to vote at the Special Meeting and any adjournment thereof.

By Order of the Board of Directors

Stephen T. Wendel

SECRETARY

San Antonio, Texas

[], 2009

Table of Contents

Index to Financial Statements

TABLE OF CONTENTS

	Page
<u>QUESTIONS AND ANSWERS ABOUT THE ABRAXAS PETROLEUM SPECIAL MEETING</u>	1
<u>SUMMARY</u>	4
<u>SELECTED HISTORICAL AND PRO FORMA COMBINED FINANCIAL DATA</u>	13
<u>RISK FACTORS</u>	19
<u>Risks Related to the Merger</u>	19
<u>Risks Related to Our Business</u>	21
<u>Risks Related to Our Industry</u>	26
<u>THE SPECIAL MEETING OF STOCKHOLDERS</u>	32
<u>PROPOSAL 1 APPROVAL OF MERGER AND STOCK ISSUANCE</u>	34
<u>PROPOSAL 2 AMENDMENT OF LTIP</u>	69
<u>PROPOSAL 3 ADJOURNMENT OF SPECIAL MEETING</u>	74
<u>INFORMATION ABOUT ABRAXAS PETROLEUM</u>	75
<u>INFORMATION ABOUT ABRAXAS ENERGY</u>	119
<u>MANAGEMENT</u>	148
<u>DIRECTOR AND EXECUTIVE OFFICER COMPENSATION</u>	152
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	170
<u>DESCRIPTION OF CAPITAL STOCK</u>	174
<u>UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION</u>	178
<u>MARKET PRICE AND DIVIDEND INFORMATION; RELATED SHAREHOLDER MATTERS</u>	184
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>	185
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	192
<u>STOCKHOLDER PROPOSALS FOR 2010 ABRAXAS PETROLEUM ANNUAL MEETING</u>	192
<u>OTHER MATTERS</u>	195
<u>INDEX TO FINANCIAL STATEMENTS</u>	F-1
<u>ANNEX A AGREEMENT AND PLAN OF MERGER</u>	A-1
<u>ANNEX B VOTING, REGISTRATION RIGHTS & LOCK-UP AGREEMENT</u>	B-1
<u>ANNEX C OPINION OF STEPHENS INC. TO THE ABRAXAS PETROLEUM SPECIAL COMMITTEE</u>	C-1
<u>ANNEX D ABRAXAS PETROLEUM CORPORATION 2005 LONG-TERM EQUITY INCENTIVE PLAN</u>	D-1
<u>ANNEX E COMPANIES INCLUDED IN THE MERCER SURVEY</u>	E-1

Table of Contents

Index to Financial Statements

QUESTIONS AND ANSWERS ABOUT THE ABRAXAS PETROLEUM SPECIAL MEETING

Q: When and where is the Abraxas Petroleum Special Meeting?

A: The Special Meeting will take place on [], [], 2009 at Abraxas Petroleum's corporate office located at 18803 Meisner Drive, San Antonio, Texas 78258 at 9:00 a.m., local time. This proxy statement and the accompanying proxy card are first being mailed to Abraxas Petroleum stockholders on or about [], 2009.

Q: What is Abraxas Petroleum proposing?

A: Abraxas Petroleum is proposing the merger, which we sometimes refer to as the Merger, of Abraxas Energy into Abraxas Petroleum. If the Merger is completed, Abraxas Petroleum will survive and the common units of Abraxas Energy not owned by Abraxas Petroleum and its wholly-owned subsidiary, Abraxas Energy Investments, LLC, or Investments, will be converted into the right to receive between 4.25 and 6.00 shares of Abraxas Petroleum common stock, which we sometimes refer to as the Merger Consideration, for each Abraxas Energy common unit not owned by Abraxas Petroleum or Investments. The final number of shares of Abraxas Petroleum common stock to be issued in the Merger will be determined by dividing \$6.00 by the average volume weighted average closing price of Abraxas Petroleum common stock on the NASDAQ during the 20 trading days ending three business days prior to the date of the Special Meeting, or the VWAP. For example, if the VWAP is \$1.00 or less, holders of Abraxas Energy common units would receive 6.00 shares of Abraxas Petroleum common stock for each of their common units and if the VWAP is \$1.412 or more, holders of Abraxas Energy common units would receive 4.25 shares of Abraxas Petroleum common stock for each of their common units. If the VWAP is at the mid-point of the exchange ratio, or \$1.17 per share, holders of Abraxas Energy common units would receive 5.125 shares of Abraxas Petroleum common stock for each of their common units. Abraxas Petroleum and Investments currently own approximately 46.7% of Abraxas Energy's common units. In addition, certain directors and executive officers of Abraxas Petroleum beneficially own approximately 1.3% of Abraxas Energy's common units.

Abraxas Petroleum is also proposing an amendment to the Abraxas Petroleum Corporation 2005 Employee Long-Term Equity Incentive Plan, or LTIP, in order to increase the number of shares of Abraxas Petroleum common stock reserved thereunder. The increase is necessary in order to accommodate the restricted units, phantom units and unit options of Abraxas Energy to be converted in the Merger.

Q: Why is Abraxas Petroleum proposing the merger?

A: Abraxas Petroleum and Abraxas Energy both believe that a combination of the two entities will improve the combined company's ability to accelerate its capital expenditure program which should result in significant growth in its core properties and improved access to capital markets while simplifying the organizational structure and reducing costs.

Q: Why am I receiving this proxy statement?

A: In order for Abraxas Petroleum to complete the Merger, Abraxas Petroleum stockholders must vote to approve (i) the Merger and the issuance of Abraxas Petroleum common stock in the Merger and (ii) an amendment to our LTIP to increase the number of shares of Abraxas Petroleum common stock reserved thereunder.

We are sending this proxy statement and the enclosed proxy card to Abraxas Petroleum stockholders to solicit their vote on these proposals at the Special Meeting. This proxy statement contains important information about the Merger and the proposals to be voted upon.

Q: Has the Abraxas Petroleum Board of Directors made a recommendation on how I should vote?

A: Yes. Our Board of Directors appointed a committee of independent directors, who have no interest in Abraxas Energy, to review the terms of the Merger. We refer to this committee in this proxy statement as the Special Committee. **Based on the Special Committee's recommendation, our Board of Directors has recommended that you vote FOR the Merger and the issuance of shares of Abraxas Petroleum**

Table of Contents

Index to Financial Statements

common stock in the Merger, and the amendment to the LTIP. The reasons for our Board's recommendations are discussed in detail in Proposal 1 Approval of Merger and Stock Issuance Abraxas Petroleum's Reasons for the Merger; Recommendation of the Abraxas Petroleum Special Committee and the Abraxas Petroleum Board and Proposal 2 Amendment of LTIP Reasons for the Amendment of the LTIP.

Q: Have any holders of Abraxas Energy Common Units agreed to vote for the Merger?

A: Yes. In addition to Investments, which owns 46.7% of Abraxas Energy's common units, the holders of 50.9% of Abraxas Energy's outstanding common units have voted their common units in favor of the Merger, for a total of 97.6%. It is anticipated that certain officers and directors of Abraxas Petroleum who beneficially own 1.3% of Abraxas Energy's common units will also vote in favor of the Merger.

Q: Are there risks I should consider in deciding whether to vote to approve the Merger and the issuance of Abraxas Petroleum common stock in the Merger?

A: Yes. In evaluating the Merger and the issuance of Abraxas Petroleum common stock in the Merger, you should carefully consider the information discussed in this proxy statement, including the section entitled Risk Factors.

Q: What percentage of Abraxas Petroleum common stock will Abraxas Energy common unitholders own after the Merger?

A: Abraxas Energy's former unitholders, other than Abraxas Petroleum and its subsidiaries, will own between 34.4% and 42.6% of the shares of our common stock then outstanding. At the mid-point of the exchange ratio, or \$1.17 per share, former Abraxas Energy common unitholders will own approximately 38.8% of the shares of our common stock then outstanding.

Q: Do I have appraisal rights?

A: No. Nevada law does not provide dissenters' rights or rights of appraisal for Abraxas Petroleum stockholders in connection with the Merger.

Q: What will happen to my shares of Abraxas Petroleum common stock?

A: You will continue to own the same number of shares of Abraxas Petroleum common stock that you owned immediately before the Merger but the percentage of Abraxas Petroleum represented by your shares will be reduced.

Q: Should I send in my share certificates of Abraxas Petroleum common stock?

A: No. Your share certificates of Abraxas Petroleum common stock will not be exchanged in the Merger.

Q: What vote is required from Abraxas Petroleum stockholders to complete the Merger and the amendment to the LTIP?

A: The consummation of the Merger and the issuance of Abraxas Petroleum common stock in the Merger requires the approval of the holders of a majority of the issued and outstanding shares of Abraxas Petroleum common stock entitled to vote at the Special Meeting. The amendment to the LTIP requires the approval of the holders of a majority of the shares of Abraxas Petroleum common stock present and voting at the Special Meeting, assuming a quorum.

Q: When do you expect the Merger to be completed?

A: Abraxas Petroleum and Abraxas Energy are working to complete the Merger in the third quarter of 2009. However, the Merger is subject to various conditions set forth in the Merger Agreement and it is possible that factors outside the control of Abraxas Petroleum and Abraxas Energy could result in the Merger being completed at a later time, or not at all.

Table of Contents

Index to Financial Statements

Q: As an Abraxas Petroleum stockholder, what do I need to do now?

A: If you are an Abraxas Petroleum stockholder, you should read this proxy statement and indicate on your proxy card how you want to vote with respect to each proposal, and sign and mail your proxy card in the enclosed return envelope as soon as possible, so that your shares may be represented at the Special Meeting. If you sign and send in your proxy and do not indicate how you want to vote, your proxy will be counted as a vote in favor of the Merger and the issuance of Abraxas Petroleum common stock and the other proposals to be considered at the Special Meeting, as the case may be. If you are a beneficial holder, you may also vote your shares by telephone or the Internet using the instructions on each proxy card. If you are an Abraxas Petroleum stockholder, you may also choose to attend the Special Meeting and vote your shares in person.

Q: What do Abraxas Petroleum stockholders do to change or revoke their vote?

A: Abraxas Petroleum stockholders may change their vote by submitting a later-dated signed proxy by mail, telephone or the Internet, or by attending the Special Meeting in person and voting. You may also revoke your proxy by sending a notice of revocation to Abraxas Petroleum's Secretary at 18803 Meisner Drive, San Antonio, Texas 78258 before the Special Meeting.

Q: If my shares of Abraxas Petroleum common stock are held in street name by my broker, will my broker vote my shares for me?

A: If you are an Abraxas Petroleum stockholder, your broker will vote your shares only if you provide instructions on how to vote. Without instructions, your shares of Abraxas Petroleum common stock will not be voted. You should instruct your broker to vote your shares, following the directions provided by your broker.

Q: Where can I find more information about Abraxas Petroleum and Abraxas Energy?

A: You can find more information about Abraxas Petroleum and Abraxas Energy from various sources described under **Where You Can Find More Information** on page 192 as well as in this proxy statement under the headings **Information about Abraxas Petroleum** and **Information about Abraxas Energy**.

Q: Who can I call with questions about the Merger or the Special Meeting?

A: For questions about the Merger, the Special Meeting and for any other matters, Abraxas Petroleum stockholders may call Abraxas Petroleum at (210) 490-4788 and ask for Investor Relations.

Q: How can I find out the results of the voting at the Special Meeting?

A: Preliminary voting results will be announced at the Special Meeting. Final voting results will be published in our public filings with the SEC after the date of the Special Meeting.

Table of Contents

Index to Financial Statements

SUMMARY

The following is a summary of the principal features of this proxy statement and should be read together with the more detailed information and financial data and statements contained elsewhere in this proxy statement. To better understand and for a more complete description of the Merger, you should carefully read this entire proxy statement, the financial data and statements contained elsewhere in this proxy statement and the documents to which Abraxas Petroleum has referred you under the heading "Where You Can Find More Information" beginning on page 192. References in this proxy statement to we, us or our refer to Abraxas Petroleum and all of its subsidiaries, including Abraxas Energy and its wholly-owned subsidiary, Abraxas Operating, LLC, or Abraxas Operating. Unless otherwise indicated, all data and results of Abraxas Petroleum are consolidated with those of Abraxas Energy and Abraxas Operating and references to on a stand alone basis means that the data and results are of Abraxas Petroleum and its subsidiaries other than Abraxas Energy and Abraxas Operating. Gas equivalents are determined using the ratio of six Mcf of gas to one barrel of oil and oil equivalents are determined using the ratio of one barrel of oil to six Mcf of gas.

Abraxas Petroleum and Abraxas Energy

Abraxas Petroleum Corporation

18803 Meisner Drive

San Antonio, Texas 78258

(210) 490-4788

Abraxas Petroleum is an independent energy company primarily engaged in the development and production of oil and gas. Historically, we have grown through the acquisition and subsequent development and exploration 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, horizontal drilling and modern completion techniques. As a result of these activities, we believe that we have a number of development opportunities on our properties. In addition, we intend to expand upon our development activities with complementary exploration projects in our core areas of operation. Success in our development and exploration activities is critical in the maintenance and growth of our current production levels and associated reserves.

At December 31, 2008, Abraxas Petroleum (on a stand-alone basis) had 6,736 MMBoe of estimated net proved reserves, of which 38% were oil, with a standardized measure of \$33.4 million. Abraxas Petroleum's net proved reserves (on a stand-alone basis) as of December 31, 2008 were 35% proved developed and 65% proved undeveloped. At December 31, 2008, Abraxas Petroleum (on a stand-alone basis) owned an average working interest of 79% in 172 gross (135.9 net) producing wells that produced 237 net MBoe during 2008. Abraxas Petroleum has identified numerous drilling locations, of which 29 were classified as proved undeveloped as of December 31, 2008, which Abraxas Petroleum believes provides it with a multi-year inventory of drilling opportunities.

A wholly-owned subsidiary of Abraxas Petroleum, Abraxas General Partner, LLC, which we refer to as the GP or the General Partner, is the general partner of Abraxas Energy and the owner of 227,232 general partner units of Abraxas Energy, and Investments, a wholly-owned subsidiary of Abraxas Petroleum, is the owner of 5,350,598 common units of Abraxas Energy, representing approximately 46.7% of the outstanding common units of Abraxas Energy. In addition, certain officers and directors of Abraxas Petroleum own a total of 145,128 common units of Abraxas Energy, representing approximately 1.3% of the outstanding common units of Abraxas Energy.

Table of Contents

Index to Financial Statements

Abraxas Energy Partners, L.P.

18803 Meisner Drive

San Antonio, Texas 78258

(210) 490-4788

Abraxas Energy is a Delaware limited partnership formed by Abraxas Petroleum in May 2007 to exploit, develop, produce and acquire oil and gas properties. Abraxas Energy's assets consist primarily of producing and non-producing properties located in the Rocky Mountain, Mid-Continent, Permian Basin and Gulf Coast regions of the United States.

At December 31, 2008, Abraxas Energy had 110.3 Bcfe of estimated net proved reserves, of which 76% were gas, with a standardized measure of \$118.6 million. Abraxas Energy's net proved reserves as of December 31, 2008 were 61% proved developed and 39% proved undeveloped. At December 31, 2008, Abraxas Energy owned an average working interest of 18% in 1,639 gross (293 net) producing wells that produced 8.2 net Bcfe during 2008. Abraxas Energy has identified 226 drilling locations, of which 129 were classified as proved undeveloped as of December 31, 2008, which Abraxas Energy believes provides it with a multi-year inventory of drilling opportunities.

The Merger Agreement (see page 57)

On June 30, 2009, Abraxas Petroleum and Abraxas Energy signed an Agreement and Plan of Merger, which we refer to as the Merger Agreement, pursuant to which Abraxas Energy agreed to merge with and into Abraxas Petroleum with Abraxas Petroleum surviving the Merger. Under the terms of the Merger Agreement, at the effective time of the Merger, which we refer to as the Effective Time, the common units of Abraxas Energy not owned by Abraxas Petroleum and Investments will be converted into the right to receive between 4.25 and 6.00 shares of Abraxas Petroleum common stock for each Abraxas Energy common unit not owned by Abraxas Petroleum or Investments. The final number of shares of Abraxas Petroleum common stock to be issued in the Merger will be determined by dividing \$6.00 by the average volume weighted average closing price of Abraxas Petroleum common stock on the NASDAQ during the 20 trading days ending three business days prior to the date of the Special Meeting, or the VWAP. For example, if the VWAP is \$1.00 or less, holders of Abraxas Energy common units would receive 6.00 shares of Abraxas Petroleum common stock for each of their common units and if the VWAP is \$1.412 or more, holders of Abraxas Energy common units would receive 4.25 shares of Abraxas Petroleum common stock for each of their common units. At the mid-point of the exchange ratio, \$1.17 per share, holders of Abraxas Energy common units would receive 5.125 shares of Abraxas Petroleum common stock for each of their common units.

In the Merger, we will issue a maximum of 36,952,836 shares of our common stock. This would represent approximately 42.6% of our outstanding shares of common stock upon the closing of the Merger. We anticipate that upon completion of the Merger, depending upon the exchange ratio, Abraxas Energy's former unitholders will own between 34.4% and 42.6% of the shares of our common stock then outstanding. At the mid-point of the exchange ratio, or \$1.17 per share, we would issue 31,563,881 shares of our common stock, or approximately 38.8% of the shares of our common stock then outstanding. Our stockholders will continue to own their existing Abraxas Petroleum shares, which will not be affected by the Merger.

All of the shares of Abraxas Petroleum common stock to be issued in the Merger will be listed on the NASDAQ. The shares of Abraxas Petroleum common stock are being issued pursuant to the exemption from the registration requirements of the Securities Act of 1933, as amended, provided in Section 4(2) and Regulation D of that Act. Under the terms of the Voting, Registration Rights & Lock-Up Agreement between Abraxas Petroleum, Abraxas Energy and the holders of 96% of Abraxas Energy's common units not owned by Investments, which we refer to as the Voting, Registration Rights & Lock-Up Agreement or the Voting Agreement, Abraxas Petroleum has agreed to file a registration statement relating to the resale of the shares of

Table of Contents

Index to Financial Statements

Abraxas Petroleum common stock issued in the Merger. The Abraxas Energy unitholders, whom we refer to as the unitholders, may sell or dispose of their Abraxas Petroleum common stock pursuant to (A) a registration statement covering Abraxas Petroleum common stock, (B) any section of Rule 144 (or any similar provision then in force under applicable securities laws), (C) private sales in compliance with applicable securities laws to accredited investors or a qualified institutional buyers or (D) pursuant to an underwritten offering requested by the unitholders with reasonable fees and expenses (excluding underwriting discounts and commissions) being paid by Abraxas Petroleum in which the gross proceeds of the underwritten offering shall not be less than \$10.0 million.

Under the rules of the NASDAQ and Nevada law, Abraxas Petroleum must receive the approval of the holders of a majority of the issued and outstanding shares of its common stock entitled to vote at the Special Meeting in order to approve the Merger and issue a number of shares of its common stock, which is greater than 20% of the amount outstanding prior to the issuance. As of June 30, 2009, Abraxas Petroleum had 49,804,894 shares of common stock outstanding.

The Voting, Registration Rights & Lock-Up Agreement (see page 62)

On June 30, 2009, Abraxas Petroleum, Abraxas Energy and the holders of 51% of the common units of Abraxas Energy (or 96% of the common units not owned by Investments) entered into the Voting, Registration Rights & Lock-Up Agreement, pursuant to which, among other things, each of the unitholders agreed:

to vote their common units of Abraxas Energy in favor of the Merger; and

not to offer for sale, sell, pledge, or otherwise dispose of the Abraxas Petroleum common stock received in the Merger for the 90-day period immediately following the Effective Time, which we refer to as the Lock-Up Period. Upon the expiration of the Lock-Up Period, one-third of the Abraxas Petroleum common stock held by the former Abraxas Energy unitholders will be unrestricted and freely-tradable, subject to applicable securities laws. From and after the date which is 12 months after the end of the Lock-Up Period, an additional, one-third (or a total of two-thirds) of the Abraxas Petroleum common stock held by the former Abraxas Energy unitholders would become unrestricted and freely-tradable and after the expiration of a total of 24 months following the end of the Lock-Up Period, all remaining shares of the Abraxas Petroleum common stock held by the former Abraxas Energy unitholders would become unrestricted and freely-tradable.

Abraxas Petroleum agreed:

within 120 days of the Effective Time, to file a registration statement relating to the resale of the shares of Abraxas Petroleum common stock to be issued in the Merger, which we refer to as the Registration Statement, pursuant to the Securities Act of 1933, as amended, and to use commercially reasonable efforts to cause the Registration Statement to become effective and to keep the Registration Statement effective until the earlier of (A) the date that is 24 months after the end of the Lock-Up Period and (B) the date that all shares of Abraxas Petroleum common stock received in the Merger have been sold;

that in the event the former Abraxas Energy unitholders propose to sell their shares of Abraxas Petroleum common stock received in the Merger in an underwritten public offering, to use commercially reasonable efforts to retain underwriters and effect such sale through an underwritten offering and take all commercially reasonable actions as are reasonably requested by the managing underwriter or underwriters to expedite or facilitate the disposition of such shares of Abraxas Petroleum common stock, including the entering into an underwriting agreement, and participation by Abraxas Petroleum's management in a road show or similar marketing effort; *provided, however*, that Abraxas Petroleum would not be required to cause its management to participate in a road show or similar marketing effort on behalf of any unitholder if (A) the managing underwriter or underwriters of any such proposed underwritten offering advise Abraxas Petroleum that the gross proceeds of the

Table of Contents

Index to Financial Statements

underwritten offering are not expected to exceed \$10.0 million and (B) a bought deal or overnight transaction is contemplated; and

that in the event Abraxas Petroleum proposes, during the period from and after the end of the Lock-Up Period to the date that is 24 months after the end of the Lock-Up Period, to issue and sell shares of Abraxas Petroleum common stock pursuant to a registration statement other than a shelf registration statement or pursuant to a supplement to a shelf registration statement in an underwritten offering for its own account, then as soon as practicable but not less than 10 business days prior to the filing of (A) any preliminary prospectus supplement to a prospectus that includes Abraxas Petroleum common stock, relating to such underwritten offering pursuant to Rule 424(b), (B) the prospectus supplement to a prospectus that includes Abraxas Petroleum common stock, relating to such underwritten offering pursuant to Rule 424(b) (if no preliminary prospectus supplement is used) or (C) such registration statement, as the case may be, Abraxas Petroleum shall give notice of such proposed underwritten offering to the unitholders and such notice shall offer the former Abraxas Energy unitholders the opportunity to include in such underwritten offering such number of shares of Abraxas Petroleum common stock as each such unitholders may request in writing subject to a customary underwriter's cut back.

The New Credit Facility (see page 65)

We have received a non-binding term sheet for a new \$300.0 million senior secured revolving credit facility from Société Générale, as administrative agent and issuing lender, which we refer to as the new credit facility. The initial borrowing base under the new credit facility is expected to be \$160.0 million.

We expect to borrow approximately \$141.6 million under the new credit facility and, together with approximately \$28 million that we expect to realize from the early settlement and monetization of Abraxas Energy's existing derivative contracts, repay all of Abraxas Petroleum's and Abraxas Energy's indebtedness currently outstanding under their existing credit facilities. Because the amount that we will actually realize from the monetization of Abraxas Energy's existing derivative contracts will vary between the date of this proxy statement and the Effective Time, the exact amount of our initial borrowings under the new credit facility will not be known until the Effective Time.

For more information about the new credit facility, please see Proposal 1 Approval of Merger and Stock Issuance New Credit Facility.

Abraxas Petroleum's Reasons for the Merger (see page 42)

In determining that the Merger Agreement and the transactions contemplated thereby, including the stock issuance and amendment to the LTIP, are advisable and in the best interests of Abraxas Petroleum and its stockholders, and in reaching its decision to approve the Merger Agreement and the transactions contemplated thereby, including the stock issuance and amendment to the LTIP, the Abraxas Petroleum Board considered a variety of factors that it believed weighted favorably toward the Merger, including the following:

the acceleration of drilling activity;

the reduction of consolidated debt resulting in a stronger balance sheet;

a simplified organizational structure;

synergies;

greater liquidity; and

improved access to capital markets.

Table of Contents

Index to Financial Statements

Conditions to the Completion of the Merger (see page 60)

The completion of the Merger depends upon the satisfaction of a number of conditions, unless waived, including:

the receipt of the approval of the holders of a majority of the issued and outstanding shares of Abraxas Petroleum common stock entitled to vote at the Special Meeting to the Merger and the issuance of Abraxas Petroleum common stock in the Merger, and the approval of the holders of a majority of the shares of Abraxas Petroleum common stock present and voting at the Special Meeting to the amendment to the LTIP;

the receipt by Abraxas Petroleum of financing sufficient to repay all of the outstanding indebtedness under Abraxas Energy's existing credit facilities; and

the approval for listing of the shares of Abraxas Petroleum common stock issuable in the Merger on the NASDAQ, subject to official notice of issuance.

Termination (see page 61)

The Merger Agreement may be terminated by mutual agreement of the parties at any time prior to closing. The Merger Agreement may also be terminated in the following situations:

if the Merger has not been consummated by October 28, 2009;

if the Abraxas Petroleum stockholders fail to approve the Merger and the stock issuance, and the amendment to the LTIP;

if a governmental entity permanently restrains or otherwise prohibits the consummation of the Merger;

if there is an uncured breach of or inaccuracy in a representation, warranty, covenant or agreement by one of the parties;

by Abraxas Petroleum, if there is a change in the recommendation regarding the Merger of the Abraxas Energy Board; or

by Abraxas Energy, if there is a change in the recommendation regarding the Merger of the Abraxas Petroleum Board.

Director Designees (see page 60)

Abraxas Petroleum has agreed to appoint Brian L. Melton and Edward P. Russell, whom we refer to as the New Directors, to the Abraxas Petroleum Board. Subject to the fulfillment of its fiduciary duties, and provided that such New Directors remain independent as defined in the rules and regulations of the SEC and the securities exchange on which Abraxas Petroleum common stock is then traded, the Abraxas Petroleum Board will nominate and recommend approval of both of the New Directors at its annual meeting in 2010 for a full three-year term. On the date which is 24 months after the Effective Time, one of the New Directors will offer to resign from the Abraxas Petroleum Board and on the date which is 36 months after the Effective Time, the remaining New Director will offer to resign from the Abraxas Petroleum Board. If at any time either of the New Directors creates a vacancy on the Abraxas Petroleum Board (by means of death, resignation, retirement, disqualification, removal from office or otherwise), the Abraxas Petroleum Board shall fill such vacancy with a person designated by the former Abraxas Energy

unitholders and the Abraxas Petroleum Board shall continue to nominate and recommend approval of such person in any stockholder election.

Dissenters Rights (see page 56)

Abraxas Petroleum stockholders and Abraxas Energy unitholders do not have any right to an appraisal of the value of their shares or common units in connection with the Merger.

Table of Contents

Index to Financial Statements

Interests of Certain Persons in the Merger (see page 56)

Some of Abraxas Petroleum's directors and officers have interests in the Merger and the proposal to amend the LTIP that may differ from or be in addition to, the interests of Abraxas Petroleum stockholders. These interests include:

Robert L.G. Watson, Chairman of the Board, President and Chief Executive Officer of Abraxas Petroleum and Chairman of the Board and Chief Executive Officer of the GP, owns 34,714 Abraxas Energy common units, 6,000 restricted units, 7,493 phantom units and has the right to receive options to purchase 63,000 common units. As a result of the Merger, Mr. Watson will receive, assuming the mid-point of the exchange ratio of 5.125, or \$1.17 per share, 177,909 shares of Abraxas Petroleum common stock, 69,152 shares of Abraxas Petroleum restricted stock and options to purchase 322,875 shares of Abraxas Petroleum common stock at an exercise price equal to the closing price of Abraxas Petroleum common stock on the date the Merger is consummated;

Barbara M. Stuckey, Vice President Corporate Finance of Abraxas Petroleum and President of the GP, owns 14,986 Abraxas Energy common units, 4,000 restricted units, 6,582 phantom units and has the right to receive options to purchase 42,000 common units. As a result of the Merger, Ms. Stuckey will receive, assuming the mid-point of the exchange ratio of 5.125, or \$1.17 per share, 76,803 shares of Abraxas Petroleum common stock, 54,233 shares of Abraxas Petroleum restricted stock and options to purchase 215,250 shares of Abraxas Petroleum common stock at an exercise price equal to the closing price of Abraxas Petroleum common stock on the date the Merger is consummated; and

In addition to Mr. Watson and Ms. Stuckey, certain directors and officers of Abraxas Petroleum beneficially own a total of 71,428 Abraxas Energy common units, 18,000 Abraxas Energy restricted units, 17,080 Abraxas Energy phantom units and have the right to receive options to purchase 63,000 Abraxas Energy common units. As a result of the Merger, these individuals will receive, assuming the mid-point of the exchange ratio of 5.125, or \$1.17 per share, 366,069 shares of Abraxas Petroleum common stock, 179,785 shares of Abraxas Petroleum restricted stock and options to purchase 322,875 shares of Abraxas Petroleum common stock at an exercise price equal to the closing price of Abraxas Petroleum common stock on the date the Merger is consummated.

Directors of Abraxas Petroleum Following the Merger (see page 148)

Pursuant to the terms of the Merger Agreement, at the closing of the Merger, the Abraxas Petroleum Board will consist of nine persons, including six independent directors from the Abraxas Petroleum Board, the two New Directors and Robert L.G. Watson.

U.S. Federal Income Tax Consequences (see page 66)

The closing of the Merger and related transactions under the Merger Agreement will not have any U.S. federal income tax consequences to the holders of Abraxas Petroleum common stock with respect to their ownership of such stock. While Abraxas Petroleum is not taxable with respect to its position as the surviving entity in the Merger, it is taxable with respect to its position as the parent of both the General Partner and Investments. Additionally, the Merger will be a taxable transaction to the Abraxas Energy unitholders receiving shares of Abraxas Petroleum common stock.

Anticipated Accounting Treatment (see page 67)

It is anticipated that Abraxas Petroleum will account for the acquisition of Abraxas Energy common units under Statement of Financial Accounting Standards No. 160, "Non-controlling Interests in Consolidated Financial Statements—an amendment of ARB No. 51" (which we refer to as SFAS No. 160). In accordance with SFAS No. 160, Abraxas Petroleum will not recognize a gain or loss in its net income as a result of the transaction and it

Table of Contents

Index to Financial Statements

will continue to recognize the assets and liabilities of Abraxas Energy at their historical values instead of valuing Abraxas Energy's assets and liabilities at their fair value at the date of completion of the Merger.

Risk Factors (see page 19)

For a discussion of risk factors to be considered by Abraxas Petroleum stockholders in voting to approve the Merger and the stock issuance, see the Risk Factors section of this document on page 19. These risk factors include risks related to the Merger and risks related to Abraxas Petroleum's business and industry, which will continue whether or not the Merger occurs.

Opinion of Stephens Inc. to the Abraxas Petroleum Special Committee (see page 45)

Stephens Inc., whom we refer to as Stephens, had delivered an opinion to the Special Committee of the Board of Abraxas Petroleum, which we refer to as the Special Committee, to the effect that, as of June 29, 2009, and based upon and subject to the various assumptions, methodologies, limitations and considerations described in such opinion, the exchange ratio to be paid by Abraxas Petroleum in the Merger was fair, from a financial point of view, to Abraxas Petroleum.

The full text of Stephens' written opinion, dated June 29, 2009, is attached hereto as Annex C. Abraxas Petroleum stockholders are urged to read this opinion carefully and in its entirety for information regarding the assumptions made, methodologies used, factors considered and limitations upon the review undertaken by Stephens in rendering its opinion. Stephens has not assumed any responsibility for updating or revising its opinion based on circumstances or events occurring after the date thereof.

Stephens provided its opinion for the information of and assistance to the Special Committee in connection with its consideration of the Merger. The opinion addresses only the fairness to Abraxas Petroleum, from a financial point of view, of the exchange ratio to be paid by Abraxas Petroleum in the Merger as of June 29, 2009, the date of the opinion. The opinion does not address the underlying business decision of Abraxas Petroleum to proceed with or effectuate the Merger and related transactions or the relative merits of the Merger as compared to other transactions that may have been available to Abraxas Petroleum. The opinion does not constitute a recommendation to any stockholder of Abraxas Petroleum as to how such stockholder should vote with respect to the Merger and the issuance of Abraxas Petroleum common stock or any other matter.

Amendment of LTIP (see page 69)

On September 13, 2005, subject to stockholder approval, the Abraxas Petroleum Board adopted the Abraxas Petroleum Corporation 2005 Employee Long-Term Equity Incentive Plan, or LTIP, which was approved by the stockholders of Abraxas Petroleum Corporation in 2006 and amended by its stockholders at the 2008 annual meeting. On June 29, 2009, the Abraxas Petroleum Board amended the LTIP, subject to stockholder approval, to increase the number of shares of common stock reserved for issuance under the LTIP from 2,100,000 shares to 5,200,000 shares if Proposal 1 is approved, relating to the approval of the Merger and the issuance of shares of Abraxas Petroleum common stock in the Merger.

The purpose of the LTIP is to employ and retain qualified and competent personnel and promote the growth and success of Abraxas Petroleum by aligning the long-term interests of Abraxas Petroleum's key employees with those of Abraxas Petroleum's stockholders by providing an opportunity to acquire an interest in Abraxas Petroleum and by providing both rewards for exceptional performance and long-term incentives for future contributions to the success of Abraxas Petroleum. Abraxas Petroleum believes that this purpose will be furthered through the granting of awards, as authorized under the LTIP, so that such key employees will be encouraged and enabled to acquire a substantial personal interest in the continued success of Abraxas Petroleum. Abraxas Petroleum believes the additional shares to be reserved pursuant to the amendment to the LTIP is

Table of Contents

Index to Financial Statements

necessary for Abraxas Petroleum to continue its policy of emphasizing equity compensation and to remain competitive with industry equity grant practices.

In connection with the Merger, the restricted units and phantom units of Abraxas Energy will be converted into restricted shares of Abraxas Petroleum common stock and the unit options that were approved by the Abraxas Energy Board and issuable upon the closing of the initial public offering of Abraxas Energy will be assumed by Abraxas Petroleum and converted into options to purchase Abraxas Petroleum common stock with an exercise price equal to the closing price of Abraxas Petroleum common stock on the date the Merger is consummated. Assuming the mid-point of the exchange ratio of 5.125, or \$1.17 per share, 1,275,869 shares of Abraxas Petroleum common stock would be reserved for issuance as options to purchase Abraxas Petroleum common stock and 508,169 shares would be issued as restricted stock.

The Abraxas Petroleum Board Unanimously Recommends that Abraxas Petroleum Stockholders Vote FOR the Approval of the Merger and the Issuance of Shares of Abraxas Petroleum Common Stock in the Merger, and the Amendment to the LTIP (see pages 45, 68 and 73)

The Abraxas Petroleum Board believes that the Merger is in the best interests of Abraxas Petroleum and its stockholders and has unanimously approved the Merger and the Merger Agreement. The Abraxas Petroleum Board unanimously recommends that Abraxas Petroleum stockholders vote FOR the proposal to approve the Merger and the issuance of shares of Abraxas Petroleum common stock in the Merger.

The Abraxas Petroleum Board also has unanimously approved the proposal to amend the LTIP. The Abraxas Petroleum Board determined that the proposal is advisable and in the best interests of Abraxas Petroleum and its stockholders. The Abraxas Petroleum Board unanimously recommends that Abraxas Petroleum stockholders vote FOR the amendment to the LTIP. The approval of this proposal is a condition to the consummation of the Merger.

To review the background of, and Abraxas Petroleum's reasons for, the Merger, as well as certain risks related to the Merger, see Proposal 1 Approval of Merger and Stock Issuance Background of the Merger and Abraxas Petroleum's Reasons for the Merger; Recommendation of the Abraxas Petroleum Special Committee and the Abraxas Petroleum Board and to review Abraxas Petroleum's reasons for the amendment of the LTIP, see Proposal 2 Amendment of LTIP Reasons for the Amendment of the LTIP.

Adjournment (see page 74)

If necessary or appropriate, stockholders will be asked to approve a proposal to postpone or adjourn the Special Meeting to a later time in order for us to solicit additional proxies in favor of any of the proposals. In any event, the Special Meeting may be adjourned if a quorum is not present.

Abraxas Petroleum will hold its Special Meeting on [], [], 2009 (see page 32)

The Abraxas Petroleum Special Meeting will be held on [], [], 2009, at 9:00 a.m., local time, at Abraxas Petroleum's corporate office located at 18803 Meisner Drive, San Antonio, Texas 78258. At the Special Meeting, Abraxas Petroleum stockholders will be asked to:

approve the Merger and the issuance of shares of Abraxas Petroleum common stock in the Merger;

approve the amendment to the LTIP increasing the number of shares of Abraxas Petroleum common stock reserved for issuance under the LTIP; and

approve the adjournment of the Special Meeting, if necessary or appropriate, to solicit additional proxies, in the event that there are not sufficient votes at the time of the Special Meeting to approve the foregoing proposals.

Table of Contents

Index to Financial Statements

Record Date. Only holders of record at the close of business on [], 2009 will be entitled to vote at the Special Meeting. Each share of Abraxas Petroleum common stock is entitled to one vote. As of the record date, there were [] shares of Abraxas Petroleum common stock entitled to vote at the Special Meeting.

Required Vote. Approval of the Merger and the issuance of shares of Abraxas Petroleum common stock in the Merger requires the approval of the holders of a majority of the issued and outstanding shares of Abraxas Petroleum common stock entitled to vote at the Special Meeting. Because the required vote for the Merger and the stock issuance is based on the number of shares of Abraxas Petroleum common stock issued and outstanding, your failure to vote, a broker non-vote or an abstention will be treated as a vote cast against this proposal. Approval of the amendment to the LTIP requires the votes cast in favor of such proposal to exceed the votes cast against such proposal at the Special Meeting by the holders of Abraxas Petroleum common stock, assuming a quorum. Because the required vote for the LTIP amendment is based on the votes cast in favor of such proposal exceeding the votes cast against such proposal, your failure to vote, a broker non-vote or an abstention will not be treated as a vote cast and, therefore, will have no effect on this proposal, assuming a quorum.

If there is a quorum, approval of any necessary or appropriate adjournment of the Special Meeting requires the votes cast in favor of such proposal to exceed the votes cast against such proposal at the Special Meeting by the holders of Abraxas Petroleum common stock. In the absence of a quorum, the Special Meeting may be adjourned by the approval of the holders of a majority of the outstanding shares present and entitled to vote at the Special Meeting.

As of the record date, directors and executive officers of Abraxas Petroleum and their affiliates had the right to vote [] shares of Abraxas Petroleum common stock, or []% of the outstanding Abraxas Petroleum shares entitled to be voted at the Special Meeting. We currently expect that each of these individuals will vote their shares of Abraxas Petroleum common stock in favor of the proposals to be presented at the Special Meeting.

Table of Contents**Index to Financial Statements****SELECTED HISTORICAL AND PRO FORMA COMBINED FINANCIAL DATA****Summary Historical Financial Information of Abraxas Petroleum**

The following table shows summary historical financial data of Abraxas Petroleum for the periods and as of the dates indicated. The summary historical financial data as of December 31, 2007 and 2008 and for the years ended December 31, 2006, 2007 and 2008 are derived from the audited consolidated financial statements of Abraxas Petroleum included elsewhere in this proxy statement. The summary historical financial data as of March 31, 2009 and for the three months ended March 31, 2008 and 2009 are derived from the unaudited condensed consolidated financial statements of Abraxas Petroleum included elsewhere in this proxy statement. The financial condition and results of operations of Abraxas Petroleum are consolidated and reflect the financial condition and results of operations of Abraxas Petroleum and all of its consolidated subsidiaries including Abraxas Energy and Abraxas Operating. The operations of Abraxas Petroleum and Abraxas Energy are consolidated for financial reporting purposes with the interest of the limited partners, other than Investments, of Abraxas Energy presented as non-controlling interest.

	Historical Abraxas Petroleum				
	Year Ended December 31, 2006	2007	2008	Three Months Ended March 31, 2008	2009 (unaudited)
	(In thousands, except per share data)				
Total operating revenue	\$ 51,077	\$ 48,309	\$ 100,310	\$ 22,170	\$ 10,850
Lease operating and production taxes	11,776	11,254	26,635	5,202	5,869
Depreciation, depletion and amortization	14,939	14,292	23,343	5,094	4,487
Ceiling-test impairment			116,366		
General and administrative	5,160	6,438	7,127	1,799	2,129
Net interest expense	16,738	7,984	10,309	2,370	2,551
Amortization of deferred financing fees	1,591	671	1,028	194	212
Financing fees			359		362
Loss (gain) on derivative contracts	(646)	4,363	(28,333)	26,958	(12,865)
Loss on debt extinguishment		6,455			
Gain on sale of assets		(59,439)			
Other	819	1,148	9,379	210	209
Income (loss) before income tax	\$ 700	\$ 55,143	\$ (65,903)	\$ (19,657)	\$ 7,896
Income tax		(283)			
Consolidated net income (loss)	\$ 700	\$ 54,860	\$ (65,903)	\$ (19,657)	\$ 7,896
Less: Net (income) loss attributable to non-controlling interest		1,842	13,500	10,666	(3,446)
Net income (loss) attributable to Abraxas Petroleum	\$ 700	\$ 56,702	\$ (52,403)	\$ (8,991)	\$ 4,450
Net income (loss) attributable to Abraxas Petroleum per common share:					
Basic	\$ 0.02	\$ 1.22	\$ (1.07)	\$ (0.18)	\$ 0.09
Diluted	\$ 0.02	\$ 1.19	\$ (1.07)	\$ (0.18)	\$ 0.09

Table of Contents**Index to Financial Statements**

	Historical Abraxas Petroleum				
	2006	Year Ended December 31, 2007	2008	Three Months Ended March 31, 2008 (unaudited) 2009	
(In thousands)					
Cash flow data:					
Net cash provided by operating activities	\$ 15,561	\$ 18,332	\$ 43,387	\$ 9,676	2,950
Net cash used in investing activities	(14,102)	(26,908)	(173,944)	(137,859)	(4,271)
Net cash provided by (used in) financing activities	(1,458)	27,469	113,545	115,818	10

	Abraxas Petroleum			
	2006	At December 31, 2007 2008		At March 31, 2009 (unaudited)
(In thousands)				
Consolidated Balance Sheet Data:				
Working capital (deficit)	\$ (3,719)	\$ 11,348	\$ (26,000)	\$ (22,552)
Total assets	116,940	147,119	211,839	215,201
Current maturities of long-term debt			40,134	40,147
Long-term debt	127,614	45,900	130,835	133,788
Stockholders' equity (deficit)	(22,165)	79,344	11,751	17,485

Table of Contents**Index to Financial Statements****Summary Historical Financial Information of Abraxas Energy**

The following table shows summary historical financial data of Abraxas Petroleum and Abraxas Energy for the periods and as of the dates indicated. The summary historical financial data of Abraxas Petroleum for the year ended December 31, 2006 and for the period from January 1 to May 24, 2007 and the summary historical financial data of Abraxas Energy as of December 31, 2007 and 2008 and for the period from May 25 to December 31, 2007 and for the year ended December 31, 2008 are derived from the audited consolidated financial statements included elsewhere in this proxy statement. The summary historical financial data of Abraxas Energy as of March 31, 2009 and for the three months ended March 31, 2008 and 2009 are derived from the unaudited condensed consolidated financial statements of Abraxas Energy included elsewhere in this proxy statement. The financial condition and results of operations of Abraxas Petroleum for the periods up to May 24, 2007 are referred to in this proxy statement as "Predecessor," and the financial condition and results of operations for periods subsequent to May 24, 2007 are referred to as "Successor" and represent only those of Abraxas Energy.

	Predecessor		Historical		Successor	
	Abraxas Petroleum		Abraxas Energy		Abraxas Energy	
Year Ended	January 1 -	May 25 -	Year Ended	Three Months Ended	March 31,	
December 31,	May 24,	December 31,	December 31,	2008	2009	
2006	2007	2007	2008	2008	2009	
(unaudited)						
(In thousands, except per share/unit data)						
Total operating revenue	\$ 51,077	\$ 19,305	\$ 22,148	\$ 83,391	\$ 18,816	\$ 8,630
Lease operating and production taxes	11,776	4,757	5,136	22,577	4,426	4,804
Depreciation, depletion and amortization	14,939	5,773	7,039	20,063	4,504	3,526
Ceiling-test impairment				97,121		2,775
General and administrative	5,160	1,867	987	2,657	514	807
Net interest expense	16,738	6,371	1,774	10,181	2,431	2,436
Amortization of deferred financing fees	1,591	632	121	988	184	202
Financing fees				359		362
Loss (gain) on derivative contracts	(646)	218	4,125	(28,333)	26,958	(12,865)
Loss on debt extinguishment			6,455			
Other	819	295		1,105		21
Income (loss)	\$ 700	\$ (608)	\$ (3,489)	\$ (43,327)	\$ (20,201)	\$ 6,562
Income (loss) per common share/unit:						
Basic	\$ 0.02	\$ (0.01)	\$ (0.31)	\$ (3.81)	\$ (1.78)	\$ 0.58
Diluted	\$ 0.02	\$ (0.01)	\$ (0.31)	\$ (3.81)	\$ (1.78)	\$ 0.58
Cash flow data:						
Net cash provided by operating activities	\$ 15,561	\$ 10,150	\$ 5,466	\$ 30,474	\$ 13,473	\$ 5,925
Net cash used in investing activities	(14,102)	(6,622)	(14,086)	(131,900)	(127,895)	(2,293)
Net cash provided by (used in) financing activities	(1,458)	(1,742)	10,379	101,591	113,795	(4,943)

Table of Contents**Index to Financial Statements**

	Predecessor Abraxas Petroleum	Historical		
		At December 31, 2007	Successor Abraxas Energy 2008	At March 31, 2009 (unaudited)
	2006			
	(In thousands)			
Consolidated Balance Sheet Data:				
Working capital (deficit)	\$ (3,719)	\$ 3,740	\$ (14,595)	\$ (11,983)
Total assets	116,940	105,703	169,240	169,991
Current maturities of long-term debt			40,000	40,000
Long-term debt	127,614	45,900	125,600	125,600
Stockholders / Partners equity (deficit)	(22,615)	49,688	(12,492)	(8,457)

Table of Contents**Index to Financial Statements****Selected Unaudited Pro Forma Combined Financial Information**

The following unaudited pro forma combined financial information reflects Abraxas Petroleum's historical results on a pro forma basis to give effect to (a) the Merger and related transactions and (b) the new credit facility. The unaudited pro forma combined balance sheet information reflects the Merger and related transactions, including the new credit facility, as if they occurred on March 31, 2009, and the unaudited pro forma combined statement of operations information for the twelve months ended December 31, 2008 and the three months ended March 31, 2009 reflect the Merger and related transactions, including the new credit facility, as if they occurred on January 1, 2008.

The unaudited pro forma combined financial information is based on the historical financial statements of Abraxas Petroleum and Abraxas Energy and on publicly available information and certain assumptions and adjustments as discussed in the section entitled "Unaudited Pro Forma Combined Financial Information" included elsewhere in this proxy statement. The unaudited pro forma combined financial information is provided for illustrative purposes only and is not necessarily indicative of what the operating results or financial position of Abraxas Petroleum or Abraxas Energy would have been had the Merger and related transactions, including the new credit facility, been completed at the beginning of the periods or on the dates indicated, nor are they necessarily indicative of future operating results or financial position. Abraxas Petroleum and Abraxas Energy may have performed differently had they been combined during the periods presented. The following should be read in connection with the section of this proxy statement entitled "Unaudited Pro Forma Combined Financial Information" and other information included in this proxy statement.

	Year Ended December 31, 2008	Pro Forma Three Months Ended March 31, 2009 (unaudited)
	(In thousands, except per share data)	
Statement of Operations Data:		
Total revenue	\$ 100,310	\$ 10,850
Net income (loss) attributable to Abraxas Petroleum	(56,222)	8,384
Net income (loss) attributable to Abraxas Petroleum per share (1):		
Basic	(0.70)	0.10
Diluted	(0.70)	0.10

(1) Determined using the mid-point exchange ratio of 5.125, or \$1.17 per share.

	Pro Forma As of March 31, 2009 (unaudited) (In thousands)
Balance Sheet Data:	
Total assets	\$ 171,058
Total liabilities	152,629
Stockholders' equity (deficit)	18,429

Table of Contents**Index to Financial Statements****Comparative Historical and Unaudited Pro Forma Combined Per Share/Per Unit Data**

The following table sets forth selected historical per share information of Abraxas Petroleum and per unit information of Abraxas Energy and unaudited pro forma combined per share information after giving effect to (a) the Merger and related transactions and (b) the new credit facility. The unaudited pro forma combined balance sheet information reflects the Merger and related transactions, including the new credit facility, as if they occurred as of March 31, 2009, and the unaudited pro forma combined statement of operations information for the twelve months ended December 31, 2008 and the three months ended March 31, 2009 reflect the Merger and related transactions, including the new credit facility, as if they occurred as of the beginning of the respective period.

The unaudited pro forma combined financial information is based on the historical financial statements of Abraxas Petroleum and Abraxas Energy and on publicly available information and certain assumptions and adjustments as discussed in the section entitled "Unaudited Pro Forma Combined Financial Information" included elsewhere in this proxy statement. The unaudited pro forma combined financial information is provided for illustrative purposes only and is not necessarily indicative of what the operating results or financial position of Abraxas Petroleum or Abraxas Energy would have been had the Merger and related transactions, including the new credit facility, been completed at the beginning of the periods or on the dates indicated, nor are they necessarily indicative of future operating results or financial position. Abraxas Petroleum and Abraxas Energy may have performed differently had they been combined during the periods presented. The following should be read in connection with the section of this proxy statement entitled "Unaudited Pro Forma Combined Financial Information" and other information included in this proxy statement.

	Year Ended December 31, 2008	Three Months Ended March 31, 2009 (unaudited)
Abraxas Petroleum Historical Per Share Data:		
Basic net income (loss) per common share	\$ (1.07)	\$ 0.09
Diluted net income (loss) per common share	(1.07)	0.09
Book value per common share at end of period	3.23	3.22
Abraxas Energy Historical Per Unit Data:		
Basic net income (loss) per common unit	\$ (3.81)	\$ 0.58
Diluted net income (loss) per common unit	(3.81)	0.58
Cash distribution declared per common unit	1.65	
Book value per common unit at end of period	10.46	10.02
Abraxas Petroleum Pro Forma Per Share Data (1):		
Basic net income (loss) per common share	\$ (0.70)	\$ 0.10
Diluted net income (loss) per common share	(0.70)	0.10
Book value per common share at end of period	1.97	1.97
Abraxas Energy Equivalent Pro Forma Per Unit Data (2):		
Basic net income (loss) per common unit	\$ (3.58)	\$ 0.53
Diluted net income (loss) per common unit	(3.58)	0.53
Cash distribution declared per common unit	1.65	
Book value per common unit at end of period	10.12	10.09

(1) Determined using the mid-point exchange ratio of 5.125, or \$1.17 per share.

(2) Determined using the Abraxas Petroleum pro forma per share data multiplied by the mid-point exchange ratio of 5.125, or \$1.17 per share to derive Abraxas Energy Equivalent pro forma per unit data.

Table of Contents

Index to Financial Statements

RISK FACTORS

Abraxas Petroleum stockholders should consider the following factors carefully in evaluating whether to approve the Merger and the issuance of shares of Abraxas Petroleum common stock in the Merger, and the other proposals in this proxy statement. These factors should be considered in conjunction with the other information included in this proxy statement, including the forward-looking statements made herein. The following risk factors do not include all risks that Abraxas Petroleum will face as a result of the Merger. Additional risks related to our existing business and markets, which will continue to confront us whether or not the Merger occurs, are described in this proxy statement and in our public filings with the SEC, including our Forms 10-K and Forms 10-Q.

Risks Related to the Merger

We will incur substantial new indebtedness in order to close the Merger, which may adversely affect our cash flow and business operations.

A condition to closing the Merger is that Abraxas Petroleum shall have obtained financing to repay all of Abraxas Energy's outstanding indebtedness under its existing credit facilities. At June 30, 2009, Abraxas Energy had outstanding indebtedness of \$163.7 million and Abraxas Petroleum had outstanding indebtedness of \$5.9 million, for a total of \$169.6 million, excluding the mortgage on Abraxas Petroleum's office building. We have received a non-binding term sheet for a new senior secured revolving credit facility of up to \$300.0 million, of which \$160.0 million is expected to be available to us at closing. Upon consummation of the Merger, we expect to monetize our existing derivative contracts, the proceeds of which will be used to pay down outstanding indebtedness under our existing credit facilities by approximately \$28 million. Because the amount that we will actually realize from the early settlement and monetization of Abraxas Energy's existing derivative contracts will vary between the date of this proxy statement and the closing of the Merger, the exact amount of our initial borrowings under the new credit facility will not be known until the closing of the Merger. For more information, see Proposal 1 Approval of Merger and Stock Issuance The New Credit Facility.

Our future indebtedness could have important consequences to us, including:

our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms;

covenants contained in our new credit facility and future debt arrangements will require us to meet financial tests that may affect our flexibility in planning for and reacting to changes in our business, including possible acquisition opportunities;

we may need a substantial portion of our cash flow from operations to make principal and interest payments on our indebtedness, reducing the funds that would otherwise be available for operations and future business opportunities; and

our level of debt will make us more vulnerable to competitive pressures, or a downturn in our business or the economy generally, than our competitors with less debt.

Our ability to service our indebtedness will depend upon, among other things, our future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors, some of which are beyond our control. If our operating results are not sufficient to service our current or future indebtedness, we will be forced to take actions such as reducing or delaying acquisitions and/or capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking additional debt or equity capital or bankruptcy protection. We may not be able to affect any of these remedies on satisfactory terms or at all.

Table of Contents

Index to Financial Statements

A breach of the terms and conditions of the new credit facility, including the inability to comply with the required financial covenants, could result in an event of default. If an event of default occurs (after any applicable notice and cure periods), the lenders would be entitled to terminate any commitment to make further extensions of credit under the new credit facility and to accelerate the repayment of amounts outstanding (including accrued and unpaid interest and fees). Upon a default under the new credit facility, the lenders could also foreclose against any collateral securing such obligations, which may be all or substantially all of our assets. If that occurred, we may not be able to continue to operate as a going concern.

Completion of the Merger will result in substantial and immediate dilution to the voting power of our current stockholders.

Issuing shares of our common stock to the Abraxas Energy unitholders in the Merger will significantly dilute the voting power of our existing stockholders (from 100% of the outstanding shares before the Merger to 65.6% afterwards, assuming the maximum exchange ratio of 6.00). If we do not realize the benefits from the Merger anticipated by the Abraxas Petroleum Board when they approved to the Merger, the market price of our common stock may decline as a result and our stockholders may not realize a benefit despite the ownership dilution they will experience.

The exchange ratio is fixed within a certain range and will not be adjusted in the event of any significant change in the price of Abraxas Petroleum common stock.

If the Merger is consummated, each Abraxas Energy common unit outstanding immediately prior to the closing of the Merger, other than common units owned by Abraxas Petroleum and Investments, will be converted into the right to receive not less than 4.25 shares and not more than 6.00 shares of Abraxas Petroleum common stock per common unit of Abraxas Energy. This exchange ratio was fixed in the Merger Agreement and will not be adjusted for changes in the market price of Abraxas Petroleum common stock. Changes in the price of Abraxas Petroleum common stock prior to the closing of the Merger will affect the market value of the Merger Consideration that Abraxas Energy common unitholders will receive in the Merger. Stock price changes may result from a variety of factors (many of which are beyond the control of Abraxas Petroleum), including:

changes in the operations and prospects of Abraxas Petroleum;

changes in the market assessment of the operations and prospects of Abraxas Petroleum;

interest rates, general market and economic conditions and other factors, including commodity prices, generally affecting the price of securities; and

federal, state and local legislation, governmental regulation and legal developments in the business which Abraxas Petroleum operates.

The price of Abraxas Petroleum common stock at the closing of the Merger may vary from its price on the date the Merger Agreement was executed, on the date of this proxy statement, and on the date of the Special Meeting. As a result, the market value represented by the Merger Consideration will also vary. For example, based on the range of closing prices of Abraxas Petroleum common stock during the period from June 17, 2009, the last trading day before public announcement of the intent to merge, through July [], 2009, the latest practical date before the date of this proxy statement, the exchange ratio represented a market value ranging from a low of \$[] to a high of \$[] for each Abraxas Energy common unit.

Certain of our directors and executive officers have interests that are in addition to those of other stockholders, which may influence them to support the Merger.

Certain of our directors and executive officers have interests in the Merger that are in addition to yours, which may influence them to support the Merger or seek to waive certain conditions in the Merger Agreement without regard to your interests. These are described under Proposal 1 Approval of Merger and Stock

Table of Contents

Index to Financial Statements

Issuance Interests of Certain Persons in the Merger. You should consider whether these directors and executive officers are more likely to support approval of the Merger, or the waiver of conditions that might benefit our stockholders, than if they did not hold these interests.

We have incurred and will incur significant costs in connection with the Merger, whether or not we complete it.

We have incurred significant costs related to the Merger and we expect to incur significant additional costs. These costs include financial advisory, legal and accounting fees and expenses and other charges. We may also incur additional unanticipated costs for any of a number of reasons. Such costs will reduce the assets that either Abraxas Petroleum or Abraxas Energy would have if the Merger is not consummated or that we would have to operate our business after the Merger.

Failure to complete the Merger or delays in completing the Merger could negatively affect the price of Abraxas Petroleum common stock and its future business and operations.

If the Merger is not completed for any reason, Abraxas Petroleum and Abraxas Energy may be subject to a number of material risks, including the following:

the individual entities will not realize the benefits expected from the Merger, including a potentially enhanced financial position;

the price of Abraxas Petroleum common stock may decline to the extent that the current market price reflects a market assumption that the Merger will be completed; and

some costs relating to the Merger must be paid even if the Merger is not completed.

Risks Related to Our Business

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

We must make 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, sales of producing properties, and sales of debt and equity securities and we expect to continue to do so in the future. We cannot assure you that we will have sufficient capital resources in the future to finance all of our planned capital expenditures.

Volatility in oil and gas prices, the timing of our drilling programs and 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 planned capital expenditures, a greater percentage of our cash flow from operations will be required for debt service and operating expenses and our planned capital expenditures would, by necessity, be decreased.

The borrowing base under our new credit facility will be determined from time to time by the lenders. Reductions in estimates of oil and gas reserves could result in a reduction in the borrowing base, which would reduce the amount of financial resources available under this new credit facility to meet our capital requirements. Such a reduction could be the result of lower commodity prices and/or production, inability to drill or unfavorable drilling results, changes in oil and gas 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 our borrowing base decrease for any reason, our ability to undertake exploration and development activities could be adversely affected. As a result, our ability to replace production

Table of Contents

Index to Financial Statements

may be limited. In addition, if the borrowing base under the new credit facility is reduced, we would be required to reduce our borrowings under the new credit facility so that such borrowings do not exceed the borrowing base. This could further reduce the cash available to us for capital spending and, if we did not have sufficient capital to reduce our borrowing level, we may be in default under the new credit facility.

Abraxas Petroleum has sold producing properties to provide it with liquidity and capital resources in the past and we may do so in the future. After any such sale, we would expect to utilize the proceeds to drill new wells on our remaining properties. If we cannot replace the production lost from properties sold with production from the remaining properties, our cash flow from operations will likely decrease, which in turn, would decrease the amount of cash available for 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 oil and gas 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 oil and gas properties and our proved reserves will decline as our reserves are produced. Unless we acquire additional properties containing proved reserves, conduct successful development and exploration activities or, through engineering studies, identify additional behind-pipe zones or secondary recovery reserves, we cannot assure you that our exploration and development activities will result in increases in our proved reserves. Approximately 92% of the estimated ultimate recovery of our proved developed producing reserves as of December 31, 2008, had been produced. Based on the reserve information set forth in our reserve report of December 31, 2008, our average annual estimated decline rate for our net proved developed producing reserves is 11% during the first five years, 8% in the next five years, and approximately 8% thereafter. These rates of decline are estimates and actual production declines could be materially higher. While we have had some success in finding, acquiring and developing additional reserves, we have not always been able to fully replace the production volumes lost from natural field declines and prior property sales. For example, in 2006, we replaced only 7% of the reserves we produced. As our proved reserves and consequently our production decline, our cash flow from operations, and the amount that we are able to borrow under our new credit facility will also decline. In addition, approximately 46% of our total estimated proved reserves at December 31, 2008 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. Even if we are successful in our development efforts, it could take several years for a significant portion of these undeveloped reserves to generate positive cash flow.

We may not find any commercially productive oil and gas 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 oil and gas 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 46% of our total estimated proved reserves at December 31, 2008, 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 oil and gas we produce decreases, our cash flow from operations will decrease.

Our drilling operations may be curtailed, delayed or cancelled as a result of a variety of factors that are beyond our control or not covered by insurance.

Our drilling operations are subject to a number of risks, including:

unexpected drilling conditions;

facility or equipment failure or accidents;

Table of Contents

Index to Financial Statements

shortages or delays in the availability of drilling rigs, equipment and crews;

adverse weather conditions;

title problems;

unusual or unexpected geological formations;

pipeline ruptures;

fires, blowouts and explosions; and

uncontrollable flows of oil or gas or well fluids.

Any of these events could adversely affect our ability to conduct operations or cause substantial losses, including personal injury or loss of life, damage to or destruction of property, natural resources and equipment, pollution or other environmental, contamination, loss of wells, regulatory penalties, suspension of operations, and attorney's fees and other expenses incurred in the prosecution or defense of litigation.

We maintain insurance against some but not all of these risks. Additionally, we may elect not to obtain insurance if we believe that the cost of available insurance is excessive relative to the perceived risks presented. Losses could therefore occur for uninsurable or uninsured risks or in amounts in excess of existing insurance coverage. The occurrence of an event that is not fully covered by insurance could have a material adverse impact on our business activities, financial condition and results of operations.

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

We expect our new credit facility will contain a number of significant covenants that, among other things, will limit our 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;

make any change in the principal nature of our business;

permit a change of control; or

consolidate, merge or transfer all or substantially all of our assets.

In addition, we expect that our new credit facility will require us to maintain compliance with specified financial covenants. Our ability to comply with these covenants may be adversely affected by events beyond our control, and we cannot assure you that we can maintain compliance with these covenants. These financial covenants could limit our ability to obtain future financings, make needed capital expenditures, withstand a future downturn in our business or the economy in general or otherwise conduct necessary or desirable business activities.

Table of Contents

Index to Financial Statements

A breach of any of these covenants could result in a default under our new credit facility. A default, if not cured or waived, could result in all of our indebtedness becoming immediately due and payable. If that should occur, we 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 or favorable to us.

The marketability of our production depends largely upon the availability, proximity and capacity of 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 regulation of oil and gas 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 oil and gas.

An increase in the differential between NYMEX and the reference or regional index price used to price our oil and gas would reduce our cash flow from operations.

Our oil and gas is priced in the local markets where it is produced based on local or regional supply and demand factors. The prices we receive for our oil and gas are typically lower than the relevant benchmark prices, such as NYMEX. The difference between the benchmark price and the price we receive is called a differential. Numerous factors may influence local pricing, such as refinery capacity, pipeline capacity and specifications, upsets in the midstream or downstream sectors of the industry, trade restrictions and governmental regulations. Additionally, insufficient pipeline capacity, lack of demand in any given operating area or other factors may cause the differential to increase in a particular area compared with other producing areas. For example, production increases from competing Canadian and Rocky Mountain producers, combined with limited refining and pipeline capacity in the Rocky Mountain area, have gradually widened differentials in this area.

During 2008, differentials averaged \$7.07 per Bbl of oil and \$1.30 per Mcf of gas. Approximately 39% of our production during 2008 was from the Rocky Mountain and Mid-Continent regions. Historically, these regions have experienced wider differentials than our Permian Basin and Gulf Coast properties. As the percentage of our production from the Rocky Mountain and Mid-Continent regions increases, we expect that our price differentials will also increase. Increases in the differential between the benchmark prices for oil and gas and the wellhead price we receive could significantly reduce our revenues and our cash flow from operations.

Our derivative contract activities could result in financial losses or could reduce our cash flow.

To achieve more predictable cash flow and reduce our exposure to adverse fluctuations in the prices of oil and gas and to comply with the requirements under our new credit facility, we will enter into derivative contracts, which we sometimes refer to as hedging arrangements, for a significant portion of our oil and gas production that could result in both realized and unrealized derivative contract losses. Abraxas Energy has previously entered into NYMEX-based fixed price commodity swap arrangements on approximately 80% of its oil and gas production from its estimated net proved developed producing reserves through December 31, 2012 and we expect our new credit facility will require that we enter into similar arrangements on approximately 85% of our oil and gas production from our estimated net proved developed producing reserves through 2012. These new hedging arrangements will be priced at then-current market prices and may be significantly lower than the existing hedges we currently have in place. The extent of our commodity price exposure will be related largely to the effectiveness and scope of our commodity price derivative contract activities. For example, the prices utilized in our derivative instruments will be NYMEX-based, which may differ significantly from the actual prices we receive for oil and gas which are based on the local markets where oil and gas are produced. The prices that we

Table of Contents

Index to Financial Statements

receive for our oil and gas production are typically lower than the relevant benchmark prices that are used for calculating commodity derivative positions. The difference between the benchmark price and the price we receive is called a differential. As a result, our cash flow could be affected if the basis differentials widen more than we anticipate. For more information see An increase in the differential between NYMEX and the reference or regional index price used to price our oil and gas would reduce our cash flow from operations. We currently do not have any basis differential hedging arrangements in place. Our cash flow could also be affected based upon the levels of our production. If production is higher than we estimate, we will have greater commodity price exposure than we intended. If production is lower than the nominal amount that is subject to our hedging arrangements, we may be forced to satisfy all or a portion of our hedging arrangements without the benefit of the cash flow from our sale of the underlying physical commodity, resulting in a substantial reduction in cash flows.

If the prices at which we hedge our oil and gas production are less than current market prices, our cash flow from operations could be adversely affected.

When our derivative contract prices are higher than market prices, we will incur realized and unrealized gains on our derivative contracts and when contract prices are lower than market prices, we will incur realized and unrealized losses. For the year ended December 31, 2008, Abraxas Energy recognized a realized loss on oil and gas derivative contracts of \$9.3 million and an unrealized gain of \$40.5 million. The realized loss resulted in a decrease in cash flow from operations. We expect to continue to enter into similar hedging arrangements in the future to reduce our cash flow volatility. We expect to enter into hedging arrangements for specified volumes, which are expected to equate to approximately 85% of the estimated oil and gas production from our proved developed producing reserves through December 31, 2012 when we enter into the new credit facility at market prices then prevailing.

We cannot assure you that the derivative contracts that we have entered into, or will enter into, will adequately protect us from financial loss in the future due to circumstances such as:

highly volatile oil and gas prices;

our production being less than expected; or

a counterparty to one of our hedging transactions defaulting on its contractual obligations.

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

We use the full cost method to account for our oil and gas operations. Accordingly, we capitalize the cost to acquire, explore for and develop oil and gas properties. Under full cost accounting rules, the net capitalized cost of oil and gas 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%. If net capitalized costs of oil and gas 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 oil and gas properties increases when oil and gas 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 oil and gas prices may have increased the ceiling applicable to the subsequent period.

At December 31, 2008, our net capitalized costs of oil and gas properties exceeded the present value of our estimated proved reserves by \$116.4 million resulting in a write-down of \$116.4 million. We cannot assure you that we will not experience additional ceiling limitation write-downs in the future.

Table of Contents

Index to Financial Statements

Use of our net operating loss carryforwards may be limited.

At December 31, 2008, we had, subject to the limitation discussed below, \$194.4 million of net operating loss carryforwards for U.S. tax purposes. These loss carryforwards will expire in varying amounts through 2028 if not otherwise used.

The use of our net operating loss carryforwards may be limited if an ownership change of over 50 percentage points occurs during any three-year period. Based on current estimates, we believe that we have not surpassed this threshold. If the Merger itself were to cause us to surpass the threshold, we believe that our current net operating loss carryforwards could be used to offset any U.S. federal income tax liability. With respect to any remaining net operating loss carryforwards following the Merger, it is feasible that even a modest change of ownership (including, but not limited to, a shift in common stock ownership by one reasonably large stockholder or any offering of common stock) during the three-year period following the Merger could trigger a significant limitation of the amount of such net operating loss carryforwards available to offset future taxable income.

Additionally, 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 \$66.9 million for deferred tax assets at December 31, 2006, \$47.2 million at December 31, 2007 and \$60.8 million at December 31, 2008.

We depend on our Chairman, President and CEO and the loss of his services could have an adverse effect on our operations.

We depend to a large extent on Robert L.G. Watson, our Chairman of the Board, President and Chief Executive Officer, for our management and business and financial contacts. Mr. Watson may terminate his employment agreement with us 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 us. 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

Market conditions for oil and gas, and particularly volatility of prices for oil and gas, 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 oil and gas. Gas prices affect us more than oil prices because 65% of our production and 72% of our reserves were gas at December 31, 2008. 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 oil and gas.

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

changes in foreign and domestic supply and demand for oil and gas;

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.

Table of Contents

Index to Financial Statements

The current global recession has had a significant impact on commodity prices and our operations. If commodity prices remain depressed, our revenues, profitability and cash flow from operations may decrease which could cause us to alter our business plans, including reducing our drilling activities.

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

The process of estimating oil and gas reserves is complex involving decisions and assumptions in evaluating the available geological, geophysical, engineering and economic data. Accordingly, these estimates are imprecise. Actual future production, oil and gas prices, revenues, taxes, capital expenditures, operating expenses and quantities of recoverable oil and gas 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 proxy statement. In addition, we may adjust estimates of proved reserves to reflect production history, results of exploration and development, prevailing oil and gas prices and other factors, many of which are beyond our control.

The estimates of our consolidated 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 oil and gas reserves, future net revenue from proved reserves and the PV-10 thereof for our oil and gas properties are based on the assumption that future oil and gas prices remain the same as oil and gas prices at December 31, 2008. The sales prices as of such date used for purposes of such estimates were \$4.77 per Mcf of gas and \$41.84 per Bbl of oil. This compares with \$6.33 per Mcf of gas and \$87.30 per Bbl of oil as of December 31, 2007. These estimates also assume that we will make future capital expenditures of approximately \$134.1 million in the aggregate primarily from 2009 through 2014, which are necessary to develop and realize the value of proved undeveloped reserves on our properties. In addition, approximately 46% of our total estimated consolidated proved reserves as of December 31, 2008 were undeveloped. By their nature, estimates of undeveloped reserves are less certain than proved developed reserves. Any significant variance in actual results from these assumptions could also materially affect the estimated quantity and value of reserves set forth in this proxy statement.

The present value of future net cash flows from our proved reserves is not necessarily the same as the current market value of our estimated reserves. Any material inaccuracies in our reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves, which could adversely affect our business, results of operations and financial condition.

As required by SEC regulations, we base the estimated discounted future net cash flows from our proved reserves on prices and costs in effect on the day of the estimate. However, actual future net cash flows from our properties will be affected by factors such as:

supply of and demand for oil and gas;

actual prices we receive for oil and gas;

our actual operating costs;

the amount and timing of our capital expenditures;

the amount and timing of actual production; and

changes in governmental regulations or taxation.

The timing of both our production and our incurrence of expenses in connection with the development and production of our properties will affect the timing of actual future net cash flows from proved reserves, and thus their actual present value. In addition, the 10% discount factor we use when calculating discounted future net cash flow, which is required by the SEC, may not be the most appropriate discount factor based

Edgar Filing: ABRAXAS PETROLEUM CORP - Form PREM14A

on interest rates in effect from time to time and risks associated with us or the oil and gas industry in general. Any material inaccuracies in our reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves, which could adversely affect our business, results of operations and financial condition.

Table of Contents

Index to Financial Statements

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

Our oil and gas 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, 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 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.

We operate in a highly competitive industry which may adversely affect our operations.

We operate in a highly competitive environment. The principal resources necessary for the exploration and production of oil and gas are leasehold prospects under which oil and gas reserves may be discovered, drilling rigs and related equipment to explore for such reserves and knowledgeable personnel to conduct all phases of oil and gas operations. We must compete for such resources with both major oil and gas companies and independent operators. Many of these competitors have financial and other resources substantially greater than ours. 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.

The unavailability or high cost of drilling rigs, equipment, supplies, insurance, personnel and oil field services could adversely affect our ability to execute our exploration and development plans on a timely basis and within our budget.

Our industry is cyclical and, from time to time, there could be a shortage of drilling rigs, equipment, supplies, insurance or qualified personnel. During these periods, the costs and delivery times of rigs, equipment and supplies are substantially greater. In addition, the demand for, and wages of, qualified drilling rig crews rise as the number of active rigs in service increases. When oil and gas prices are high, the demand for oilfield services rises and the cost of these services increases.

Our oil and gas operations are subject to various Federal, state and local regulations that materially affect our operations.

Matters regulated include 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 oil and gas, these agencies have restricted the rates of flow from oil and gas wells below actual production capacity. Federal, state and local laws regulate production, handling, storage, transportation and disposal of oil and gas, by-products from oil and gas and other substances and materials produced or used in connection with oil and gas 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.

Table of Contents

Index to Financial Statements

Risks Related to Abraxas Petroleum's Common Stock

Future issuance of additional shares of common stock could cause dilution of ownership interests and adversely affect the stock price.

Abraxas Petroleum is currently authorized to issue 200,000,000 shares of common stock with such rights as determined by its board of directors. Abraxas Petroleum may in the future issue its previously authorized and unissued securities, resulting in the dilution of the ownership interests of current stockholders. In addition, if we issue the maximum number of shares of Abraxas Petroleum common stock in the Merger, our existing stockholders would own approximately 65.6% of our common stock then outstanding. The potential issuance of such additional shares of common stock may create downward pressure on the trading price of the common stock. Abraxas Petroleum may also issue additional shares of common stock or other securities that are convertible into or exercisable for common stock for capital raising or other business purposes. Future sales of substantial amounts of common stock, or the perception that sales could occur, could have a material adverse effect on the price of the common stock.

Abraxas Petroleum does not pay dividends on common stock.

Abraxas Petroleum has never paid a cash dividend on its common stock and the terms of the new credit facility will prohibit its ability to pay dividends on Abraxas Petroleum's common stock.

Shares eligible for future sale may depress our stock price.

At June 30, 2009, Abraxas Petroleum had 49,804,894 shares of common stock outstanding of which 4,481,997 shares were held by affiliates and, in addition, 3,232,209 shares of common stock were subject to outstanding options granted under stock option plans (of which 1,892,244 shares were vested at June 30, 2009).

All of the shares of common stock held by affiliates are restricted or control securities under Rule 144 promulgated under the Securities Act of 1933, as amended. The shares of the common stock issuable upon exercise of the stock options have been registered under the Securities Act. Sales of shares of common stock under Rule 144 or another exemption under the Securities Act or pursuant to a registration statement could have a material adverse effect on the price of the common stock and could impair our ability to raise additional capital through the sale of equity securities.

After consummation of the Merger, assuming the mid-point of the exchange ratio of 5.125, or \$1.17 per share, Abraxas Petroleum will have 81,368,775 shares of common stock outstanding of which 5,405,947 shares will be held by affiliates and, in addition, 4,508,078 shares of common stock will be subject to outstanding options granted under stock option plans (of which 1,892,244 shares will be vested at closing of the Merger). All of the shares issued in the Merger will initially be restricted securities under the Securities Act.

The price of Abraxas Petroleum common stock has been volatile and could continue to fluctuate substantially.

Abraxas Petroleum common stock is traded on the NASDAQ Stock Market. The market price of the common stock has been volatile and could fluctuate substantially based on a variety of factors, including the following:

fluctuations in commodity prices;

variations in results of operations;

legislative or regulatory changes;

general trends in the industry;

market conditions; and

analysts' estimates and other events in the oil and gas industry.

Table of Contents

Index to Financial Statements

Abraxas Petroleum may issue shares of preferred stock with greater rights than the common stock.

Subject to the rules of the NASDAQ Stock Market, Abraxas Petroleum's articles of incorporation authorize its board of directors to issue one or more series of preferred stock and set the terms of the preferred stock without seeking any further approval from holders of the common stock. Any preferred stock that is issued may rank ahead of the common stock in terms of dividends, priority and liquidation premiums and may have greater voting rights than the common stock.

Anti-takeover provisions could make a third party acquisition of Abraxas Petroleum difficult.

Abraxas Petroleum's articles of incorporation and bylaws provide for a classified board of directors, with each member serving a three-year term, and eliminate the ability of stockholders to call special meetings or take action by written consent. Each of the provisions in the articles of incorporation and bylaws could make it more difficult for a third party to acquire Abraxas Petroleum without the approval of its board. In addition, the Nevada corporate statute also contains certain provisions that could make an acquisition by a third party more difficult.

An active market may not continue for the common stock and we could face de-listing if our stock price remains depressed.

The Abraxas Petroleum common stock is quoted on the NASDAQ Stock Market. While there are currently three market makers in the common stock, these market makers are not obligated to continue to make a market in the common stock. In this event, the liquidity of the common stock could be adversely impacted and a stockholder could have difficulty obtaining accurate stock quotes. If our stock price remains below \$1.00 per share for an extended period of time, we could be de-listed from the NASDAQ Stock Market as the minimum threshold for a continued listing is \$1.00 per share. This minimum threshold has been suspended but there is no guarantee that it will not be reinstated.

Table of Contents

Index to Financial Statements

FORWARD-LOOKING STATEMENTS

Some of the statements in this proxy statement, including those that contain the words anticipate, believe, plan, estimate, expect, should, and other similar expressions, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. Those forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements or those of our industry to be materially different from any future results, performance or achievements expressed or implied by those forward-looking statements. Among the factors that could cause actual results, performance or achievements to differ materially from those described or implied in the forward-looking statements are:

With respect to the Merger:

the occurrence of any event, change or other circumstances that could give rise to the termination of the Merger Agreement or the failure of required conditions to close the Merger;

the inability to obtain stockholder approval of the failure to satisfy other conditions to completion of the Merger;

risks that the proposed transaction disrupts current plans and operations;

the performance of Abraxas Petroleum; and

the amount of the costs, fees, expenses and charges related to the Merger;

any of the assumptions underlying the projected financial information of Abraxas Petroleum proving to be inaccurate;

our success in development, exploitation and exploration activities;

our ability to make planned capital expenditures;

declines in our production of oil and gas;

prices for oil and gas;

our ability to raise equity capital or incur additional indebtedness;

the consummation of the Merger;

economic and business conditions;

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 document.

Copies of our SEC filings are available from the SEC or may be obtained upon request from us. We do not undertake any obligation to update the information contained herein, which speaks only as of this date, other than as required by law.

Table of Contents

Index to Financial Statements

THE SPECIAL MEETING OF STOCKHOLDERS

Date, Time and Place

The Abraxas Petroleum Special Meeting will be held on [], [], 2009, at 9:00 a.m., local time, at Abraxas Petroleum's corporate office located at 18803 Meisner Drive, San Antonio, Texas 78258.

Purposes of the Special Meeting

At the Special Meeting, Abraxas Petroleum stockholders will be asked to:

approve the Merger and the issuance of shares of Abraxas Petroleum common stock in the Merger;

approve the amendment to the LTIP increasing the number of shares of Abraxas Petroleum common stock reserved for issuance under the LTIP; and

approve the adjournment of the Special Meeting, if necessary or appropriate, to solicit additional proxies, in the event that there are not sufficient votes at the time of the Special Meeting to approve the foregoing proposals.

Record Date

Only holders of record at the close of business [], 2009, will be entitled to vote at the Special Meeting. Each share of Abraxas Petroleum common stock is entitled to one vote. As of the record date, there were [] shares of Abraxas Petroleum common stock entitled to vote at the Special Meeting.

The holders of a majority of the issued and outstanding shares of Abraxas Petroleum common stock entitled to vote at the Special Meeting must be present in person or by proxy to establish a quorum for business to be conducted at the Special Meeting. Abstentions and non-votes are treated as shares that are present and entitled to vote for purposes of establishing a quorum. Non-votes occur when a proxy:

is returned by a broker or other stockholder who does not have authority to vote;

does not give authority to a proxy to vote; and

withholds authority to vote on one or more proposals.

Required Vote

Approval of the Merger and the issuance of shares of Abraxas Petroleum common stock in the Merger requires the approval of the holders of a majority of the issued and outstanding shares of Abraxas Petroleum common stock entitled to vote at the Special Meeting. Because the required vote for the Merger and the stock issuance is based on the number of shares of Abraxas Petroleum common stock issued and outstanding, your failure to vote, a broker non-vote or an abstention will be treated as a vote cast against this proposal. Approval of the amendment to the LTIP requires the votes cast in favor of such proposal to exceed the votes cast against such proposal at the Special Meeting by the holders of Abraxas Petroleum common stock, assuming a quorum. Because the required vote for the LTIP amendment is based on the votes cast in favor of such proposal exceeding the votes cast against such proposal, your failure to vote, a broker non-vote or an abstention will not be treated as a vote cast and, therefore, will have no effect on this proposal, assuming a quorum.

Edgar Filing: ABRAXAS PETROLEUM CORP - Form PREM14A

If there is a quorum, approval of any necessary or appropriate adjournment of the Special Meeting requires the votes cast in favor of such proposal to exceed the votes cast against such proposal at the Special Meeting by the holders of Abraxas Petroleum common stock. In the absence of a quorum, the Special Meeting may be adjourned by the approval of the holders of a majority of the outstanding shares of Abraxas Petroleum common stock present and entitled to vote at the Special Meeting.

As of the record date, directors and executive officers of Abraxas Petroleum and their affiliates had the right to vote [] shares of Abraxas Petroleum common stock, or []% of the outstanding shares of Abraxas Petroleum common stock entitled to be voted at the Special Meeting. We currently expect that each of these individuals will vote their shares of Abraxas Petroleum common stock in favor of the proposals to be presented at the Special Meeting.

Table of Contents

Index to Financial Statements

Voting of Proxies

Votes cast in person or by proxy at the Special Meeting will be tabulated at the Special Meeting. All valid, unrevoked proxies will be voted as directed. In the absence of instructions to the contrary, properly executed proxies will be voted in favor of each of the proposals listed in the notice of Special Meeting.

Many of our stockholders hold their shares through a stockbroker, bank or other nominee rather than directly in their own names. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

Stockholder of Record. If your shares are registered directly in your name or with our transfer agent, American Stock Transfer & Trust Company, you are considered the stockholder of record with respect to those shares and these proxy materials are being sent directly to you by us. As a stockholder of record, you have the right to grant your voting proxy directly to us or to vote in person at the Special Meeting. We have enclosed a proxy card for your use.

Beneficial Holder. If your shares are held in a brokerage account or by a bank or other nominee, you are considered the beneficial owner of the shares held in street name, and these proxy materials are being forwarded to you by your broker or nominee who is considered the stockholder of record with respect to those shares. As the beneficial owner, you have the right to direct your broker on how to vote and are also invited to attend the Special Meeting. However, since you are not the stockholder of record, you may not vote these shares in person at the Special Meeting. Your broker or nominee has enclosed a proxy card for your use.

How To Vote By Proxy; Revocability of Proxies

To vote by proxy, you must mark, sign, date, and return the proxy card in the enclosed envelope. If you are a beneficial holder, you may also vote your shares by telephone or the Internet using the instructions on each proxy card. Any Abraxas Petroleum stockholder who delivers a properly executed proxy may revoke the proxy at any time before it is voted. Proxies may be revoked by:

delivering a written revocation of the proxy to the Abraxas Petroleum Secretary before the Special Meeting;

submitting a later-dated proxy by mail, telephone or the Internet; or

appearing at the Special Meeting and voting in person.

Attendance at the Special Meeting will not, in and of itself, constitute revocation of a proxy. An Abraxas Petroleum stockholder whose shares are held in the name of its broker, bank or other nominee must bring a legal proxy from its broker, bank or other nominee to the meeting in order to vote in person.

Deadline for Voting by Proxy

In order to be counted, votes cast by proxy must be received prior to the Special Meeting.

Solicitation of Proxies

Proxies will be solicited by mail. Proxies may also be solicited personally, or by telephone, fax, or other means by the directors, officers, and employees of Abraxas Petroleum. Directors, officers, and employees soliciting proxies will receive no extra compensation, but may be reimbursed for related out-of-pocket expenses. In addition to solicitation by mail, Abraxas Petroleum will make arrangements with brokerage houses and other custodians, nominees, and fiduciaries to send the proxy materials to beneficial owners. Abraxas Petroleum will, upon request, reimburse these brokerage houses, custodians, and other persons for their reasonable out-of-pocket expenses in doing so. Abraxas Petroleum will pay the cost of solicitation of proxies.

Edgar Filing: ABRAXAS PETROLEUM CORP - Form PREM14A

If you need assistance in completing your proxy card or have questions regarding the Special Meeting, please contact:

Abraxas Petroleum Corporation

18803 Meisner Drive

San Antonio, Texas 78258

(210) 490-4788

Attn: Investor Relations

Table of Contents

Index to Financial Statements

PROPOSAL 1 APPROVAL OF MERGER AND STOCK ISSUANCE

We are asking you to approve the Merger and the issuance of shares of our common stock to the Abraxas Energy unitholders in accordance with the Merger Agreement so we may complete the Merger.

This section describes the Merger and the Merger Agreement. Although we believe that this description covers the material terms of the Merger and the Merger Agreement, it may not contain all of the information that is important to you. We encourage you to read this entire proxy statement carefully, including the Merger Agreement, which is attached as Annex A, for a more complete understanding of the Merger. The following description is subject to, and is qualified in its entirety by reference to, the Merger Agreement.

General

In the Merger, Abraxas Energy will merge into Abraxas Petroleum. As consideration for the Merger, we will issue to Abraxas Energy's unitholders, other than Investments, not less than 4.25 shares and not more than 6.00 shares of our common stock per common unit of Abraxas Energy. The final number of shares of Abraxas Petroleum common stock to be issued in the Merger will be determined by dividing \$6.00 by the average volume weighted average closing price of Abraxas Petroleum common stock on the NASDAQ during the 20 trading days ending three business days prior to the date of the Special Meeting, or the VWAP. For example, if the VWAP is \$1.00 or less, holders of Abraxas Energy common units would receive 6.00 shares of Abraxas Petroleum common stock for each of their common units and if the VWAP is \$1.412 or more, holders of Abraxas Energy common units would receive 4.25 shares of Abraxas Petroleum common stock for each of their common units. Assuming the mid-point of the exchange ratio, or \$1.17 per share, holders of Abraxas Energy common units would receive 5.125 shares of Abraxas Petroleum common stock for each of their common units.

In the Merger, we will issue a maximum of 36,952,836 shares of our common stock. This would represent approximately 42.6% of our outstanding shares of common stock upon the closing of the Merger. We anticipate that upon completion of the Merger, depending upon the exchange ratio, Abraxas Energy's former unitholders will own between 34.4% and 42.6% of the shares of our common stock then outstanding. At the mid-point of the exchange ratio of 5.125, or \$1.17 per share, we would issue 31,563,881 shares of our common stock, or approximately 38.8% of the shares of our common stock then outstanding. Our stockholders will continue to own their existing Abraxas Petroleum shares, which will not be affected by the Merger.

Background of the Merger

Since January 1, 1991, Abraxas Petroleum's principal means of growth has been through the acquisition and subsequent development and exploitation of producing properties and related assets.

On May 25, 2007, Abraxas Petroleum formed a master limited partnership, Abraxas Energy. Abraxas Petroleum contributed certain assets located in South and West Texas to Abraxas Energy that had estimated proved reserves of approximately 65.0 Bcfe as of December 31, 2006 and accounted for approximately 85% of Abraxas Petroleum's then current daily production. Abraxas Petroleum, through Investments and the GP, retained an approximate 47% interest in Abraxas Energy consisting of 5,131,959 common units and 227,232 general partner units, respectively. Abraxas Energy sold an approximate 53% interest in Abraxas Energy in a private placement offering for approximately \$100.0 million. The private placement consisted of 6,002,408 common units at a purchase price of \$16.66 per unit. In connection with the private placement, Abraxas Energy entered into a registration rights agreement and an exchange and registration rights agreement with the private placement investors. In addition, Abraxas Energy entered into a \$150.0 million senior secured credit facility, of which \$35.0 million was drawn at closing of the private placement transaction. Net proceeds from the private placement transaction, together with net proceeds from a private placement offering of Abraxas Petroleum common stock and the borrowings under Abraxas Energy's credit facility (collectively, \$157.5 million), were used to repay all of Abraxas Petroleum's indebtedness as well as pay fees and expenses of the transactions.

Table of Contents

Index to Financial Statements

The private placement was intended to be the first step in a two-step process, the second being an initial public offering, or IPO, of Abraxas Energy's common units. Under the terms of the registration rights agreement, if the IPO was not consummated by February 14, 2008, the private placement investors were entitled to receive liquidated damages, and under the terms of the exchange and registration rights agreement, if the IPO was not consummated by November 15, 2008, the private placement investors had the right to exchange their Abraxas Energy common units for shares of Abraxas Petroleum common stock.

On July 13, 2007, Abraxas Energy filed its initial registration statement on Form S-1.

On November 14, 2007, Abraxas Energy submitted an offer to purchase certain oil and gas properties located across the central portion of the U.S. from St. Mary Land & Exploration Company, or St. Mary, for a purchase price of \$140.0 million. St. Mary accepted Abraxas Energy's offer on or about November 20, 2007.

On December 5, 2007, Abraxas Energy and the private placement investors entered into amendment no. 1 to the registration rights agreement amending the date by which the IPO must be consummated from February 14, 2008 to September 30, 2008 in order to allow Abraxas Energy to close the acquisition from St. Mary, re-file its registration statement with the SEC to include all pertinent information regarding the acquisition, and provide time to respond to any additional comments from the SEC.

On December 11, 2007, Abraxas Energy and St. Mary entered into a purchase and sale agreement, pursuant to which Abraxas Energy would acquire certain oil and gas properties from St. Mary, effective December 1, 2007, for \$140.0 million.

On January 31, 2008, Abraxas Petroleum joined the purchase and sale agreement between Abraxas Energy and St. Mary, pursuant to which Abraxas Petroleum agreed to acquire the relatively higher risk, higher return properties from St. Mary, and Abraxas Energy and Abraxas Petroleum closed the acquisition of certain oil and gas properties from St. Mary. Abraxas Energy acquired approximately 57.2 Bcfe of estimated proved reserves for an adjusted purchase price of \$126.0 million, and Abraxas Petroleum acquired approximately 4.3 Bcfe of estimated proved reserves for an adjusted purchase price of \$5.6 million. Abraxas Energy funded its portion of the acquisition with borrowings under an amended and restated \$300.0 million senior secured credit facility and a new \$50.0 million subordinated credit facility, and Abraxas Petroleum funded its portion of the acquisition out of internal cash flow. The maturity date on Abraxas Energy's new subordinated credit facility was January 31, 2009.

On April 25, 2008, Abraxas Energy re-filed its registration statement (amendment no. 5) with the SEC, which incorporated the acquisition from St. Mary and other updated information.

On or about July 3, 2008, Abraxas Energy's lead underwriter, Wachovia Securities, withdrew from the IPO underwriting syndicate after its equity research analyst decided that he would not support the IPO due to the property mix (in particular, the concentration risk of the development drilling). RBC Capital Markets, the co-lead underwriter, was moved to lead underwriter, and the underwriting syndicate was filled with Stifel, Nicolaus & Company and Oppenheimer & Co.

On September 10, 2008, Abraxas Energy re-filed its registration statement (amendment no. 8) with the SEC, which incorporated the new underwriting syndicate and updated financial information for the second quarter of 2008, and prepared to launch its IPO.

On September 15, 2008, Lehman Brothers Holdings Inc. filed bankruptcy, and on September 16, 2008, the U.S. government acquired control of AIG (American International Group Inc.) in an \$85 billion bailout. Prior to these two significant events, on September 6, 2008, the U.S. government took over mortgage lending giants Fannie Mae and Freddie Mac, and Merrill Lynch & Co. agreed to sell itself to Bank of America. In the ensuing months, turmoil in the global debt and equity markets with numerous bank failures and government bailouts

Table of Contents

Index to Financial Statements

dominated the news and caused many uncertainties and instability in the financial markets. Alongside the demise of many financial institutions, oil prices declined 68% from \$140 per barrel in July 2008 to \$45 per barrel by the end of 2008.

On October 6, 2008, Abraxas Energy and the private placement investors entered into amendment no. 2 to the registration rights agreement, amending the date by which the IPO must be consummated from September 30, 2008 to April 30, 2009, and amendment no. 1 to the exchange and registration rights agreement, amending the date by which the IPO must be consummated from November 15, 2008 to April 30, 2009, in order to give the equity and debt markets time to stabilize and for Abraxas Energy to obtain an extension to the maturity date of its subordinated credit facility.

On January 16, 2009, Abraxas Energy and the lenders under its senior credit facility and its subordinated credit facility entered into amendment no. 1 to both facilities, pursuant to which the maturity date of the subordinated credit facility was extended from January 31, 2008 to July 1, 2009 and a provision was added that an event of default would occur if Abraxas Energy failed to receive equity issuance proceeds of \$20.0 million on or before April 30, 2009.

In January 2009, Abraxas Energy's lead underwriter, RBC Capital Markets, withdrew from the IPO underwriting syndicate after Abraxas Energy determined to reduce the size of the IPO below \$20 million due to market conditions.

On February 25, 2009, Abraxas Energy engaged Rivington Capital Advisors to act as exclusive financial advisor to refinance its subordinated credit facility.

On February 27, 2009, Abraxas Energy engaged Rodman & Renshaw as the lead underwriter for the IPO.

On March 10, 2009, Abraxas Energy re-filed its registration statement (amendment no. 9) with the SEC, which incorporated the new underwriting syndicate and updated financials and other information for year-end 2008 and included an estimated initial offering price range of \$6.50 to \$8.50 per unit.

On March 12, 2009, Rivington Capital Advisors and Abraxas Energy launched the marketing of a new second lien credit facility to a number of potential lenders.

During March and April 2009, Abraxas Energy met with numerous potential lenders and received several term sheets, all of which contained very restrictive covenants which, in time, would have caused Abraxas Energy to partially reduce or suspend distributions to its unitholders.

On April 29, 2009, management of Abraxas Energy held a meeting with the private placement investors to review and discuss all of the alternatives that management had identified. The six alternatives discussed were as follows:

allow the subordinated credit facility to mature, resulting in an event of default under both credit facilities, suspended cash distributions, cash flow sweep by the lenders and potential asset sales or liquidation;

sale of Abraxas Energy's hedges to repay the subordinated credit facility, which would result in a borrowing base deficiency under Abraxas Energy's credit facility and a resulting suspension of all cash distributions;

postpone the IPO (to wait for a better market) and refinance the subordinated credit facility, which would likely result in reduced or suspended cash distributions;

allow the private placement investors to exchange for shares of Abraxas Petroleum common stock under the existing terms of the exchange and registration rights agreement, resulting in substantial dilution to Abraxas Petroleum's existing stockholders;

Table of Contents

Index to Financial Statements

increase the size of the IPO by reducing the initial cash distribution rate, adding the incentive of warrants and reducing the size of the new second lien facility, although the terms of a smaller second lien facility would likely result in reduced or suspended cash distributions; and

merge Abraxas Energy into Abraxas Petroleum on negotiated terms and with a meaningful lock-up period.

On April 30, 2009, Abraxas Energy and the lenders under its senior credit facility and its subordinated credit facility entered into amendment no. 2 to both facilities, pursuant to which the event of default relating to Abraxas Energy's failure to receive equity issuance proceeds of \$20.0 million on or before April 30, 2009 was extended to May 7, 2009.

On May 1, 2009, Abraxas Energy and the private placement investors entered into amendment no. 2 to the exchange and registration rights agreement amending the date by which the IPO must be consummated from April 30, 2009 to June 30, 2009. In exchange for this amendment, Abraxas Energy agreed to add one additional representative of the private placement investors to the board of directors of the GP, which we refer to as the Abraxas Energy Board, and to engage an investment bank to review all of its alternatives. Management of Abraxas Energy contacted four investment banks and requested that each bank provide its qualifications, fees and availability to complete the alternatives review within a compressed time frame.

On May 4, 2009, Mr. Watson sent a memo to the Abraxas Petroleum board of directors, which we refer to as the Abraxas Petroleum Board, which detailed the obstacles that Abraxas Energy was facing with regard to the IPO and a new second lien facility, and other potential alternatives, including a merger of Abraxas Energy into Abraxas Petroleum on negotiated terms.

On May 7, 2009, Abraxas Energy and the lenders under its credit facility and its subordinated credit facility entered into amendment no. 3 to both facilities, pursuant to which the event of default relating to Abraxas Energy's failure to receive equity issuance proceeds of \$20.0 million on or before May 7, 2009 was extended to June 30, 2009.

On May 8, 2009, the Abraxas Energy Board met and reviewed the information provided by three of the investment banks contacted by management and after a lengthy discussion, the board approved the engagement of Stifel, Nicolaus & Company, Incorporated, or Stifel, to review its alternatives and provide advisory services to Abraxas Energy.

On May 11, 2009, Mr. Watson sent a memo to the Abraxas Petroleum Board advising them that the Abraxas Energy Board engaged Stifel to review its alternatives and provide advisory services to Abraxas Energy, that a preliminary recommendation would be presented to the Abraxas Energy Board on May 20, 2009, and that, after review and discussion by the Abraxas Energy Board, a proposal would be presented to the Abraxas Petroleum Board at its scheduled board meeting on May 21, 2009.

Between May 11, 2009 and May 20, 2009, management of Abraxas Energy provided Stifel with certain requested information, including reserve reports, historical financial data, internal estimates and future projections, to assist Stifel in its review of Abraxas Energy's alternatives.

On May 15, 2009, Abraxas Energy re-filed its registration statement (amendment no. 11) with the SEC, which incorporated a larger IPO with warrant coverage and a smaller second lien facility and included a reduced estimated initial offering price range of \$4.00 to \$6.00 per common unit.

On May 20, 2009, the Abraxas Energy Board met to review Stifel's presentation. Stifel prepared an analysis of Abraxas Energy's alternatives, which Stifel presented to the Abraxas Energy Board. Given the circumstances, Stifel's analysis contained six alternatives:

IPO and refinancing of Abraxas Energy's subordinated credit facility;

private placement investors exchanging all of their Abraxas Energy common units for shares of Abraxas Petroleum common stock pursuant to the exchange and registration rights agreement;

Table of Contents

Index to Financial Statements

private placement investors exchanging a portion of their Abraxas Energy common units for shares of Abraxas Petroleum common stock pursuant to the exchange and registration rights agreement;

raising third party institutional capital (debt, equity and/or mezzanine);

suspending cash distributions to all Abraxas Energy unitholders and use the cash to repay indebtedness under the Abraxas Energy subordinated credit facility; and

merging Abraxas Energy into Abraxas Petroleum on negotiated terms and concurrent negotiation of a new credit facility.

In its presentation, Stifel noted that merging Abraxas Energy into Abraxas Petroleum would provide a long-term solution without further complicating the entities' organizational structure or utilizing Abraxas Energy's free cash flow uneconomically. Stifel further commented that merging Abraxas Energy into Abraxas Petroleum would strengthen discussions with current and prospective lenders. Stifel also presented various accretion / dilution models and pro forma analyses of the merged entity on a cash flow per share, earnings per share and net asset value per share basis. After Stifel's presentation, the Abraxas Energy Board discussed the various alternatives and valuations associated with the potential merger. The Abraxas Energy Board then noted that one of the most important components to a potential merger was the ability to negotiate a new credit facility. Because Messrs. Watson and Cox are directors of Abraxas Petroleum, it was determined that Messrs. Watson and Cox would not vote on any matters pertaining to a potential transaction with Abraxas Petroleum. After concluding its discussions, the Abraxas Energy Board (with Messrs. Watson and Cox abstaining) authorized management to commence discussions with Société Générale, provided the Abraxas Petroleum Board supported pursuit of the merger alternative at its board meeting scheduled for May 21, 2009, while continuing to pursue parallel paths of the merger and the IPO.

On May 21, 2009, the Abraxas Petroleum Board met and discussed the potential transaction and reviewed a memo by Ms. Stuckey which contained a rationale for the merger including change of control, debt and stockholder vote issues. The memo stated that the rationale for the merger was that if the entities were able to merge at an acceptable valuation, Abraxas Petroleum would have over \$30 million per year in free cash flow for capital expenditures and debt reduction. On the other hand, if Abraxas Energy was unable to re-finance its subordinated credit facility, cash distributions would be reduced to zero and Abraxas Petroleum would have minimal free cash flow to fund its capital expenditures.

Between May 21, 2009 and May 27, 2009, management of Abraxas Petroleum and Abraxas Energy had numerous discussions with Société Générale regarding the potential merger. Management of Abraxas Petroleum provided Société Générale with reserve reports as well as internal estimates of future projections of the combined company. Société Générale, in turn, had numerous discussions internally as well as discussions with the existing lenders in the Abraxas Energy credit facility to gauge their level of support for the potential transaction.

On May 27, 2009, Mr. Watson sent a memo to the Abraxas Petroleum Board discussing the various scenarios that Société Générale had modeled with regard to the potential merger.

On May 28, 2009, Ms. Stuckey sent a memo to the Abraxas Petroleum Board discussing the Société Générale scenarios and the impact to the three-year forecast with regard to the potential merger.

On May 29, 2009, the Abraxas Petroleum Board met and discussed the various scenarios that Société Générale had modeled and the result of those scenarios on Abraxas Petroleum's internal three-year forecast. Because Messrs. Watson and Cox are directors of Abraxas Energy and because Mr. Burke beneficially owns 71,428 common units of Abraxas Energy, it was determined that Messrs. Watson, Cox and Burke would not vote on any matters pertaining to a potential transaction with Abraxas Energy. After a lengthy discussion, the Abraxas Petroleum Board (with Messrs. Watson, Cox and Burke abstaining) approved a non-binding proposal to the private placement investors of Abraxas Energy, pursuant to which Abraxas Petroleum would propose to merge.

Table of Contents

Index to Financial Statements

Abraxas Energy into Abraxas Petroleum for consideration of \$6.00 per common unit payable in shares of Abraxas Petroleum common stock, with a minimum of 4.00 shares of Abraxas Petroleum common stock and a maximum of 6.00 shares of Abraxas Petroleum common stock being issued for each Abraxas Energy common unit. The proposal would include a 90-day lock up period followed by a multi-year staggered lock-up. The proposal would be subject to Abraxas Petroleum Board final approval and acceptable terms on a new credit facility.

On May 29, 2009, Ms. Stuckey sent a memo to the Abraxas Petroleum Board providing an update of the commercial banks and institutional funds willingness (or lack thereof) to support the upstream master limited partnership business model in the current economic and commodity price environment. The memo included a discussion of the current state of the upstream MLP sector and that since the third quarter of 2008, several upstream master limited partnerships had significantly reduced or suspended their cash distributions, primarily to remain below certain debt / utilization covenants in their credit facilities.

On June 1, 2009, Abraxas Petroleum sent a non-binding proposal to Edward Russell and Quinn Kiley, as representatives of a majority of the private placement investors of Abraxas Energy, pursuant to which Abraxas Petroleum proposed to merge Abraxas Energy into Abraxas Petroleum for consideration of \$6.00 per common unit payable in shares of Abraxas Petroleum common stock, with a minimum of 4.00 shares of Abraxas Petroleum common stock and a maximum of 6.00 shares of Abraxas Petroleum common stock being issued for each Abraxas Energy common unit. The proposal included a 90-day lock up period followed by a multi-year staggered lock-up. The proposed transaction was subject to Abraxas Petroleum Board approval and acceptable terms on a new credit facility.

On June 1, 2009, Ms. Stuckey sent a memo to the Abraxas Petroleum Board which included a summary of the terms of the non-binding proposal to Edward Russell and Quinn Kiley, as representatives of a majority of the private placement investors of Abraxas Energy, and an update regarding the ongoing discussions with Société Générale.

On June 5, 2009, at management's request Stifel met with the private placement investors and reviewed its analysis of Abraxas Energy's alternatives and its recommendations. The private placement investors discussed the non-binding proposal from Abraxas Petroleum among themselves and with Stifel.

On June 8, 2009, Edward Russell communicated to management of Abraxas Petroleum that a majority of the private placement investors agreed to the non-binding proposal provided Abraxas Petroleum made two concessions: one was an increase to the bottom end of the exchange ratio and the second was representation on the Abraxas Petroleum Board.

On June 9, 2009, the Abraxas Petroleum Board met to discuss the counter-proposal from the private placement investors. Mr. Watson advised the Abraxas Petroleum Board that the private placement investors met the previous week and agreed to the non-binding proposal provided Abraxas Petroleum made the two concessions described above. After much discussion, the Abraxas Petroleum Board (with Messrs. Watson, Cox and Burke abstaining) agreed to increase the bottom end of the exchange ratio from 4.00 to 4.25 and allow the private investors to appoint two members to the Abraxas Petroleum Board while the private placement investors held a significant portion of their investment. During the meeting, the Abraxas Petroleum Board appointed two independent board members to serve on a special committee, which we refer to as the Abraxas Petroleum Special Committee or the Special Committee, to review the proposed transaction, determine whether the proposed transaction is advisable and in the best interest of Abraxas Petroleum and its stockholders, and make a recommendation to the Abraxas Petroleum Board as to what action, if any, should be taken with respect to the proposed transaction. The Abraxas Petroleum Board (with Messrs. Watson, Cox and Burke abstaining) voted in favor of a motion to proceed with a letter of intent with the private placement investors outlining the business terms of the proposed merger.

On June 9, 2009, the Abraxas Energy Board met to discuss the counter-proposal from the private placement investors and the reaction of the Abraxas Petroleum Board. Mr. Watson advised the Abraxas Energy Board that

Table of Contents

Index to Financial Statements

the private placement investors had met the previous week and agreed to the non-binding proposal provided Abraxas Petroleum made two concessions: one was an increase to the bottom end of the exchange range and the second was representation on the Abraxas Petroleum Board. At an earlier board meeting on that date, the Abraxas Petroleum Board agreed to increase the bottom end of the exchange range from 4.00 to 4.25 and allow the private investors to appoint two board members to the Abraxas Petroleum Board while the private placement investors held a significant portion of their investment. The Abraxas Energy Board approved the private placement investors request to engage Vinson & Elkins LLP as legal advisors for the private placement investors at the expense of Abraxas Energy. The Abraxas Energy Board (with Messrs. Watson and Cox abstaining) voted in favor of a motion to proceed with a letter of intent with Abraxas Petroleum outlining the business terms of the proposed merger.

On June 11, 2009, the Abraxas Petroleum Special Committee met and discussed the background of the proposed transaction as presented by Ms. Stuckey and discussed the legal framework of the proposed transaction as presented by Jackson Walker L.L.P., legal counsel to Abraxas Petroleum. The Special Committee also agreed to engage Cox Smith Matthews Incorporated as its legal counsel, after which the Special Committee reviewed and discussed its fiduciary duties as presented by representatives of Cox Smith Matthews. During the meeting, Ms. Stuckey agreed to contact three investment banks with regard to a fairness opinion, to obtain their qualifications, fees and availability and to provide management's recommendation prior to the next Special Committee meeting.

On June 15, 2009, Ms. Stuckey assembled a binder of committee materials, including all pertinent memos relating to Abraxas Energy and the proposed transaction, including the background thereof, and recent independent equity research on upstream MLPs, for the Abraxas Petroleum Special Committee, and the materials were distributed to the committee members by their counsel.

On June 16, 2009, Ms. Stuckey sent a memo to the Abraxas Petroleum Special Committee with management's recommendation to engage Stephens Inc., which we refer to as Stephens, to prepare the fairness opinion for Abraxas Petroleum.

On June 17, 2009, the Abraxas Petroleum Special Committee met and discussed management's recommendation to engage Stephens to prepare the fairness opinion for the Special Committee. Representatives from Stephens joined the meeting and discussed their qualifications and detailed the depth of analysis a standard fairness opinion entails, including their internal process and procedures, and answered questions from the committee members and their counsel. After much discussion, the Special Committee unanimously approved the engagement of Stephens. During the meeting, the Special Committee also received an update as to the status of the letter of intent and the status of the negotiations with the lenders from Ms. Stuckey.

Between June 17, 2009 and June 29, 2009, management of Abraxas Energy provided Stephens with certain requested information, including reserve reports, historical financial data, internal estimates and future projections, to assist Stephens in its review of the exchange ratio to be paid by Abraxas Petroleum in the Merger.

On June 18, 2009, after a week of negotiations between the parties, Abraxas Petroleum and Abraxas Energy entered into a letter of intent with private placement investors owning 96% of the outstanding Abraxas Energy common units, other than Investments, pursuant to which Abraxas Energy would merge with and into Abraxas Petroleum for consideration of \$6.00 per common unit payable in shares of Abraxas Petroleum common stock, with a minimum of 4.25 shares of Abraxas Petroleum common stock and a maximum of 6.00 shares of Abraxas Petroleum common stock per common unit. The exchange ratio equates to \$1.00 to \$1.41 per share of Abraxas Petroleum common stock. The letter of intent also included terms relating to the lock-up period, registration rights and the conditions precedent to the merger and a stand-still by the limited partners of their rights under the exchange and registration rights agreement and a stand-still by Abraxas Energy on the IPO process.

On June 18, 2009, Abraxas Petroleum and Abraxas Energy issued a joint press release announcing the letter of intent.

Table of Contents

Index to Financial Statements

Between June 18, 2009 and June 30, 2009, representatives of Abraxas Petroleum and Abraxas Energy negotiated the terms of the Merger Agreement and the Voting, Registration Rights & Lock-Up Agreement with representatives of the private placement investors.

On June 24, 2009, the Abraxas Petroleum Special Committee met and Mr. Watson joined the meeting to discuss the background and management's view of the proposed transaction. Mr. Watson discussed the various alternatives that Abraxas Energy had explored and concluded that the proposed merger of Abraxas Energy with and into Abraxas Petroleum was the best alternative for all stakeholders. Mr. Watson reported that negotiations with the private placement investors had been amicable. Ms. Stuckey joined the meeting and reviewed an updated accretion/dilution matrix for the Special Committee and answered questions from the committee members and their counsel. Representatives from Stephens then joined the meeting and discussed the status of their review and indicated that they had not identified any material issues that would hinder their ability to render their fairness opinion and that they were working on the form of written fairness opinion and expected to have their internal reviews and approvals completed by June 26, 2009.

On June 26, 2009, the Abraxas Petroleum Special Committee met and representatives of Jackson Walker joined the meeting to review and discuss in detail the material terms of the current draft versions of the Merger Agreement and the Voting Agreement contemplated to be entered into by Abraxas Petroleum in connection with the proposed transaction. The Jackson Walker representatives pointed out and discussed the items still being negotiated and reviewed the potential implications for Abraxas Petroleum if it were not to consummate the proposed transaction. The Special Committee engaged in extensive and detailed review and discussion of various background materials, reports and other matters, including those set forth in the committee materials. The Special Committee also reviewed and discussed the draft form of the written fairness opinion that had been provided by Stephens.

On June 29, 2009, the Abraxas Petroleum Special Committee met. The Special Committee received a presentation from Stephens and Stephen's oral opinion, the written form of which dated June 29, 2009 had been delivered to the Special Committee, that as of June 29, 2009, based upon and subject to the various assumptions, methodologies, limitations and considerations described in such opinion, the exchange ratio is fair, from a financial point of view, to Abraxas Petroleum. During the presentation, Stephens provided a detailed overview of the analyses it performed in determining whether or not the exchange ratio was fair from a financial point of view to Abraxas Petroleum. For more details of Stephens opinion, please see Proposal 1 Approval of Merger and Stock Issuance Opinion of Stephens Inc. to the Abraxas Petroleum Special Committee. Following the Stephens presentation, and after receiving an update from Ms. Stuckey and a representative from Jackson Walker, the Special Committee undertook a review of the materials and information it had previously received and considered. The Special Committee then determined, by unanimous note, that it was advisable and in the best interest of Abraxas Petroleum to enter into the Merger Agreement and the Voting Agreement and to effect the Merger and the other transactions contemplated by the Merger Agreement and the Voting Agreement. The Special Committee also determined, by unanimous vote, to recommend to the Abraxas Petroleum Board that the Merger, the Merger Agreement and the Voting Agreement be approved and adopted and that the Abraxas Petroleum Board recommend to the Abraxas Petroleum stockholders that they approve the issuance of the Abraxas Petroleum Common Stock pursuant to the Merger Agreement.

On June 29, 2009, the Audit and Conflicts Committee of the Abraxas Energy Board met. The committee received a presentation from Stifel and Stifel's oral opinion, the written form of which dated June 29, 2009 has been delivered to the committee, that as of June 29, 2009, the exchange ratio is fair, from a financial point of view, to the holders of Abraxas Energy's common units. During the presentation, Stifel provided a detailed overview of the analyses it performed in determining whether or not the exchange ratio was fair from a financial point of view. The committee also considered the fact that, if the Merger were completed, Abraxas Energy unitholders (other than Investments) would receive shares of Abraxas Petroleum common stock and thus participate in the future growth of the combined company.

Table of Contents

Index to Financial Statements

On June 29, 2009, the Abraxas Petroleum Board met and the Abraxas Petroleum Special Committee delivered its recommendation to the Abraxas Petroleum Board to approve the Merger Agreement and the transactions contemplated thereby, including the Merger and the issuance of Abraxas Petroleum common stock. The Abraxas Petroleum Board determined that the Merger Agreement and the transactions contemplated thereby, including the Merger and the issuance of Abraxas Petroleum common stock, and an amendment to the LTIP, are advisable and in the best interest of Abraxas Petroleum and its stockholders, and adopted and approved the Merger Agreement, the Voting Agreement and the transactions contemplated thereby. Messrs. Watson, Cox and Burke recused themselves from the adoption and approval of the Merger Agreement, the Voting Agreement and the transactions contemplated thereby.

On June 29, 2009, the Abraxas Energy Board met and the Audit and Conflicts Committee of the Abraxas Energy Board delivered its recommendation to the Abraxas Energy Board to approve the Merger Agreement and the transactions contemplated thereby. The Abraxas Energy Board determined that the Merger Agreement and the transactions contemplated thereby are advisable and in the best interest of Abraxas Energy and its unitholders, and adopted and approved the Merger Agreement, the Voting Agreement and the transactions contemplated thereby. Messrs. Watson and Cox recused themselves from the adoption and approval of the Merger Agreement, the Voting Agreement and the transactions contemplated thereby.

On June 30, 2009, Abraxas Petroleum and Abraxas Energy executed the Merger Agreement and Abraxas Energy, Abraxas Petroleum and private placement investors owning 96% of the common units of Abraxas Energy, other than Investments, executed the Voting, Registration Rights and Lock-Up Agreement.

On June 30, 2009, Investments consented to the Merger Agreement and the Merger.

On June 30, 2009, Abraxas Energy and the lenders under its credit facility and its subordinated credit facility entered into amendment no. 4 to both facilities, pursuant to which the maturity date of the subordinated credit facility was amended from July 1, 2009 to August 14, 2009.

On June 30, 2009, Abraxas Petroleum and Abraxas Energy issued a joint press release announcing the execution of the Merger Agreement, the Voting Agreement and the amendment to the loan agreements.

Abraxas Petroleum's Reasons for the Merger; Recommendation of the Abraxas Petroleum Special Committee and the Abraxas Petroleum Board

At a meeting held on June 29, 2009, the Abraxas Petroleum Board, by a unanimous vote (with Messrs. Watson, Cox and Burke abstaining), determined that the Merger Agreement and the transactions contemplated thereby, including the Merger and the issuance of Abraxas Petroleum common stock, and the amendment to the LTIP, are advisable and in the best interest of Abraxas Petroleum and its stockholders, and adopted and approved the Merger Agreement, the Voting Agreement and the transactions contemplated thereby. The Abraxas Petroleum Board recommends that Abraxas Petroleum stockholders vote FOR the Merger and the proposal to issue shares of Abraxas Petroleum common stock in the Merger and FOR the proposal to amend the LTIP. It is a condition to the Merger that the proposal for the Merger and the stock issuance and the proposal to amend the LTIP be approved by Abraxas Petroleum stockholders.

In the course of reaching its recommendation, the Abraxas Petroleum Board consulted with Abraxas Petroleum's senior management and its financial advisors and outside legal counsel and considered a number of substantive factors, both positive and negative, and potential benefits and detriments of the Merger to Abraxas Petroleum and its stockholders.

Expected Benefits of the Merger

In determining that the Merger Agreement and the transactions contemplated thereby, including the Merger and the issuance of Abraxas Petroleum common stock, and the amendment to the LTIP, are advisable and in the

Table of Contents

Index to Financial Statements

best interest of Abraxas Petroleum and its stockholders, and in reaching its decision to approve the Merger Agreement and the transactions contemplated thereby, including the stock issuance and amendment to the LTIP, the Abraxas Petroleum Board considered a variety of factors that it believed weighted favorably for the Merger, including the following material factors (which are not listed in any relative order of importance):

Acceleration of Drilling Activity. The Abraxas Petroleum Board believes that the Merger will improve the combined company's ability to accelerate its capital expenditure program which should result in significant growth in its core properties with the cash flow of the combined company being reinvested as capital expenditures and accelerating the combined company's drilling activity as a result of ceasing distributions.

Reduction in Debt. The Abraxas Petroleum Board believes that the Merger will improve the combined company's ability to reduce its consolidated debt because, by ceasing distributions, the cash flow of the combined company can be used to repay debt, which the Abraxas Petroleum Board believes is important in light of Abraxas Energy's uncertainties regarding credit availability (including its subordinated credit facility which matures on August 14, 2009) and the amount of cash being generated by Abraxas Energy.

Stronger Balance Sheet. The Abraxas Petroleum Board believes that the combined company resulting from the Merger will have a stronger balance sheet, along with a lower cost of capital. In addition, the retention and investment of future cash flows will reduce the need to raise capital from outside sources under unfavorable market conditions similar to those that currently exist.

Simplified Organizational Structure. The Abraxas Petroleum Board believes that the Merger will simplify the organizational structure of Abraxas Petroleum and Abraxas Energy, resulting in a single, publicly traded company with a more transparent organizational structure, a single board of directors and a single class of equity, as compared to the current organizational structure with one publicly traded company and one privately-owned limited partnership, which was in the process of going public, with two boards of directors. In addition, the simplified organizational structure will spread the ongoing costs of being a public company over a larger body of equityholders in the combined company.

Synergies. The Abraxas Petroleum Board believes that the Merger will allow Abraxas Petroleum and Abraxas Energy to achieve synergies in the form of cost savings and other efficiencies, including reduced SEC filing requirements, reduced audit and tax return costs, and a reduction in the total number of board members and other cost savings.

Greater Liquidity. The Abraxas Petroleum Board believes that the Merger will improve the liquidity of the combined company, and that its equity float will be significantly larger than each entity on a stand-alone basis.

Improved Access to Capital Markets. The Abraxas Petroleum Board believes that the combined company will have a larger public float. In addition, the Abraxas Petroleum Board believes that the Merger will enhance investor interest in the combined company and its equity securities because, among other things, the combined company will be a corporation instead of a master limited partnership. The Abraxas Petroleum Board believes that a publicly traded corporation, rather than a master limited partnership, is the appropriate vehicle for a growth-oriented, exploration and production company with organic growth opportunities to which the combined company has access because many institutional investors have limitations or restrictions on investing in master limited partnerships because of tax and other reasons.

Feasibility. The Abraxas Petroleum Board believes that the Merger has the greatest likelihood of success of achieving the short-term and long-term goals outlined above, as compared to other possible alternatives, including raising additional cash in either the public

equity or debt capital markets, which alternatives are dependent on conditions in the capital markets and third parties, and which the Abraxas Petroleum Board believes would not be as favorable to as the Merger.

Table of Contents

Index to Financial Statements

Other Material Factors Considered

During the course of its deliberations relating to the Merger and the Merger Agreement, the Abraxas Petroleum Board considered the following factors in addition to the expected benefits described above:

The opinion of Stephens, dated June 29, 2009, to the Abraxas Petroleum Special Committee to the effect that, as of that date, based upon and subject to the various assumptions, methodologies, limitations and considerations described in such opinion, the exchange ratio of between 4.25 to 6.00 shares of Abraxas Petroleum common stock for each common unit of Abraxas Energy was fair, from a financial point of view, to Abraxas Petroleum. The Stephens' opinion, together with the material analyses performed by Stephens and reviewed with the Abraxas Petroleum Special Committee in connection with Stephens' opinion and certain other information regarding Stephens' engagement, are further described under Proposal 1 Approval of Merger and Stock Issuance Opinion of Stephens Inc. to the Abraxas Petroleum Special Committee.

The fact that the Exchange Ratio of 4.25 to 6.00 is fixed and will not further fluctuate based upon changes in the market price of Abraxas Petroleum common stock between the date of the Merger Agreement and the date of the consummation of the Merger.

The terms and conditions of the Merger Agreement, including the commitments by both Abraxas Petroleum and Abraxas Energy to complete the Merger, and the likelihood of completing the Merger in a timely manner.

The fact that the Merger would not trigger a change of control which could limit Abraxas Petroleum's ability to use its net loss carry-forwards, or NOLs.

The fact that the Merger Agreement provides that the Abraxas Petroleum Board may withdraw, modify or qualify its recommendation to the Abraxas Petroleum stockholders if the Abraxas Petroleum Board concludes in good faith that the failure to make a change in recommendation would be inconsistent with its fiduciary duties under applicable law.

The Abraxas Petroleum Board weighed these advantages and opportunities against a number of other factors identified in the deliberations weighing negatively against the Merger, including:

The dilution associated with the shares of Abraxas Petroleum common stock that Abraxas Petroleum will issue to Abraxas Energy unitholders in the Merger, if approved.

The fact that the exchange ratio is fixed and Abraxas Petroleum stockholders could be adversely affected by volatility in its trading price.

The assumption of Abraxas Energy's outstanding debt and the potential effects of the Merger on Abraxas Petroleum's balance sheet.

Certain terms of the Merger Agreement, including restrictions on the conduct of Abraxas Petroleum's business prior to the consummation of the Merger which require Abraxas Petroleum to conduct its business in the ordinary course consistent with past practice which may delay or prevent Abraxas Petroleum from undertaking business opportunities that may arise pending consummation of the Merger.

The possible disruption to Abraxas Petroleum's business that may result from the Merger and the resulting distraction of the attention of Abraxas Petroleum's management, as well as the costs and expenses associated with completing the Merger.

The possibility that the Merger might not be consummated despite the parties' efforts or that the closing of the Merger may be unduly delayed.

The risks of the type and nature described under Risk Factors, and the matters described under Forward-Looking Statements.

Table of Contents

Index to Financial Statements

After consideration of these material factors, the Abraxas Petroleum Board determined that these risks could be mitigated or managed by Abraxas Petroleum or Abraxas Energy, or following the Merger, by the combined company, were reasonably acceptable under the circumstances, or, in light of the anticipated benefits, overall, were significantly outweighed by the potential benefits of the Merger.

The foregoing discussion of the information and factors considered by the Abraxas Petroleum Board includes the material factors considered by the Abraxas Petroleum Board, but it is not intended to be exhaustive and may not include all of the factors considered by the Abraxas Petroleum Board. In view of the wide variety of factors considered in connection with its evaluation of the Merger and the complexity of these matters, the Abraxas Petroleum Board did not attempt to quantify or assign any relative or specific weights to the various factors that it considered in reaching its determination to approve the Merger and the Merger Agreement and to make its recommendations to Abraxas Petroleum stockholders. In addition, individual members of the Abraxas Petroleum Board may have given differing weights to different factors. The Abraxas Petroleum Board conducted an overall review of the factors described above, including thorough discussions with Abraxas Petroleum's management and outside legal and financial advisors.

The Abraxas Petroleum Board unanimously determined that the Merger Agreement and the transactions contemplated thereby, including the Merger and the issuance of Abraxas Petroleum common stock, and the amendment to the LTIP, are advisable and in the best interests of Abraxas Petroleum and unanimously approved the Merger Agreement, the Voting Agreement and the transactions contemplated by the Merger Agreement and the Voting Agreement. The Abraxas Petroleum Board unanimously recommends that Abraxas Petroleum stockholders vote FOR the Merger and the issuance of Abraxas Petroleum common stock in the Merger, and the amendment to the LTIP.

Opinion of Stephens Inc. to the Abraxas Petroleum Special Committee

Pursuant to an engagement letter dated June 17, 2009, the Abraxas Petroleum Special Committee retained Stephens to render a fairness opinion in connection with the proposed Merger.

At the meeting of the Special Committee on June 29, 2009, Stephens rendered its oral opinion, subsequently confirmed in writing, to the Special Committee that, as of the date of the opinion, and based upon and subject to the various assumptions, methodologies, limitations and considerations described in such opinion, the exchange ratio in the proposed Merger (the Exchange Ratio) is fair to Abraxas from a financial point of view. No limitations were imposed by the Special Committee upon Stephens with respect to the investigations made or procedures followed in rendering its opinion. The issuance of Stephens' opinion was approved by a fairness opinion committee of Stephens on June 26, 2009.

The full text of the written opinion of Stephens which sets forth the assumptions made, matters considered and any limits on the review undertaken, is attached as Annex C to this proxy statement. Abraxas Petroleum's stockholders are urged to read the opinion in its entirety. Stephens' written opinion is addressed to the Special Committee and is directed only to the Exchange Ratio in the Merger and does not constitute a recommendation to any Abraxas Petroleum stockholder as to how such stockholder should vote at the Special Meeting. The summary of the opinion of Stephens set forth in this proxy statement is qualified in its entirety by reference to the full text of such opinion.

In connection with developing its opinion Stephens:

- (i) reviewed certain publicly available financial statements and reports regarding Abraxas Petroleum and Abraxas Energy;
- (ii) reviewed certain estimates of Abraxas Petroleum's and Abraxas Energy's oil and gas reserves, including estimates of proved and non-proved reserves prepared (a) by an independent engineering firm as of January 1, 2009 and (b) by their respective managements as of May 31, 2009;

Table of Contents

Index to Financial Statements

- (iii) reviewed certain internal financial statements and other financial and operating data (including financial projections) concerning Abraxas Petroleum and Abraxas Energy prepared by their respective managements;
- (iv) reviewed the relative contributions of Abraxas Petroleum and Abraxas Energy to the combined company on a pro forma basis, based on recent performance, financial data and projections prepared by their respective managements;
- (v) reviewed certain potential effects, as projected by management of Abraxas Petroleum, of the transaction on Abraxas Petroleum's earnings and cash flow both in the aggregate and, where applicable, on a per share basis;
- (vi) reviewed certain cost savings, operating synergies and other strategic benefits expected by the management of Abraxas Petroleum to result from the proposed Merger;
- (vii) compared the financial performance of Abraxas Petroleum and Abraxas Energy, and the trading history of Abraxas Petroleum, with that of certain other publicly-traded companies that Stephens deemed relevant and (in the case of Abraxas Energy) certain publicly-traded master limited partnerships that Stephens deemed relevant;
- (viii) reviewed the financial terms, to the extent publicly available, of certain other transactions that Stephens deemed relevant;
- (ix) reviewed the most recent drafts of the Merger Agreement and related documents that were provided to Stephens;
- (x) discussed with management of Abraxas Petroleum and Abraxas Energy the operations of, and future business prospects for, Abraxas Petroleum and Abraxas Energy; and
- (xi) performed such other reviews and analyses and provided such other services as Stephens deemed appropriate.

Stephens relied on the accuracy and completeness of the information and financial and oil and gas data provided to it by Abraxas Petroleum and Abraxas Energy and of the other information reviewed by Stephens in connection with the preparation of the opinion, and the opinion is based upon such information. The managements of Abraxas Petroleum and Abraxas Energy have assured Stephens that they are not aware of any relevant information that has been omitted or remains undisclosed to Stephens. Stephens has not assumed any responsibility for independent verification of the accuracy and completeness of any such information or financial data. Stephens has not assumed any responsibility for making or undertaking an independent evaluation or appraisal of any of the assets or liabilities of Abraxas Petroleum or Abraxas Energy, nor has Stephens evaluated the solvency or fair value of Abraxas Petroleum or Abraxas Energy under any laws relating to bankruptcy, insolvency or similar matters, and Stephens has not been furnished with any such evaluations or appraisals. Stephens has not assumed any obligation to conduct any physical inspection of the properties or facilities of Abraxas Petroleum or Abraxas Energy. With respect to the financial forecasts prepared by the managements of Abraxas Petroleum and Abraxas Energy, including the forecasts of potential synergies, Stephens has assumed that such financial forecasts have been reasonably prepared and reflect the best currently available estimates and judgments of the managements of Abraxas Petroleum and Abraxas Energy as to the future financial performance of Abraxas Petroleum and Abraxas Energy and that the financial results reflected by such projections will be realized as predicted. With respect to the estimates of oil and gas reserves referred to above, Stephens has assumed that they have been reasonably prepared on bases reflecting the best available estimates and judgments of Abraxas Petroleum's and Abraxas Energy's independent engineering firm and their respective managements and staff, as applicable. Stephens is not an expert in the evaluation of oil and gas reserves and Stephens expresses no view as to the reserve quantities, or the potential development or production (including, without limitation, as to the feasibility or timing thereof) of any oil and gas properties of Abraxas Petroleum or Abraxas Energy. Stephens has relied, without independent verification, upon the assessments of Abraxas Petroleum's and Abraxas Energy's independent engineering firm and their respective managements and staff as to market trends and prospects relating to the oil and gas industry and the potential effects of such trends and prospects on Abraxas Petroleum and Abraxas Energy, including the assumptions as to

Table of Contents**Index to Financial Statements**

commodity prices reflected in the financial forecasts and estimates referred to above, which prices are subject to significant volatility and which, if different from such assumptions, could have a material impact on Stephens' opinion. Stephens has also assumed that the representations and warranties contained in the Merger Agreement and all related documents are true, correct and complete in all material respects.

The Exchange Ratio was determined through negotiations between the Abraxas Petroleum Board and the Abraxas Energy Board and the decision to enter into the Merger Agreement was solely that of the Abraxas Petroleum Board.

In reaching its opinion, Stephens applied and considered the results of valuation methods that Stephens believes are customarily used in investment banking practice for developing fairness opinions. The following is a summary of the material financial analyses utilized by Stephens in connection with providing its opinion and does not claim to be a complete description of the analysis underlying Stephens' opinion.

Abraxas Petroleum Valuation

In determining a range of estimated enterprise and equity values for Abraxas Petroleum, Stephens conducted each of the following analyses with respect to Abraxas Petroleum initially on a non-consolidated basis (i.e. without reference to its 47.7% aggregate general partner and limited partner interest in Abraxas Energy) and then added to the resulting values 47.7% of the corresponding values determined for Abraxas Energy utilizing the same valuation methodology.

Publicly Traded Comparable Companies

Using publicly available information, Stephens determined the following companies were relevant to an evaluation of Abraxas Petroleum based on Stephens' view of the comparability of the operating and financial characteristics of these companies:

Brigham Exploration Company, Double Eagle Petroleum Co., GeoResources, Inc., Gulfport Energy Corporation, Parallel Petroleum Corporation and PetroQuest Energy, Inc.

The implied values for Abraxas Petroleum were based on a multiple range for the following three metrics determined by reference to the corresponding multiple ranges for the selected comparable companies. The following table sets forth the mean and median multiples for the selected comparable companies.

	Proved Reserves (Mcf)	Enterprise Value / Daily Production (Mcf/d)	SEC PV-10 (\$MM)
Mean	\$ 2.47	\$ 8,375.2	1.6x
Median	\$ 2.11	\$ 8,107.3	1.5x

The proved reserves and daily production values for each of the selected comparable companies were based on SEC filings adjusted for public data surrounding acquisitions and divestitures made after their respective annual reports were submitted. SEC PV-10 refers to the Standardized Measure of Discounted Future Net Cash Flows relating to proved oil and gas reserves reported as of December 31, 2008 discounted at 10% after income taxes are deducted. In the following analyses, (i) implied equity value is calculated as implied enterprise value less net debt and (ii) implied share price is calculated as implied enterprise value less net debt, plus option proceeds, divided by total shares and options outstanding. The multiples selected to apply to Abraxas Petroleum metrics were not entirely mathematical in nature, but required careful consideration to adjust for differences in the operating characteristics of the companies as well as other market factors which could affect the market value of selected companies.

Abraxas Petroleum Metrics	Value	Multiple Range	Implied Enterprise Value	Implied Equity Value	Implied Share Price
Proved Reserves (Bcfe)	43.4	\$ 1.90 - 2.20	\$ 113.58 - 147.13	\$ 94.73 - 128.29	\$ 1.90 - 2.58
Daily Prod. (MMcfe/d)	5.2	\$ 6,000 - 8,000	\$ 62.10 - 92.98	\$ 43.26 - 74.13	\$ 0.87 - 1.49
SEC PV-10 (\$MM)	\$ 33.4	1.3x - 1.7	\$ 74.52 - 108.41	\$ 55.67 - 89.57	\$ 1.12 - 1.80

Table of Contents**Index to Financial Statements***Comparable Transactions*

Using publicly available information for 233 asset and corporate transactions announced between January 2006 and June 2009 involving oil and gas related assets in the Rocky Mountain, Gulf Coast, Mid-Continent and Permian Basin regions of the United States, Stephens reviewed the purchase price multiples paid for proved reserves and daily production in each transaction and Stephens selected appropriate benchmark multiples for the valuation of Abraxas Petroleum.

Based on public and other available market information, the following table sets forth the summary multiples for transactions referred to above. This analysis utilized the relevant transaction multiples of proved reserves and daily production and applied them to the corresponding metrics of Abraxas Petroleum to determine an implied enterprise value for Abraxas Petroleum.

The transaction multiples selected to apply to Abraxas Petroleum metrics were not entirely mathematical in nature, but required careful consideration to adjust for differences in the prevailing commodity price environments and acquisition and divestiture markets. Accordingly, greater weight was given to transactions in comparable market conditions and the multiples applied were toward the lower end of the range.

	Enterprise Value /	
	Proved Reserves (Mcf)	Daily Production (Mcf/d)
Gulf Coast Region:		
High	\$ 5.73	\$ 22,400
Mean	\$ 2.30	\$ 12,141
Median	\$ 2.28	\$ 11,000
Low	\$ 0.57	\$ 3,871
Applied Multiples	\$ 1.75 - 2.25	\$ 9,500 - 11,500
Mid-Continent Region:		
High	\$ 7.33	\$ 91,667
Mean	\$ 2.31	\$ 15,762
Median	\$ 2.21	\$ 14,570
Low	\$ 0.48	\$ 2,910
Applied Multiples	\$ 1.65 - 2.00	\$ 12,000 - 14,000
Permian Basin Region:		
High	\$ 3.66	\$ 19,786
Mean	\$ 2.22	\$ 13,727
Median	\$ 2.31	\$ 13,739
Low	\$ 0.92	\$ 8,568
Applied Multiples	\$ 1.85 - 2.15	\$ 13,000 - 15,000
Rocky Mountain Region:		
High	\$ 5.73	\$ 47,917
Mean	\$ 2.37	\$ 15,945
Median	\$ 2.17	\$ 14,297
Low	\$ 0.52	\$ 2,512
Applied Multiples	\$ 2.10 - 2.30	\$ 12,000 - 14,000
Implied Enterprise Value	\$ 145.24 - 179.29	\$ 121.44 - 151.98
Implied Equity Value	\$ 126.40 - 160.44	\$ 102.60 - 133.14
Implied Share Price	\$ 2.54 - 3.22	\$ 2.06 - 2.67

Discounted Cash Flow Analysis

Stephens conducted a discounted cash flow analysis for proved and non-proved reserves based on various price scenarios in which the principal variables were oil and gas prices with appropriate basis differentials. The

Table of Contents**Index to Financial Statements**

price scenarios that were utilized included: (i) a NYMEX strip pricing scenario which utilized the average oil and gas futures contract prices quoted on NYMEX as of June 25, 2009, (ii) a NYMEX five-year average scenario which utilized the five-year average of oil and gas prices quoted on NYMEX as of June 25, 2009, and (iii) an alternative price case which utilized pricing for oil and gas from 2009-2014 of \$50.00/\$4.50, \$55.00/\$5.00, \$60.00/\$5.50, \$65.00/\$6.00, \$70.00/\$6.50 and \$75.00/\$7.00 and escalated at 2.00% thereafter. Transportation and basis differential estimates provided by management were applied to the above pricing scenarios to establish a realized wellhead price. A discount rate range of 8.0% to 50.0% was applied to estimated cash flows from proved and non-proved reserves.

	Pricing Scenario		
	5 Yr NYMEX Strip Average	5 Yr Historical Average	Alternate Price Case
Implied Enterprise Value	\$ 77.0 - 95.7	\$ 65.8 - 90.3	\$ 56.1 - 77.6
Implied Equity Value	\$ 58.1 - 76.9	\$ 46.9 - 71.5	\$ 37.2 - 58.7
Implied Share Price	\$ 1.17 - 1.54	\$ 0.94 - 1.44	\$ 0.75 - 1.18

Accretion/Dilution Analysis

Stephens also examined the estimated accretive/dilutive effects of the Merger on GAAP earnings and cash flow per share of Abraxas Petroleum common stock. Based on the Exchange Ratio of 4.25 : 6.00 shares of Abraxas Petroleum common stock per Abraxas Energy common unit, the transaction was shown to be accretive for fiscal years 2009 through 2011 as summarized below:

Exchange Ratio	4.25x	6.00x
2009E		
GAAP EPS Accretion/Dilution	31.2%	15.0%
CFPS Accretion/Dilution	63.7%	43.5%
2010E		
GAAP EPS Accretion/Dilution	59.1%	39.5%
CFPS Accretion/Dilution	46.5%	28.4%
2011E		
GAAP EPS Accretion/Dilution	37.5%	20.5%
CFPS Accretion/Dilution	37.1%	20.2%

Stephens also examined the accretive/dilutive effects of the Merger on the net asset value per share of Abraxas Petroleum common stock. The low case referenced below is defined as the average of the lower bound of each equity reference value range determined by the valuation methodologies referred to above, and the high case is defined as the average of the upper bound of each equity reference value range determined by the valuation methodologies referred to above. Based on the Exchange Ratio of 4.25 : 6.00 shares of Abraxas Petroleum common stock per Abraxas Energy common unit, the transaction was shown to be accretive on a net asset value basis as summarized below:

Exchange Ratio	4.25x	6.00x
Net Asset Value Accretion/Dilution (Low Case)	30.7%	14.4%
Net Asset Value Accretion/Dilution (High Case)	36.5%	19.5%

Abraxas Petroleum Valuation Reference Ranges

Based on the foregoing analyses, Stephens determined the following reference valuation ranges for Abraxas Petroleum: (i) an enterprise value reference range of \$85.0 to \$110.0 million (including \$30.0 to \$45.0 million attributable to Abraxas Petroleum's interest in Abraxas Energy) and (ii) an equity value reference range of \$65.0

Table of Contents

Index to Financial Statements

to \$90.0 million (\$1.30 to \$1.80 per share) (including \$30.0 to \$45.0 million (\$0.60 to \$0.90 per share) attributable to Abraxas Petroleum's interest in Abraxas Energy).

Abraxas Energy Valuation

Publicly Traded Comparable Companies

Using publicly available information, Stephens determined the following companies were relevant to an evaluation of Abraxas Energy based on Stephens' view of the comparability of the operating and financial characteristics of these companies:

Brigham Exploration Company, Double Eagle Petroleum Co., GeoResources, Inc., Gulfport Energy Corporation, Parallel Petroleum Corporation and PetroQuest Energy, Inc.

The implied values for Abraxas Energy were based on a multiple range for the following three metrics determined by reference to the corresponding multiple ranges for the selected comparable companies. The following table sets forth the mean and median multiples for the selected comparable companies.

	Proved Reserves (Mcf)	Enterprise Value / Daily Production (Mcf/d)	SEC PV-10 (\$MM)
Mean	\$ 2.47	\$ 8,375.2	1.6x
Median	\$ 2.11	\$ 8,107.3	1.5x

The proved reserves and daily production values for each of the selected comparable companies were based on SEC filings adjusted for public data surrounding acquisitions and divestitures made after their respective annual reports were submitted. The multiples chosen to apply to Abraxas Energy metrics were not entirely mathematical in nature, but required careful consideration to adjust for the differences in the operating characteristic of the companies as well as other market factors which could affect the market value of selected companies.

Abraxas Energy Metrics	Value	Multiple Range	Implied Enterprise Value	Implied Equity Value	Implied Unit Price
Proved Reserves (Bcfe)	120.7	\$ 1.90 - 2.20	\$ 255.39 - 291.76	\$ 98.59 - 134.97	\$ 8.43 - 11.55
Daily Prod. (MMcfe/d)	22.5	\$ 6,000 - 8,000	\$ 160.82 - 205.91	\$ 4.03 - 49.11	\$ 0.34 - 4.20
SEC PV-10 (\$MM)	\$ 118.6	1.3x - 1.7	\$ 180.22 - 227.81	\$ 23.42 - 71.02	\$ 2.00 - 6.08

Publicly Traded Comparable MLPs

Using publicly available information, Stephens determined the following master limited partnerships were relevant to an evaluation of Abraxas Energy based on Stephens' view of the comparability of the operating and financial characteristics of these entities:

Breitburn Energy Partners, L.P., Constellation Energy Partners, LLC, Encore Energy Partners, LP, Legacy Reserves, LP, Linn Energy, LLC, Pioneer Southwest Energy Partners, L.P. and Vanguard Natural Resources, LLC.

The implied values for Abraxas Energy were based on a multiple range for the following three metrics determined by reference to the corresponding multiple ranges for the selected comparable entities. The following table sets forth the mean and median multiples for the selected comparable entities.

Proved Reserves (Mcf)	Enterprise Value / Daily Production (Mcf/d)	SEC PV-10 (\$MM)
--------------------------	---	---------------------

Edgar Filing: ABRAXAS PETROLEUM CORP - Form PREM14A

Mean	\$ 2.85	\$	13,812.1	2.2x
Median	\$ 2.53	\$	15,294.6	1.9x

Table of Contents**Index to Financial Statements**

The proved reserves and daily production values for each of the selected comparable entities were based on SEC filings adjusted for public data surrounding acquisitions and divestitures made after their respective annual reports were submitted. The multiples chosen to apply to Abraxas Energy metrics were not entirely mathematical in nature, but required careful consideration in adjusting for the differences in the operating characteristics of the entities as well as other market factors which could affect the market value of selected entities.

Abraxas Energy Metrics	Value	Multiple Range	Implied Enterprise Value	Implied Equity Value	Implied Unit Price
Proved Reserves (Bcfe)	120.7	\$ 1.90 - 2.30	\$ 255.39 - 303.83	\$ 98.59 - 147.04	\$ 8.43 - 12.58
Daily Prod. (MMcfe/d)	22.5	\$ 11,000 - 13,000	\$ 273.11 - 318.20	\$ 116.32 - 161.41	\$ 9.95 - 13.81
SEC PV-10 (\$MM)	\$ 118.6	1.5x - 2.0	\$ 203.93 - 263.38	\$ 47.14 - 106.59	\$ 4.03 - 9.12

Comparable Transactions

Using publicly available information for 233 asset and corporate transactions announced between January 2006 and June 2009 involving oil and gas related assets in the Rocky Mountains, Gulf Coast, Mid-Continent and Permian Basin regions of the United States, Stephens reviewed the purchase price multiples paid for proved reserves and daily production in each transaction and Stephens selected appropriate benchmark multiples for the valuation of Abraxas Energy.

Based on public and other available market information, the following table sets forth the summary multiples for transactions referred to above. This analysis utilized the relevant transaction multiples of proved reserves and daily production and applied them to the corresponding metrics of Abraxas Energy to determine an implied enterprise value for Abraxas Energy.

Table of Contents**Index to Financial Statements**

The transaction multiples selected to apply to Abraxas Energy metrics were not entirely mathematical in nature, but required careful consideration to adjust for differences in the prevailing commodity price environments and acquisition and divestiture markets. Accordingly, greater weight was given to transactions in comparable market conditions and the multiples applied were toward the lower end of the range.

	Enterprise Value /	
	Proved Reserves (Mcf)	Daily Production (Mcf/d)
Gulf Coast Region:		
High	\$ 5.73	\$ 22,400
Mean	\$ 2.30	\$ 12,141
Median	\$ 2.28	\$ 11,000
Low	\$ 0.57	\$ 3,871
Applied Multiples	\$ 1.75 - 2.25	\$ 9,500 - 11,500
Mid-Continent Region:		
High	\$ 7.33	\$ 91,667
Mean	\$ 2.31	\$ 15,762
Median	\$ 2.21	\$ 14,570
Low	\$ 0.48	\$ 2,910
Applied Multiples	\$ 1.65 - 2.00	\$ 12,000 - 14,000
Permian Basin Region:		
High	\$ 3.66	\$ 19,786
Mean	\$ 2.22	\$ 13,727
Median	\$ 2.31	\$ 13,739
Low	\$ 0.92	\$ 8,568
Applied Multiples	\$ 1.85 - 2.15	\$ 13,000 - 15,000
Rocky Mountain Region:		
High	\$ 5.73	\$ 47,917
Mean	\$ 2.37	\$ 15,945
Median	\$ 2.17	\$ 14,297
Low	\$ 0.52	\$ 2,512
Applied Multiples	\$ 2.10 - 2.30	\$ 12,000 - 14,000
Implied Enterprise Value	\$ 244.48 - 284.04	\$ 287.75 - 332.83
Implied Equity Value	\$ 87.69 - 127.25	\$ 130.96 - 176.04
Implied Unit Price	\$ 7.50 - 10.89	\$ 11.20 - 15.06

Discounted Cash Flow Analysis

Stephens conducted a discounted cash flow analysis for proved and non-proved reserves based on various price scenarios in which the principal variables were oil and gas prices with appropriate basis differentials. The price scenarios that were utilized included: (i) a NYMEX strip pricing scenario which utilized the average oil and gas futures contract prices quoted on NYMEX as of June 25, 2009, (ii) a NYMEX five-year average scenario which utilized the five-year average of oil and gas prices quoted on NYMEX as of June 25, 2009, and (iii) an alternative price case which utilized pricing for oil and gas from 2009-2014 of \$50.00/\$4.50, \$55.00/\$5.00, \$60.00/\$5.50, \$65.00/\$6.00, \$70.00/\$6.50 and \$75.00/\$7.00 and escalated at 2.00% thereafter. Transportation and basis differential estimates provided by management were applied to the above pricing scenarios to establish a realized wellhead price. A discount rate range of 8.0% to 50.0% was applied to estimated cash flows from proved and non-proved reserves.

	Pricing Scenario		
	5 Yr NYMEX Strip Average	5 Yr Historical Average	Alternate Price Case

Edgar Filing: ABRAXAS PETROLEUM CORP - Form PREM14A

Implied Enterprise Value	\$ 211.5 - 234.6	\$ 204.0 - 225.7	\$ 199.2 - 220.9
Implied Equity Value	\$ 54.7 - 77.8	\$ 47.2 - 68.9	\$ 42.4 - 64.1
Implied Unit Price	\$ 4.68 - 6.66	\$ 4.04 - 5.89	\$ 3.63 - 5.48

Table of Contents**Index to Financial Statements***Abraxas Energy Valuation Reference Ranges*

Based on the foregoing analyses, Stephens determined an enterprise value reference range of \$220.0 to \$255.0 million and an equity value reference range of \$64.0 to \$98.0 million (\$5.45 to \$8.35 per limited partner unit) for Abraxas Energy.

Relative Contribution Analysis

Stephens prepared a relative contribution analysis comparing the contributions by Abraxas Petroleum and Abraxas Energy of selected financial and operating metrics to the combined company. Stephens prepared this analysis based on (i) each management's estimates of EBITDA and revenue for 2009, 2010 and 2011 FYE, (ii) current production and proved reserve volumes and (iii) net asset value ranges for Abraxas Petroleum and Abraxas Energy derived from comparable companies analysis, comparable transactions analysis and discounted cash flow analysis as described above. The following is a summary of this analysis:

	Financial Contribution	
	Abraxas Petroleum	Abraxas Energy
2009E:		
Revenue	56.0%	44.0%
EBITDA	53.6%	46.4%
2010E:		
Revenue	59.7%	40.3%
EBITDA	59.1%	40.9%
2011E:		
Revenue	61.9%	38.1%
EBITDA	61.8%	38.2%
	Net Asset Value Contribution	
	Abraxas Petroleum	Abraxas Energy
Comparable Companies Analysis:		
Low	74.6%	25.4%
High	68.6%	31.4%
Comparable Transactions Analysis		
Low	66.7%	33.3%
High	64.9%	35.1%
Discounted Cash Flow Analysis:		
5 Yr NYMEX Strip Average		
Low	67.0%	33.0%
High	65.4%	34.6%
5 Yr Historical Average		
Low	65.5%	34.5%
High	66.5%	33.5%
Alternate Price Case		
Low	62.7%	37.3%
High	63.7%	36.3%

The financial contribution analysis results in implied mean and median Abraxas Petroleum ownership interests of 58.70% and 59.40%, respectively, in the combined entity, which are within the range of 57.54% to

Table of Contents**Index to Financial Statements**

65.5% that Stephens calculated will result from the Merger. The net asset value contribution analysis results in an implied mean and median Abraxas Petroleum ownership interests of 66.40% and 66.10%, respectively, in the combined entity, which are slightly above the range of 57.54% to 65.5% that Stephens calculated will result from the Merger.

Stephens also applied the relative contribution analysis to the valuation ranges determined for Abraxas Petroleum and Abraxas Energy utilizing each of the following methodologies described above: comparable companies analysis, comparable transactions analysis and discounted cash flow analysis. In addition, Stephens applied the relative contribution analysis to the equity reference valuation ranges determined for Abraxas Petroleum and Abraxas Energy as described above. A summary of these analyses is shown below:

	Discounted Cash Flow Analysis					Equity Reference Value Range
	5 Yr NYMEX Strip Average	5 Yr Historical Average	Alternate Price Case	Comparable Transaction Analysis	Comparable Company Analysis	
Valuation Methodology:						
Abraxas Petroleum Equity Ownership %						
Mean	65.86%	63.87%	62.80%	65.51%	70.84%	64.44%
Median	65.90%	65.35%	63.11%	65.52%	70.75%	64.49%
Abraxas Energy Equity Ownership %						
Mean	34.14%	36.13%	37.20%	34.49%	29.16%	35.56%
Median	34.10%	34.65%	36.89%	34.48%	29.25%	35.51%
Implied Exchange Ratio						
Mean	4.25x	4.62x	4.92x	4.31x	3.46x	4.55x
Median	4.18x	4.29x	4.72x	4.25x	3.34x	4.45x

The foregoing contribution analysis results in implied mean and median Abraxas Petroleum ownership interests (calculated as the mean and median of the implied ownership interests resulting from the valuation methodologies identified in the first five columns in the table above) of 65.78% and 65.52%, respectively, in the combined entity, which are within or slightly above the range of 57.54% to 65.5% that Stephens calculated will result from the Merger. This contribution analysis also results in mean and median implied Exchange Ratios (calculated as the mean and median of the implied Exchange Ratios resulting from the valuation methodologies identified in the first five columns in the table above) of 4.31 and 4.25, respectively, which are within the Exchange Ratio range of 4.25 – 6.00 shares of Abraxas Petroleum common stock per Abraxas Energy common unit. The mean and median Exchange Ratios implied by the relative equity reference values (which take into account all of the valuation methodologies identified in the first five columns in the table above) are 4.55 and 4.45, respectively, which are within the Exchange Ratio of 4.25 – 6.00.

The summary of the material financial analyses performed by Stephens in connection with rendering its opinion as described above is only a summary and does not purport to be a complete description of the financial analyses performed. The summary is qualified in its entirety by reference to the full text of the written opinion of Stephens.

The order of analyses described does not represent the relative importance or weight given to those analyses by Stephens. Some of the summaries of the financial analyses include information presented in tabular format. The tables must be read together with the full text of each summary and are alone not a complete description of the financial analyses performed by the Stephens. Except as otherwise noted, the quantitative information included in the summary, to the extent that it is based on market data, is based on market data as it existed on or before June 29, 2009 and is not necessarily indicative of current market conditions.

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analyses or of the summary set forth above, without

Table of Contents

Index to Financial Statements

considering the analyses as a whole, could create an incomplete view of the processes underlying Stephens' opinion. In arriving at its fairness determination, Stephens considered the results of all of its analyses and did not attribute any particular weight to any factor or analysis considered by it. Rather, Stephens made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all of its analyses. No company or transaction used in the above analyses as a comparison is directly comparable to Abraxas Petroleum, Abraxas Energy or the contemplated Merger transaction.

As part of its investment banking business, Stephens regularly issues fairness opinions and is continually engaged in the valuation of companies and their securities in connection with business reorganizations, private placements, negotiated underwritings, mergers and acquisitions and valuations for estate, corporate and other purposes. Stephens is entitled to receive a fee and reimbursement of its expenses from Abraxas Petroleum for providing its fairness opinion to the Special Committee. Abraxas Petroleum has also agreed to indemnify Stephens for certain liabilities arising out of its engagement, including certain liabilities that could arise out of providing the opinion letter. Stephens has not provided investment banking services to Abraxas Petroleum in the past. In the ordinary course of business, Stephens and its affiliates at any time may hold long or short positions, and may trade or otherwise effect transactions as principal or for the accounts of customers, in debt or equity securities or options on securities of Abraxas Petroleum.

Stephens' opinion is necessarily based upon market, economic and other conditions as they exist and can be evaluated on, and on the information made available to Stephens as of, the date of its opinion. It should be understood that subsequent developments may affect its opinion and that Stephens does not have any obligation to update, revise or reaffirm its opinion. Stephens has assumed that the proposed Merger will be consummated on the terms of the latest draft of the Merger Agreement provided to it, without material waiver or modification. Stephens has assumed that in the course of obtaining the necessary regulatory, lending or other consents or approvals (contractual or otherwise) for the proposed Merger, no restrictions, including any divestiture requirements or amendments or modifications, will be imposed that will have a material adverse effect on the contemplated benefits of the proposed Merger to Abraxas Petroleum. Stephens has not expressed any opinion as to the price at which the common stock of Abraxas Petroleum will trade following the announcement or consummation of the proposed Merger.

Stephens' opinion is for the use and benefit of Abraxas Petroleum's Special Committee. Stephens' opinion does not address the merits of the underlying decision by Abraxas Petroleum to engage in the proposed Merger, the merits of the proposed Merger as compared to other alternatives potentially available to Abraxas Petroleum or the relative effects of any alternative transaction in which Abraxas Petroleum might engage, nor is it intended to be a recommendation to any person as to any specific action that should be taken in connection with the proposed Merger. Stephens' opinion is not intended to confer any rights or remedies upon any employee, creditor, stockholder or other equity holder of Abraxas Petroleum, or any other party other than the Special Committee. In addition, Stephens has not been asked to address, and its opinion does not address, the fairness to, or any other consideration of, the holders of any class of securities, creditors or other constituencies of Abraxas Petroleum. Stephens has not been asked to express any opinion, and has not expressed any opinion, as to the fairness of the amount or nature of the compensation to any of Abraxas Petroleum's officers, directors or employees, or to any group of such officers, directors or employees, relative to the compensation to other stockholders of Abraxas Petroleum. Stephens' fairness opinion committee has approved Stephens' opinion as to the fairness of the Exchange Ratio. Neither Stephens' opinion nor its substance may be disclosed by the Special Committee to anyone other than the Special Committee's advisors without Stephens' written permission. Notwithstanding the foregoing, Stephens' opinion and a summary discussion of Stephens' underlying analyses and its role on behalf of the Special Committee may be included in communications to Abraxas Petroleum's stockholders, provided that Stephens approves the content of such disclosures prior to publication.

Based on the foregoing and Stephens' general experience as investment bankers, and subject to the qualifications stated herein, Stephens is of the opinion on the date of its opinion that the Exchange Ratio is fair to Abraxas Petroleum from a financial point of view.

Table of Contents

Index to Financial Statements

Dissenters' Rights

Delaware law and Abraxas Energy's partnership agreement do not provide dissenters' rights or rights of appraisal for Abraxas Energy unitholders in connection with the Merger. In addition, Nevada law does not provide dissenters' rights or rights of appraisal for Abraxas Petroleum stockholders in connection with the Merger.

Abraxas Energy Board and Unitholder Approval

On June 29, 2009, the Abraxas Energy Board approved the Merger Agreement and the Merger. In addition, on June 30, 2009, Investments consented to the Merger Agreement and the Merger. By their execution of the Voting Agreement, the holders of 96% of Abraxas Energy's common units not owned by Investments, consented to the Merger Agreement and the Merger.

Interests of Certain Persons in the Merger

In considering the recommendation of our Board to approve the Merger and the issuance of the shares of Abraxas Petroleum common stock in the Merger and the other matters described in this proxy statement, our stockholders should be aware that certain members of our Board and certain of our officers have interests in the Merger that are different from, or in addition to, the interests of our other stockholders generally.

Robert L.G. Watson, the Chairman of the Board, President and Chief Executive Officer of Abraxas Petroleum and Chairman of the Board and Chief Executive Officer of the GP, owns 34,714 Abraxas Energy common units, 6,000 restricted units, 7,493 phantom units and has the right to receive options to purchase 63,000 common units. As a result of the Merger, Mr. Watson will receive, assuming the mid-point of the exchange ratio of 5.125, or \$1.17 per share, 177,909 shares of Abraxas Petroleum common stock, 69,152 shares of Abraxas Petroleum restricted stock and options to purchase 322,875 shares of Abraxas Petroleum common stock at an exercise price equal to the closing price of Abraxas Petroleum common stock on the date the Merger is consummated.

Barbara M. Stuckey, the Vice President - Corporate Finance of Abraxas Petroleum and the President of the GP, owns 14,986 Abraxas Energy common units, 4,000 restricted units, 6,582 phantom units and has the right to receive options to purchase 42,000 common units. As a result of the Merger, Ms. Stuckey will receive, assuming the mid-point of the exchange ratio of 5.125, or \$1.17 per share, 76,803 shares of Abraxas Petroleum common stock, 54,233 shares of Abraxas Petroleum restricted stock and options to purchase 215,250 shares of Abraxas Petroleum common stock at an exercise price equal to the closing price of Abraxas Petroleum common stock on the date the Merger is consummated.

In addition to Mr. Watson and Ms. Stuckey, certain directors and officers of Abraxas Petroleum beneficially own a total of 71,428 Abraxas Energy common units, 18,000 Abraxas Energy restricted units, 17,080 Abraxas Energy phantom units and have the right to receive options to purchase 63,000 Abraxas Energy common units. As a result of the Merger, these individuals will receive, assuming the mid-point of the exchange ratio of 5.125, or \$1.17 per share, 366,069 shares of Abraxas Petroleum common stock, 179,785 shares of Abraxas Petroleum restricted stock and options to purchase 322,875 shares of Abraxas Petroleum common stock at an exercise price equal to the closing price of Abraxas Petroleum common stock on the date the Merger is consummated. In addition, Mr. Watson, Ms. Stuckey and Chris E. Williford, Abraxas Petroleum's Chief Financial Officer, will continue in their positions as executive officers of Abraxas Petroleum.

The Abraxas Petroleum Board was aware of these interests and considered these interests, among others, in evaluating and negotiating the Merger Agreement and the Merger and in recommending to Abraxas Petroleum's stockholders that they vote FOR the Merger and the issuance of Abraxas Petroleum common stock in the Merger.

Table of Contents

Index to Financial Statements

Regulatory Approvals

Abraxas Petroleum is not aware of any material governmental or regulatory requirements that must be complied with regarding the Merger other than compliance with the NASDAQ rules and the applicable provisions of Nevada and Delaware law.

The Merger Agreement

The following is a summary of selected provisions of the Merger Agreement. While we believe this description covers the material terms of the Merger Agreement, it may not contain all of the information that is important to you and it is qualified in its entirety by reference to the Merger Agreement. The Merger Agreement is attached as Annex A to this proxy statement.

General

At the closing of the Merger, Abraxas Energy will merge with and into Abraxas Petroleum, and the surviving entity will be Abraxas Petroleum. The outstanding common units of Abraxas Energy will be canceled, and the Abraxas Energy unitholders, other than Investments, will receive shares of Abraxas Petroleum common stock, which we sometimes refer to as the Merger Consideration, in exchange. The closing of the Merger is agreed to occur no later than one business day following the satisfaction or waiver of all of the conditions to the Merger, or at another such time as we and Abraxas Energy may agree in writing. However, because the Merger is subject to a number of conditions, we cannot predict when the closing will occur or if it will occur at all.

Merger Consideration

The Merger Consideration issuable to the Abraxas Energy unitholders, other than Investments, in the Merger will consist of a maximum of 36,952,836 shares of Abraxas Petroleum common stock. Abraxas Petroleum will issue to Abraxas Energy's unitholders, other than Investments, not less than 4.25 shares and not more than 6.00 shares of Abraxas Petroleum common stock per common unit of Abraxas Energy. The final number of shares of Abraxas Petroleum common stock to be issued in the Merger will be determined by dividing \$6.00 by the average volume weighted average closing price of Abraxas Petroleum common stock on the NASDAQ during the 20 trading days ending on the third business day immediately prior to the date of the Special Meeting, or the VWAP. For example, if the VWAP is \$1.00 or lower, holders of Abraxas Energy common units would receive 6.00 shares of Abraxas Petroleum common stock for each of their common units and if the VWAP is \$1.412 or higher, holders of Abraxas Energy common units would receive 4.25 shares of Abraxas Petroleum common stock for each of their common units. If the maximum number of shares of our common stock is issued in the Merger, these shares will represent approximately 42.6% of our outstanding common stock immediately after the Merger. At the mid-point of the exchange ratio of 5.125, or \$1.17 per share, we would issue 31,563,881 shares of Abraxas Petroleum common stock, or 38.8% of our outstanding common stock immediately after the Merger. In connection with the Merger, the Abraxas Energy common units owned by Investments and the general partner interests owned by GP prior to the Effective Time shall be canceled and cease to exist and no Merger Consideration shall be delivered in respect thereof.

The Merger Consideration of \$6.00 per common unit of Abraxas Energy was determined by the Abraxas Petroleum Board. The Merger Consideration consists of shares of our common stock, so the value of such shares will fluctuate with changes in the trading price of our common stock on NASDAQ. Based on the closing market price of our common stock we determined that, as of June 29, 2009 (the trading day before the date of the Merger Agreement), the total value of the Merger Consideration was approximately \$37.0 million and that, as of July 9, 2009 (the most recent practicable date prior to the date of this proxy statement), the total value of the Merger Consideration was approximately \$37.0 million. The value of the Merger Consideration actually received by Abraxas Energy unitholders in the Merger will not be determined until the Merger closes. You should note that the Special Committee's review of the fairness of the proposed Merger Consideration focused primarily on the estimated relative values of Abraxas Petroleum and Abraxas Energy, rather than on the absolute value of the Merger Consideration as of any particular time.

Table of Contents

Index to Financial Statements

No fractional shares will be issued in the Merger and each Abraxas Energy unitholder who would otherwise be entitled to receive a fraction of a share of Abraxas Petroleum common stock will not receive any consideration therefor and all such fractional shares shall be rounded down to the nearest whole share of Abraxas Petroleum common stock.

Representations and Warranties

The Merger Agreement contains customary representations and warranties by Abraxas Petroleum relating to, among other things, corporate organization and similar corporate matters; capitalization; authority to enter into the Merger Agreement and transactions contemplated thereby; enforceability of the Merger Agreement; no violations and no consents; compliance with applicable law; completeness and accuracy of SEC filings; litigation matters; no material adverse change in the business of Abraxas Petroleum; environmental matters; tax matters; title to properties; intellectual property; employees and employee benefit plans; no undisclosed liabilities; state takeover laws; and finders and brokers. In addition, Abraxas Petroleum represented and warranted to Abraxas Energy that the Special Committee recommended the adoption of the Merger Agreement to the Abraxas Petroleum Board and that the Special Committee received the oral opinion of Stephens as to the fairness of the Merger Consideration, from a financial point of view, to Abraxas Petroleum. Abraxas Petroleum has also agreed that the Abraxas Energy unitholders are intended third party beneficiaries of all of Abraxas Petroleum's representations, warranties, covenants and agreements set forth in the Merger Agreement.

The Merger Agreement also contains customary representations and warranties of Abraxas Energy including, among other things: organization and qualification; subsidiaries; capitalization; authority and no violations and consents. In addition, Abraxas Energy represented and warranted to us that its Audit and Conflicts Committee recommended the adoption of the Merger Agreement and the transactions contemplated thereby to the Board of Directors of the GP and that the Audit and Conflicts Committee received the oral opinion of Stifel as to the fairness of the Merger Consideration, from a financial point of view, to Abraxas Energy.

The representations and warranties of the parties in the Merger Agreement are, in many respects, qualified by materiality and limited to the knowledge of the entity making the representation and warranty, but their accuracy forms the basis of one of the conditions to the obligations of the parties to complete the Merger. Please note, however, that these representations and warranties were made only for purposes of the Merger Agreement and as of specific dates, were solely for the benefit of the parties thereto, and are subject to limitations agreed to between the parties, including that they are qualified by disclosures between the parties that are not included with this proxy statement. Accordingly, investors and third parties should not rely on these representations and warranties as independent characterizations of the actual state of facts at the time they were made or otherwise but should consider them together with the other information in this proxy statement or that we have disclosed in other filings with the SEC.

Covenants; Conduct of Business Pending the Merger

Abraxas Petroleum and Abraxas Energy each agreed, until the closing of the Merger, to conduct their respective businesses in the ordinary course in accordance with past practices. Subject to certain limited exceptions, each of the parties to the Merger Agreement agreed that it will not and will cause its subsidiaries not to, during the period before the closing of the Merger:

- except (i) for normal operating and capital expenses incurred in the ordinary course of business and consistent with past practice,
- (ii) for costs and expenses associated with the Merger Agreement and the consummation of the transactions contemplated thereby or
- (iii) as permitted in the Merger Agreement, make any expenditures;

acquire, by merging or consolidating with, or by purchasing an equity interest in or the assets of or by any other manner, any business or corporation, partnership or other business organization or division thereof, or otherwise acquire any assets of any other entity (other than the purchase of assets from suppliers, clients or vendors in the ordinary course of business and consistent with past practice);

Table of Contents

Index to Financial Statements

make any capital contribution or incur, assume or guarantee any indebtedness for borrowed money or issue any debt securities or assume, guarantee or endorse, or otherwise as an accommodation become voluntarily responsible for, the obligations of any person, or make any loans or advances;

amend or otherwise change its organizational documents;

issue (except as contemplated in the Merger Agreement or under the Abraxas LTIP), deliver or sell or authorize or propose the issuance, delivery or sale of, any partnership units (in the case of Abraxas Energy) or capital stock (in the case of Abraxas Petroleum), split, combine or reclassify any of its securities, declare, set aside or pay any dividend or other distribution (whether in cash, stock or property or any combination thereof) in respect of its securities or otherwise make any payments to stockholders or unitholders in their capacity as such;

adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of such entity;

change the methods of accounting used by such party, except in accordance with changes in GAAP as concurred to by such party's independent auditors;

enter into any closing agreement with respect to material taxes, settle or compromise any material liability for taxes, revoke, change or make any new material tax election, agree to any adjustment of any material tax attribute, file or surrender any claim for a material refund of taxes, execute or consent to any waivers extending the statutory period of limitations with respect to the collection or assessment of material taxes, file any material amended tax return or obtain any material tax ruling;

settle any claims, demands, lawsuits or state or federal regulatory proceedings for damages to the extent such settlements in the aggregate assess damages in excess of \$1,000,000 (other than any claims, demands, lawsuits or proceedings to the extent insured (net of deductibles), to the extent reserved against in its financial statements or to the extent covered by an indemnity obligation not subject to dispute or adjustment from a solvent indemnitor);

settle any claims, demands, lawsuits or state or federal regulatory proceedings seeking an injunction or other equitable relief where such settlements would have a material adverse effect;

grant any increases in the compensation of any of their executive officers, except in the ordinary course of business consistent with past practice or as required by the terms of an existing employee benefit plan or agreement or by applicable law;

amend any existing employment or severance or termination contract with any executive officer;

become obligated under any new pension plan, welfare plan, multiemployer plan, employee benefit plan, severance plan, change of control or other benefit arrangement or similar plan or arrangement; or

amend any employee benefit plan, if such amendment would have the effect of materially enhancing any benefits thereunder.

Other Agreements

Under the Merger Agreement, Abraxas Petroleum and Abraxas Energy have each agreed to use its commercially reasonable efforts to:

use reasonable best efforts to complete the Merger;

obtain approval of their stockholders or unitholders, as applicable;

file or otherwise submit all applications, notices, reports and other documents reasonably required to be filed with a governmental entity with respect to the Merger, including this proxy statement;

Table of Contents

Index to Financial Statements

file listing applications with NASDAQ with respect to the shares of Abraxas Common Stock to be issued pursuant to the Merger; and

obtain all consents, approvals or waivers reasonably required in connection with the transactions contemplated by the Merger Agreement.

In addition, the Merger Agreement requires Abraxas Petroleum, as the surviving entity of the Merger, to indemnify each person, who at the time of the Merger, was a director, officer or employee of the GP or Abraxas Operating to the fullest extent permitted under applicable law. The Merger Agreement also requires Abraxas Petroleum, as the surviving entity of the Merger, for a period of three years after the Merger, to maintain the current policies of directors and officers, liability insurance maintained by the GP and Abraxas Operating (or to substitute with similar coverage); provided that Abraxas shall not be required to pay annual premiums in excess of 150% of the last annual premium paid by or on behalf of Abraxas Energy.

Director Designees

Abraxas Petroleum also agreed in the Merger Agreement to increase the size of its board of directors and to designate Edward P. Russell and Brian L. Melton to serve as members of the Abraxas Petroleum Board. Subject to the fulfillment of its fiduciary duties, and provided that such New Directors remain independent as defined in the rules and regulations of the SEC and the securities exchange on which Abraxas Petroleum common stock is then traded, the Abraxas Petroleum Board will nominate and recommend approval of both of the New Directors at its annual meeting in 2010 for a full three-year term. On the date which is 24 months after the Effective Time, one of the New Directors will offer to resign from the Abraxas Petroleum Board and on the date which is 36 months after the Effective Time, the remaining New Director will offer to resign from the Abraxas Petroleum Board. If at any time either of the New Directors creates a vacancy on the Abraxas Petroleum Board (by means of death, resignation, retirement, disqualification, removal from office or otherwise), the Abraxas Petroleum Board shall fill such vacancy with a person designated by the former Abraxas Energy unitholders and the Abraxas Petroleum Board shall continue to nominate and recommend approval of such person in any stockholder election.

Conditions to the Completion of the Merger

Under the Merger Agreement, each party's obligation to complete the Merger is subject to the satisfaction or waiver by each of the parties, at or before the Merger, of various conditions, including the following:

Abraxas Petroleum stockholders must have approved the Merger and the issuance of the Merger Consideration, and the amendment to the LTIP;

Abraxas Energy unitholders must have approved the Merger;

Abraxas Petroleum must have obtained financing on commercially reasonable terms and conditions that are reasonably satisfactory to Abraxas Petroleum and sufficient to consummate the Merger and repay all indebtedness outstanding under the Abraxas Energy credit facility and the Abraxas Energy subordinated credit facility;

all governmental consents, approvals, permits and authorizations required to be obtained in connection with the execution and delivery of the Merger Agreement and the closing of the Merger must have been obtained;

no law, injunction, judgment or ruling enacted, promulgated, issued, entered, amended or enforced by any governmental entity shall be in effect enjoining, restraining, preventing or prohibiting consummation of the Merger or making the consummation of the Merger illegal;

all the representations and warranties in the Merger Agreement shall be true and correct on the date of the Merger Agreement and on the Closing Date of the Merger with the same force and effect as if made

Table of Contents

Index to Financial Statements

on the date on which the Merger is to be completed or, if such representations and warranties address matters as of a particular date, then as of that particular date, except where the failure of these representations and warranties to be true and correct, disregarding any materiality qualifications, individually or in the aggregate, would not reasonably be expected to have a material adverse effect on Abraxas Petroleum or Abraxas Energy, as the case may be, and Abraxas Petroleum and Abraxas Energy shall have delivered an officer's certificate to this effect;

the parties shall have performed or complied in all material respects with all covenants and obligations required to be performed or complied with by them on or before the closing of the Merger, and Abraxas Petroleum and Abraxas Energy shall have delivered an officer's certificate to this effect; and

the listing of the shares of Abraxas common stock to be issued pursuant to the Merger Agreement shall have been approved by NASDAQ, subject to official notice of issuance.

Abraxas Petroleum and Abraxas Energy each have the right to waive compliance by the other with any of the agreements contained in the Merger Agreement or the other's conditions.

Termination

The Merger Agreement may be terminated at any time before the completion of the Merger, whether before or after the required approval of our stockholders has been obtained, as set forth below:

by mutual written consent of Abraxas Petroleum and Abraxas Energy;

by either Abraxas Petroleum or Abraxas Energy, if:

the Merger has not been completed by October 28, 2009, but this right to terminate the Merger Agreement will not be available to any party whose action or failure to act has been the cause of, or resulted in, the failure of the Merger to be completed by October 28, 2009;

any governmental authority has issued a statute, rule, order, decree or regulation or taken any other action permanently restraining, enjoining or otherwise prohibiting the consummation of the Merger or making the Merger illegal and such statute, rule, order, decree, regulation or other action shall have become final and nonappealable (provided that the terminating party has complied with its obligations hereunder);

Abraxas Energy fails to obtain the approval of the Abraxas Energy unitholders;

there has been a material breach or any inaccuracy in any of the representations, warranties or covenants in the Merger Agreement, which has not been cured within 30 days; or

Abraxas Petroleum fails to obtain the approval of the Abraxas Petroleum stockholders.

In addition, Abraxas Petroleum may terminate the Merger Agreement if the Abraxas Energy Board (with the prior approval of the Audit and Conflicts Committee) has changed its current recommendation in favor of the Merger. Abraxas Energy may terminate the Merger Agreement if the Abraxas Petroleum Board (with the prior approval of the Abraxas Petroleum Special Committee) has changed its current recommendation in

favor of the Merger.

Fees and Expenses

Abraxas Petroleum and Abraxas Energy will bear and pay their own costs and expenses as well as the reasonable costs and expenses incurred on behalf of the limited partners of Abraxas Energy party to the Voting, Registration Rights & Lock-Up Agreement of one investment banking firm and one law firm in connection with the negotiation, execution and delivery of the Merger Agreement, the Voting, Registration Rights & Lock-Up Agreement and the transactions contemplated by the Merger Agreement and the Voting, Registration Rights & Lock-Up Agreement.

Table of Contents

Index to Financial Statements

Amendment

The Merger Agreement may be amended by written agreement of the parties at any time approved by the Audit and Conflicts Committee of Abraxas Energy, in the case of Abraxas Energy, and by the Special Committee, in the case of Abraxas Petroleum.

The Voting, Registration Rights & Lock-Up Agreement

The following is a summary of selected provisions of the Voting, Registration Rights and Lock-up Agreement, which we sometimes refer to as the Voting Agreement. While we believe this description covers the material terms of the Voting Agreement, it may not contain all of the information that is important to you and it is qualified in its entirety by reference to the Voting Agreement. The Voting Agreement is attached as Annex B to this proxy statement and is considered part of this document.

Concurrently with the execution of the Merger Agreement, in order to induce Abraxas Petroleum and Abraxas Energy to enter into the Merger Agreement, certain limited partners owning 96% of the common units of Abraxas Energy not owned by Investments entered into the Voting Agreement with Abraxas Petroleum and Abraxas Energy.

Representations and Warranties

The Voting, Registration Rights & Lock-Up Agreement contains a number of customary representations of the limited partners party to the Voting, Registration Rights & Lock-Up Agreement, including: each limited partner's ability to enter into the Voting Agreement and the ownership of each such limited partner's ownership of common units of Abraxas Energy; authority, execution and delivery and enforceability; no conflict; no consents; ownership of and title to the Abraxas Energy common units; accredited investor representations; no brokers; reliance; certain trading activities; and truth and accuracy of such limited partner's representation and warrants.

In addition, the Voting Agreement contains a number of customary representations of each of Abraxas Petroleum and Abraxas Energy, including: authority, execution and delivery and enforceability; no conflict; no consents; reliance; and truth and accuracy of such party's representation and warranties.

The representations and warranties of the parties in the Voting Agreement are, in many respects, qualified by materiality and limited to the knowledge of the entity making the representation and warranty, but their accuracy forms the basis of one of the conditions to the obligations of the parties to complete the Merger. Please note, however, that these representations and warranties were made only for purposes of the Voting Agreement and as of specific dates, were solely for the benefit of the parties thereto, and are subject to limitations agreed to between the parties, including that they are qualified by disclosures between the parties that are not included with this proxy statement. Accordingly, investors and third parties should not rely on these representations and warranties as independent characterizations of the actual state of facts at the time they were made or otherwise but should consider them together with the other information in this proxy statement or that we have disclosed in other filings with the SEC.

Covenants and Agreements

Limited Partners

The limited partners subject to the terms of the Voting, Registration Rights & Lock-Up Agreement agreed to:

vote all of their outstanding common units of Abraxas Energy at any meeting of the unitholders of Abraxas Energy in favor of the Merger Agreement (or, in the event the approval of the Abraxas Energy unitholders is sought without a meeting of the unitholders, such limited partners execution and delivery of the Voting Agreement shall constitute consent to the Merger of such limited partners);

Table of Contents

Index to Financial Statements

vote against (i) any other any merger agreement or merger, consolidation, combination, sale of substantial assets, reorganization, recapitalization, dissolution, liquidation or winding up of or by Abraxas Energy, (ii) any acquisition proposal and/or (iii) any amendment of Abraxas Energy's certificate of limited partnership or the Partnership Agreement or other proposal or transaction involving Abraxas Energy or any of its subsidiaries, which amendment or other proposal or transaction could in any manner impede, frustrate, prevent or nullify any provision of the Merger Agreement, any ancillary document or agreement to the Merger Agreement, the Merger, or any other transaction contemplated thereby or change in any manner the voting rights of any class of Abraxas Energy's units;

grant an irrevocable proxy to Abraxas Petroleum to vote all of their common units of Abraxas Energy in favor of the Merger Agreement and against any other transaction;

not, (i) directly or indirectly, sell, transfer, pledge, assign or otherwise dispose of (including by gift, merger or operation of law) encumber, hedge or utilize a derivative to transfer the economic interest in (collectively, "Transfer"), or enter into any contract, option or other arrangement (including any profit sharing arrangement) with respect to the Transfer of, any of such limited partners common units of Abraxas Energy to any person (other than an affiliate of such limited partner who agrees to be bound by the terms of this agreement) other than pursuant to the merger, (ii) enter into any voting arrangement, whether by proxy, voting agreement, voting trust or otherwise (including pursuant to any loan of such common units), with respect to any such common units, (iii) take any action that would make any representation or warranty of such limited partner herein untrue or incorrect in any material respect, or have the effect of preventing or disabling the limited partner from performing its obligations hereunder in any material respect, or (iv) commit or agree to take any of the foregoing actions;

not directly, or indirectly permit any person on behalf of such limited partner, effect certain transactions in the securities of Abraxas Petroleum;

not transfer any of the shares of Abraxas common stock received by such limited partner in the Merger (the "Merger Shares") for 90 days after the Effective Time of the Merger (the "Initial Lock-up Period");

following the expiration of the Initial Lock-Up Period, one-third of the Merger Shares originally held by each limited partner shall be freely tradable, subject to applicable securities laws (the "First Release Date");

upon the expiration of the twelve-month period immediately following the First Release Date (the "Second Release Date"), an additional one-third of the Merger Shares originally held by each limited partner shall be unrestricted and freely tradable, subject to applicable securities laws and the remaining one-third of the limited partners' Merger Shares shall remain subject to the Initial Lock-Up; *provided, however*, the Limited Partners may sell or dispose of the remaining one-third of the Merger Shares in compliance with applicable securities laws to an accredited investor or qualified institutional buyer which becomes a party to this Agreement and is reasonably acceptable to Abraxas; and

upon expiration of the twelve-month period immediately following the Second Release Date, all of the Merger Shares originally held by each limited partner shall be automatically released from any transfer restriction set forth in the Merger Agreement and the limited partners may freely transfer their Merger Shares in accordance with applicable securities laws.

not exercise any of its rights or take any action under the Exchange and Registration Rights Agreement dated as of May 25, 2007, as amended, by and among Abraxas Petroleum, Abraxas Energy and the limited partners signatory thereto.

Table of Contents

Index to Financial Statements

Abraxas Petroleum and Abraxas Energy

Abraxas Petroleum and Abraxas Energy agreed to:

not file any further amendments to the registration statement on Form S-1 (No. 333-144537) relating to the initial public offering of the common units of Abraxas Energy or take any other actions intended to consummate the initial public offering;

at the Effective Time, increase the size of the Board of Directors of Abraxas Petroleum by two members and elect Edward P. Russell and Brian L. Melton to serve on the Board of Directors;

grant the limited partners access to the offices, properties, books and records of employees of Abraxas Petroleum; and

bear and pay their own costs and the reasonable fees and expenses incurred on behalf of the limited partners of one investment banking firm and one law firm in connection with the negotiation, execution and delivery of the Merger Agreement and the agreements contemplated by the Merger Agreement.

Registration Rights

Abraxas Petroleum agreed:

within 120 days of the Effective Time, to file a registration statement relating to the resale of the shares of Abraxas Petroleum common stock to be issued in the Merger, which we refer to as the Registration Statement, pursuant to the Securities Act of 1933, as amended, and to use commercially reasonable efforts to cause the Registration Statement to become effective and to keep the Registration Statement effective until the earlier of (A) the date that is 24 months after the end of the Lock-Up Period and (B) the date that all shares of Abraxas Petroleum common stock received in the Merger have been sold;

that in the event the former Abraxas Energy unitholders propose to sell their shares of Abraxas Petroleum common stock received in the Merger in an underwritten public offering, to use commercially reasonable efforts to retain underwriters and effect such sale through an underwritten offering and take all commercially reasonable actions as are reasonably requested by the managing underwriter or underwriters to expedite or facilitate the disposition of such shares of Abraxas Petroleum common stock, including the entering into an underwriting agreement, and participation by Abraxas Petroleum's management in a road show or similar marketing effort; *provided, however*, that Abraxas Petroleum would not be required to cause its management to participate in a road show or similar marketing effort on behalf of any unitholder if (A) the managing underwriter or underwriters of any such proposed underwritten offering advise Abraxas Petroleum that the gross proceeds of the underwritten offering are not expected to exceed \$10.0 million and (B) a bought deal or overnight transaction is contemplated; and

that in the event Abraxas Petroleum proposes, during the period from and after the end of the Lock-Up Period to the date that is 24 months after the end of the Lock-Up Period, to issue and sell shares of Abraxas Petroleum common stock pursuant to a registration statement other than a shelf registration statement or pursuant to a supplement to a shelf registration statement in an underwritten offering for its own account, then as soon as practicable but not less than 10 business days prior to the filing of (A) any preliminary prospectus supplement to a prospectus that includes Abraxas Petroleum common stock, relating to such underwritten offering pursuant to Rule 424(b), (B) the prospectus supplement to a prospectus that includes Abraxas Petroleum common stock, relating to such underwritten offering pursuant to Rule 424(b) (if no preliminary prospectus supplement is used) or (C) such registration statement, as the case may be (any of the foregoing registration statements, a Piggyback Registration Statement or Prospectus),

Edgar Filing: ABRAXAS PETROLEUM CORP - Form PREM14A

Abraxas Petroleum shall give notice of such proposed underwritten offering to the unitholders and such notice shall offer the former Abraxas Energy unitholders the opportunity to include in such underwritten offering such number of shares of Abraxas Petroleum common stock as each such unitholders may request in writing subject to a customary underwriter's cut back.

Table of Contents

Index to Financial Statements

Termination

The Voting Agreement shall automatically terminate upon the earliest of (a) the termination of the Merger Agreement and (b) the second anniversary of the Second Release Date.

The New Credit Facility

Upon consummation of the Merger, we expect to enter into a new senior secured revolving credit facility with Société Générale, as administrative agent and issuing lender, and certain other lenders, which we refer to as the new credit facility. Upon consummation of the Merger, we expect to monetize our existing derivative contracts, the proceeds of which will be used to pay down outstanding indebtedness under our existing credit facilities by approximately \$28 million. We expect to borrow approximately \$142 million under our new credit facility and refinance and terminate all of the existing credit facilities. Because the amount that we will actually realize from the monetization of Abraxas Energy's existing derivative contracts will vary between the date of this proxy statement and the closing of the Merger, the exact amount of our initial borrowings under the new credit facility will not be known until the closing of the Merger.

Based upon a non-binding term sheet that we have received from Société Générale, the new credit facility is expected to have a maximum commitment of \$300.0 million and availability under the new credit facility will be subject to a borrowing base. The borrowing base under the new credit facility is expected to be \$160.0 million and will be determined semi-annually by the lenders based upon our reserve reports, one of which must be prepared by our independent petroleum engineers and one of which may be prepared internally. The amount of the borrowing base will be calculated by the lenders based upon their valuation of our proved reserves utilizing these reserve reports and their own internal decisions. In addition, the lenders, in their sole discretion, will be able to make one additional borrowing base redetermination during any six-month period between scheduled redeterminations and we will be able to request one redetermination during any six-month period between scheduled redeterminations. The lenders will also be able to make a redetermination in connection with any sales of producing properties with a market value of 5% or more of our then-current borrowing base. Our expected borrowing base of \$160.0 million was determined based upon our reserve report dated June 1, 2009. Our borrowing base can never exceed the expected \$300.0 million maximum commitment amount. Outstanding amounts under the new credit facility are expected to bear interest at (a) the greater of (1) the reference rate announced from time to time by Société Générale, (2) the Federal Funds Rate plus 0.5%, and (3) a rate determined by Société Générale as the daily one-month LIBOR plus, in each case, (b) 1.5% - 2.5%, depending on the utilization of the borrowing base, or, if we elect, at the greater of (a) 2.0% and (b) LIBOR plus, in each case, 2.5% - 3.5% depending on the utilization of the borrowing base. At June 30, 2009, the interest rate on the expected new credit facility would have been 5.5%. Subject to earlier termination rights and events of default, the stated maturity date of the new credit facility is expected to be three years after the date of the new credit facility. Interest will be payable quarterly on reference rate advances and not less than quarterly on Eurodollar advances. We expect to be permitted to terminate the new credit facility, and will be able, from time to time, to permanently reduce the lenders' aggregate commitment under the new credit facility in compliance with certain notice and dollar increment requirements.

We expect that each of Abraxas Petroleum's subsidiaries will be required to guarantee Abraxas Petroleum's obligations under the new credit facility on a senior secured basis. Obligations under the new credit facility will be secured by a first priority perfected security interest, subject to certain permitted encumbrances, in all of Abraxas Petroleum's and the subsidiary guarantors' material property and assets.

Under the new credit facility, we expect to be subject to customary covenants, including certain financial covenants and reporting requirements. We will be required to maintain a current ratio as of the last day of each quarter of not less than 1.00 to 1.00 and an interest coverage ratio as of the last day of each quarter, of not less than 2.50 to 1.00. We will also be required to remain under a total net debt to EBITDA ratio as of the last day or each quarter of not more than 4.50 to 1.00 for the quarter ending September 30, 2009 through the quarter ending March 31, 2010, and not more than 4.25 to 1.00 for the quarter ending June 30, 2010 through the quarter ending

Table of Contents

Index to Financial Statements

December 30, 2010, and not more than 4.00 to 1.00 thereafter. Based on discussions with our prospective lenders, we expect the current ratio to be defined as the ratio of consolidated current assets to consolidated current liabilities. For the purposes of this calculation, we expect that current assets will include the portion of the borrowing base which is undrawn but exclude any cash deposited with or at the request of a counter-party to a hedging arrangement and any assets representing a valuation account arising from the application of SFAS 133 (which relates to derivative instruments and hedging activities) and SFAS 143 (which relates to asset retirement obligations) and current liabilities exclude the current portion of long-term debt and any liabilities representing a valuation account arising from the application of SFAS 133 and SFAS 143. We expect the coverage ratio to be defined as the ratio of consolidated EBITDA to consolidated interest expense. For the purposes of this calculation, EBITDA is consolidated net income plus interest expense, taxes, depreciation, amortization, depletion and other non-cash charges including non-cash charges resulting from the application of SFAS 123R (which relates to stock-based compensation), SFAS 133 and SFAS 143 minus all non-cash items of income which were included in determining consolidated net income, including all non-cash items resulting from the application of SFAS 133 and SFAS 143. Interest expense includes total interest, letter of credit fees and other fees and expenses incurred in connection with any debt.

The new credit facility will require us to enter into hedging arrangements for specified volumes, which are expected to equate to approximately 85% of the estimated oil and gas production from our net proved developed producing reserves through December 31, 2012. These new hedging arrangements will be priced at then-current market prices and may be significantly lower than the existing hedges we currently have in place.

In addition to the foregoing and other customary covenants, the new credit facility is expected to contain a number of covenants that, among other things, will restrict our ability to:

incur or guarantee additional indebtedness;

transfer or sell assets;

create liens on assets;

engage in transactions with affiliates other than on an arm's-length basis;

make any change in the principal nature of our business; and

permit a change of control.

The new credit facility is also expected to contain customary events of default, including nonpayment of principal or interest, violations of covenants, cross default and cross acceleration to certain other indebtedness, bankruptcy and material judgments and liabilities.

The non-binding term sheet is subject to the lenders due diligence, internal approval process and execution of definitive agreements. The definitive agreements may contain additional and different terms and conditions other than those described in this section. We cannot assure you that we will be successful in obtaining this financing.

Management Following the Merger

Our executive officers and directors before the Merger will remain in their roles following the Merger. The executive officers of the GP will continue in their roles as executive officers of Abraxas Petroleum. In addition, Brian L. Melton and Edward P. Russell will join the Abraxas Petroleum Board. Please read "Management" for more information.

Material U.S. Federal Income Tax Consequences of the Merger to Abraxas Petroleum and Its Stockholders

Edgar Filing: ABRAXAS PETROLEUM CORP - Form PREM14A

The following summary is a description of certain material U.S. federal income tax consequences of the Merger. The discussion is for general information only, does not consider all aspects of federal income taxation that may be relevant to the Merger and is not intended to be complete. We have based this discussion on the

Table of Contents

Index to Financial Statements

Internal Revenue Code of 1986, as amended (the Code), its legislative history, Treasury Regulations thereunder and administrative and judicial interpretations thereof, as of the date hereof, all of which are subject to change, possibly on a retroactive basis. Moreover, this summary does not address any aspect of U.S. federal tax law other than income taxation and does not describe any state, local or non-U.S. tax laws that may be applicable.

You should consult an independent tax advisor regarding the application of U.S. federal income tax laws, as well as other federal tax laws and the laws of any state, local or non-U.S. taxing jurisdiction, to your particular situation with respect to the Merger.

Abraxas Petroleum Stockholders

The closing of the Merger and related transactions under the Merger Agreement will not have any U.S. federal income tax consequences to the holders of Abraxas Petroleum common stock with respect to their ownership of such stock.

Abraxas Petroleum

While Abraxas Petroleum is not taxable with respect to its position as the surviving entity in the Merger, it is taxable with respect to its position as the parent of both the General Partner, the owner of general partner units of Abraxas Energy, and Investments, the owner of common units of Abraxas Energy. Both the General Partner and Investments are disregarded entities for U.S. federal income tax purposes, meaning that the owner of such entities is subject to any U.S. federal income tax liability with respect to such entities.

Because of the operation of Subchapter K of the Code, the General Partner and Investments, and, therefore, Abraxas Petroleum, will recognize very significant amounts of taxable income as a result of the Merger. Abraxas Petroleum expects that its net operating loss carryforwards (NOLs) will offset such taxable income, provided, however, that Abraxas Petroleum will incur current taxes that are not entirely reduced by the NOLs, including, e.g., alternative minimum tax obligations and Texas margin tax obligations. Although not certain, based upon current estimates, we do not expect such obligations to exceed \$3 million.

As a result of the Merger, large losses will be allocated among the partners in Abraxas Energy, including to Abraxas Petroleum through its disregarded entities. The majority of such losses will constitute losses under Section 165 of the Code, and, therefore, such losses will exceed the Section 165 loss thresholds set forth under the Treasury Regulations with respect to Reportable Transactions. Thus, if the Merger closes, a statement with the Internal Revenue Service (the IRS) will be filed that Abraxas Petroleum (and/or Abraxas Energy) has entered into a Reportable Transaction. The Reportable Transaction rules were designed, in part, to require active reporting of what might be an abusive transaction to the IRS, but the reach of these provisions is actually quite broad. Such a filing does not mean that the transaction is improper, and it does not affect Abraxas Petroleum's ability to use its NOLs in determining its federal income tax liability.

Abraxas Energy Unitholders

The Merger will be a taxable transaction to the Abraxas Energy unitholders receiving shares of Abraxas Petroleum common stock in the Merger.

Anticipated Accounting Treatment

It is anticipated that Abraxas Petroleum will account for the acquisition of Abraxas Energy common units under Statement of Financial Accounting Standards No. 160, Non-controlling Interests in Consolidated Financial Statements—an amendment of ARB No. 51 (which we refer to as SFAS No. 160). In accordance with SFAS No. 160, Abraxas Petroleum will not recognize a gain or loss in its net income as a result of the transaction and it will continue to recognize the assets and liabilities of Abraxas Energy at their historical values instead of valuing Abraxas Energy's assets and liabilities at their fair value at the date of completion of the Merger.

Table of Contents

Index to Financial Statements

NASDAQ Capital Market Listing

Abraxas Petroleum will use its reasonable best efforts to have the shares of Abraxas Petroleum common stock to be issued in the Merger approved for listing on NASDAQ, where Abraxas Petroleum's common stock is currently traded under the symbol AXAS, as of the completion of the Merger. It is a condition to closing of the Merger that the shares of Abraxas Petroleum common stock to be issued in the Merger shall have been approved for listing on the NASDAQ, subject to official notice of issuance.

Status of Shares Issued in Merger

The shares of Abraxas Petroleum common stock issued in the Merger to the unitholders of Abraxas Energy will not be registered under the Securities Act of 1933, as amended, in reliance on an exemption for the issuance of shares not involving a public offering. Abraxas Petroleum agreed within 120 days of the effective time of the Merger, to file a registration statement relating to the resale of the shares of Abraxas Petroleum common stock to be issued in the Merger, which we refer to as Registration Statement, pursuant to the Securities Act of 1933, as amended, to use commercially reasonable efforts to cause the Registration Statement to become effective and to keep the Registration Statement effective until the earlier of (A) the date that is 24 months after the end of the Lock-Up Period and (B) the date that all shares of Abraxas Petroleum common stock received in the Merger have been sold.

Recommendations of the Special Committee and the Abraxas Petroleum Board

On June 29, 2009, the Special Committee unanimously approved the Merger and the related transactions and recommended the adoption of the Merger Agreement to the Abraxas Petroleum Board, subject to the Special Committee's right to withdraw, modify or amend such recommendation if the Special Committee determines, in good faith, that failure to take such action would be reasonably likely to result in a breach of its fiduciary duties to our stockholders under applicable law.

Having received the recommendation of the Special Committee, for reasons including those described above, on June 29, 2009, the Abraxas Petroleum Board unanimously (with Messrs. Watson, Cox and Burke abstaining):

determined that the terms of the Merger are fair from a financial point of view to Abraxas Petroleum and the holders of its common stock;

adopted the Merger Agreement and declared it and the related transactions to be advisable; and

recommended that our stockholders approve the Merger and the issuance of Abraxas Petroleum common stock in the Merger, subject to the Board's right to withdraw, modify or amend such recommendation to the extent that the Board determines, in good faith, that failure to take such action would be reasonably likely to result in a breach of its fiduciary duties to our stockholders under applicable law.

The Abraxas Petroleum Board recommends that you vote FOR the Merger and the issuance of Abraxas Petroleum common stock in the Merger.

Table of Contents

Index to Financial Statements

PROPOSAL 2 AMENDMENT OF LTIP

On September 13, 2005, subject to stockholder approval, the Abraxas Petroleum Board adopted the Abraxas Petroleum Corporation 2005 Employee Long-Term Equity Incentive Plan, or LTIP, which was approved by our stockholders at the 2006 annual meeting and amended by our stockholders at the 2008 annual meeting.

On June 29, 2009, the Abraxas Petroleum Board amended the LTIP, subject to stockholder approval, to increase the number of shares of common stock reserved for issuance under the LTIP to 5,200,000 shares if Proposal 1 is approved, relating to the approval of the Merger and the issuance of Abraxas Petroleum common stock in the Merger.

Reasons for the Amendment of the LTIP

The Abraxas Petroleum Board believes that the purpose of the LTIP is to employ and retain qualified and competent personnel and promote the growth and success of Abraxas Petroleum by aligning the long-term interests of Abraxas Petroleum's key employees with those of Abraxas Petroleum's stockholders by providing an opportunity to acquire an interest in Abraxas Petroleum and by providing both rewards for exceptional performance and long-term incentives for future contributions to the success of Abraxas Petroleum. Abraxas Petroleum believes that this purpose will be furthered through the granting of awards, as authorized under the LTIP, so that such key employees will be encouraged and enabled to acquire a substantial personal interest in the continued success of Abraxas Petroleum. Abraxas Petroleum believes the additional shares to be reserved pursuant to the amendment to the LTIP is necessary for Abraxas Petroleum to continue its policy of emphasizing equity compensation and to remain competitive with industry equity grant practices.

If the new shares are not approved for issuance under the LTIP, Abraxas Petroleum may be required to curtail use of long-term incentives and the Board may consider other alternatives to compensate employees.

The proposed amendment to the LTIP increases the number of shares of common stock available for issuance under the LTIP to 5,200,000 from 2,100,000 shares.

Vote required

Approval of the amendment to the LTIP requires the affirmative vote of the holders of a majority of the shares of Abraxas Petroleum common stock present or represented by proxy and entitled to vote at the Special Meeting.

Summary of the LTIP

The following summary of the LTIP is qualified in its entirety by the full text of the LTIP as set forth in Annex D to this proxy statement. The effectiveness of the amendment to increase the number of shares of Abraxas Petroleum common stock reserved for issuance under the LTIP is subject to approval by Abraxas Petroleum stockholders.

Administration and Eligibility. The LTIP is administered by the Compensation Committee of the Abraxas Petroleum Board and authorizes the Abraxas Petroleum Board to grant non-qualified stock options, incentive stock options or issue shares of restricted stock to those persons who are employees of Abraxas Petroleum. As of June 30, 2009, Abraxas Petroleum had 65 full-time employees, all of whom are eligible to participate in the LTIP.

Shares Reserved and Awards. If this proposal is approved, the LTIP will reserve 5,200,000 shares of Abraxas Petroleum common stock, subject to adjustment following certain events, as discussed below. The maximum annual award for any one employee is 500,000 shares of Abraxas Petroleum common stock. If options,

Table of Contents

Index to Financial Statements

as opposed to restricted stock, are awarded, the exercise share price shall be no less than 100% of the fair market value on the date of the award, unless the employee is awarded incentive stock options and at the time of the award, owns more than 10% of the voting power of all classes of stock of Abraxas Petroleum. Under this circumstance, the exercise share price shall be no less than 110% of the fair market value on the date of the award. Option terms and vesting schedules are at the discretion of the Compensation Committee.

Option Exercise. An option is exercised when proper notice of exercise has been given to Abraxas Petroleum, or the brokerage firm or firms approved by Abraxas Petroleum, if any, to facilitate exercises and sales under the LTIP and full cash payment for the shares with respect to which the option is exercised has been received by Abraxas Petroleum or the brokerage firm or firms, as applicable.

Stockholder Rights. Except as otherwise provided in the LTIP, until the issuance of the share certificates evidencing the award shares, no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the award shares.

Transferability of Awards. An award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in exchange for consideration, except that an award may be transferred by will or by the laws of descent or distribution and may be exercised, during the lifetime of the employee, only by the employee, unless the Compensation Committee permits further transferability, on a general or specific basis, in which case the Compensation Committee may impose conditions and limitations on any permitted transferability.

Termination of Awards. Unless otherwise provided in the applicable award agreement, vested options granted under the LTIP shall expire and cease to be exercisable as follows:

three (3) months after the date of the termination of the employee, other than in circumstances covered by the following three circumstances;

immediately upon termination of the employee for misconduct;

twelve (12) months after the date of the termination of the employee if such termination was by reason of disability; and

twelve (12) months after the date of the death of the employee.

U.S. Federal Tax Consequences

The following discussion summarizes the material federal income tax consequences of participation in the LTIP. This discussion is general in nature and does not address issues related to the tax circumstances of any particular employee. The discussion is based on federal income tax laws in effect on the date hereof and is, therefore, subject to possible future changes in law. This discussion does not address state, local and foreign tax consequences.

Stock Options. In general, the grant of an option will not be a taxable event to the recipient and it will not result in a deduction to Abraxas Petroleum. The tax consequences associated with the exercise of an option and the subsequent disposition of shares of common stock acquired on the exercise of such option depend on whether the option is a nonqualified stock option or an incentive stock option.

Upon the exercise of a nonqualified stock option, the participant will recognize ordinary taxable income equal to the excess of the fair market value of the shares of common stock received upon exercise over the exercise price. Abraxas Petroleum will generally be able to claim a deduction in an equivalent amount. Any gain or loss upon a subsequent sale or exchange of the shares of common stock will be capital gain or loss, long-term or short-term, depending on the holding period for the shares of common stock.

Generally, a participant will not recognize ordinary taxable income at the time of exercise of an incentive stock option and no deduction will be available to Abraxas Petroleum, provided the option is exercised while the

Table of Contents**Index to Financial Statements**

participant is an employee or within three months following termination of employment (longer, in the case of disability or death). If an incentive stock option granted under the LTIP is exercised after these periods, the exercise will be treated for federal income tax purposes as the exercise of a nonqualified stock option. Also, an incentive stock option granted under the LTIP will be treated as a nonqualified stock option to the extent it (together with other incentive stock options granted to the participant by Abraxas Petroleum) first becomes exercisable in any calendar year for shares of common stock having a fair market value, determined as of the date of grant, in excess of \$100,000.

If shares of common stock acquired upon exercise of an incentive stock option are sold or exchanged more than one year after the date of exercise and more than two years after the date of grant of the option, the participant will not recognize ordinary income in connection with such sale or exchange, and any gain or loss will be long-term capital gain or loss. If shares of common stock acquired upon exercise of an incentive stock option are disposed of prior to the expiration of these one-year or two-year holding periods (a Disqualifying Disposition), the participant will recognize ordinary income at the time of disposition, and Abraxas Petroleum will generally be entitled to a deduction, in an amount equal to the excess of the fair market value of the shares of common stock at the date of exercise over the exercise price. Any additional gain following the date of exercise will be treated as capital gain, long-term or short-term, depending on how long the shares of common stock have been held. Where shares of common stock are sold or exchanged in a Disqualifying Disposition (other than certain related party transactions) for an amount less than their fair market value at the date of exercise, any ordinary income recognized in connection with the Disqualifying Disposition will be limited to the amount of gain, if any, recognized in the sale or exchange, and any loss will be a long-term or short-term capital loss, depending on how long the shares of common stock have been held.

If an option is exercised through the use of shares of common stock previously owned by the participant, such exercise generally will not be considered a taxable disposition of the previously owned shares and, thus, no gain or loss will be recognized with respect to such previously owned shares upon such exercise. The amount of any built-in gain on the previously owned shares generally will not be recognized until the new shares acquired on the option exercise are disposed of in a sale or other taxable transaction.

Although the exercise of an incentive stock option as described above would not produce ordinary taxable income to the participant, it would result in an increase in the participant's alternative minimum taxable income and may result in an alternative minimum tax liability.

Restricted Shares. A participant who receives restricted shares will generally recognize ordinary income at the time that they vest, *i.e.*, when they are not subject to a substantial risk of forfeiture. The amount of ordinary income so recognized will generally be the fair market value of the common stock at the time the shares vest, less the amount, if any, paid for the shares. This amount is generally deductible for federal income tax purposes by Abraxas Petroleum. Dividends paid with respect to common stock that is nonvested will be ordinary compensation income to the participant (and generally deductible by Abraxas Petroleum). Any gain or loss upon a subsequent sale or exchange of the shares of common stock, measured by the difference between the sale price and the fair market value on the date the shares vest, will be capital gain or loss, long-term or short-term, depending on the holding period for the shares of common stock. The holding period for this purpose will begin on the date following the date the shares vest.

In lieu of the treatment described above, a participant may elect to recognize income under Section 83(b) of the Internal Revenue Code in the year of grant of such restricted shares. In such event, the participant will recognize income in the amount of the fair market value of the restricted shares at the time of grant (determined without regard to any restrictions other than restrictions which by their terms will never lapse), less the amount, if any, paid for the shares and Abraxas Petroleum will generally be entitled to a corresponding deduction. Dividends paid with respect to shares as to which a proper Section 83(b) election has been made will not be deductible to Abraxas Petroleum. If a Section 83(b) election is made and the restricted shares are subsequently forfeited, the participant will not be entitled to any offsetting tax deduction, and will recognize a loss equal to the excess (if any) of the amount paid for such shares (if any) and the amount realized upon such forfeiture (if any).

Table of Contents

Index to Financial Statements

Amendments. The Abraxas Petroleum Board or the Compensation Committee may amend or terminate the LTIP from time to time in such respects as the Abraxas Petroleum Board may deem advisable (including, but not limited to, amendments which the Abraxas Petroleum Board deems appropriate to enhance Abraxas Petroleum's ability to claim deductions related to stock option exercises); provided, that to the extent an amendment to the LTIP increases the maximum number of shares available under the plan, changes the class of individuals eligible to receive awards under the plan, or requires stockholder approval under the rules of the NASDAQ, such other exchange upon which Abraxas Petroleum common stock is either quoted or traded, or the SEC, stockholder approval shall be required for any such amendment of the LTIP. Subject to the foregoing, it is specifically intended that the Abraxas Petroleum Board or Compensation Committee may amend the LTIP without stockholder approval to comply with legal, regulatory and listing requirements and to avoid unanticipated consequences deemed by the Committee to be inconsistent with the purpose of the LTIP or any award agreement.

Adjustments. If the outstanding shares of Abraxas Petroleum's common stock shall be changed into or exchanged for a different number or kind of shares of stock or other securities or property of Abraxas Petroleum or of another corporation, or if the number of such shares of common stock shall be increased by a stock dividend or stock split, there shall be substituted for or added to each share of common stock reserved for the purposes of the LTIP, whether or not such shares are at the time subject to outstanding awards, the number and kind of shares of stock or other securities or property into which each outstanding share of common stock shall be so changed or for which it shall be so exchanged, or to which each such share shall be entitled, as the case may be. Outstanding awards shall also be considered to be appropriately amended as to price and other terms as may be necessary or appropriate to reflect the foregoing events. If there shall be any other change in the number or kind of the outstanding shares of Abraxas Petroleum's common stock, or of any stock or other securities or property into which such common stock shall have been changed, or for which it has been exchanged, and if the Compensation Committee shall in its sole discretion determine that such change equitably requires an adjustment in the number or kind or price of the shares then reserved for the purposes of the LTIP, or in any award previously granted or which may be granted under the LTIP, then such adjustment shall be made by the Compensation Committee and shall be effective and binding for all purposes of the LTIP.

In addition, the Compensation Committee shall have the power, in the event of any merger or consolidation involving Abraxas Petroleum to amend all outstanding awards to permit the exercise thereof in whole or in part at anytime, or from time to time, prior to the effective date of any such merger or consolidation and to terminate each such award as of such effective date.

Table of Contents**Index to Financial Statements*****New Plan Benefits***

The following table sets forth the benefits to be received by each of the following individuals upon the approval of the amendment to the LTIP and the assumption / conversion of Abraxas Energy restricted units, phantom units and unit options upon consummation of the Merger. No additional awards have been granted on the basis of the anticipated share increase which is subject to stockholder approval at the Special Meeting.

NEW PLAN BENEFITS

Name and Position	Dollar Value (per share) (\$)(1)	Number of Common Stock Awards & Options
Robert L.G. Watson, CEO and President	80,907	392,027
Chris E. Williford, CFO and Executive Vice President	40,595	115,415
Stephen T. Wendel, Vice President Land and Marketing	40,595	115,415
Lee T. Billingsley, Vice President Exploration	40,595	115,415
William H. Wallace, Vice President Operations	40,595	115,415
Barbara M. Stuckey, Vice President Corporate Finance	63,452	269,483
Executive Group	306,738	1,123,169
Non-Executive Director Group	47,970	41,000
Non-Executive Officer Employee Group	287,820	660,869

- (1) Assumes the mid-point of the exchange ratio of 5.125, or \$1.17 per share. The vesting schedule for the restricted stock awards will be a continuation of the vesting schedule for Abraxas Energy restricted units and phantom units. The restricted shares of Abraxas Petroleum common stock are valued at the mid-point of the exchange ratio of 5.125, or \$1.17 per share. The options will vest in twenty-five (25%) percent increments each year for four (4) years on the anniversary of the closing of the Merger. The exercise price for the options will be the closing price of Abraxas Petroleum common stock on the date of the closing of the Merger. Therefore, the dollar value is \$0 for the option awards of Abraxas Petroleum common stock.

The Abraxas Petroleum Board recommends that you vote FOR Proposal 2 to approve the amendment to the LTIP.

Table of Contents

Index to Financial Statements

PROPOSAL 3 ADJOURNMENT OF SPECIAL MEETING

If necessary or appropriate in the circumstances at the Special Meeting, we may ask our stockholders to authorize the named proxies to approve one or more postponements or adjournments of the Special Meeting if sufficient votes have not yet been cast to approve Proposals 1 or 2 at the time of the Special Meeting, in order to enable us to solicit additional proxies. This proposal relates only to a postponement or adjournment of the Special Meeting for purposes of soliciting additional proxies to obtain the requisite stockholder approval to approve Proposals 1 or 2. The Abraxas Petroleum Board retains full authority to postpone or adjourn the Special Meeting for any other purpose, including the absence of a quorum, or to postpone the Special Meeting before it is convened, without the consent of the stockholders.

If the Special Meeting is postponed or adjourned, we would not be required to give notice of the time and place of the adjourned meeting unless the Abraxas Petroleum Board fixed a new record date for the Special Meeting.

The Abraxas Petroleum Board recommends that you vote FOR Proposal 3.

Table of Contents**Index to Financial Statements****INFORMATION ABOUT ABRAXAS PETROLEUM****Business of Abraxas Petroleum**

Abraxas Petroleum is an independent energy company primarily engaged in the development and production of oil and gas. Historically, we have grown through the acquisition and subsequent development and exploration 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, horizontal drilling and modern completion techniques. As a result of these activities, we believe that we have a number of development opportunities on our properties. In addition, we intend to expand upon our development activities with complementary exploration projects in our core areas of operation. Success in our development and exploration activities is critical in the maintenance and growth of our current production levels and associated reserves.

At December 31, 2008, Abraxas Petroleum (on a stand-alone basis) had 6,736 MMBoe of estimated net proved reserves, of which 38% were oil, with a standardized measure of \$33.4 million. Abraxas Petroleum's net proved reserves (on a stand-alone basis) as of December 31, 2008 were 35% proved developed and 65% proved undeveloped. At December 31, 2008, Abraxas Petroleum (on a stand-alone basis) owned an average working interest of 79% in 172 gross (135.9 net) producing wells that produced 237 net MBoe during 2008. Abraxas Petroleum has identified numerous drilling locations, of which 29 were classified as proved undeveloped as of December 31, 2008, which Abraxas Petroleum believes provides it with a multi-year inventory of drilling opportunities.

A wholly-owned subsidiary of Abraxas Petroleum, Abraxas General Partner, LLC, which we refer to as the GP or the General Partner, is the general partner of Abraxas Energy and the owner of 227,232 general partner units of Abraxas Energy, and Investments, a wholly-owned subsidiary of Abraxas Petroleum, is the owner of 5,350,598 common units of Abraxas Energy, representing approximately 46.7% of the outstanding common units of Abraxas Energy. In addition, certain officers and directors of Abraxas Petroleum own a total of 145,128 common units of Abraxas Energy, representing approximately 1.3% of the outstanding common units of Abraxas Energy.

Properties

The following table sets forth certain information relating to Abraxas Petroleum's properties as of December 31, 2008 and for the year ended December 31, 2008 on a consolidated basis.

	Producing Wells	Average Working Interest	Estimated Net Proved Reserves (MMBOE)	Net Production (MBOE)
Rocky Mountain	894	12.4%	4,936	404
Mid-Continent	602	17.1%	3,050	436
Permian Basin	236	68.0%	10,414	545
Gulf Coast	79	69.2%	6,716	222
Total	1,811	23.7%	25,116	1,607

Table of Contents**Index to Financial Statements**

The following table sets forth certain information relating to Abraxas Petroleum's properties as of December 31, 2008 and for the year ended December 31, 2008 on a stand-alone basis.

	Producing Wells	Average Working Interest	Estimated Net Proved Reserves (MMBOE)	Net Production (MBOE)
Rocky Mountain	33	59.4%	1,070	36
Mid-Continent	2	5.0%	2	1
Permian Basin	122	89.1%	4,785	124
Gulf Coast	15	50.0%		