

**UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION**

In re:

SANCHEZ ENERGY CORPORATION *et al.*,¹

Debtor.

Chapter 11

Case No. 19-34508 (MI)

(Jointly Administered)

**REORGANIZED DEBTORS' MOTION FOR ENTRY OF AN ORDER
(I) APPROVING A SETTLEMENT AND COMPROMISE PURSUANT TO
BANKRUPTCY RULE 9019 AND (II) GRANTING RELATED RELIEF**

THIS MOTION SEEKS AN ORDER THAT MAY ADVERSELY AFFECT YOU. IF YOU OPPOSE THE MOTION, YOU SHOULD IMMEDIATELY CONTACT THE MOVING PARTY TO RESOLVE THE DISPUTE. IF YOU AND THE MOVING PARTY CANNOT AGREE, YOU MUST FILE A RESPONSE AND SEND A COPY TO THE MOVING PARTY. YOU MUST FILE AND SERVE YOUR RESPONSE WITHIN 21 DAYS OF THE DATE THIS WAS SERVED ON YOU. YOUR RESPONSE MUST STATE WHY THE MOTION SHOULD NOT BE GRANTED. IF YOU DO NOT FILE A TIMELY RESPONSE, THE RELIEF MAY BE GRANTED WITHOUT FURTHER NOTICE TO YOU. IF YOU OPPOSE THE MOTION AND HAVE NOT REACHED AN AGREEMENT, YOU MUST ATTEND THE HEARING. UNLESS THE PARTIES AGREE OTHERWISE, THE COURT MAY CONSIDER EVIDENCE AT THE HEARING AND MAY DECIDE THE MOTION AT THE HEARING.

REPRESENTED PARTIES SHOULD ACT THROUGH THEIR ATTORNEY.

THERE WILL BE A HEARING ON THIS MOTION ON OCTOBER 31, 2022 AT 9:00 A.M. PREVAILING CENTRAL TIME IN COURTROOM 400, 4TH FLOOR, 515 RUSK STREET, HOUSTON, TEXAS 77002.

¹ The Reorganized Debtors, along with the last four digits of each Reorganized Debtor's federal tax identification number, are: Sanchez Energy Corporation (0102) (prior to reorganization, "Sanchez Energy"); SN Palmetto, LLC (3696); SN Marquis, LLC (0102); SN Cotulla Assets, LLC (0102); SN Operating, LLC (2143); SN TMS, LLC (0102); SN Catarina, LLC (0102); Rockin L Ranch Company, LLC (0102); SN EF Maverick, LLC (0102); SN Payables, LLC (0102); and SN UR Holdings, LLC (0102). The location of the Reorganized Debtors' service address is 700 Milam Street, Suite 600, Houston, Texas 77002.

YOU MAY PARTICIPATE IN THE HEARING EITHER IN PERSON OR BY AN AUDIO AND VIDEO CONNECTION. AUDIO COMMUNICATION WILL BE BY USE OF THE COURT'S DIAL-IN FACILITY. YOU MAY ACCESS THE FACILITY AT 832-917-1510. ONCE CONNECTED, YOU WILL BE ASKED TO ENTER THE CONFERENCE ROOM NUMBER. JUDGE JONES'S CONFERENCE ROOM NUMBER IS 205691. VIDEO COMMUNICATION WILL BE BY USE OF THE GOTOMEETING PLATFORM. CONNECT VIA THE FREE GOTOMEETING APPLICATION OR CLICK THE LINK ON JUDGE JONES'S HOME PAGE. THE MEETING CODE IS "JUDGEJONES". CLICK THE SETTINGS ICON IN THE UPPER RIGHT CORNER AND ENTER YOUR NAME UNDER THE PERSONAL INFORMATION SETTING.

HEARING APPEARANCES MUST BE MADE ELECTRONICALLY IN ADVANCE OF BOTH ELECTRONIC AND IN-PERSON HEARINGS. TO MAKE YOUR APPEARANCE, CLICK THE "ELECTRONIC APPEARANCE" LINK ON JUDGE JONES'S HOME PAGE. SELECT THE CASE NAME, COMPLETE THE REQUIRED FIELDS AND CLICK "SUBMIT" TO COMPLETE YOUR APPEARANCE.

The Reorganized Debtors, by and through their undersigned counsel, file this *Motion for Entry of an Order (I) Approving a Settlement and Compromise Pursuant to Bankruptcy Rule 9019 and (II) Granting Related Relief* (this "Motion"). The Reorganized Debtors hereby seek (a) pursuant to Rule 9019 of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules"), approval of that certain *Settlement Agreement* attached hereto as Exhibit A (the "Settlement Agreement") made as of September 12, 2022, by and between (i) Mesquite Energy, Inc. (f/k/a Sanchez Energy Corporation) ("Mesquite"), SN TMS, LLC, Rockin L Ranch Company, LLC, SN Catarina, LLC ("SN Catarina"), SN Cotulla Assets, LLC, SN EF Maverick, LLC, SN Palmetto, LLC, SN Payables, LLC, SN Operating, LLC, SN Marquis LLC, and SN UR Holdings, LLC (each a "Reorganized Debtor" and collectively, the "Reorganized Debtors") and (ii) Sanchez Oil & Gas Corporation ("SOG"), Antonio R. Sanchez, III ("Sanchez III"), Antonio R. Sanchez, Jr. ("Sanchez Jr."), Patricio Sanchez, Eduardo Sanchez, and Gerald Willinger (collectively, the "Sanchez Parties," and together with the Reorganized Debtors, the "Settling Parties" and each, a "Settling

Party”); and (b) entry of an order disallowing and expunging any and all claims asserted by the Sanchez Releasors (as defined below) effective upon the occurrence of the Settlement Effective Date (as defined below).²

In support of this Motion, the Reorganized Debtors hereby respectfully state as follows:

PRELIMINARY STATEMENT³

1. The Settlement Agreement resolves longstanding disputes between the Reorganized Debtors and the Sanchez Parties. Following approval by this Court, the Settlement Agreement will effect a global settlement of all known and unknown claims among the Settling Parties and bring finality to the otherwise uncertain and burdensome prosecution of the Reorganized Debtors’ claims against the Sanchez Parties. The benefits of the Settlement Agreement are clear. The Reorganized Debtors’ management will be relieved of the distraction of discovery, motion practice, and other litigation-related obstacles while the Reorganized Debtors will monetize their long-held claims against the Sanchez Parties. Moreover, the Reorganized Debtors will be able to avoid the inevitable costs of litigation and use their cash—and the cash paid to the Reorganized Debtors pursuant to the Settlement Agreement—to effectuate more productive business strategies. Furthermore, this Motion seeks to effectuate the terms of the Settlement Agreement by disallowing and expunging all claims held by the Sanchez Party Releasors because the Settlement Agreement provides for the release of each such claim upon the occurrence of the Settlement Effective Date.

2. In light of the benefits of the Settlement Agreement for the Reorganized Debtors, the consideration for the settlement is fair, and certainly falls within the “range of reasonable

² A proposed form of order approving this Motion is attached hereto as Exhibit B (the “Proposed Order”).

³ Capitalized terms set forth in this Preliminary Statement have the meanings set forth in the remainder of the Motion.

litigation alternatives.” *In re Allied Properties, LLC*, 2007 WL 1849017, at *4 (Bankr. S.D. Tex. June 25, 2007).

3. In short, the Settlement Agreement is fair, reasonable, and in the interest of all stakeholders, and will confer substantial value on the Reorganized Debtors. Accordingly, the Reorganized Debtors respectfully request that the Court grant this Motion and approve the Settlement Agreement.

JURISDICTION AND VENUE

4. This Court has jurisdiction to consider this matter pursuant to 28 U.S.C. § 1334.

5. This is a core proceeding pursuant to 28 U.S.C. § 157(b). This Court has constitutional authority to enter final orders with respect to the relief requested herein. The Debtors confirm their consent, pursuant to rule 7008 of the Bankruptcy Rules, to the entry of a final order by this Court.

6. Venue is proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409.

7. The statutory bases for the relief requested herein are sections 105(a), 502(b), 1129 of title 11 of the United States Code (the “Bankruptcy Code”) and Bankruptcy Rules 3007, 6004, 6006, and 9019.

8. The Reorganized Debtors file this Motion consistent with the requirements of Article IV.D of that *Second Amended Joint Chapter 11 Plan of Reorganization of Sanchez Energy Corporation and its Debtor Affiliates* [Dkt. No. 1205] (the “Plan”), which provides that, prior to the resolution of the Lien-Related Litigation (as defined in the Plan), settlement of claims against one or more of the Sanchez Parties requires approval from this Court.

BACKGROUND

A. General Background

9. On August 11, 2019, each of the Reorganized Debtors filed a petition for relief under chapter 11 of the Bankruptcy Code.

10. On April 30, 2020, this Court confirmed the Plan. *See Order Approving Disclosure Statement and Confirming Second Amended Joint Chapter 11 Plan of Reorganization of Sanchez Energy Corporation and its Debtor Affiliates* [Dkt. No. 1212] (the “Confirmation Order”).

11. On June 30, 2020, the effective date of the Plan occurred and the Reorganized Debtors emerged from bankruptcy. Under the terms of the Plan, all “Causes of Action” (as defined therein) of the debtors vested in the Reorganized Debtors, including the “Related Party Claims” against the Sanchez Parties. *See* Plan Art. IV.G; *see also* Plan Supp.—Ex. D at IX [D.I. 1148].

B. The Settling Parties

i. The Reorganized Debtors

12. Each of the Reorganized Debtors was a debtor and debtor-in-possession in the above-captioned chapter 11 cases (the “Bankruptcy Cases”), and emerged from chapter 11 on June 30, 2020, on the effective date of the Plan confirmed by this Court.

ii. The Sanchez Parties

13. SOG is a private company wholly owned and controlled by Sanchez III, Sanchez Jr., Patricio Sanchez, Eduardo Sanchez, and/or members of their family (collectively, the “Sanchez Family”).

14. Sanchez, Jr. served as the Executive Chairman of the Sanchez Energy board beginning in November 2012. He concurrently served as the chairman, CEO, and controlling owner of SOG.

15. Sanchez III is the son of Sanchez Jr. Sanchez III served as CEO of Sanchez Energy, as well as a member of the Sanchez Energy Board. He concurrently served as Chairman of the SNMP Board and President of SP Holdings, LLC, which was the Manager of Sanchez Midstream Partners, LP (“SNMP”). He also concurrently served as Co-President of SOG.

16. Patricio Sanchez is the brother of Sanchez III and the son of Sanchez Jr. He served as Executive Vice President of Sanchez Energy beginning in November 2016. He concurrently served as President, COO, and Director of SNMP and as Co-President of SOG.

17. Eduardo Sanchez is the brother of Sanchez III and the son of Sanchez Jr. He served as President of Sanchez Energy beginning in October 2015 through November 2017. He concurrently served as Director of SNMP and as Co-President of SOG.

18. Gerald Willinger served as the CEO of SNMP.

C. The Disputes Among the Settling Parties

19. The disputes among the Settling Parties that are resolved pursuant to the Settlement Agreement arise out of the Sanchez Parties’ influence over and control of the Reorganized Debtors prior to the commencement of the Bankruptcy Cases. The Reorganized Debtors allege that, beginning in mid-2014, certain of the Sanchez Parties breached fiduciary duties to Sanchez Energy and committed corporate waste of Sanchez Energy assets.

20. The Reorganized Debtors’ claims pre-date and survived the Bankruptcy Cases. The claims were specifically preserved by the Debtors for the Reorganized Debtors, including, *inter alia*, claims for breach of fiduciary duty and corporate waste in connection with multiple transactions and financial arrangements implemented at the direction of, or with the approval of, the Sanchez Parties. See Plan Supp.—Ex. D at IX [D.I. 1148].

i. *Disputes Regarding the Catarina Midstream Transactions*

21. On October 14, 2015, (a) SN Catarina closed a sale of its interest in Catarina Midstream to an entity controlled by the Sanchez Parties for \$345.8 million (the “Catarina Midstream Sale”), and (b) SN Catarina, as “Producer,” and Catarina Midstream, as “Gatherer,” entered into that Firm Gathering and Processing Agreement (as amended, modified, or supplemented from time to time, the “Gathering Agreement”). Under the Gathering Agreement, the parties agreed that Catarina Midstream would provide certain wellhead gathering, transportation, processing, and other services to SN Catarina with respect to the Catarina oil and gas assets. Western Catarina assets were among the “Dedicated Acreage” under the Gathering Agreement, and while Eastern Catarina assets were not among the “Dedicated Acreage” under the Gathering Agreement, Catarina Midstream provided services for SN Catarina’s production from Eastern Catarina from the time the Gathering Agreement was entered into.

22. Some of the disputes among the Settling Parties that are resolved pursuant to the Settlement Agreement arise out of the Catarina Midstream Sale, and the Reorganized Debtors’ claims against certain of the Sanchez Parties for their breach of fiduciary duty and/or contribution to corporate waste in connection with their approval of alleged overpayments under the Gathering Agreement. For example, the Reorganized Debtors allege that Sanchez III pressured the Audit Committee to sell the Catarina Midstream System to Sanchez Party-controlled SNMP and then dedicate production from certain of the Catarina assets to SNMP pursuant to the Gathering Agreement (the “Catarina Arrangement”)—all at out-of-market prices and rates—for the benefit of the Sanchez Family. Moreover, the Reorganized Debtors contend that the Sanchez Parties structured the deal such that SNMP could take the position that it could, in its sole discretion, impose rate hikes and gratuitous fees in connection with production from the non-dedicated portion

of the Catarina assets at great expense to the Reorganized Debtors (or their respective debtor predecessors) and, in each case, to the enrichment of the Sanchez Family.⁴

ii. *Pipeline Agreements*

23. The Reorganized Debtors also maintain that, upon approval of the Audit Committee, Sanchez Energy pursued and effected other one-sided transactions for the benefit of SNMP (and ultimately, the Sanchez Family). For example, (a) Sanchez Energy sold to SNMP its interests in a joint venture (the “Carnero JV”) between SN Midstream and TPL SouthTex Processing Company, LP to construct a high-pressure gathering pipeline (the “Carnero Pipeline”) without marketing such transaction; and (b) Sanchez Energy entered into a month-to-month gathering agreement with Seco Pipeline, LLC (a Sanchez Party-controlled subsidiary of SNMP) pursuant to which Sanchez Energy routinely paid a deficiency fee for failing to meet a stated minimum volume obligation rather than terminating such agreement. The Reorganized Debtors contend that the Sanchez Parties are liable for breach of their fiduciary duties and for corporate waste in connection with their role in effecting the Carnero Pipeline transaction and Seco Pipeline transaction.

iii. *Other Disputes*

24. In addition to the transactions summarized above, the Reorganized Debtors also allege that the Sanchez Parties caused or approved other one-sided arrangements that inured to the benefit of the Sanchez Family at the expense of the Reorganized Debtors (or their respective debtor predecessors). For example, the Reorganized Debtors contend that:

⁴ Similar disputes relating to the Catarina Arrangement were previously the subject of direct litigation between SN Catarina and Catarina Midstream LLC in two different forums that has since been settled pursuant to a separate settlement agreement approved by this Court. See *Order Approving Reorganized Debtors’ Motion Pursuant to Bankruptcy Rule 9019 for Entry of an Order Approving a Settlement and Compromise* [D.I. 2477].

(a) Sanchez III caused Sanchez Energy to enter into an agreement to provide various administrative and operational services for entities benefiting, controlled by, or owned by the Sanchez Parties at the expense of Sanchez Energy;

(b) The Sanchez Parties arranged for certain lease and improvement obligations to be taken on by Sanchez Energy related to a ranch that was used overwhelmingly by members of the Sanchez Family without any commensurate benefit to the company;

(c) Sanchez III orchestrated excessive cash and stock compensation for the Sanchez Family, among others; and

(d) The Sanchez Parties arranged for or approved the use of the Sanchez Energy corporate aircraft for personal use while continuing to charge the costs of the corporate aircraft to Sanchez Energy.

iv. *Sanchez Parties' Claims and Assertions*

25. Certain of the Sanchez Releasors filed proofs of claims in the Bankruptcy Cases, including the claims set forth on Exhibit C (collectively, the “Released Sanchez Claims”). According to the Sanchez Parties, none of the Reorganized Debtors’ allegations have merit—a position that the Sanchez Parties indicated that they were prepared to vigorously defend in the event of litigation. Moreover, the Sanchez Parties dispute whether the Reorganized Debtors properly preserved their claims, and whether the claims are timely under the applicable statutes of limitations.

26. In addition to the disputes regarding liability, certain of the Sanchez Parties believe they hold claims or third-party claims against persons entitled to indemnification by the Reorganized Debtors, which they may have brought in the event of litigation. Under the terms of the Confirmation Order, the Sanchez Parties retained the right to judgment reduction in the amount of a claim against or a credit on account of the liability of any Exculpated Party (as defined in the Plan) to the extent they would have been entitled to such under applicable non-bankruptcy law.

D. The Proposed Settlement Agreement

27. On September 12, 2022, the Settling Parties entered into the Settlement Agreement, which avoids what would inevitably be a lengthy and costly litigation and resolves all pending disputes among the parties without any Settling Party admitting liability. The material terms of the Settlement Agreement are set forth below.⁵

(a) Settlement Effective Date: The “Settlement Effective Date” will occur immediately on the date upon which an order entered by this Court approving the Settlement Agreement becomes final and no longer is subject to appeal, or on such earlier date as the Parties mutually agree in writing following entry of such order.

(b) Mesquite Releases: Upon the Settlement Effective Date and the receipt by the Reorganized Debtors of the Settlement Payment (defined below), each of the Reorganized Debtors, for itself and each of its current and former officers, directors, managers, principals, members, shareholders, partners, investors, employees, subsidiaries, affiliates, divisions, agents, advisors, attorneys, accountants, representatives, insurers, estates, predecessors, successors, and assigns, but excluding any of the Sanchez Parties (collectively, the “Mesquite Releasors”), has agreed to fully, finally, and forever release and discharge (i) each of the Sanchez Parties, and each of their current and former subsidiaries and affiliates, and all of such persons’ and entities’ current and former officers, directors, managers, principals, members, shareholders, partners, investors, employees, divisions, agents, advisors, attorneys, accountants, representatives, insurers, estates, predecessors, successors, and assigns, and (ii) Alan G. Jackson, Gilbert A. Garcia, Gregory Colvin, Robert V. Nelson, III, Sean M. Maher, and Brian Carney, in their capacity as a former director or officer of the Reorganized Debtors, any debtor in the Bankruptcy Cases, or any such entity’s current or former subsidiaries or affiliates, and all of such persons’ current and former agents, advisors, attorneys, accountants, representatives, insurers, estates, successors, and assigns (collectively, the “Sanchez Releasees”) from any and all losses, claims, debts, liabilities, demands, charges, complaints, acts, omissions, costs, expenses, damages, injuries, offsets, billing disputes, deposits, attorneys’ fees, suits, actions and causes of action (including, but not limited to, any and all pending proofs of claim and causes of action under Chapter 5 of the Bankruptcy Code and any state law equivalent), of whatever kind or nature, whether matured or unmatured, at law or in equity, known or unknown, suspected or unsuspected, contingent or fixed, liquidated or unliquidated, which any or all of the Mesquite Releasors has or had

⁵ In the event of any inconsistency between this Motion and the Settlement Agreement, the Settlement Agreement shall control.

or may claim to have against any of the Sanchez Releasees from the beginning of time through and including the Settlement Effective Date.

(c) Sanchez Releases: Upon the Settlement Effective Date, each of the Sanchez Parties, for himself or itself and each of his or its current and former officers, directors, managers, principals, members, shareholders, partners, investors, employees, subsidiaries, affiliates, divisions, agents, advisors, attorneys, accountants, representatives, insurers, estates, predecessors, successors, and assigns (collectively, the “Sanchez Releasors”), has agreed to fully, finally, and forever release and discharge each of the Reorganized Debtors, and each of their current and former subsidiaries and affiliates (whether or not such subsidiaries and affiliates were debtors in the Bankruptcy Cases), and all of such persons’ and entities’ current and former officers, directors, managers, principals, members, shareholders, partners, investors, employees, divisions, agents, advisors, attorneys, accountants, representatives, insurers, estates, predecessors, successors, and assigns (collectively, the “Mesquite Releasees”) from any and all losses, claims, debts, liabilities, demands, charges, complaints, acts, omissions, costs, expenses, damages, injuries, offsets, billing disputes, deposits, attorneys’ fees, suits, actions and causes of action (including, but not limited to, any and all pending proofs of claim and causes of action under Chapter 5 of the Bankruptcy Code and any state law equivalent), of whatever kind or nature, whether matured or unmatured, at law or in equity, known or unknown, suspected or unsuspected, contingent or fixed, liquidated or unliquidated, which any or all of the Sanchez Releasors has or had or may claim to have against any of the Mesquite Releasees from the beginning of time through and including the Settlement Effective Date.

(d) Cash Payment: Within thirty days after the Settlement Effective Date, the Sanchez Parties shall pay or cause to be paid \$2,000,000.00 in cash, by wire transfer of immediately available funds (the “Settlement Payment”), to an account designated by counsel to the Reorganized Debtors.⁶

28. The Reorganized Debtors seek approval of the Settlement Agreement consistent with the requirements of the Plan. Pursuant to Article IV.D. of the Plan, the Reorganized Debtors must “seek approval of any settlement or compromise of any Causes of Action against the Sanchez

⁶ The Reorganized Debtors understand that some or all of the Settlement Payment is to be made by insurers under one or more insurance policies purchased by Sanchez Energy Corporation. Although the Reorganized Debtors are unaware of any restrictions in the Plan (or otherwise) that would preclude payment from such insurance policies or require approval of such payments by the Court, the Sanchez Parties have requested confirmation that, to the extent required under the Plan, such payment from the insurance policies is permitted. The Proposed Order accompanying this Motion includes language to this effect.

Parties . . . following consultation with the Lien-Related Litigation Creditor Representative, pursuant to Bankruptcy Rule 9019, after notice and opportunity for a hearing.”⁷

29. The Reorganized Debtors have consulted with the Lien-Related Litigation Creditor Representative (the “Creditor Representative”) with respect to the terms of the Settlement Agreement. The Creditor Representative has indicated that it intends to object to this Motion.

30. The Reorganized Debtors now seek approval of the Settlement Agreement pursuant to Bankruptcy Rule 9019, in conformity with the Plan.

RELIEF REQUESTED

31. By this Motion, the Reorganized Debtors request that this Court enter the Proposed Order approving the Settlement Agreement pursuant to Bankruptcy Rule 9019 and disallowing and expunging the Released Sanchez Claims.

BASIS FOR RELIEF

32. Through this Motion, the Reorganized Debtors request approval of the Settlement Agreement. The Settlement Agreement evidences a business deal among the Settling Parties, ending what has the potential to develop into contentious and expensive litigation proceedings that carry substantial risk on both sides. The Settlement Agreement contemplates the resolution of all disputes among the Settling Parties, thereby ending years’ long disputes among the Reorganized Debtors (and their respective debtor predecessors in interests) and the Sanchez Parties.

33. Bankruptcy Rule 9019 authorizes bankruptcy courts to approve compromises and settlements. Ultimately, a compromise must be “fair, equitable, and in the best interest of the

⁷ In addition to releasing the Sanchez Parties, the Settlement Agreement includes a release of other former directors of the Reorganized Debtors. The Plan does not require Court approval of the settlement or compromise of claims against such non-Sanchez Family individuals, but in any event, it is reasonable for the Reorganized Debtors to include releases of other directors in connection with the settlement of the claims at issue.

estate.” *In re Roquomore*, 393 B.R. 474, 479 (Bankr. S.D. Tex. 2008) (citation omitted). The decision to approve a compromise lies within the sound discretion of the bankruptcy court. *See United States v. AWECO, Inc. (In re AWECO, Inc.)*, 725 F.2d 293, 297 (5th Cir. 1984). The Fifth Circuit has recognized that compromises are a “normal part of the process of reorganization . . . **oftentimes desirable and wise methods of bringing to a close proceedings otherwise lengthy, complicated, and costly.**” *In re Jackson Brewing Co.*, 624 F.2d 599, 602 (5th Cir. 1980) (emphasis added) (citing *Protective Comm. for Indep. Stockholders of TMT Trailer Ferry, Inc. v. Anderson*, 390 U.S. 414, 424–25 (1968)).

34. In determining the reasonableness of a settlement, courts in the Fifth Circuit consider the following three factors: (a) “[t]he probability of success in [litigating the claim subject to settlement,] with due consideration for the uncertainty in fact and law; (b) [t]he complexity and likely duration of litigation and any attendant expense, inconvenience, and delay; and (c) [a]ll other factors bearing on the wisdom of the compromise.” *Official Comm. of Unsecured Creditors v. Cajun Elec. Power Coop., Inc. (In re Cajun Elec. Power Coop.)*, 119 F.3d 349, 356 (5th Cir. 1997); *Jackson Brewing*, 624 F.2d at 602.

35. Factors “bearing on the wisdom of the compromise” include: (1) the paramount interest of creditors, with proper deference to their reasonable views; and (2) the extent to which the settlement is truly the product of arms-length bargaining, and not of fraud or collusion. *See Conn. Gen. Life Ins. Co. v. United Cos. Fin. Corp. (In re Foster Mortg. Corp.)*, 68 F.3d 914, 917–18 (5th Cir. 1995).

36. The Reorganized Debtors bear the burden of establishing that the balance of the above factors leads to a fair and equitable compromise. *In re Allied Properties, LLC*, 2007 WL 1849017, at *4 (citing *In re Lawrence & Erausquin, Inc.*, 124 B.R. 37, 38 (Bankr. N.D. Ohio

1990)); *see also In re GHR Companies, Inc.*, 50 B.R. 925, 931 (Bankr. D. Mass. 1985). “The burden is not high”; rather, the Reorganized Debtors “***need only show that [their] decision falls within the ‘range of reasonable litigation alternatives.’***” *In re Allied Properties, LLC*, 2007 WL 1849017, at *4 (emphasis added) (citing *In re W.T. Grant Co.*, 699 F.2d 599, 608 (2d Cir. 1983)); *see also Cook v. Waldron*, 2006 WL 1007489 at *4 (S.D. Tex. Apr. 18, 2006).

37. Weighing the foregoing factors overwhelmingly demonstrates that the Settlement Agreement is reasonable and supports finding that the Reorganized Debtors’ entry into and performance under the Settlement Agreement is in the best interests of creditors and other stakeholders. Accordingly, this Court should approve the Settlement Agreement, and authorize the Reorganized Debtors to enter into and perform under the Settlement Agreement.

A. Probability of Success

38. In examining the probability of success in the litigation being compromised, courts look to the legal and evidentiary obstacles to litigating each claim. *Hicks, Muse & Co. v. Brandt* *In re Healthco Int’l, Inc.*, 136 F.3d 45, 50 (1st Cir. 1998); *see also In re Allied Properties*, 2007 WL 1849017, at *4. The probability of success is measured against the “definitive, concrete and immediate benefit” that a settlement provides against the uncertainty and delay of litigation. *See Yacovi v. Rubin & Rudman, L.L.P. (In re Yacovi)*, 411 F. App’x 342, 346–47 (1st Cir. 2011) (citing *Healthco Int’l*, 136 F.3d at 50). In deciding the probability of success in the litigation, the Court is not required to conduct a “mini-trial” and decide the merits of the litigation, but rather to assess whether the settlement is within the range of reasonableness. *In re Roqumore*, 393 B.R. at 480.

39. In negotiating and considering the merits of the Settlement Agreement, the Reorganized Debtors considered all material disputes among the Settling Parties. Many of these

disputes are subject to substantial uncertainty given the complexity and intertwined issues involved.

40. If the Reorganized Debtors continue to prosecute their claims against the Sanchez Parties, they will have to incur significant expense to initiate litigation, fight motions to dismiss, complete extensive discovery, retain expert witnesses, and prepare for a potentially lengthy and contentious trial. And while the Reorganized Debtors believe that their causes of action against the Sanchez Parties have merit, the Sanchez Parties have indicated their equally strong belief in their defenses and there is no certainty in the outcome. The Reorganized Debtors expect that various defenses and obstacles to recovery would be raised by the Sanchez Parties, including issues relating to the statute of limitations, the standard of review applicable to the Reorganized Debtors' claims (e.g., business judgment vs. entire fairness), causation and damages, and the availability of insurance coverage, among others.

41. The Reorganized Debtors also expect that the Sanchez Parties might bring third-party claims against other current or former officers of the Reorganized Debtors. While the Reorganized Debtors do not believe such third-party claims would have merit, the Reorganized Debtors could be obligated to indemnify such third-party defendants, causing more expense, uncertainty, and distraction.

42. Moreover, even if the Reorganized Debtors prevail on the merits of their claims, the litigation would likely be subject to appeal in light of the amounts at stake and issues involved, which would only further delay the Reorganized Debtors' ability to obtain relief. By entering into the Settlement Agreement, the Reorganized Debtors avoid the risk of not prevailing on their claims, as well as potentially significant litigation costs.

43. After weighing the myriad factual and legal issues raised by the Reorganized Debtors' claims, and the pros and cons of prevailing or losing on any of such claims, the Settling Parties agreed to the terms of the Settlement Agreement to resolve all disputes among the Settling Parties.

44. Finally, and perhaps most importantly, by resolving all ongoing disputes among the Settling Parties, the Settlement Agreement brings finality and certainty to otherwise uncertain litigation and liability, and it resolves what otherwise would have served as a distraction to the Reorganized Debtors' management if the Reorganized Debtors were to continue to pursue claims against the Sanchez Parties.

45. In short, the Settlement Agreement reflects a fair resolution based on the probability of success in prosecuting the Settling Parties' respective claims, and the attendant risks in the absence of a prompt resolution.

B. Complexity of Litigation Involved and the Attendant Expense, Inconvenience, and Delay

46. As explained above, the Reorganized Debtors' likelihood of success in connection with prosecuting their claims against the Sanchez Parties is uncertain due to the complexity of the factual and legal issues involved with such claims. This complexity is compounded by the web of factual matters that will require discovery given the interwoven nature of the Reorganized Debtors' pre-bankruptcy dealings with the Sanchez Parties.

47. Further, in the absence of settlement, continued prosecution of the claims resolved by the Settlement Agreement will take potentially years to reach a final resolution, after accounting for the time necessary to reach decisions on the merits and to work through any appellate processes. Such delay will subject the Reorganized Debtors to the economic overhang of these disputes, generate significant legal expenses, and continue the uncertainty regarding the ultimate outcome.

This sort of delay and uncertainty has served as a distraction to the Reorganized Debtors' operation of their business for years, and will only continue to distract from the Reorganized Debtors' operations if litigation continues in the absence of settlement.

48. For these reasons, the cost of the Settlement Agreement to the Reorganized Debtors is far outweighed by the benefit realized by ending this continuing contentious and expensive litigation, and gaining certainty regarding each Settling Parties' exposure to the other.

49. Given the uncertainty associated with potential litigation among the Settling Parties, it is clear that the benefits derived from the Settlement Agreement far exceed the costs.

C. Other Factors Bearing on the Benefits of the Compromise

i. Interests of the Creditors

50. The terms of the Settlement Agreement are fair, reasonable, and in the best interests of creditors and other stakeholders. Pursuant to the Plan, 20% of the New Common Stock (as defined in the Plan) of reorganized Mesquite was distributed to holders of all DIP Claims (as defined in the Plan), and the remaining 80% of the New Common Stock will be distributed to holders of DIP Claims, Secured Notes Claims, and General Unsecured Claims (each, as defined in the Plan), depending on the outcome of the Lien-Related Litigation⁸ (as defined in the Plan). The largest holders of the DIP Claims and Secured Notes Claims—Fidelity and Apollo—support the Reorganized Debtors' entry into the Settlement Agreement, and their representatives on the Mesquite board have voted in favor of the settlement. The Settlement Agreement provides immediate certainty with respect to the outcome of contentious and expensive litigation and

⁸ Nothing contained in this Motion or the relief requested herein is intended to alter in any way the rights of the Lien-Related Litigation Creditor Representative (as defined in the Plan) under the terms of the Plan.

removes the potential for an adverse judgment and continued distraction that could impair future operations. This resolution inures to the benefit of all parties and stakeholders.

51. Nevertheless, the Lien-Related Litigation Creditor Representative has indicated an intent to oppose the Settlement Agreement. As the Reorganized Debtors understand it, the Creditor Representative's primary objection concerns the impact that settlement of such claims might have on the allocation of New Common Stock in the Lien-Related Litigation. The Creditor Representative has pointed to the fact that representatives of the holders of DIP Claims and Secured Notes Claims sit on the board of Mesquite, and allegedly have an incentive to favor their interests in the Lien-Related Litigation, rather than looking out solely for the interests of the Reorganized Debtors. The Reorganized Debtors disagree with any such contention. The proposed settlement is based on consideration of the factors deemed appropriate by applicable law, including the merits of the claims to be settled, and the costs, distractions, and inconvenience of pursuing litigation as an alternative. Moreover, the entire structure of the Plan contemplated that the holders of DIP Claims and Secured Notes Claims would have a majority on the Mesquite board, and so the prospect of an alleged conflict could not, in and of itself, constitute grounds for rejecting the Settlement Agreement. Protection for the Creditor Representative comes from this Court's review, under the standards of Rule 9019, regarding the reasonableness of the proposed settlement. In any event, the chair of Mesquite's board, Harry Quarls, has no interest in the outcome of the Lien-Related Litigation, and he is the individual who directed strategy with respect to the negotiations with the Sanchez Parties. He also has approved entry into the Settlement Agreement, and so even if the representatives of the DIP and secured lenders had recused themselves, the Reorganized Debtors still would pursue the proposed settlement.

ii. *Arms-Length Bargaining*

52. The Settlement Agreement is the product of extensive negotiations between the Reorganized Debtors and the Sanchez Parties. Each of these parties has been represented by experienced professionals throughout the Settlement Agreement negotiations and has acted in its own economic self-interest.⁹ See *In re Chemtura Corp.*, 439 B.R. 561, 608 (Bankr. S.D.N.Y. 2010) (settlement met this factor, where “[n]o argument ha[d] been made, nor could any argument be made, that counsel who put the Settlement together were anything less than highly skilled in their craft....”); see also *In re Drexel Burnham Lambert Grp., Inc.*, 960 F.2d 285, 292–93 (2d Cir. 1992) (approving complex, multi-party settlement agreement where many parties were “trying to maximize their own recovery,” through extensive arms-length negotiations).

53. Consequently, this factor also weighs in favor of approving the Settlement Agreement.

[remainder of page intentionally blank]

⁹ The Reorganized Debtors have been represented in their disputes with the Sanchez Parties by Reid Collins & Tsai LLP. The Sanchez Parties have been represented by Ahmad, Zavitsanos & Mensing, P.C.

CONCLUSION

For the reasons set forth herein, the Reorganized Debtors respectfully request that the Court grant the Motion and grant such other relief as may be appropriate.

New York, New York
September 15, 2022

Respectfully submitted,

/s/ Marshall R. King

GIBSON, DUNN & CRUTCHER LLP

Michael A. Rosenthal (State Bar No. 17281490)

Eric T. Haitz (State Bar No. 24101851)

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Telephone: (214) 698-3100

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Email: EHaitz@gibsondunn.com

-and-

Marshall R. King (admitted *pro hac vice*)

200 Park Avenue

New York, New York 10166-0193

Telephone: (212) 351-4000

Facsimile: (212) 351-4035

Email: MKing@gibsondunn.com

Attorneys for the Reorganized Debtors

CERTIFICATE OF SERVICE

I certify that on September 15, 2022, I caused a copy of the foregoing document to be served by the Electronic Case Filing System for the United States Bankruptcy Court for the Southern District of Texas.

/s/ Eric T. Haitz
Eric T. Haitz

EXHIBIT A

Settlement Agreement

SETTLEMENT AGREEMENT

This Settlement Agreement (this “Agreement”) is made as of this 12th day of September, 2022, by and between (i) Mesquite Energy, Inc. (f/k/a Sanchez Energy Corporation) (“Mesquite”), SN TMS, LLC (“SN TMS”), Rockin L Ranch Company, LLC (“Rockin L”), SN Catarina, LLC (“SN Catarina”), SN Cotulla Assets, LLC (“SN Cotulla”), SN EF Maverick, LLC (“SN Maverick”), SN Palmetto, LLC (“SN Palmetto”), SN Payables, LLC (“SN Payables”), SN Operating, LLC (“SN Operating”), SN Marquis LLC (“SN Marquis”), and SN UR Holdings, LLC (“SN UR”) (each a “Reorganized Debtor” and collectively, the “Reorganized Debtors”) and (ii) Sanchez Oil & Gas Corporation, Antonio R. Sanchez, III, Antonio R. Sanchez, Jr., Patricio Sanchez, Eduardo Sanchez, and Gerald Willinger (the “Sanchez Parties,” and collectively with the Reorganized Debtors, the “Parties” and each, a “Party”).

RECITALS

WHEREAS, on August 11, 2019 (the “Petition Date”), Sanchez Energy Corporation (now known as Mesquite Energy, Inc.) and certain of its affiliates each filed a voluntary petition for relief under Chapter 11 of Title 11 of the United States Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Southern District of Texas (the “Bankruptcy Court”) and the bankruptcy cases are jointly administered under Case No. 19-34508 (MI), *In re Sanchez Energy Corporation, et al.* (the “Sanchez Bankruptcy Cases”);

WHEREAS, in January 2020, the Sanchez Parties filed proofs of claim against one or more Reorganized Debtors, as listed on Exhibit A (collectively, the “Bankruptcy Claims”);

WHEREAS, the Reorganized Debtors filed the Second Amended Joint Chapter 11 Plan of Reorganization of Sanchez Energy Corporation and its Debtor Affiliates (“Plan”);

WHEREAS, on April 30, 2020, the Bankruptcy Court entered the Order Approving Disclosure Statement and Confirming Second Amended Joint Chapter 11 Plan of Reorganization of Sanchez Energy Corporation and its Debtor Affiliates [Dkt No. 1212] (“Confirmation Order”);

WHEREAS, pursuant to the Plan, the Reorganized Debtors retained certain pre-petition causes of action against the Sanchez Parties (and others), including but not limited to claims related to the Sanchez Parties’ alleged pre-petition breaches of fiduciary duty and corporate waste;

WHEREAS, between October 25, 2021, and October 27, 2021, the Reorganized Debtors filed various objections to the Bankruptcy Claims, as listed on the attached Exhibit B (each, a “Claim Objection” and collectively, the “Claim Objections”);

WHEREAS, some or all of the Sanchez Parties contend that they hold claims or counterclaims against the Reorganized Debtors and/or their agents, employees, officers, board members, affiliates, predecessors, successors, and assigns;

WHEREAS, in order to avoid the costs and risks of litigation, the Parties have determined to resolve all of their disputes related to their respective claims and/or counterclaims on the terms and subject to the conditions set forth in this Agreement; and

WHEREAS, it is the intention of the Parties hereto to settle and dispose of, fully and completely, any and all claims, demands, and causes of action against each other subject to and in accordance with this Agreement.

WITNESSETH

NOW THEREFORE, in consideration of the foregoing Recitals and the mutual covenants and promises contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, agree as follows:

1. **Incorporation of Recitals.** The Recitals set forth above are incorporated herein by this reference.

2. **Effectiveness of the Settlement.** The “Settlement Effective Date” shall occur immediately on the date upon which an Order entered by the Bankruptcy Court approving this Agreement (the “Approval Order”) becomes final and no longer is subject to appeal, or on such earlier date as the Parties mutually agree in writing following entry of the Approval Order. As necessary, the parties agree to work in good faith to extend the tolling agreements relevant to the claims released herein during the pendency of the Approval Order. In the event that the Bankruptcy Court declines to grant the Approval Order, either party may terminate this Agreement on 10 days’ written notice. During the 10 days after such written notice but before the termination of the Agreement, the Reorganized Debtors may, at their sole discretion, file any and all claims released herein.

3. **Payment.** Within thirty (30) calendar days following the Settlement Effective Date, the Sanchez Parties shall pay or cause to be paid the sum of two million dollars (\$2,000,000) (the “Settlement Payment”) by wire transfer to the IOLTA account of Reid Collins & Tsai LLP, as counsel to the Reorganized Debtors, pursuant to wire instructions to be provided by Reid Collins & Tsai LLP.

4. **Motion to Approve Agreement.** Within five (5) days following the execution of this Agreement, the Reorganized Debtors shall file a motion pursuant to Rule 9019 of the Federal Rules of Bankruptcy Procedure to approve this Agreement (a “Motion to Approve”) with the Bankruptcy Court, which will seek an order disallowing the Bankruptcy Claims, approving the settlement reached between the Parties, and, to the extent required under the Plan, permitting payment from the Sanchez Energy Corporation insurance policy (or policies) towards the settlement. The Sanchez Parties shall reasonably cooperate with the Reorganized Debtors in connection with the Motion to Approve.

5. **Releases.**

(a) Upon the Settlement Effective Date and the receipt by the Reorganized Debtors of the Settlement Payment in accordance with Paragraph 3 hereof, each of the Reorganized Debtors, for itself and each of its current and former officers, directors, managers, principals, members, shareholders, partners, investors, employees, subsidiaries, affiliates, divisions, agents, advisors, attorneys, accountants, representatives, insurers, estates, predecessors, successors, and assigns, but excluding any of the Sanchez Parties (collectively, the “Mesquite Releasors”), does hereby fully,

finally, and forever release and discharge (i) each of the Sanchez Parties, and each of their current and former subsidiaries and affiliates, and all of such persons' and entities' current and former officers, directors, managers, principals, members, shareholders, partners, investors, employees, divisions, agents, advisors, attorneys, accountants, representatives, insurers, estates, predecessors, successors, and assigns, and (ii) Alan G. Jackson, Gilbert A. Garcia, Gregory Colvin, Robert V. Nelson, III, Sean M. Maher, and Brian Carney, in their capacity as a former director or officer of the Reorganized Debtors, any debtor in the Sanchez Bankruptcy Cases, or any such entity's current or former subsidiaries or affiliates, and all of such persons' current and former agents, advisors, attorneys, accountants, representatives, insurers, estates, successors, and assigns (collectively, the "Sanchez Releasees") from any and all losses, claims, debts, liabilities, demands, charges, complaints, acts, omissions, costs, expenses, damages, injuries, offsets, billing disputes, deposits, attorneys' fees, suits, actions and causes of action (including, but not limited to, any and all pending proofs of claim and causes of action under Chapter 5 of the Bankruptcy Code and any state law equivalent), of whatever kind or nature, whether matured or unmatured, at law or in equity, known or unknown, suspected or unsuspected, contingent or fixed, liquidated or unliquidated, which any or all of the Mesquite Releasors has or had or may claim to have against any of the Sanchez Releasees from the beginning of time through and including the Settlement Effective Date (collectively, the "Mesquite Released Claims"); provided, however, that the releases set forth in this Section 5 will not in any manner release or discharge the Sanchez Releasees from any obligations, covenants and agreements set forth in this Agreement, and provided, further, that nothing herein shall be deemed to release or discharge Evolve Transition Infrastructure LP, Evolve Transition Infrastructure GP LLC, or any of their subsidiaries, from any obligations, covenants or agreements they may have to any of the Mesquite Releasors.

(b) Upon the Settlement Effective Date, each of the Sanchez Parties, for himself or itself and each of his or its current and former officers, directors, managers, principals, members, shareholders, partners, investors, employees, subsidiaries, affiliates, divisions, agents, advisors, attorneys, accountants, representatives, insurers, estates, predecessors, successors, and assigns (collectively, the "Sanchez Releasors"), does hereby fully, finally, and forever release and discharge each of the Reorganized Debtors, and each of their current and former subsidiaries and affiliates (whether or not such subsidiaries and affiliates were debtors in the Sanchez Bankruptcy Cases), and all of such persons' and entities' current and former officers, directors, managers, principals, members, shareholders, partners, investors, employees, divisions, agents, advisors, attorneys, accountants, representatives, insurers, estates, predecessors, successors, and assigns (collectively, the "Mesquite Releasees") from any and all losses, claims, debts, liabilities, demands, charges, complaints, acts, omissions, costs, expenses, damages, injuries, offsets, billing disputes, deposits, attorneys' fees, suits, actions and causes of action (including, but not limited to, any and all pending proofs of claim and causes of action under Chapter 5 of the Bankruptcy Code and any state law equivalent), of whatever kind or nature, whether matured or unmatured, at law or in equity, known or unknown, suspected or unsuspected, contingent or fixed, liquidated or unliquidated, which any or all of the Sanchez Releasors has or had or may claim to have against any of the Mesquite Releasees from the beginning of time through and including the Settlement Effective Date (collectively, the "Sanchez Released Claims"); provided, however, that the releases set forth in this Section 5 will not in any manner release or discharge the Mesquite Releasees from any obligations, covenants and agreements set forth in this Agreement.

6. **No Assignments; No Admissions.** Each of the Parties represents and warrants to,

and agrees with, the other Parties to this Agreement that none of the Mesquite Releasors or Sanchez Releasors has assigned or otherwise disposed of any of the Mesquite Released Claims or Sanchez Released Claims. This Agreement constitutes a compromise of the Parties' various disputes. Nothing contained herein shall constitute or be deemed to be an admission or concession by any Party as to any matter, including, without limitation, with respect to the truth of any fact alleged by any Party against any of the other Parties to this Agreement or the validity of any claim that has been or could be asserted in any litigation involving the Parties. This Agreement, and the negotiation thereof, shall in no way constitute, be construed as, or be evidence of an admission or concession of any violation of any statute or law; of any fault, liability, or wrongdoing; or of any infirmity in the claims or defenses of any of the Parties to this Agreement with regard to any of the complaints, claims, allegations, or defenses proposed, asserted or that could have been asserted in connection with the subject matter of this Agreement or the disputes described herein or settled or released hereby.

7. **Notices.** Any notice to the Parties to this Agreement must be in writing and must be sent by overnight courier or by electronic mail (so long as duplicate notification is sent via regular U.S. Mail) to the following addresses or to any other address designated by prior written notice:

If to the Reorganized Debtors:

Gregory Kopel
Mesquite Energy, Inc.
700 Milam Street
Suite 600
Houston, Texas 77002
Email: gkopel@mesquite-energy.com

Jeremy H. Wells
REID COLLINS & TSAI LLP
1301 S. Capital of Texas Highway
Building C, Suite 300
Austin, Texas 78746
Email: jwells@reidcollins.com

Marshall R. King
GIBSON DUNN
200 Park Avenue
New York, New York 10166
Email: mking@gibsondunn.com

If to the Sanchez Parties:

Alfredo Gutierrez
argutierrez@sanchezog.com
Sanchez Oil & Gas Corporation
1360 Post Oak Blvd, Suite 2400
Houston, TX 77056
512-507-8254

Todd Mensing
Jason McManis
Ahmad, Zavitsanos & Mensing
1221 McKinney St.
Houston, TX, 77012
tmensing@azalaw.com
jmcmanis@azalaw.com

8. **Entire Agreement.** This Agreement constitutes the entire agreement among the Parties and supersedes any prior understandings, agreements, or representations by or among the Parties, written or oral, relating to the subject matter of this Agreement. Each of the Parties acknowledges that none of the Parties or the attorney for any of the other Parties has made any promise, representation, or warranty whatsoever, express or implied, not contained in this Agreement concerning the subject matter of this Agreement to induce such Party to execute this Agreement and acknowledges that such Party is not executing this Agreement in reliance on any promise, representation or warranty not contained in this Agreement. All pre-execution drafts of this Agreement and all communications among counsel for the Parties regarding this Agreement constitute settlement discussions pursuant to Federal Rule of Evidence 408 and any other applicable rules of similar import.

9. **Amendments and Waiver.** No amendment of this Agreement will be valid unless in writing and signed by each of the Parties. No failure or delay by any Party in exercising any right, power, or privilege under this Agreement will operate as a waiver thereof, nor will any single or partial exercise thereof preclude any other or further exercise of any right, power, or privilege hereunder.

10. **Retention of Jurisdiction and Power.** The Bankruptcy Court will retain jurisdiction and judicial power regarding (i) any dispute regarding the payment of the Settlement Payment and (ii) the interpretation and enforcement of the other terms of this Agreement.

11. **Construction of this Agreement.** The Parties acknowledge that they have been represented by counsel of their own choice, or have had the opportunity to be represented by counsel of their own choice, throughout all negotiations that preceded the execution of, and in all

other matters in connection with, this Agreement. The preparation of this Agreement has been a joint effort of the Parties and the resulting document will not, solely as a matter of judicial construction, be construed more severely against one Party as against the other Parties to this Agreement. The headings used herein are inserted for convenience only and will not affect in any way the meaning or interpretation of this Agreement.

12. **Counterparts and Originals.** This Agreement may be executed in any number of counterparts, each of which, when so executed, will be deemed an original, but all such counterparts will constitute but one and the same document. Delivery by a Party of an executed counterpart of a signature page to this Agreement by facsimile or PDF documents sent by email will be effective as delivery of an original executed counterpart.

13. **Successors.** This Agreement will be binding upon, and will inure to the benefit of, the Parties to this Agreement, their successors and assigns including, but not limited to, successors by merger, consolidation or otherwise.

14. **Governing Law.** This Agreement is to be governed by and construed in accordance with the laws of Texas applicable to contracts made and to be performed in such state, without giving effect to the conflict of laws principles thereof, except as governed by the Bankruptcy Code.

15. **No Effect Upon Other Rights.** Except as otherwise expressly provided in this Agreement, nothing in this Agreement (a) is intended to, or does, adversely affect any rights or defenses of any of the Parties under the Bankruptcy Code or (b) will be construed as a waiver by the Parties of any of their rights or defenses under applicable law. The failure by any Party at any time to or times hereafter to require strict performance by any other Party of any provision of this Agreement will not waive, affect, or diminish any right of such Party to thereafter demand strict compliance therewith.

16. **Severability.** Any term or provision of this Agreement that is invalid or unenforceable in any jurisdiction will, as to such jurisdiction, be ineffective only to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction.

17. **Authority.** Each person signing this Agreement represents and warrants that he has been duly authorized and, subject to Bankruptcy Court approval in the case of the Reorganized Debtors, has the requisite authority to execute and deliver this Agreement on behalf of such Party, to bind such Party to the terms and conditions of this Agreement and to act with respect to the rights and claims that are being altered or otherwise affected by this Agreement.

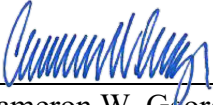
18. **Attorneys' Fees and Costs.** The Parties shall bear their own attorneys' fees and costs incurred in connection with this matter.

[Signature Page(s) to Follow]

IN WITNESS WHEREOF, the Parties have executed this Agreement effective as of the date indicated herein.

DATED: September 12, 2022

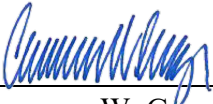
MESQUITE ENERGY, INC.



Cameron W. George

DATED: September 12, 2022

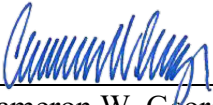
SN TMS, LLC



Cameron W. George

DATED: September 12, 2022

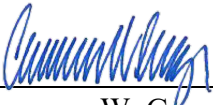
ROCKIN L RANCH COMPANY, LLC



Cameron W. George

DATED: September 12, 2022

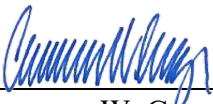
SN CATARINA, LLC



Cameron W. George

DATED: September 12, 2022

SN COTULLA ASSETS, LLC



Cameron W. George

DATED: September 12, 2022

SN EF MAVERICK, LLC

Garrick A. Hill

DATED: September 12, 2022

SN PALMETTO, LLC



Cameron W. George

DATED: September 12, 2022

SN PAYABLES, LLC



Cameron W. George

DATED: September 12, 2022

SN OPERATING, LLC



Cameron W. George

DATED: September 12, 2022

SN MARQUIS LLC



Cameron W. George

DATED: September 12, 2022

SN UR HOLDINGS, LLC



Cameron W. George

DATED: September 12, 2022

SANCHEZ OIL & GAS CORPORATION



Antonio R. Sanchez, III

DATED: September 12, 2022

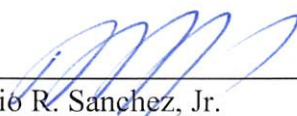
ANTONIO R. SANCHEZ, III



Antonio R. Sanchez, III

DATED: September 12, 2022

ANTONIO R. SANCHEZ, JR.



Antonio R. Sanchez, Jr.

DATED: September 12, 2022

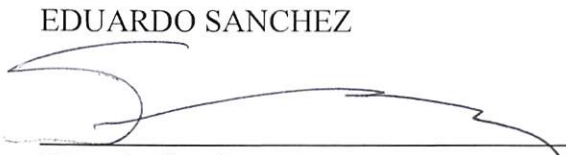
PATRICIO SANCHEZ



Patricio Sanchez

DATED: September 12, 2022

EDUARDO SANCHEZ



Eduardo Sanchez

DATED: September 12, 2022

GERALD WILLINGER



Gerald Willinger

IN WITNESS WHEREOF, the Parties have executed this Agreement effective as of the date indicated herein.

DATED: September 12, 2022

MESQUITE ENERGY, INC.

Cameron W. George

DATED: September 12, 2022

SN TMS, LLC

Cameron W. George

DATED: September 12, 2022

ROCKIN L RANCH COMPANY, LLC

Cameron W. George

DATED: September 12, 2022

SN CATARINA, LLC

Cameron W. George

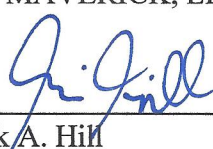
DATED: September 12, 2022

SN COTULLA ASSETS, LLC

Cameron W. George

DATED: September 12, 2022

SN EF MAVERICK, LLC



Garrick A. Hill

DATED: September 12, 2022

SN PALMETTO, LLC

Cameron W. George

EXHIBIT B

Proposed Order

**UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION**

In re:

SANCHEZ ENERGY CORPORATION *et al.*,¹

Debtor.

Chapter 11

Case No. 19-34508 (MI)

(Jointly Administered)

**ORDER GRANTING REORGANIZED DEBTORS' MOTION FOR ENTRY OF AN
ORDER (I) APPROVING A SETTLEMENT AND COMPROMISE PURSUANT TO
BANKRUPTCY RULE 9019 AND (II) GRANTING RELATED RELIEF**

Upon consideration of the *Motion for Entry of an Order (I) Approving a Settlement and Compromise Pursuant to Bankruptcy Rule 9019 and (II) Granting Related Relief* (the “Motion”),² seeking approval of that certain *Settlement Agreement* dated as of September 12, 2022, and attached hereto as Exhibit A (the “Settlement Agreement”); and upon consideration of the evidence admitted and representations made on the record at the hearing on the Motion held on October 31, 2022 (the “Hearing”); and all objections, if any, to the Motion having been withdrawn, resolved, or overruled on the merits; and this Court having considered the legal and factual bases for the relief requested in the Motion; and upon all of the proceedings had before this Court and after due deliberation and sufficient cause appearing therefor;

¹ The Reorganized Debtors, along with the last four digits of each Reorganized Debtor’s federal tax identification number, are: Sanchez Energy Corporation (0102); SN Palmetto, LLC (3696); SN Marquis, LLC (0102); SN Cotulla Assets, LLC (0102); SN Operating, LLC (2143); SN TMS, LLC (0102); SN Catarina, LLC (0102); Rockin L Ranch Company, LLC (0102); SN EF Maverick, LLC (0102); SN Payables, LLC (0102); and SN UR Holdings, LLC (0102). Upon the effective date of the Debtors’ plan of reorganization, each of the Debtors emerged as a “Reorganized Debtor.” The location of the Reorganized Debtors’ service address is 700 Milam Street, Suite 600, Houston, Texas 77002.

² Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Motion.

IT IS HEREBY FOUND AND DETERMINED THAT:

A. The findings and conclusions set forth herein constitute this Court's findings of fact and conclusions of law pursuant to Rule 7052 of the Federal Rules of Bankruptcy Procedures (the "Bankruptcy Rules"), made applicable to this proceeding pursuant to Bankruptcy Rule 9014. To the extent any of the following findings of fact constitute conclusions of law, they are adopted as such. To the extent any of the following conclusions of law constitute findings of fact, they are adopted as such. This Court's findings shall also include any oral findings of fact and conclusions of law made by this Court during or at the conclusion of the Hearing.

B. This Court has jurisdiction over this matter pursuant to 28 U.S.C. § 1334. The matters raised in the Motion are core proceedings pursuant to 28 U.S.C. § 157(b)(2).

C. Venue of this proceeding and the Motion in this district is proper pursuant to 28 U.S.C. §§ 1408 and 1409.

D. Proper, sufficient, and adequate notice of the Motion and the Hearing have been given in accordance with the Bankruptcy Code, the Bankruptcy Rules, and the Plan, and no other or further notice is necessary.

E. The Settlement Agreement and the transactions, compromises, and releases provided therein are reasonable and appropriate under the circumstances, and the Reorganized Debtors have demonstrated both (i) good, sufficient, and sound business purposes and justification for the Settlement Agreement and the transactions, compromises, and releases provided therein, and (ii) compelling circumstances for approval of the Settlement Agreement pursuant to Bankruptcy Rule 9019. The terms of the Settlement Agreement are fair and reasonable, falling above the lowest point in the range of reasonableness, and are in the best interests of the Reorganized Debtors and the Reorganized Debtors' and Debtors' stakeholders as a whole.

F. Based upon the evidence and arguments made at the Hearing, this Court has weighed the probability of success in litigation, the complexity of the litigation involved, and the expense, inconvenience, and delay necessarily attending to it. This Court has also taken into account the paramount interest of creditors and, based on all of the foregoing, has determined that the relief requested in the Motion is fair and equitable, in the best interests of the Reorganized Debtors, and should be approved in all respects.

G. In the absence of the Settlement Agreement, the Reorganized Debtors face considerable litigation expense, risk, and delay. The disputes between the Settling Parties involve numerous legal and factual issues, and judicial resolution of these disputes will require additional, extensive and costly briefing and discovery. Even if the Reorganized Debtors were successful in litigating their alleged claims against the Settling Parties, any judgment obtained may be subject to appeal with no guarantee as to the ultimate outcome. Moreover, there is no doubt that the Settling Parties' combined legal spend during a protracted litigation process would be substantial and further forestall any return of value to the Reorganized Debtors and their stakeholders. The Settlement Agreement, however, resolves the Settling Parties' disputes now without the need for additional costly, uncertain litigation.

H. The Settlement Agreement and the transactions, compromises, and releases provided therein were negotiated, proposed, and entered into by the Settling Parties, each of whom were represented by competent counsel, in good faith, without collusion, and as a result of arm's-length bargaining.

I. The Settlement Agreement, the Motion, and this Order comply with that *Second Amended Joint Chapter 11 Plan of Reorganization of Sanchez Energy Corporation and its Debtor Affiliates* [Dkt. No. 1205] (the "Plan"), including the Plan's requirement, as set forth in Article IV.D., that the Reorganized Debtors consult with the Lien-Related Litigation Creditor

Representative prior to seeking approval of a settlement or compromise of Causes of Action against the Sanchez Parties or SOG, as those terms are defined in the Plan, and that *Order Approving Disclosure Statement and Confirming Second Amended Joint Chapter 11 Plan of Reorganization of Sanchez Energy Corporation and its Debtor Affiliates* [Dkt. No. 1212].

Therefore, **IT IS HEREBY ORDERED, DETERMINED, ADJUDGED, AND DECREED THAT:**

1. The Settlement Agreement is approved in its entirety, and the Reorganized Debtors are authorized to enter into and perform under the Settlement Agreement and take all actions necessary to effectuate the terms of the Settlement Agreement.

2. The Settling Parties are authorized to take such steps and actions as may be necessary or appropriate to implement the terms of the Settlement Agreement and this Order.

3. To the extent required under the Plan, any insurer under policies purchased by Sanchez Energy Corporation. is permitted to fund the payment of the Settlement Payment pursuant to the terms of the Settlement Agreement.

4. Promptly following the Settlement Effective Date, the Reorganized Debtor shall file with this Court a notice of occurrence of the Settlement Effective Date.

5. Upon the occurrence of the Settlement Effective Date, each of the Released Sanchez Claims is disallowed.

6. Prime Clerk LLC, as claims, noticing, and solicitation agent, is authorized and directed to update the claims register maintained in the Chapter 11 Cases to reflect the relief granted in this Order.

7. Except as otherwise provided in this Order, nothing in this Order shall be deemed: (a) an admission as to the validity of any prepetition claim against the Debtors, the Debtors' estates, or the Reorganized Debtors; (b) an implication or admission that any particular claim is of a type

specified or defined in the Motion or any order granting the relief requested by the Motion; or (c) a waiver of the Reorganized Debtors' rights under the Bankruptcy Code or any other applicable law.

8. Notwithstanding any Bankruptcy Rule (including, but not limited to, Bankruptcy Rule 6004(h)), the terms and conditions of this Order shall be effective and enforceable upon its entry.

9. This Court retains jurisdiction with respect to all matters arising from or related to the Settlement Agreement or this Order.

Dated: _____, 2022
Houston, Texas

MARVIN ISGUR
UNITED STATES BANKRUPTCY JUDGE

EXHIBIT C***Released Sanchez Claims***

Claim No.	Claimant	Debtor	Asserted Secured/Unsecured
210	Sanchez Oil & Gas Corporation	SN TMS, LLC	Secured
211	Sanchez Oil & Gas Corporation	Rockin L Ranch Company, LLC	Secured
212	Sanchez Oil & Gas Corporation	SN Catarina, LLC	Secured
213	Sanchez Oil & Gas Corporation	SN Cotulla Assets, LLC	Secured
214	Sanchez Oil & Gas Corporation	SN EF Maverick, LLC	Secured
256	Sanchez Oil & Gas Corporation	SN Palmetto, LLC	Secured
257	Sanchez Oil & Gas Corporation	SN Payables, LLC	Secured
272	Sanchez Oil & Gas Corporation	SN Operating, LLC	Secured
274	Sanchez Oil & Gas Corporation	Sanchez Energy Corporation	Secured
293	Sanchez Oil & Gas Corporation	SN Marquis LLC	Secured
310	Sanchez Oil & Gas Corporation	SN UR Holdings, LLC	Secured
496	Antonio R. Sanchez, III	Sanchez Energy Corporation	Secured, priority
497	Antonio R. Sanchez, III	SN Catarina, LLC	Secured, priority
498	Antonio R. Sanchez, Jr.	Sanchez Energy Corporation	Secured, Priority
574	Patricio D. Sanchez	SN EF Maverick, LLC	Secured, priority
575	Patricio D. Sanchez	Sanchez Energy Corporation	Secured, priority
595	Patricio D. Sanchez	SN Catarina, LLC	Secured, priority