

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

In re:	)	
	)	Chapter 11
SANCHEZ ENERGY CORPORATION, <i>et al.</i> , ¹	)	Case No. 19-34508 (MI)
Debtors.	)	
	)	
	)	(Joint Administration Requested)

**DECLARATION OF
CAMERON W. GEORGE, EXECUTIVE VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER OF SANCHEZ ENERGY CORPORATION,
IN SUPPORT OF CHAPTER 11 PETITIONS AND FIRST DAY MOTIONS**

I, Cameron W. George, hereby declare under penalty of perjury:

1. I am the Executive Vice President and Chief Financial Officer of Sanchez Energy Corporation (“SN”), a publicly-traded independent oil and natural gas exploration and production (“E&P”) company organized under the laws of Delaware and one of the above-captioned debtors and debtors in possession (collectively, the “Debtors”), and serve in the same capacity for (i) SN’s consolidated direct and indirect Debtor and non-Debtor subsidiaries (other than as discussed below) and (ii) Sanchez Oil & Gas Corporation (“SOG”), a full-service oil and natural gas operating company privately owned by members of the Sanchez family.² In addition, since March 2017, I have served as Chief Financial Officer and Treasurer and as a member of the board of directors of SN EF UnSub GP, LLC (“UnSub GP”), the general partner of SN EF UnSub, LP (“SN UnSub”), both of which are non-Debtor unrestricted subsidiaries of SN.³ Previously I served as

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor’s federal tax identification number, include: 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). The location of the Debtors’ service address is 1000 Main Street, Suite 3000, Houston, Texas 77002.

² The relationship between the Debtors and SOG is discussed further below.

³ Additional detail regarding SN UnSub is discussed further below.

Interim Chief Financial Officer of SN and its consolidated subsidiaries, and Senior Vice President and Chief Financial Officer of SOG, from October 2018 until my current SN and SOG appointments in March 2019, and as Senior Vice President – Capital Markets of SOG from May 2016 until October 2018. Before joining SOG in May 2016, I served in positions of increasing responsibility at Linn Energy, LLC from August 2005 until May 2016, most recently as the Director of Finance, and was an investment banker in the energy group at RBC Capital Markets from June 2003 until August 2005. Overall, I have more than 16 years of oil and natural gas industry and investment banking experience.

2. On the date hereof (the “Petition Date”), the Debtors filed their voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”) in the Bankruptcy Court for the Southern District of Texas (the “Court”). I am generally familiar with the Debtors’ day-to-day operations, business and financial affairs, and books and records. I respectfully submit this Declaration to assist the Court and parties in interest in understanding the circumstances that resulted in the commencement of these chapter 11 cases and in support of: (i) the Debtors’ petitions for relief under the Bankruptcy Code and (ii) the emergency relief that the Debtors have requested pursuant to the motions filed contemporaneously herewith and described herein (collectively, the “First Day Motions”).

3. The statements in this Declaration are based on my personal knowledge, information obtained from other members of the Debtors’ management team and the Debtors’ advisors, my review of relevant documents and information concerning the Debtors’ operations, financial affairs, and restructuring initiatives, and my own opinions based on my experience, knowledge, and interpretation of the foregoing and related matters.

Part I: Introduction

4. The Debtors engage in the development and production of oil and natural gas properties in the onshore United States (the “U.S.”), with a primary focus on horizontal development of the Eagle Ford Shale in South Texas. Through organic and significant acquisition activities, the Debtors have assembled a strategic, highly concentrated position in the Eagle Ford Shale and are generally considered among the most active operators in the basin. The Debtors, along with certain of their non-Debtor subsidiaries, also hold certain other producing properties and undeveloped acreage, including in the Tuscaloosa Marine Shale (the “TMS”) in Mississippi and Louisiana.

5. Although the Debtors have built a considerable and attractive asset base in the Eagle Ford Shale and demonstrated a historic track record of high-performing, low-cost operations, a confluence of events has adversely impacted the Debtors’ businesses. Such events include, among other things, the prolonged and continuing period of commodity price decline and volatility now lasting nearly half a decade, and the resultant and related financial difficulties associated with managing high levels of debt under such market dynamics. Further, a large portion of the Company’s acquisition activity occurred in a substantially higher commodity price environment, leading to the incurrence of significant indebtedness to fund transactions to grow and develop its businesses and resulting in burdensome interest expense obligations that can no longer be serviced by the diminished present and forecasted cash flows from the Debtors’ assets. The Company has also faced unique challenges arising from the integration and management of the large and complex Comanche Assets (as defined below), acquired with a partner in 2017, which rapidly multiplied the size and scale of the Debtors’ businesses. The Debtors were successful in navigating these individual and cumulative obstacles by, among other things, reducing costs, cutting capital expenditures, and taking other proactive measures. However, absent a new money investment and

significant deleveraging of their capital structure, the Debtors will soon lack sufficient liquidity to (i) fund ordinary course operations; (ii) invest in a strategic E&P asset development program; and (iii) satisfy the aforementioned ongoing payment obligations under their debt documents.

6. In anticipation of potential looming liquidity constraints, earlier this year, the Debtors commenced discussions with both their existing stakeholders and potential third-party investors with respect to a comprehensive recapitalization and/or restructuring solution. Among the primary drivers of these anticipated liquidity constraints were (i) a \$35.2 million interest payment due on July 15, 2019 for the 6.125% Senior Notes (the “July 15 Coupon”), and (ii) a \$18.1 million interest payment due on August 15, 2019 for the 7.25% Senior Secured Notes. As explained in greater detail in **Part V**, based on the status of those negotiations prior to the payment date for the July 15 Coupon, the Debtors elected not to pay the July 15 Coupon and instead entered a 30-day grace period in respect of such coupon in order to preserve liquidity and continue negotiations with stakeholders as long as possible. Negotiations with the Debtors’ stakeholders continued throughout the grace period. Although the Debtors have not reached an agreement with their stakeholders on the terms of a comprehensive restructuring transaction, the Debtors have secured \$175 million of new money debtor in possession financing (“DIP Financing”) from the members of the Secured Notes Ad Hoc Group (as defined below). Reaching an agreement on DIP Financing was critical for the Debtors, as it will allow the Debtors to have access to sufficient liquidity to maintain ordinary course operations, including commencing the Debtors’ 2020 capital expenditures program to fulfill minimum drilling and development obligations under certain of their lease and related agreements, and provide the Debtors’ commercial counterparties with comfort that the Debtors will be able to meet their financial commitments throughout the course of the chapter 11 cases, particularly as the Debtors’ capital expenditures begin to ramp up

significantly later this year. In addition, the DIP Financing avoids potentially complex litigation with the Secured Notes Ad Hoc Group with respect to the Debtors' ability to use cash collateral. Following the Petition Date, the Debtors will continue to engage with their stakeholders in pursuit of a comprehensive restructuring transaction.

7. To familiarize the Court with the Debtors, their businesses, the circumstances leading to these chapter 11 cases, and the relief the Debtors are seeking in the First Day Motions, I have organized the rest of this Declaration as follows:

- **Part II** provides a general overview of the Debtors' business operations, corporate history, and assets;
- **Part III** describes the Debtors' prepetition capital structure and indebtedness;
- **Part IV** provides a summary of pending litigation involving the Debtors;
- **Part V** describes the circumstances leading to the commencement of these chapter 11 cases; and
- **Part VI** and **Exhibit A** attached hereto set forth the evidentiary basis for the relief requested in each of the First Day Motions.

Part II: Overview of the Debtors' Businesses

A. General Background

8. SN, a publicly-traded Delaware corporation headquartered in Houston, Texas, together with its consolidated direct and indirect Debtor and non-Debtor subsidiaries, is an independent E&P company focused on the acquisition and development of U.S. onshore oil and natural gas resources. A detailed corporate organizational chart is attached hereto as **Exhibit B**. The Debtors and their affiliates have a proven track record as efficient, low-cost operators and operate most of their oil and natural gas assets. While the Debtors' businesses primarily involve the operation of unconventional oil and natural gas properties (*e.g.*, shale assets) using advanced horizontal drilling and completion techniques, with a current focus on the Eagle Ford Shale, they

are also highly experienced in operating conventional assets using traditional development methods. Indeed, the Debtors and their affiliates have a long history in South Texas, where the Debtors hold one of the largest positions in the Eagle Ford Shale and have historically been recognized as an industry-leading operator.

9. For the year ended December 31, 2018, SN produced approximately 79,000 barrels of oil equivalent per day (“Boe/d”), split roughly in thirds among oil, natural gas, and natural gas liquids (“NGLs”), which represented production growth of approximately 130x since SN’s 2011 IPO (as defined below), surpassed \$1 billion in revenue for the first time, and reported consolidated net income of approximately \$85 million. As of December 31, 2018, the Debtors had approximately 325,000 net acres of oil and natural gas properties in the geographic areas described above, with proved reserves of approximately 380 million barrels of oil equivalent and interests in approximately 2,400 gross producing wells. For the first quarter of 2019, the Debtors reported production of approximately 76,000 Boe/d, revenue of approximately \$217 million, and a net loss of approximately \$67 million.

10. As of August 9, 2019, (i) the Debtors, excluding SN EF Maverick, LLC (“SN Maverick”) and SN UR Holdings, LLC (“SN UR Holdings”), had total consolidated liquidity consisting of approximately \$7.8 million of cash and cash equivalents; (ii) Debtor SN Maverick, a restricted subsidiary of SN, held approximately \$23.3 million of cash and cash equivalents, some of which cash may be cash of the Debtors’ third-party working interest partners with respect to the Comanche Assets; and (iii) Debtor SN UR Holdings, an unrestricted subsidiary of SN, held approximately \$62.5 million of cash and cash equivalents.

11. As of March 31, 2019, the Debtors reported total assets of approximately \$3.05 billion on their unaudited consolidated balance sheets, of which approximately \$339 million were

current assets. The remaining approximately \$2.71 billion in reported assets related primarily to oil and natural gas properties, other property and equipment, and other long-term assets. As of the Petition Date, the funded debt obligations of the Debtors totaled approximately \$2.28 billion.

B. Corporate History

12. SN was formed by certain members of the Sanchez Group⁴ in August 2011 and completed its initial public offering (“IPO”) in December 2011. SN’s common stock (the “Common Stock”) subsequently traded on the New York Stock Exchange (the “NYSE”) under the ticker symbol “SN.” In February 2019, the NYSE notified SN that, based on certain requirements, including the maintenance of minimum share price and market capitalization amounts, the Common Stock no longer met the standards for continued listing and the NYSE would suspend trading of the Common Stock and commence delisting proceedings, unless SN undertook certain steps toward regaining compliance in the future. SN elected not to do so and subsequently also did not appeal the NYSE’s decision to proceed with the delisting actions. As a result of such proceedings initiated by the NYSE, the Common Stock began trading on the OTC Pink Marketplace under ticker symbol “SNEC” upon the opening of trading on February 21, 2019.

13. As described in more detail below, in connection with the IPO, the Debtors entered into certain agreements with SOG, a full-service oil and natural gas operating company founded in 1972 and privately owned by members of the Sanchez family. These agreements provide for the performance of various services, on a pass-through cost basis, that are essential to the operation of the Debtors’ businesses, including, among other things, general and administrative, reserve engineering, operational, and geological and geophysical services. Additionally, pursuant to these arrangements, SOG has granted the Debtors unrestricted access to extensive seismic and other data

⁴ The “Sanchez Group” comprises SOG and certain other affiliated entities.

developed or licensed by SOG. Moreover, as a result of the Debtors' shared services arrangements with SOG (collectively, the "Shared Services"), all individuals comprising the Debtors' workforce, including their executive officers, are SOG employees, as the Debtors do not have any employees of their own. For these reasons, the Debtors rely on SOG for the continued functioning of their businesses.

14. In the ordinary course, the Debtors also are engaged in a strategic relationship with Sanchez Midstream Partners LP ("SNMP"), which serves as a critical midstream service provider for certain of the Debtors' key producing assets. SNMP is a publicly-traded limited partnership focused on the acquisition, development, ownership, and operation of midstream and other energy-related assets in North America. As of March 2019, SN UR Holdings owns approximately 2.3 million common units of SNMP (representing approximately 13% of SNMP's outstanding common units), which it acquired in a private placement that closed in November 2016 concurrently with a public offering of approximately 6.7 million common units by SNMP. The general partner of SNMP is Sanchez Midstream Partners GP LLC, whose sole member is SP Holdings, LLC ("SP Holdings"), an entity that is indirectly owned by members of the Sanchez family. In addition to certain other attributes, SP Holdings is entitled to receive incentive distribution rights, which represent the right to receive an increasing percentage of certain quarterly distributions from the operating surplus of SNMP, subject to the achievement of specified distribution hurdle amounts to the holders of common units.

C. The Debtors' Assets

15. Concurrently with the IPO, the Debtors acquired certain assets in the Eagle Ford Shale, where they have continued to expand their presence, predominantly in the western portion, and currently hold approximately 466,000 gross (264,000 net) acres (collectively, the "Eagle Ford Assets"). The Debtors' core acreage position, which is large and strategically concentrated within

an approximately 40-mile radius, provides a unique competitive advantage by offering the potential for significant synergies of scale. These synergies include the opportunity to derive cost savings in connection with the positioning of rigs and equipment, shared resources for in-field gathering, water and water transportation, more efficient drilling processes and field operations, substantial asset-level knowledge, and enhanced pricing based on the close proximity to attractive markets along the U.S. Gulf Coast. In addition to the Eagle Ford Assets, the Debtors, along with certain of their non-Debtor subsidiaries, also hold certain other producing properties and undeveloped acreage, including in the TMS in Mississippi and Louisiana as well as other locations in Louisiana and Texas.⁵

16. As of March 31, 2019, following the divestiture of certain non-core assets over the past several years, the Debtors' development inventory consists of an estimated approximately 2,125 net locations for potential future drilling in the Eagle Ford Shale. As of December 31, 2018, approximately 77% of the Debtors' net acreage was held by production and/or continuous operations. Leases that are not held by production and/or continuous operations represent approximately 66,000 net acres (of which approximately 54,000 net acres are in the Eagle Ford Shale) expiring in 2019, approximately 6,000 net acres expiring in 2020, and approximately 4,000 net acres (all of which are in the Eagle Ford Shale) expiring in 2021 and beyond. The typical oil and natural gas lease agreement covering the Debtors' properties provides for the payment of royalties to the mineral owner for all oil and natural gas produced from any well drilled on the lease premises. The lessor royalties and other leasehold burdens on the majority of the Debtors'

⁵ All acreage figures discussed herein exclude interests held by the Debtors in certain undeveloped acreage in Louisiana and Texas.

wells range from approximately 20%-28%, resulting in a net revenue interest ranging from approximately 72%-80%.⁶

i. The Eagle Ford Assets

a. The Catarina Assets

17. On June 30, 2014, the Debtors acquired certain Eagle Ford Shale properties of Royal Dutch Shell plc, which included approximately 106,000 net acres in Dimmit, La Salle, and Webb Counties, Texas representing a unique single block of acreage on one ranch in the Western Eagle Ford (the “Catarina Assets”). The Debtors have identified approximately 575 gross (575 net) locations for potential future drilling on the Catarina Assets. The Debtors have a drilling commitment with respect to the Catarina Assets that requires them to drill (i) 50 wells in each 12-month period commencing on July 1, 2014 and (ii) at least one well in any consecutive 120-day period, in order to maintain rights to any future undeveloped acreage. The Debtors are currently in compliance with their drilling commitments with respect to the Catarina Assets. Debtor SN Operating, LLC (“SN Operating”) is the operator of the Catarina Assets, and Debtor SN Catarina, LLC holds 100% of the working interests in the Catarina Assets.

b. The Comanche Assets

18. On March 1, 2017, SN Maverick and SN UnSub, along with Gavilan Resources, LLC (“Gavilan”), an unaffiliated entity controlled by The Blackstone Group, L.P. (“Blackstone”), completed the acquisition of approximately 318,000 gross (155,000 net) acres largely adjacent and in many areas adjoining to the Catarina Assets, comprising (i) 252,000 gross (122,000 net) Eagle

⁶ For more details on the agreements and arrangements governing the Debtors’ oil and natural gas business, see the Debtors’ *Emergency Motion for Entry of Interim and Final Orders (I) Authorizing Payment of (A) Obligations Owed to Holders of Mineral and Other Interests and Non-Op Working Interests and (B) Joint Interest Billings and (II) Granting Related Relief* and the Debtors’ *Emergency Motion for Entry of Interim and Final Orders (I) Authorizing the Payment of (A) Operating Expenses, (B) Marketing Expenses and (C) Shipping and Warehousing Claims and (II) Granting Related Relief*, both filed contemporaneously herewith.

Ford Shale acres and (ii) 66,000 gross (33,000 net) acres of deep rights only, which includes the Pearsall Shale, representing, in the aggregate, an approximately 49% average working interest therein (the “Comanche Assets”) from Anadarko E&P Onshore LLC and Kerr-McGee Oil and Gas Onshore LP (collectively, “Anadarko”) for an adjusted purchase price of approximately \$2.1 billion in cash (the “Comanche Acquisition”). In connection with the closing of the Comanche Acquisition, SN, SN Maverick, SN UnSub, and Gavilan entered into a joint development agreement regarding the operation of the Comanche Assets (the “Comanche JDA”). Simultaneously therewith, SN, SN Maverick, SN UnSub, Gavilan, and Anadarko also entered into a development agreement (the “Anadarko Development Agreement”) which, among other things, sets forth certain minimum annual drilling obligations on the Comanche Assets as described below.

19. Collectively, SN Maverick and SN UnSub represent a working interest of approximately 24% in the Comanche Assets (the “SN Comanche Assets”). Upon closing of the Comanche Acquisition, the SN Comanche Assets were further divided between SN Maverick and SN UnSub, whereby SN UnSub retained a 100% interest in the estimated proved developed producing reserves (essentially all of the producing wells) at the acquisition closing, and a 40% interest in the estimated proved developed non-producing reserves and proved undeveloped reserves associated with future development, while SN Maverick retained the remaining 60% interest in the estimated proved developed non-producing reserves and proved undeveloped reserves associated with future development (in each case represented as a percentage of the SN Comanche Assets). Accordingly, through SN Maverick, the Debtors have a working interest estimated at approximately 15% in new wells that were developed post-acquisition (*e.g.*, 60% interest in the post-acquisition development attributable to the approximately 24% total working interest of the SN Comanche Assets). As of December 31, 2018, SN and its Debtor and non-

Debtor subsidiaries had identified approximately 2,800 gross (680 net) Eagle Ford Shale locations for potential future drilling on the Comanche Assets.

20. SN Maverick funded the acquisition of its portion of the SN Comanche Assets with cash on hand. SN UnSub funded the acquisition of its portion of the SN Comanche Assets with a combination of (i) a \$100 million cash contribution from SN and/or SN's other subsidiaries; (ii) borrowings under a new revolving credit facility (secured primarily by its share of the acquired assets and non-recourse to SN);⁷ and (iii) \$500 million of proceeds from the sale to GSO ST Holdings LP ("GSO ST Holdings"), an investment vehicle owned by funds (the "GSO Funds") managed or advised by GSO Capital Partners LP ("GSO"), and Intrepid (as defined below) of non-convertible preferred equity interests in SN UnSub.

21. More specifically, with respect to the non-convertible preferred equity sale, pursuant to a Securities Purchase Agreement, dated as of January 12, 2017, among SN, SN UnSub, SN UR Holdings, SN EF UnSub Holdings, LLC ("SN EF UnSub Holdings"), and certain additional entities, including GSO ST Holdings and GSO ST Holdings Associates LLC ("GSO ST Holdings Associates"), GSO ST Holdings' general partner and affiliate of GSO, which was subsequently amended to include Intrepid Private Equity V-A, LLC ("Intrepid," and the agreement, as so amended and restated, the "Comanche SPA"): (i) GSO ST Holdings purchased 485,000 preferred units of SN UnSub (the "SN UnSub Preferred Units") for \$485 million; (ii) GSO ST Holdings Associates purchased one Class B Unit in UnSub GP for nominal consideration; and (iii) the GSO Funds received (a) 1,455,000 shares of SN's Common Stock and (b) warrants (expiring on March 1, 2032) to purchase 1,940,000 shares of SN's Common Stock at an exercise price of \$10.00 per share, subject to customary anti-dilution adjustments. In addition, Intrepid (i)

⁷ As of the Petition Date, SN UnSub maintains a reserve-based revolving credit facility due 2022 with JPMorgan and the other lenders thereto with a \$240 million borrowing base and approximately \$153 million outstanding.

purchased 15,000 SN UnSub Preferred Units for \$15 million and (ii) received 45,000 shares of SN's Common Stock and warrants to purchase 60,000 shares of SN's Common Stock on terms identical to the warrants issued to the GSO Funds.⁸

22. As a result of these transactions, (i) GSO ST Holdings owns 485,000 SN UnSub Preferred Units; (ii) Intrepid Private Equity Fund I, LP and Intrepid Private Equity SPV-A, L.P. (as successors to Intrepid) own the remaining 15,000 SN UnSub Preferred Units; (iii) SN EF UnSub Holdings owns 100% of the common units in SN UnSub; (iv) GSO ST Holdings Associates owns the single Class B Unit in UnSub GP, which holds 100% of the (non-economic) general partner interest in SN UnSub; and (v) SN UR Holdings owns the 99 Class A Units in UnSub GP.

23. SN Maverick is the operator of all of the Comanche Assets under various operating agreements, and operates existing wells and manages and performs drilling and completion activities of new wells, on behalf of itself and the other working interest partners: SN UnSub, Gavilan, and third parties Venado Oil and Gas, LLC, Korea National Oil Corporation, and Mitsui E&P USA, LLC.

24. As noted above, the Debtors have a development commitment under the Anadarko Development Agreement, which the Debtors are also obligated to satisfy under the Comanche JDA, with respect to the Comanche Assets that, in addition to other requirements in the leases that

⁸ Pursuant to the terms of the amended and restated partnership agreement governing SN UnSub, the SN UnSub Preferred Units are entitled to receive, subject to certain limitations, distributions of 10% per annum, payable quarterly in cash. The SN UnSub Preferred Units have priority over SN UnSub's common units, to the extent of the Base Return (as defined below), upon liquidation, sale of all or substantially all of the assets, and certain change of control and exit transactions. SN UnSub may, from time to time and subject to the conditions set forth in SN UnSub's partnership agreement and its credit facility, redeem SN UnSub Preferred Units at a purchase price per unit sufficient to achieve the greater of (i) the amount required to cause (x) the aggregate cash distributions with respect to an SN UnSub Preferred Unit as of the date of calculation divided by (y) the \$1,000 purchase price per unit to be equal to 1.5 and (ii) the amount required to cause the internal rate of return with respect to each such SN UnSub Preferred Unit to be equal to 14%, in each case inclusive of previous distributions made in cash (the "Base Return"). Partners holding a majority of the SN UnSub Preferred Units have the option to request SN UnSub to redeem all of the SN UnSub Preferred Units for the Base Return at any time following the seventh anniversary of issuance or upon the occurrence of certain change of control transactions, as further described in SN UnSub's partnership agreement.

must be met in order to maintain the Debtors' acreage position, requires the Debtors to complete and equip 60 wells in each annual period commencing on September 1, 2017 and continuing for five years thereafter until September 1, 2022 or, with Gavilan, pay jointly to Anadarko a cash penalty amounting to \$200,000 per well for the failure to do so. The Debtors are currently in compliance with their drilling and development commitments with respect to the Comanche Assets. As explained in more detail below, the Comanche JDA is currently the subject of a pending dispute between SN Maverick and Blackstone.

25. In aggregate, the Catarina Assets and the Comanche Assets represent a substantial and geologically diverse land position, which stretches approximately 70 miles from west to east in four counties in South Texas.

c. *The Maverick Assets*

26. The Debtors have approximately 89,000 net acres in Dimmit, Frio, La Salle, and Zavala Counties, Texas (the "Maverick Assets"), where they have identified approximately 790 gross (760 net) locations for potential future drilling. SN Operating is the operator of the Maverick Assets, and Debtor SN Cotulla Assets, LLC holds 100% of the working interests in the Maverick Assets.

d. *The Palmetto Assets*

27. The Debtors have approximately 7,600 net acres in Gonzales County, Texas (the "Palmetto Assets") near the prolific Karnes Trough, which is located in the eastern portion of the Eagle Ford Shale and generally considered to be the core area of the basin. The Debtors have identified approximately 225 gross (110 net) locations for potential future drilling on the Palmetto Assets. Marathon Oil Corporation is the operator of the Palmetto Assets, in which Debtor SN Palmetto, LLC owns a non-operated working interest (approximately 50% of future development).

ii. The TMS and Other Assets

28. In addition to the Eagle Ford Assets, the Debtors, along with certain of their non-Debtor subsidiaries, hold other producing properties and undeveloped acreage, including in the TMS located in Mississippi and Louisiana as well as other locations in Louisiana and Texas. Successful and economic TMS development has been and continues to be challenged due to high well costs and low commodity prices.

D. The Debtors' Shared Services Arrangements

29. As noted above, the Debtors are party to certain agreements (the "SOG Agreements") and intercompany arrangements with SOG, which allow the Debtors (i) to leverage SOG's considerable expertise, reputation, and industry relationships and (ii) access to extensive technological information to gain a competitive advantage in their industry. For the reasons described in the Debtors' *Emergency Motion for Entry of Interim and Final Orders Authorizing Continued Performance of Obligations Under the Shared Services Arrangements* (the "Shared Services Motion"), filed contemporaneously herewith, the services provided by SOG are critical to the Debtors' businesses, and the Debtors would be severely disadvantaged—potentially incapable of continuing to operate their businesses on an immediate basis—if such services were discontinued postpetition.

30. The SOG Agreements entered into at the time of the IPO that remain in place today⁹ consist of (i) the Services Agreement; (ii) the Contract Operating Agreement; and (iii) the License Agreement, each as defined below. Pursuant to the services agreement dated as of December 19, 2011 between SN and SOG (the "Services Agreement"), the Debtors receive essential (i) operational and asset management services and (ii) centralized administrative and back office

⁹ As discussed further in the Shared Services Motion, the Debtors are party to additional agreements with SOG as part of the comprehensive Shared Services arrangements.

services from SOG (collectively, the “SOG Services”). As set forth in the Services Agreement, SOG agreed to (x) advise and consult with the Debtors regarding all aspects of the Debtors’ development, operations, and expansion; (y) provide (or cause to be provided) management and technical expertise and consulting services for the development and implementation of the operational and financial plans of the Debtors, and for strategic planning and decision-making of the Debtors, including the E&P activities with respect to the Oil and Gas Properties (as defined in the Services Agreement) and all of the Debtors’ interests in real and personal property; and (z) provide (or cause to be provided) administrative support services to the Debtors as necessary or useful for the operation of the Debtors’ businesses.

31. Under the contract operating agreement dated as of December 19, 2011 (the “Contract Operating Agreement”), the Debtors appointed SOG to (i) develop, manage, and operate the Debtors’ properties that are not subject to a joint operating agreement or (ii) retain a third-party to perform such services. Lastly, the Debtors are also party to the licensing agreement dated as of December 19, 2011, pursuant to which SOG has granted the Debtors a license for the unrestricted use of proprietary seismic, geological, and geophysical information owned or licensed by SOG (the “License Agreement”).

32. The Debtors derive substantial cost efficiency and benefits from the Shared Services, which translate into a competitive advantage for the Debtors. Among other things, the Shared Services give the Debtors the ability to leverage SOG’s strong reputation, 40-year operating history, and longstanding industry relationships for their benefit. The SOG Agreements also grant the Debtors access to experienced management as well as a strong team of highly skilled oil and natural gas professionals, including production and reservoir engineers, drilling and completion engineers, geologists and geophysicists, and other technical and administrative

personnel. In addition, the Debtors have access to the technological database owned and maintained by SOG, which includes 2D and 3D seismic data used for exploration and development projects, as well as other technology and systems infrastructure that are necessary for the Debtors' daily operational activities. SOG's technical staff has significant experience and expertise in using and interpreting this data and applying sophisticated technologies to develop the Debtors' assets.

33. With respect to cost efficiency, the Debtors are billed for the SOG Services at cost, and SOG does not charge the Debtors any premium in connection with the services provided under the SOG Agreements. Instead, SOG passes through to the Debtors their allocable share of the cost of the services provided by SOG.¹⁰ This arrangement allows the Debtors to share in such costs with other entities for whom SOG provides similar services, thereby reducing the Debtors' expenses from what it would otherwise cost to provide, utilize, and pay for all of the services themselves.

34. The Shared Services are critical to the Debtors' day-to-day operations and continued functioning. Specifically, the Debtors do not have any employees and rely on SOG to provide them with their entire workforce through the arrangements with SOG. If the Debtors were not authorized to continue performing under the Shared Services arrangements in the ordinary course of business during these chapter 11 cases, the Debtors would need to retain an entirely new workforce, internally develop all of the other services provided by SOG, or arrange for such services from a new third-party provider, each of which would have severe adverse financial and operational effects on the Debtors' businesses. Further, the continued performance under the License Agreement ensures that the Debtors will preserve uninterrupted access to the technological

¹⁰ As described in the Shared Services Motion, SOG also provides services to certain non-Debtor entities and third parties, including SNMP, SN UnSub, and Sanchez Resources, LLC and its subsidiaries. Costs for the SOG Services are allocated among the Debtors and these parties.

database owned and maintained by SOG, which is fundamental to the continued operation of the Debtors' businesses. Moreover, the integrated nature of the SOG Agreements precludes the Debtors from ceasing to perform under one of the SOG Agreements while continuing to obtain benefits under the others.

Part III: The Debtors' Prepetition Capital Structure

35. As of the Petition Date, the Debtors' debt obligations consist of: (i) borrowings of approximately \$7.9 million in principal amount and a \$17.1 million issued and undrawn standby letter of credit outstanding under the First-Out Senior Secured Revolving Credit Facility (as defined below); (ii) \$500 million in principal amount of 7.25% Senior Secured Notes (as defined below); (iii) \$600 million in principal amount of 7.75% Senior Notes (as defined below); and (iv) \$1.15 billion in principal amount of 6.125% Senior Notes (as defined below).

Obligation	Maturity	Principal Amount
First-Out Senior Secured Revolving Credit Facility	2023	\$25,000,000 ¹¹
7.25% Senior Secured Notes	2023	\$500,000,000
Aggregate Secured Debt:		\$525,000,000
7.75% Senior Notes	2021	\$600,000,000
6.125% Senior Notes	2023	\$1,150,000,000
Aggregate Unsecured Debt:		\$1,750,000,000
Aggregate Total Debt:		\$2,275,000,000

36. In addition, as of the Petition Date, the Debtors have issued and outstanding equity or equity-related securities consisting of: (i) approximately 620,000 shares of Series A Preferred Stock (as defined below); (ii) approximately 2.5 million shares of Series B Preferred Stock (as defined below); (iii) approximately 100 million shares of Common Stock; and (iv) warrants to purchase an additional 8.5 million shares of Common Stock.

¹¹ This amount includes an issued and undrawn letter of credit in the amount of approximately \$17.1 million.

A. First-Out Senior Secured Revolving Credit Facility

37. As of the Petition Date, SN, as borrower, and certain of the Debtor entities which constitute restricted subsidiaries (the “Restricted Subsidiaries”)¹² under the Credit Agreement (as defined below), as guarantors, has borrowings of approximately \$7.9 million in principal amount and a \$17.1 million issued and undrawn standby letter of credit, under a \$25 million first lien, first-out senior secured working capital and letter of credit facility (the “First-Out Senior Secured Revolving Credit Facility”) pursuant to the Third Amended and Restated Credit Agreement (the “Credit Agreement”) dated as of February 14, 2018 with Royal Bank of Canada (“RBC”), as administrative agent and presently the sole lender thereunder. The First-Out Senior Secured Revolving Credit Facility is secured by a first-priority lien on the Shared Collateral (as defined below). In addition, as of the Petition Date, the Debtors have approximately \$400,000 in obligations under cash-settled commodity hedging arrangements with certain counterparties that are secured on a *pari passu* basis with the obligations under the First-Out Senior Secured Revolving Credit Facility, pursuant to the terms of the Credit Agreement and the CTA (as defined below).

B. 7.25% Senior Secured Notes

38. On February 14, 2018, SN issued \$500 million in principal amount of 7.25% senior secured first lien notes due February 2023 (the “7.25% Senior Secured Notes”) under an indenture among SN, as issuer, the guarantors party thereto, Wilmington Savings Fund Society, FSB

¹² The Restricted Subsidiaries consist of Debtors SN Catarina, LLC; SN Cotulla Assets, LLC; SN EF Maverick, LLC; SN Marquis LLC; SN Operating, LLC; SN Palmetto, LLC; SN Payables, LLC; SN TMS, LLC; and Rockin L Ranch Company, LLC. The unrestricted subsidiaries (collectively, the “Unrestricted Subsidiaries”) consist of Debtor SN UR Holdings, and non-Debtors SN EF UnSub GP, LLC; SN EF UnSub Holdings; SN EF UnSub, LP; SR Acquisition I, LLC; SR Acquisition III, LLC; SN Capital, LLC; SN Comanche Manager, LLC; SN Midstream, LLC; Sanchez Resources, LLC; SN Services, LLC; SN Terminal, LLC; and SR TMS, LLC.

(“WSFS”), as presumptive successor trustee (the “Notes Trustee”),¹³ and RBC, as collateral trustee (as supplemented by a First Supplemental Indenture dated as of April 3, 2018, the “7.25% Senior Secured Notes Indenture”). The Restricted Subsidiaries are guarantors of the 7.25% Senior Secured Notes. Pursuant to the terms of the applicable debt documents, the 7.25% Senior Secured Notes and the guarantees thereto are secured on a first-priority basis on most of the assets of SN and the Restricted Subsidiaries. However, pursuant to a collateral trust agreement among SN, RBC, as the first-out representative and collateral trustee, and the Notes Trustee, dated as of February 14, 2018 (the “CTA”), the 7.25% Senior Secured Notes’ first-priority liens have a “second-out” collateral proceeds payment priority and, therefore, are effectively junior to the “first-out” obligations under the Credit Agreement and certain hedging and cash management arrangements permitted under the Credit Agreement with respect to, and to the extent of the value of, shared collateral (the “Shared Collateral”). The Shared Collateral consists of: (i) SN’s and the other Restricted Subsidiaries’ oil and natural gas properties (which liens were required to cover not less than 85% of such properties with proved reserves); (ii) 100% of the equity interests of the Restricted Subsidiaries and any of their future direct material subsidiaries that qualify as Restricted Subsidiaries; and (iii) substantially all of SN’s and the Restricted Subsidiaries’ other material personal property, but in each case excluding, among other things, deposit accounts, oil and natural gas properties with no proved reserves, equity interests in SN UnSub, and other existing and future subsidiaries designated as “Unrestricted Subsidiaries” (as defined in the applicable debt documents).¹⁴ The 7.25% Senior Secured Notes are senior to all unsecured obligations of SN and

¹³ The transition to WSFS as successor trustee will be effective as of the Petition Date.

¹⁴ For the avoidance of doubt, nothing herein shall constitute an admission, agreement or acknowledgment regarding the validity, perfection, or extent of any liens securing the First-Out Senior Secured Revolving Credit Facility or the 7.25% Senior Secured Notes.

the Restricted Subsidiaries to the extent of the value of the collateral securing the 7.25% Senior Secured Notes and the guarantees thereto.

C. 7.75% Senior Notes

39. On June 13, 2013, SN issued \$400 million in principal amount of 7.75% senior unsecured notes due June 2021 (the “Original 7.75% Senior Notes”) under an indenture among SN, as issuer, the guarantors party thereto, and Delaware Trust Company (“Delaware Trust”), as successor trustee (as supplemented thereafter from time to time) (the “7.75% Senior Notes Indenture”). On September 13, 2013, SN issued an additional \$200 million in principal amount of the 7.75% senior unsecured notes due June 2021 (the “Additional 7.75% Senior Notes,” and together with the Original 7.75% Senior Notes, the “7.75% Senior Notes”) in a private offering, as permitted under the 7.75% Senior Notes Indenture. The Restricted Subsidiaries are guarantors of the 7.75% Senior Notes. The 7.75% Senior Notes are unsecured obligations and rank equally in right of payment with all existing and future unsecured indebtedness of SN and the Restricted Subsidiaries, and effectively junior to the secured obligations of SN and the Restricted Subsidiaries to the extent of the value of the collateral securing such secured obligations.

D. 6.125% Senior Notes

40. On June 27, 2014, SN issued \$850 million in principal amount of 6.125% senior unsecured notes due January 2023 (the “Original 6.125% Senior Notes”) under an indenture among SN, as issuer, the guarantors party thereto, and Delaware Trust, as successor trustee (as supplemented thereafter from time to time) (the “6.125% Senior Notes Indenture”). On September 12, 2014, SN issued an additional \$300 million in principal amount of the 6.125% senior unsecured notes due January 2023 (the “Additional 6.125% Notes,” and together with the Original 6.125% Senior Notes, the “6.125% Senior Notes”) in a private offering, as permitted under the 6.125% Senior Notes Indenture. The Restricted Subsidiaries are guarantors of the 6.125% Senior Notes.

The 6.125% Senior Notes are unsecured obligations and rank equally in right of payment with all existing and future unsecured indebtedness of SN and the Restricted Subsidiaries, and effectively junior to the secured obligations of SN and the Restricted Subsidiaries to the extent of the value of the collateral securing such secured obligations.

E. Preferred Equity

41. On September 17, 2012, SN issued 3 million shares of Series A Convertible Perpetual Preferred Stock (the “Series A Preferred Stock”) pursuant to a private placement at an issue price of \$50.00 per share. As of August 9, 2019, approximately 620,000 shares of Series A Preferred Stock were issued and outstanding. The annual dividend for each share of Series A Preferred Stock is 4.875% on the liquidation preference of \$50.00 per share and is payable quarterly, in arrears, on each January 1, April 1, July 1, and October 1, when, as, and if declared by SN’s board of directors (the “Board”). The Company may pay dividends in cash and Common Stock or any combination thereof at its option, subject to certain conditions. Each share is convertible at any time at the option of the holder at an initial conversion rate of 2.325 shares of Common Stock per share of Series A Preferred Stock, subject to certain specified adjustments.

42. On March 26, 2013, SN issued 4.5 million shares of Series B Convertible Perpetual Preferred Stock (the “Series B Preferred Stock”) pursuant to a private placement at an issue price of \$50.00 per share. As of August 9, 2019, approximately 2.5 million shares of Series B Preferred Stock were issued and outstanding. The annual dividend for each share of Series B Preferred Stock is 6.50% on the liquidation preference of \$50.00 per share and is payable quarterly, in arrears, on each January 1, April 1, July 1, and October 1, when, as, and if declared by the Board. The Company may pay dividends in cash and Common Stock or any combination thereof at its option, subject to certain conditions. Each share is convertible at any time at the option of the holder at

an initial conversion rate of 2.337 shares of Common Stock per share of Series B Preferred Stock, subject to certain specified adjustments.

43. The Board suspended the dividends on the Series A Preferred Stock and the Series B Preferred Stock, beginning with the three-month period ending March 31, 2019.

F. Common Equity

44. As of August 9, 2019, there are approximately 100 million shares of Common Stock issued and outstanding, along with outstanding warrants to purchase 8.5 million shares of Common Stock at an exercise price of \$10.00 per share. The Common Stock traded on the NYSE until its delisting earlier this year and, as a result, currently trades over-the-counter on the OTC Pink Marketplace. SN has never paid dividends on its Common Stock. As of the Petition Date, members of the Sanchez family, SOG, and other affiliated entities collectively own approximately 10% of the Common Stock.

45. On July 28, 2015, in order to protect the Debtors' tax attributes, the Debtors adopted an "NOL Rights Plan" that operates to dilute the holdings of certain parties that acquire Common Stock beyond a threshold level without the approval of the Board. As of December 31, 2018, the Debtors estimate that they had federal consolidated net operating losses ("NOLs") in the amount of approximately \$2.03 billion.¹⁵

E. Warrants

46. In connection with the Comanche Acquisition, pursuant to the Comanche SPA, SN issued warrants to the GSO Funds to purchase in the aggregate approximately 1.9 million shares of Common Stock. A small amount of warrants were also issued to Intrepid (as discussed above). Such warrants will expire on March 1, 2032 in accordance with the terms of the applicable warrant

¹⁵ The Debtors also have approximately \$106 million in additional state NOLs in Montana, Mississippi, Louisiana, Kansas, and Oklahoma.

agreement. In addition, SN issued warrants to three affiliates of Blackstone to purchase in the aggregate 6.5 million shares of Common Stock pursuant to three separate warrant agreements, which warrants will expire by their terms on March 1, 2022. In March 2019, the Debtors were notified that the GSO Funds and Blackstone affiliates donated all of the foregoing warrants to various charitable organizations. In the aggregate, the Debtors have approximately 8.5 million warrants which remain outstanding.

Part IV: Pending Litigation

47. From time to time, the Debtors are involved in lawsuits that arise in the ordinary course of their business, including commercial litigation, shareholder derivative litigation, and employment-related litigation. In addition, the Debtors have indemnification obligations that may impact the Debtors' assets.¹⁶ Management cannot predict the ultimate outcome of such lawsuits or claims. The Debtors are not aware of any material governmental proceedings against them or contemplated to be brought against them. Below is a description of the two ongoing material litigations with respect to which the Debtors are party.

A. The Derivative Action

48. On August 29, 2018, a derivative action was filed in the Court of Chancery of the State of Delaware against certain SN directors (*Armato et al. v. A.R. Sanchez, Jr. et al.*, No. 2018-0642, the "Derivative Action"). The complaint, which does not specify damages sought, alleges breach of fiduciary duty, unjust enrichment, and waste of corporate assets against directors of SN based on purportedly excessive compensation of SN's non-employee directors. On October 22,

¹⁶ SN's Services Agreement with SOG provides, among other things, that SN agrees to indemnify and hold harmless SOG and its affiliates and their respective stockholders, directors, officers, members, agents, or employees from any and all liabilities arising from or relating to the provision or use of any service or product provided under the Services Agreement, the Contract Operating Agreement or related agreements, to the extent not directly caused by the gross negligence or willful misconduct of SOG or such other indemnified party. SN has also entered into an agreement with SOG assigning SN the right to control the legal defense in certain Fair Labor Standard Act cases currently pending against SOG.

2018, SN and the defendant directors filed an answer to the Derivative Action. In their answer, the defendant directors denied any wrongdoing or liability in response to the allegations in the complaint. The Derivative Action remains in its preliminary stages. As a result, the Debtors are unable to reasonably predict an outcome of the Derivative Action or a timeframe for its resolution.

B. The Comanche JDA Dispute

49. SN Maverick is currently engaged in a disagreement with Blackstone (by and through its subsidiary, Gavilan) regarding operations of the Comanche Assets under the Comanche JDA with Blackstone. Among other things, Blackstone has asserted that SN Maverick is in default of the Comanche JDA and Blackstone has the right to take over operations of the Comanche Assets. Although SN Maverick disputes Blackstone's assertions and has asserted defenses to the allegations and its own counterclaims against Blackstone, if Blackstone prevails in the disagreement, SN Maverick would potentially lose its rights to operate the Comanche Assets and certain rights of SN Maverick under the Comanche JDA, including the ability to vote or appoint representatives to the operating committee or to transfer the Comanche Assets, among others. Furthermore, Blackstone has attempted to initiate a division of operatorship under the Comanche JDA pursuant to which operatorship of the Comanche Assets would be divided between Blackstone (or a third-party operator) and SN Maverick in accordance with certain procedures specified in the Comanche JDA. SN Maverick disputes that Blackstone has the ability to invoke the division of operatorship provision under the Comanche JDA.

50. Blackstone served its initial arbitration demand against SN Maverick on February 18, 2019. SN and SN Maverick answered that demand and served their counterclaim against Blackstone on February 26, 2019. The American Arbitration Association appointed an arbitrator on April 8, 2019, and the arbitration is set for hearing the week of October 14, 2019. The parties are currently engaged in discovery.

Part V: Events Leading to These Chapter 11 Cases

A. Market Decline and Recent Challenges Faced by the Debtors

51. The sustained decline and volatility in commodity prices have weighed heavily on the energy industry globally and, in particular, on U.S. independent oil and natural gas producers such as the Debtors. The E&P industry has been challenged by low oil and natural gas prices for years. Beginning in 2014, oil prices declined precipitously from a price of more than \$100 per barrel, and continued to languish throughout 2015 into the start of 2016, ultimately reaching a 13-year low of approximately \$26 per barrel in February 2016. Oil prices made a slight rebound in 2017, only to decline again in the second half of 2018. The extreme volatility has continued in 2019 through the present date. Overall, oil prices have fallen approximately 50% and natural gas prices have fallen approximately 60% from their respective highs in 2014.

52. This market downturn has negatively impacted the volume and discounted future net cash flows of the Debtors' estimated proved reserves, and the prolonged price volatility also has caused the Debtors to incur losses related to their commodity hedging arrangements. Additionally, the Debtors' revenue, profitability, and cash flow depend on the prices of and demand for oil, natural gas, and NGLs, and continued low and volatile commodity prices have significantly and adversely affected the Debtors' financial results and prospects for long-term operation under their current capital structure.

53. Deteriorating commodity market conditions have impacted energy companies throughout the industry and around the world. Companies in every sector of the oil and natural gas industry have endured the effects of this downward trend, and the Debtors are no exception. Specifically, U.S. independent E&P companies like the Debtors have suffered enormously, as their revenues are generated from the sale of oil and natural gas. It is widely known that countless U.S. oil and natural gas companies have filed for chapter 11 bankruptcy protection over the last few

years, which is an indicator of difficult and unsustainable market conditions. In addition, many other oil and natural gas companies have defaulted on their debt obligations, negotiated covenant relief with creditors to avoid defaulting, or have pursued out-of-court restructurings.

B. Operational and Financial Responses to Challenges

54. As explained in more detail below, the Debtors have taken numerous actions to buoy the Company in response to the operational and financial challenges posed by the prolonged downturn and volatility in commodity prices. These measures include (i) changing operational strategies in an effort to stabilize the Debtors' oil and natural gas production levels; (ii) implementing aggressive capital reductions and cost management initiatives to preserve value through lower cost operations and to streamline the Debtors' overhead structure; and (iii) engaging in asset dispositions to enhance liquidity, where appropriate and practical.

i. Operational Initiatives

55. The Debtors have taken multiple, proactive measures to optimize their asset base of oil and natural gas production and improve the results of their development operations in reaction to the industry downturn. These measures include, among other things, (a) implementing strategies to stabilize production and enhance long-term well performance; (b) testing and implementing an appropriate combination of well completion techniques and spacing between wells to provide for optimal production and reserve additions; (c) implementing so-called "frac mitigation" strategies to minimize the negative impact on existing producing wells from the hydraulic stimulation activities associated with completing new nearby wells; and (d) implementing workover strategies to increase production of mature wells and generally reducing production downtime across the well portfolio. These measures have helped the Debtors to

improve operational performance, stabilize their production and asset base, and preserve value for their stakeholders leading up to the commencement of these chapter 11 cases.

ii. Cost Management Initiatives

56. The Debtors have historically been recognized as a low-cost operator in the Eagle Ford Shale and demonstrated successful implementation of aggressive cost management strategies to attempt to deal with the commodity price downturn in previous years. In addition to the aforementioned initiatives to improve operational performance, the Debtors have once again implemented proven cost management strategies in order to increase efficiency and maximize liquidity in the current market. The Debtors' cost management initiatives focused on (a) keeping operating costs low through rigorous negotiations with service providers and taking a "de-bundled" approach to minimize mark-ups on drilling and completion services; (b) significantly reducing capital expenditures and focusing on efforts to optimize production; and (c) generating substantial cost savings through reduction of corporate overhead.

57. **First**, the Debtors have, over time, developed internal procedures for managing operating costs. These procedures have been successful in facilitating greater coordination across their organization, improving the efficiency of their operations, minimizing the cost of sourcing goods and services, and ultimately reducing the cost of drilling and completing wells. Furthermore, the Debtors take a rigorous approach to minimizing the total delivered cost of purchased goods and services by examining costs at their most basic level. As a result, goods and services are commonly sourced directly from suppliers. The Debtors also remain focused on adopting and employing leading drilling and completion methods, and routinely evaluate new techniques as they enter the competitive marketplace.

58. **Second**, the Debtors continually assess the appropriate level of capital investment in light of current and projected commodity prices, financial resources, cost structure, and other

similar considerations. As previously disclosed in public filings, the Debtors elected to significantly reduce their 2019 capital expenditures budget by approximately 80% as compared to the prior year to preserve capital and maximize liquidity in the current uncertain and low commodity price environment. Specifically, SN reduced its capital expenditures from more than \$600 million in 2018 to a budgeted amount of \$100-\$150 million for 2019. The Debtors' steps taken to reduce capital spending are complementary with their efforts, described above, to optimize operational performance and business efficiency.

59. **Third**, thus far in 2019, the Debtors have reduced corporate overhead costs by approximately 25%-30% as compared to the prior year, resulting in annualized cash savings in excess of \$25 million. The Debtors continue to seek and review opportunities for further reducing corporate overhead. In connection with certain of these initiatives and general attrition, SOG has reduced the number of employees who perform services for SN by approximately 25% this year.

iii. Asset Dispositions

60. Finally, over the past several years, the Debtors have strategically divested a range of assets, where appropriate, to maximize and monetize asset value. Since June 2016, through these various asset dispositions, which included the sale of certain acreage in the Eagle Ford Shale and the sale of membership interests in two joint ventures to SNMP, the Debtors recognized significant aggregate cash proceeds, which proceeds were used primarily to fund SN Maverick's acquisition of its portion of the SN Comanche Assets (as discussed above) and for capital expenditures.

C. Engagement of Restructuring Professionals to Assist the Debtors

61. In response to the challenges outlined above, the Debtors sought the advice of various professionals with notable restructuring expertise. In August 2018, the Debtors engaged Moelis & Company LLC ("Moelis") as financial advisor to explore strategic alternatives to

strengthen their balance sheet and maximize the value of the Company. In January 2019, the Debtors also engaged Akin Gump Strauss Hauer & Feld LLP (“Akin Gump”), its existing corporate counsel, as restructuring counsel and, thereafter, retained Alvarez & Marsal North America, LLC (“A&M,” and together with Moelis and Akin Gump, the “Advisors”) as restructuring advisor. Collectively, the Advisors were engaged to assist the Debtors in analyzing and assessing options with respect to a restructuring of the Debtors’ prepetition capital structure and balance sheet, analyzing and addressing near-term liquidity issues, and assisting the Debtors in connection with their discussions and negotiations with existing stakeholders and potential third-party investors regarding potential refinancing and restructuring transactions (as discussed in more detail below).

D. Appointment of Independent Directors

62. In October 2018, the Board appointed two new independent, disinterested directors—Eugene I. Davis and Adam C. Zylman. Following these appointments, the Board established a special committee (the “Special Committee”) to evaluate strategic alternatives, including one or more sales, financings, restructuring recapitalizations, or reorganization transactions. Mr. Davis (Chairman) and Mr. Zylman are the two Board members who comprise the Special Committee.

63. In addition to overseeing the day-to-day restructuring-related matters of the Debtors, the Board delegated to the Special Committee the exclusive power and authority to investigate, pursue, settle, and/or otherwise resolve any and all potential claims or causes of action the Debtors may have related to SOG, SNMP, or any of their respective affiliates or joint ventures in which any of the foregoing are a partner or member in connection with any actual or potential related party transaction. In furtherance of that delegated authority, in March 2019, the Special

Committee hired Ropes & Gray LLP as counsel responsible for assisting the Special Committee in conducting its investigation.

E. Discussions with Stakeholders

64. Beginning in earnest in March 2019, the Debtors ran an extensive marketing process for new money financing to assist with a comprehensive debt restructuring transaction, which included outreach to 23 potential third-party investors, several of which entered into non-disclosure agreements and elected to receive confidential diligence information. Although certain of those parties continued engagement with the Debtors after receiving diligence, as of the Petition Date none of the potential third-party investors presented the Debtors with an actionable proposal which could effectively be integrated into the Debtors' broader restructuring efforts to date.

65. Contemporaneously with the Debtors' marketing process with respect to a potential third-party investment, the Debtors commenced discussions with their existing stakeholders: (i) an ad hoc group of holders of the 7.25% Senior Secured Notes (the "Secured Notes Ad Hoc Group") and its advisors; (ii) an ad hoc group of holders of the 7.75% Senior Notes and the 6.125% Senior Notes (the "Unsecured Notes Ad Hoc Group") and its advisors; and (iii) GSO (on account of its interests in SN UnSub, as described above) and its advisors. Engagement with these stakeholders accelerated in April 2019, when the Debtors entered into non-disclosure agreements (each an "NDA") with the advisors to the Secured Notes Ad Hoc Group, and GSO and its advisors. The Debtors subsequently entered into NDAs with the advisors to the Unsecured Notes Ad Hoc Group in May 2019. Upon the execution of the NDAs, the advisors to the Secured Notes Ad Hoc Group and the Unsecured Notes Ad Hoc Group, and GSO and its advisors, conducted extensive diligence, including meetings with management.

66. On June 27, 2019 the members of the Secured Notes Ad Hoc Group and the members of the Unsecured Notes Ad Hoc Group executed NDAs. That same day, those groups

participated in separate in-person meetings with the Debtors' management and Advisors, and the Debtors provided those groups with a preliminary illustrative term sheet that could set forth the framework for a consensual restructuring with the Debtors' secured and unsecured creditors.

67. At the same time, on June 25, 2019 the Debtors also provided GSO with a preliminary illustrative framework that outlined a possible structure for a restructuring transaction in which would GSO serve as a plan sponsor. The Debtors and GSO had discussions about the framework that did not advance beyond a preliminary stage. On July 13, 2019, GSO ST Holdings Associates alleged that certain events have occurred which, under the Amended and Restated Limited Liability Company Agreement of SN EF UnSub GP, LLC (the "LLC Agreement") and the Amended and Restated Agreement of Limited Partnership of SN EF UnSub, LP (as amended, the "Partnership Agreement"), unless cured, would constitute a so-called "Investor Redemption Event" (as defined in such agreements) that has certain consequences as set forth in such agreements. The Debtors strongly dispute these allegations and responded as such in a letter to GSO dated July 24, 2019. On August 10, 2019, a tolling agreement (the "Tolling Agreement") was entered into among SN, SN UR Holdings, SN EF UnSub Holdings, SN Maverick, GSO ST Holdings Associates and GSO ST Holdings with respect to, among other things, (i) the alleged defaults and any cure periods and rights arising therefrom; (ii) other matters with respect to Investor Redemption Events; (iii) the treatment of a potential bankruptcy proceeding of SN EF UnSub Holdings; and (iv) the option of either party to terminate certain arrangements therein. The Tolling Agreement is attached hereto as **Exhibit C**. The Debtors anticipate filing a motion for approval of the Tolling Agreement following the Petition Date.

68. The Debtors have continued to engage diligently with their stakeholders leading up to the commencement of these chapter 11 cases, including entering the 30-day grace period with

respect to the July 15 Coupon to provide the parties additional time to have discussions. Such actions have included exchanging term sheets, telephone calls, and in-person meetings. Despite best efforts, the Debtors have been unable to reach an agreement with their stakeholders on a restructuring transaction to date. As such, and given the impending expiration of the 30-day grace period, the Debtors determined that they could no longer delay commencing these chapter 11 cases. The Debtors are hopeful, however, that productive discussions will continue following the Petition Date, and the Debtors intend to use their exclusivity period to engage with their stakeholders, in order to try to achieve a consensual restructuring transaction as soon as possible.

F. DIP Financing

69. The Debtors did, however, reach agreement with the Secured Notes Ad Hoc Group with respect to DIP Financing, which was critical for the Debtors. Although the Debtors' professionals solicited financing proposals from their existing stakeholders (including the Unsecured Notes Ad Hoc Group) as well as a number of potential third-party lenders, the DIP Financing offered by the Secured Notes Ad Hoc Group was the only formal debtor in possession financing proposal that the Debtors received. The DIP Financing provides for \$175 million of new money (\$50 million of which will be drawn upon entry of the interim order approving the DIP Financing) and, upon entry of the final order approving the DIP Financing and subject to standard challenge rights, a roll-up of \$175 million of 7.25% Senior Secured Notes, and provides for the consensual use of cash collateral. The agreement on DIP Financing also provides for the repayment of all amounts outstanding under the First-Out Senior Secured Revolving Credit Facility and the cash collateralization of the undrawn standby letter of credit from the proceeds of the interim draw.

70. Importantly, the DIP Financing is a term loan which will allow the Debtors to strengthen their cash position immediately, and will send a positive and credible message to the

Debtors' workforce and commercial counterparties that the Debtors will have sufficient liquidity to maintain ordinary course operations and meet their financial commitments throughout the course of the chapter 11 cases. Further, in the near term, the Debtors will be resuming a substantial portion of their drilling program in satisfaction of their leasehold requirements. Having a strong liquidity position will send a further message to the Debtors' vendors and other business partners that as they commit resources to the Debtors in connection with that program, in return, the Debtors will be able to fulfill their sizeable capital expenditure commitments. Absent the DIP Financing, the Debtors would be unable to fund their capital expenditures program during the course of these chapter 11 cases, which program is essential to maintaining the Debtors' asset base for the benefit of all of the Debtors' stakeholders.

71. The DIP Financing also has the support of the Secured Notes Ad Hoc Group, and the agreements reached in connection with the DIP Financing avoid potentially contentious and complex litigation with the Secured Notes Ad Hoc Group with respect to the Debtors' ability to use cash collateral. Moreover, pursuant to the milestones agreed to in connection with the DIP Financing, the Debtors have 110 days from the Petition Date to file a plan of reorganization, which will afford the Debtors ample time to continue negotiations with their stakeholders and, hopefully, reach an agreement on terms of a comprehensive restructuring transaction. Importantly, the only requirement imposed by the DIP Financing with respect to any plan of reorganization is that the plan of reorganization provide for payment in full in cash of the loans under the DIP Financing (including the roll-up of \$175 million of the 7.25% Senior Secured Notes). As such, the Debtors maintain the flexibility to negotiate and propose a plan of reorganization that is in the best interests of their estates and all of their stakeholders.

Part VI: First Day Motions

72. Contemporaneously herewith, the Debtors have filed a number of First Day Motions seeking orders granting various forms of relief intended to stabilize the Debtors' business operations, facilitate the efficient administration of these chapter 11 cases, and expedite a strategic restructuring of the Debtors' balance sheet. I have reviewed each of the First Day Motions. I believe that the relief requested in the First Day Motions is necessary to allow the Debtors as smooth a transition as possible into chapter 11, and to operate with minimized disruption during the pendency of these chapter 11 cases. A description of the relief requested in and the facts supporting each of the First Day Motions is detailed in **Exhibit A** attached hereto.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing statements are true and correct to the best of my knowledge, information, and belief.

Dated: August 11, 2019

/s/ Cameron W. George

Cameron W. George
Executive Vice President and Chief Financial Officer
Sanchez Energy Corporation

Certificate of Service

I certify that on August 12, 2019, 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/ Matthew D. Cavanaugh

Matthew D. Cavanaugh

Exhibit A

Evidentiary Support for First Day Motions

EVIDENTIARY SUPPORT FOR FIRST DAY MOTIONS¹

Administrative and Procedural Motions

I. Debtors' Emergency Motion for Entry of an Order (I) Directing Joint Administration of Chapter 11 Cases; and (II) Granting Related Relief (the "Joint Administration Motion")

1. Pursuant to the Joint Administration Motion, the Debtors request entry of an order directing procedural consolidation and joint administration of these chapter 11 cases. Given the integrated nature of the Debtors' operations, joint administration of these chapter 11 cases will provide significant administrative convenience without harming the substantive rights of any party in interest. Many of the motions, hearings, and orders in these chapter 11 cases will affect more than one Debtor entity. The entry of an order directing joint administration of these chapter 11 cases will reduce fees and costs by avoiding duplicative filings and objections.

2. Parties in interest will not be harmed by the relief requested; rather, the joint administration of these chapter 11 cases is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, who will benefit from the cost reductions associated with the joint administration of these chapter 11 cases. Joint administration also will allow the United States Trustee for the Southern and Western Districts of Texas (the "U.S. Trustee") and all parties in interest to monitor these chapter 11 cases with greater ease and efficiency. Accordingly, on behalf of the Debtors, I respectfully submit that the relief requested in the Joint Administration Motion should be approved by the Court.

¹ Capitalized terms used but not defined herein have the meanings given to them in the applicable First Day Motion.

II. Debtors' Emergency Motion for Entry of an Order (I) Authorizing Consolidated Creditors Lists; (II) Authorizing Redaction of Certain Personal Identification Information; and (III) Approving the Form and Manner of Notifying Creditors of the Commencement of the Chapter 11 Cases (the "Creditor Matrix Motion")

3. Pursuant to the Creditor Matrix Motion, the Debtors seek entry of an order (i) authorizing the Debtors to file a consolidated creditor matrix and list of the 30 largest general unsecured creditors in lieu of submitting separate mailing matrices and creditor lists for each Debtor; (ii) authorizing the Debtors to redact certain personal identification information for individual creditors; and (iii) approving the form and manner of notifying creditors of the commencement of the chapter 11 cases and the scheduling of the meeting of creditors under section 341 of the Bankruptcy Code.

4. Although the list of creditors is typically filed on a debtor-by-debtor basis, in a complex chapter 11 bankruptcy in the Southern District of Texas for cases involving more than one debtor, debtors may file a consolidated matrix. In this case, the preparation of separate lists of creditors for each of the 11 Debtor entities would be unduly burdensome. Accordingly, the Debtors respectfully request authority to file one consolidated list of creditors for all Debtors (the "Creditor Matrix").

5. The Debtors request authority to file a single, consolidated list of their 30 largest general unsecured creditors in light of the fact that a large number of creditors may be shared among the various Debtors. Allowing the Debtors to file a consolidated list will reduce administrative expenses and will promote efficiency throughout these cases. The Debtors respectfully submit that cause exists to authorize the Debtors to redact address information of individual creditors from the Creditor Matrix because, among other reasons, such information could be used to perpetuate identity theft. The Debtors propose to provide an unredacted version

of the Creditor Matrix to the Court, the Office of the U.S. Trustee, and any official committees appointed in these chapter 11 cases.

6. The Debtors, through Prime Clerk LLC, their proposed noticing agent, propose to serve the notice of commencement substantially in the form attached as **Exhibit 1** to the order filed with the Motion to the Creditor Matrix Motion (the “Notice of Commencement”) to all parties entitled to notice of commencement of these chapter 11 cases to advise them of the section 341 meeting of creditors. Service of the Notice of Commencement on the Creditor Matrix will not only prevent the Debtors’ estates from incurring unnecessary costs associated with serving multiple notices to the parties listed on the Debtors’ voluminous Creditor Matrix, but will also preserve judicial resources and prevent creditor confusion through the efficient service of critical information. Accordingly, the Debtors submit that service of a single Notice of Commencement is warranted and proper in these chapter 11 cases.

7. In light of the anticipated number of creditors filing claims, the service of a single Notice of Commencement will provide the most effective and efficient means of, and relieve the Debtors and/or the Clerk’s Office of the administrative burden of, sending, receiving, and consolidating the potential creditors of the 11 Debtors in these chapter 11 cases. Additionally, the redaction of address information for individual creditors is in the best interests of all parties, protecting against identify theft and improper use of creditor information.

III. Debtors' Emergency Motion for Entry of an Order (I) Extending Time to File (A) Schedules of Assets and Liabilities, (B) Schedules of Current Income and Expenditures, (C) Schedules of Executory Contracts and Unexpired Leases, (D) Statements of Financial Affairs, and (E) Rule 2015.3 Financial Reports; (II) Waiving the Requirement to File a List of Equity Security Holders; and (III) Granting Related Relief (the "Schedules and Statements Motion")

8. Pursuant to the Schedules and Statements Motion, the Debtors seek entry of an order (i) granting the Debtors an additional 30 days, without prejudice to the Debtors' ability to request additional extensions, to file their schedules of assets and liabilities, schedules of current income and current expenditures, schedules of executory contracts and unexpired leases, and statements of financial affairs (collectively, the "Schedules and Statements"); (ii) allowing the Debtors additional time to file financial information reports under Bankruptcy Rule 2015.3(a) to 60 days after the Petition Date, without prejudice to the Debtors' ability to request additional extensions; and (iii) waiving the requirement to file a list of and provide notice directly to the Debtor Sanchez Energy Corporation's ("SN") equity security holders.

9. The Debtors have spent, and continue to spend, a substantial amount of time ensuring the Debtors have a smooth transition into chapter 11, with minimal disruptions to the Debtors' businesses. To prepare their Schedules and Statements, the Debtors will have to compile information from books, records, and documents relating to hundreds of claims, assets, and contracts from each Debtor entity. These tasks also include working with the Debtors' customers, vendors, suppliers, and various other parties in interest to stabilize business operations, a process the Debtors anticipate will exceed 14 days.

10. The Debtors submit that the requirements to file a list of, and to provide notice directly to, equity holders should be waived as to SN in this case. As an initial matter, SN is a publicly traded company and its common stock was historically listed on the New York Stock Exchange ("NYSE") under the ticker symbol "SN," with over 100 million shares of common stock

outstanding and an average daily trading volume over the past 12 months of approximately 2.1 million shares. SN, contemporaneously with the filing of this Motion, filed a list of significant holders of its outstanding common and preferred stock. Further, SN intends to cause notices, pursuant to Bankruptcy Rule 2002(d), to be served on registered holders of SN's common stock.

11. Accordingly, the Debtors respectfully request that the requirements to file a list of and to provide notice directly to each of SN's equity security holders pursuant to Bankruptcy Rule 2002(d) be waived. Further, given the complexity of the Debtors' estates, I believe it is critical for the Court to extend the time allotted to the Debtors to file the Schedules and Statements. The time extension will allow the Debtors to complete the Schedules and Statements in an efficient and accurate manner, reducing the risk of subsequent revisions.

IV. Debtors' Emergency Application for Entry of an Order Appointing Prime Clerk as Claims and Noticing Agent Effective as of the Petition Date ("Claims Agent Application")

12. Pursuant to the Claims Agent Application, the Debtors seek entry of an order appointing Prime Clerk as the Claims and Noticing Agent for the Debtors in their chapter 11 cases to (a) serve as the noticing agent to mail notices to the estates' creditors, equity security holders, and other parties in interest, (b) provide computerized claims, objection, and solicitation and balloting related services, and (c) assist the Debtors in claim and ballot processing and other administrative services with respect to these chapter 11 cases, in each case, pursuant to the terms of the Prime Clerk Engagement Letter.

13. Although the Debtors have not yet filed their schedules of assets and liabilities, they anticipate that there will be thousands of persons and entities to be noticed and that many of these parties will file claims. In view of the number of anticipated claimants and the complexity of the Debtors' businesses, the appointment of a claims and noticing agent will provide the most effective

and efficient means of, and relieve the Debtors and/or the Clerk's Office of the administrative burden of, noticing, administering claims, and soliciting and tabulating votes and is in the best interests of both the Debtors' estates and their creditors.

Operational Motions

V. Debtors' Emergency Motion for Entry of an Order (I) Authorizing the Payment of Certain Prepetition Taxes and Fees; and (II) Granting Related Relief (the "Taxes Motion")

14. Pursuant to the Taxes Motion, the Debtors seek entry of an order authorizing the Debtors to remit and pay certain prepetition taxes and fees that will become payable during the pendency of these chapter 11 cases.

15. In the ordinary course of their businesses, the Debtors collect and incur sales, use, excise, income, franchise, severance, and property taxes, as well as other business, environmental, and regulatory fees (collectively, the "Taxes and Fees"). The Debtors remit the Taxes and Fees to various federal, state, and local governments, including taxing and licensing authorities (collectively, the "Taxing Authorities"), typically through electronic funds transfers that are processed through their banks and other financial institutions. The Debtors estimate that approximately \$56.3 million in Taxes and Fees relating to the prepetition period will become due and payable after the Petition Date, including approximately \$12 million in the first 21 days of these chapter 11 cases. From time to time, the Debtors also receive tax credits for overpayments or refunds in respect of the Taxes and Fees.

16. The Debtors must pay the Taxes and Fees as required, as such failure could cause severe disruption to their businesses in numerous ways. Nonpayment of taxes may cause the Taxing Authorities to initiate audits, suspend operations, file liens, or seek to lift the automatic stay. Such actions would unnecessarily divert the Debtors' attention from the reorganization

process and be detrimental to these chapter 11 cases. Unpaid Taxes and Fees may also result in penalties, the accrual of interest, or both, which could negatively affect the Debtors' businesses or the reorganization process. Further, the Debtors collect and hold certain outstanding tax liabilities in trust for the benefit of the applicable Taxing Authorities, and, therefore, these funds may not constitute property of the Debtors' estates. Finally, certain unpaid Taxes and Fees will need to be paid as part of any plan of reorganization in these cases. Accordingly, I believe it is essential that the Debtors be permitted pay the Taxes and Fees, including amounts related to the prepetition period.

VI. Debtors' Emergency Motion for Entry of an Order (I) Approving the Debtors' Proposed Adequate Assurance of Payment for Future Utility Services; (II) Prohibiting Utility Companies from Altering, Refusing, or Discontinuing Services; (III) Approving the Debtors' Proposed Procedures for Resolving Additional Assurance Requests; and (IV) Granting Related Relief (the "Utilities Motion")

17. Pursuant to the Utilities Motion, the Debtors seek entry of an order (i) approving the Debtors' proposed adequate assurance of payment for future utility services; (ii) prohibiting utility companies from altering, refusing, or discontinuing services; and (iii) approving the Debtors' proposed procedures for resolving adequate assurance requests.

18. In connection with the operation of their businesses and management of their properties, the Debtors obtain electricity, telecommunications, and other similar services (collectively, the "Utility Services") from a number of utility companies or brokers (collectively, the "Utility Companies"). A nonexclusive list of the Utility Companies and their affiliates that provide Utility Services to the Debtors as of the Petition Date (the "Utility Services List") is attached to the Utilities Motion as **Exhibit B**.

19. To the best of the Debtors' knowledge, there are no defaults or arrearages with respect to the undisputed invoices for prepetition Utility Services. On average, the Debtors pay

approximately \$103,000 each month for third-party Utility Services, calculated as a historical average payment for the 12 months preceding the Petition Date. The Debtors estimate that their cost for Utility Services during the next 14 days (not including any deposits to be paid) will be approximately \$48,000. To the best of the Debtors' knowledge, the Debtors do not have any existing prepayments with respect to any Utility Companies.

20. The uninterrupted continuation of the Utility Services is critical to the Debtors' ongoing business operations throughout the course of these chapter 11 cases. Should any of the Utility Companies refuse or discontinue service, even for a brief period, the Debtors' business operations would be disrupted, jeopardizing the Debtors' ability to manage their reorganization efforts and potentially lowering the value of the Debtors' assets and estates. Accordingly, it is essential that the Utility Services continue uninterrupted during these chapter 11 cases.

VII. Debtors' Emergency Motion for Entry of Interim and Final Orders (I) Authorizing Payment of (A) Obligations Owed to Holders of Mineral and Other Interests and Non-Operating Working Interests, (B) Joint-Interest Billings, and (C) Cash Calls; and (II) Granting Related Relief (the "Working Interests Motion")

21. Pursuant to the Working Interests Motion, the Debtors seek entry of interim and final orders authorizing, but not directing, the payment or application of funds attributable to (a) Mineral and Other Interests and Non-Op Working Interests, (b) JIBs, and (c) Cash Calls (each as defined below).

22. **Mineral and Other Interests and Non-Working Interests.** The Debtors operate and/or have working interests across the majority of their oil and natural gas assets. In connection with these interests, the Debtors are obligated to remit to the lessors of the oil and gas leases and holders of certain other interests (collectively, the "Mineral and Other Interests") their respective share of revenue from the producing wells located on such leases (the "Royalties") and delay

rentals and lease bonus payments made to landowners when no drilling is occurring (the “Lease Obligations”).

23. In their capacity as operator, the Debtors must also market oil and gas production on behalf of certain owners of non-operating working interests (the “Non-Op Working Interests”). Following the sale of the marketed production and the receipt of proceeds attributable thereto, the Debtors are obligated to remit *pro rata* shares of the proceeds (net of all applicable deductions) to holders of Non-Op Working Interests.

24. The amount of Royalties and Lease Obligations owed to holders of Mineral and Other Interests each month varies due to many factors, including the specific terms of the Mineral and Other Interests, changes in ownership, and changes in the amount or type of minerals captured. The Debtors generally pay Royalties and Lease Obligations in an aggregate amount of approximately \$60 million per month. In the 12 months ending on July 31, 2019, the Debtors paid Royalties in an aggregate amount of approximately \$710 million. These payments are remitted by the Debtors throughout the course of a given month. As a result of the time required to market and sell the production and the significant accounting process required each month to accurately disburse the resulting proceeds, Royalties generally are paid between 25 and 55 days following the end of the month in which production of the underlying oil and gas occurred, depending on the asset.

25. The Debtors estimate that, as of the Petition Date, there is approximately \$75 million in outstanding Royalties and Lease Obligations owed to holders of Mineral and Other Interests, of which approximately \$36 million will become due and owing within the first 21 days of these chapter 11 cases.

26. Similarly, payments on account of Non-Op Working Interests typically are not uniform and are not entirely predictable on a month-to-month basis. On average, the Debtors remit approximately \$100 million per month on account of Non-Op Working Interests. In the 12 months ending July 31, 2019, the Debtors remitted approximately \$1.2 billion in payments to holders of Non-Op Working Interests. As of the Petition Date, the Debtors estimate they owe approximately \$111 million to holders of Non-Op Working Interests, of which approximately \$74 million will become due and owing within the first 21 days of these chapter 11 cases.

27. Failure to forward all required amounts to holders of Mineral and Other Interests and Non-Op Working Interests as and when due could have a material adverse effect upon the Debtors and their operations, including, without limitation, potential cancellation, forfeiture, or termination of oil and natural gas leases, penalties and interest, initiation of litigation, including turnover actions, conversion and constructive trust claims, and assertion of significant secured claims against property of the Debtors' estates, and, in certain circumstances, attempted removal of the Debtors as operator. Accordingly, I believe payment of Royalties in the ordinary course of business is in the best interests of the Debtors and their creditors.

28. **Joint-Interest Billings and Cash Calls.** Likewise, the Debtors hold Non-Op Working Interests in wells under various joint operating agreements. In such instances, the Debtors receive payments representing their share of production revenues and then reimburse the operators for their share of production costs through payment of joint-interest billings ("JIBs") as well as cash calls to cover capital expenditures ("Cash Calls"). Rights to payment of JIBs and Cash Calls are often secured under contractual lien rights or statutory lien rights in favor of the operator against the Debtors' interest in the well or are subject to recoupment and setoff.

29. The Debtors seek to continue the practice of netting JIBs and Cash Calls from the working interest payments, effectively settling or paying prepetition JIBs and Cash Calls in the ordinary course of business. As of the Petition Date, the Debtors estimate that there is approximately \$12 million on account of JIBs and Cash Calls outstanding, approximately all of which will become due and owing within the first 21 days of these chapter 11 cases.

30. I understand that failure to satisfy the prepetition JIBs and Cash Calls as they become due will severely impact the Debtors' drilling and production operations, production may completely cease for certain wells, or leases may be lost. The Debtors' ongoing operations depend, to a significant degree, on their relationship with the operators to whom JIB and Cash Call payments are owed. If these relationships are harmed, either through the nonpayment of JIBs and Cash Calls as they become due or through the perceived difficulties of dealing with chapter 11 debtors, the Debtors may encounter particularized controversies with each counterparty, unnecessary costs and distractions, and corresponding harm to their businesses to the detriment of all parties. As a result, I believe that payment of prepetition JIBs and Cash Calls is in the best interests of the Debtors, their estates, and all parties in interest, and should be approved.

31. In light of the foregoing, the relief requested in the Working Interests Motion is critical to preserving the value of the Debtors' estates and will enable the Debtors to continue to operate their businesses in chapter 11 without disruption.

VIII. Debtors' Emergency Motion for Entry of Interim and Final Orders (I) Authorizing the Payment of (A) Operating Expenses, (B), Marketing Expenses, (C) Shipping and Warehousing Claims, and (D) 503(B)(9) Claims; and (II) Granting Related Relief (the "Operating Expenses Motion")

32. Pursuant to the Operating Expenses Motion, the Debtors seek entry of interim and final orders authorizing, but not directing, the Debtors to pay in the ordinary course of business all undisputed, liquidated prepetition amounts owing on account of (a) operating expenses,

(b) marketing expenses, (c) shipping and warehousing claims, (d) 503(b)(9) claims, and (e) outstanding orders.

33. **Operating Expenses.** The Debtors serve as operators under the majority of their oil and natural gas leases. As operators, the Debtors are responsible for paying all capital expenditures for drilling and completion of wells and lease operating expenses, each on account of their working interests in the oil and natural gas leases and on behalf of the non-operating working interest owners (collectively, the “Operating Expenses”). The Debtors later seek reimbursement from non-operating working interest owners for their *pro rata* share of the Operating Expenses.

34. Operating Expenses commonly include payments to third parties that perform labor or furnish materials, equipment, or supplies used in drilling, operating, or maintaining an oil and natural gas property. Operating Expenses also can include payments made to third parties who own property interests that are critical to the drilling, operating, or maintaining of an oil and natural gas property. Such payments can take the form of lump sum payments, rentals, extensions, minimum payments, or damage payments made to surface or mineral interest owners.

35. Operating Expenses typically are not uniform and are not entirely predictable on a month-to-month basis. In the 12 months preceding the Petition Date, the Debtors paid approximately \$853 million in Operating Expenses, of which approximately \$571 million was reimbursed by non-operating working interest owners. As of the Petition Date, the Debtors estimate that they will have approximately \$68 million of Operating Expenses outstanding, of which approximately \$46 million will come due and owing within the first 21 days of these chapter 11 cases, and for which they will be reimbursed approximately \$31 million by the owners of non-operating working interests.

36. Regardless of when an operator is reimbursed by non-operating working interest owners, the operator must continue to pay Operating Expenses in a timely fashion. Failure to pay Operating Expenses when due could result in, among other remedies, the operator's removal as operator under a joint operating agreement and/or the perfection and enforcement of liens on the Debtors' assets.

37. **Marketing Expenses.** To effectively market or sell production from oil and natural gas properties operated by the Debtors, the Debtors, as operator, will make contractual arrangements (the "Marketing Arrangements") pursuant to which third parties will charge the operator for gathering, transportation, treating, dehydration, compression, processing, fractionation, and other similar services necessary or desirable to get the unrefined oil and natural gas produced from wells to market in a condition ready for sale (such charges, collectively, the "Marketing Expenses"). In addition, where the Debtors elect to take their production "in-kind" rather than requesting that the third-party operator market the production associated with the Debtors' non-operating working interest on the Debtors' behalf, the Debtors similarly will incur Marketing Expenses.

38. The Debtors' compliance with the Marketing Arrangements and timely payment of the Marketing Expenses is critical to the Debtors' ability to receive revenue from production that they market on behalf of both themselves and third parties (the "Marketed Production"). Failure to receive such revenue would directly threaten the Debtors' ability to make timely payments to third parties holding an interest in production, such as working interest owners and royalty interest owners.

39. The Debtors' counterparties to the Marketing Arrangements commonly will have possession and, at times, title to the Marketed Production. I understand that failure to pay the

Marketing Expenses when due could result in such counterparties refusing to release production or revenues associated with the Marketed Production in their possession or refusing to accept delivery of additional Marketed Production.

40. In instances where delivery of Marketed Production is refused, the Debtors may be forced to shut-in a well. Shutting in a well can cause dramatic economic consequences for the Debtors' businesses and negatively impact the value of their estates. Further, the act of shutting in a well can trigger obligations to other interest owners in such well, including payment obligations or potential forfeiture of the Debtors' interest under the terms of the applicable oil and natural gas lease. Without seamless compliance with their Marketing Arrangements and the ability to make the Debtors' production marketable for sale, the Debtors' revenue streams and ability to operate their businesses potentially would be severely impaired. Therefore, it is critical that the Debtors pay prepetition Marketing Expenses and continue paying such Marketing Expenses in the ordinary course of business on a postpetition basis.

41. In the 12 months preceding the Petition Date, the Debtors paid approximately \$260 million in Marketing Expenses. As of the Petition Date, the Debtors estimate that they have approximately \$35 million of prepetition Marketing Expenses outstanding, of which approximately \$25 million will come due and owing in the first 21 days of these chapter 11 cases.

42. **Shipping and Warehousing Claims.** In the ordinary course of business, the Debtors engage certain transportation vendors (the "Shippers") to transport or deliver goods, materials, or other property, including drilling pipe, casing, wellheads, tanks, separators, and other necessary oil and natural gas equipment (the "Materials") from a manufacturer to a storage yard, between a storage yard and an oil and natural gas property, between oil and natural gas properties, or between storage yards. The Shippers regularly possess Materials belonging to the Debtors (and

non-operating working interests owners in Debtor-operated oil and natural gas properties. The Materials are integral to the exploration and production process. The Debtors commonly require timely, and sometimes immediate, access to the Materials while drilling or operating a well. Additionally, while the Debtors own multiple storage yards, they rely on approximately four additional vendors (collectively, the “Warehousemen”) in the ordinary course of business to store Materials when not being used.

43. If the Debtors were to default on any obligation to the Warehousemen, the Warehousemen may assert a lien, attempt to take possession of the Debtors’ property, and/or bar the Debtors’ access to Materials stored at the Warehousemen’s yards. In addition, certain Shippers and Warehousemen may refuse to deliver or release Materials or other property in their possession or control, as applicable, before the prepetition amounts owed to them by the Debtors (collectively, the “Shipping and Warehousing Claims”) have been satisfied and their liens redeemed. To avoid refusal by Shippers and Warehousemen to deliver or release Materials or other property in their possession or control, the Debtors seek approval to pay the Shipping and Warehousing Claims.

44. On average, the Debtors pay the Shippers and Warehousemen approximately \$830,000 per month in arrears. In the 12 months preceding the Petition Date, the Debtors paid approximately \$10 million in Shipping and Warehousing Claims. As of the Petition Date, the Debtors estimate that they have approximately \$800,000 of prepetition Shipping and Warehousing Claims outstanding, all of which will come due and owing in the first 21 days of these chapter 11 cases.

45. Certain Shippers and Warehousemen may refuse to deliver or release Materials or other property in their possession or control, or assert a lien thereon, as applicable, before the prepetition amounts owed to them by the Debtors have been satisfied. To continue using the

Shippers' and Warehousemen's transportation and storage services and have access to the Materials held or controlled thereby, it is important that the Debtors obtain approval to pay prepetition Shipping and Warehousing Claims and to continue paying such Shipping and Warehousing Claims in the ordinary course of business on a postpetition basis.

46. **503(b)(9) Claims.** The Debtors may have received certain goods or materials from various vendors (collectively, the "503(b)(9) Claimants") within the 20 days prior to the Petition Date. Certain of the Debtors' relationships with the 503(b)(9) Claimants are not governed by enforceable long-term contracts. Rather, the Debtors often obtain supplies on an order-by-order basis. As a result, a 503(b)(9) Claimant may refuse to supply new orders without payment of its prepetition claims.

47. As of the Petition Date, the Debtors owe approximately \$20.7 million on account of goods delivered within the 20 days prior to the Petition Date. The Debtors' ongoing ability to obtain goods from the 503(b)(9) Claimants is key to their survival and necessary to preserve the value of their estates. Absent payment of certain of these amounts at the outset of these chapter 11 cases, the Debtors could be denied access to the equipment and goods necessary to maintain the Debtors' business operations. Failure to honor certain of these claims in the ordinary course of business may also cause the 503(b)(9) Claimants to withhold support for the Debtors during the chapter 11 process. Such vendors could accelerate or eliminate favorable trade terms. Such costs and distractions could impair the Debtors' ability to stabilize their operations at this critical juncture to the detriment of all stakeholders.

48. **Outstanding Orders.** Prior to the Petition Date and in the ordinary course of business, the Debtors may have ordered goods that will not be delivered until after the Petition Date (the "Outstanding Orders"). To avoid becoming general unsecured creditors of the Debtors'

estates with respect to such goods, certain suppliers may refuse to ship or transport such goods (or may recall such shipments) with respect to such Outstanding Orders unless the Debtors issue substitute purchase orders postpetition. Receiving delivery of Outstanding Orders is critical to preventing any disruption to the Debtors' business operations.

49. In light of the foregoing, I believe that authorizing the Debtors to pay all undisputed, liquidated prepetition amounts owing on account of Operating Expenses, Marketing Expenses, Shipping and Warehousing Claims, and 503(b)(9) claims, and to honor Outstanding Orders on a postpetition basis in the ordinary course of business is critical to protect the Debtors' business operations and is the best interests of the Debtors' estates, their creditors, and all stakeholders.

IX. Debtors' Emergency Motion for Entry of Interim and Final Orders (I) Approving Notification and Hearing Procedures for Certain Transfers of and Declarations of Worthlessness With Respect to Common Stock and Preferred Stock; and (II) Granting Related Relief (the "NOL Motion")

50. Pursuant to the NOL Motion, the Debtors seek entry of interim and final orders (i) approving certain notification and hearing procedures related to certain transfers of any Beneficial Ownership (as defined in the NOL Motion) in, or declarations of worthlessness with respect to, SN's existing common stock (the "Common Stock"), SN's existing 4.875% Convertible Perpetual Preferred Stock, Series A (the "Series A Preferred Stock"), and SN's existing 6.50% Convertible Perpetual Preferred Stock, Series B (the "Series B Preferred Stock," and together with the Series A Preferred Stock, the "Preferred Stock"), in accordance with certain procedures proposed by the Debtors (the "Procedures"), and (ii) directing that any purchase, sale, other transfer of, or declaration of worthlessness with respect to Common Stock, Series A Preferred Stock, or Series B Preferred Stock in violation of the Procedures shall be null and void *ab initio*.

51. As of December 31, 2018, the Debtors estimate that they had federal consolidated NOLs in the amount of approximately \$2.03 billion (together with certain other tax attributes, the "Tax Attributes"). The Tax Attributes are potentially of significant value to the Debtors and their estates because the Debtors can carry forward certain Tax Attributes to offset taxable income in future years, and such Tax Attributes may also be utilized by the Debtors to offset any taxable income that may be generated by transactions consummated during these chapter 11 cases.

52. I believe that by establishing and implementing such Procedures, the Debtors will be in a position to object to "ownership changes" that threaten their ability to preserve the value of their Tax Attributes for the benefit of the estates. It is critical for the Debtors to closely monitor certain transfers of Beneficial Ownership of Common Stock, Series A Preferred Stock, or Series B Preferred Stock, and certain worthlessness deductions with respect to Beneficial Ownership of

Common Stock, Series A Preferred Stock, or Series B Preferred Stock so that they may act expeditiously to prevent such transfers or worthlessness deductions, if necessary, with the purpose of preserving the Tax Attributes.

X. Debtors' Emergency Motion for Entry of Interim and Final Orders (I) Authorizing the Payment of Certain Prepetition Compensation Obligations; (II) Authorizing Payment of Postpetition Compensation Obligations in the Ordinary Course of Business; and (III) Granting Related Relief (the "1099 Motion")

53. Pursuant to the 1099 Motion, the Debtors seek entry of interim and final orders authorizing the Debtors to (i) pay and honor all prepetition accrued Independent Contractor Compensation and Director Fees (each as defined below, and collectively, the "Compensation Obligations") that will become payable in the ordinary course of business during the pendency of these chapter 11 cases and (ii) pay and honor all Compensation Obligations on a postpetition basis in the ordinary course of business.

54. Due to the Shared Services arrangements between the Debtors and SOG, the Debtors do not employ a traditional workforce. In addition to utilizing services from SOG, the Debtors retain Independent Contractors (as defined below) in the ordinary course of their business operations. Payments to Independent Contractors are made both directly by the Debtors and through SOG. Moreover, the Debtors pay compensation obligations directly to their Directors (as defined below).

55. In addition to payments made to SOG pursuant to the Services Agreement, the Debtors paid compensation prior to the Petition Date directly to (a) individual independent contractors (collectively, the "Independent Contractors") to provide certain limited services to the Debtors and (b) the eight non-executive members of SN's board of directors (collectively, the

“Directors”).² By the 1099 Motion, the Debtors seek authority to continue to pay and honor Compensation Obligations on a postpetition basis in the ordinary course of business.

56. **Independent Contractor Direct Compensation.** The Debtors pay the Independent Contractors such amounts as provided under the terms of the contractual agreements governing the Debtors’ relationship with these individuals (the “Independent Contractor Compensation”). The total monthly obligations owed on account of the Independent Contractor Compensation are approximately \$110,000, based on data from year-to-date 2019. As of the Petition Date, accrued and unpaid Independent Contractor Compensation totaled approximately \$140,000, of which approximately \$97,000 will become payable during the first 21 days of these chapter 11 cases in the ordinary course of business.³ The Independent Contractors provide critical services to the Debtors’ business operations that will be necessary to maintain ordinary course operations. The Debtors seek authority to pay the prepetition Independent Contractor Compensation and to continue paying and honoring such obligations on a postpetition basis in the ordinary course of business.

57. **Non-Executive Director Fees.** The Debtors pay monthly compensation to each of the Directors, totaling approximately \$140,000 in the aggregate for all Directors per month, for their service to the Debtors. Directors receive prepayments of monthly compensation at the beginning of each month. In addition to monthly compensation, Directors also receive reimbursements of reasonable out-of-pocket expenses and meeting fees for each board meeting attended (collectively, the “Director Fees”). The Debtors do not owe any prepetition monthly compensation to the Directors and only seek authority to pay any prepetition expense

² The two members of the board of directors who are also executive employees of the Debtors, A.R. Sanchez, Jr. and Antonio R. Sanchez, III, do not receive compensation in their capacities as directors.

³ These amounts may include a *de minimis* amount of reimbursable expenses.

reimbursements and meeting fees that may not have already been paid as of the Petition Date. The Debtors also seek authority, solely out of an abundance of caution, to continue to pay the Director Fees on a postpetition basis in the ordinary course of business.

58. I believe that the Debtors should be permitted to pay and honor prepetition Compensation Obligations as they become payable postpetition in the ordinary course of business. Allowing the Debtors to pay and honor the Compensation Obligations will serve to avoid any hardship to the Independent Contractors, prevent some or all of the Independent Contractors from ceasing to provide services to the Debtors during the pendency of these chapter 11 cases, and compensate the Directors for their critical roles in the continuing management and oversight of the Debtors' businesses.

XI. Debtors' Emergency Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to Continue to (A) Operate Their Cash Management System and Maintain Existing Bank Accounts, (B) Maintain Existing Business Forms, and (C) Perform Intercompany Transactions; and (II) Granting Related Relief (the "Cash Management Motion")

59. Pursuant to the Cash Management Motion, the Debtors seek entry of interim and final orders authorizing the Debtors to (a) continue to operate their Cash Management System (as defined below) and maintain their existing bank accounts, including honoring certain prepetition obligations related thereto, (b) maintain existing business forms, and (c) continue the performance of intercompany transactions consistent with the Debtors' historical practices.

60. **Bank Accounts.** The Debtors maintain a cash management system (the "Cash Management System") in the ordinary course of their businesses to gather, allocate, transfer, and disburse funds with respect to their operations and to facilitate cash monitoring and reporting. The Cash Management System is comprised of a total of 14 active bank accounts (the "Bank Accounts"). The Debtors maintain 14 active Bank Accounts at JPMorgan Chase Bank, N.A., their

primary cash management bank. The Debtors also maintain 2 dormant investment Bank Accounts at Royal Bank of Canada and 4 dormant investment Bank Accounts at RBC Capital Markets, LLC (collectively with JPMorgan Chase Bank, N.A., and Royal Bank of Canada, the “Cash Management Banks”).

61. **Bank Fees.** The Debtors pay their Cash Management Banks on a monthly basis for fees incurred in connection with the Bank Accounts (the “Bank Fees”). Since January 1, 2019, the Debtors have paid approximately \$300,000 in aggregate Bank Fees. The Debtors seek to pay the total Bank Fees owed as of the Petition Date in the amount of approximately \$1,000, on an interim basis. The Debtors seek authority on a final basis to pay any outstanding prepetition Bank Fees, and to continue paying the Bank Fees in the ordinary course of business on a postpetition basis.

62. As of the Petition Date, the Debtors maintain Bank Accounts at one bank that is designated as an authorized depository pursuant to the U.S. Trustee Guidelines: JPMorgan Chase Bank, N.A. Because Royal Bank of Canada is not an authorized depository, the Debtors have moved all funds out of the Royal Bank of Canada accounts and they will remain dormant during the course of the bankruptcy. Therefore, the Bank Accounts are in compliance with the U.S. Trustee Guidelines.

63. **Bank Account Transition.** Prior to the Petition Date and in the ordinary course of business, the Debtors opened new bank accounts at JPMorgan Chase Bank, N.A., while closing older accounts at BBVA Compass Bancshares, Inc. (“Compass Bank”) in April 2019. Similarly, prior to the Petition Date, SN UR Holdings transferred all funds out of (i) 2 money market accounts at RBC Capital Markets, LLC and (ii) 1 time-deposit account at Royal Bank of Canada and into the SN UR Master Account. These measures were taken in order to comply with the U.S. Trustee

Guidelines. These accounts at RBC Capital Markets and Royal Bank of Canada will remain open but inactive during the course of these chapter 11 cases.

64. **Business Forms.** In the ordinary course of business, the Debtors use certain preprinted correspondence and business forms, including among others, letterhead, checks, and invoices (collectively, the “Business Forms”). The Debtors also maintain books and records to document a variety of operating information, including their profits and expenses (collectively, the “Books and Records”). Discontinuing the use of the Business Forms and the maintenance of the Books and Records would significantly disrupt the Debtors’ business operations and needlessly increase administrative expenses by requiring the Debtors to incur the expense and delay of ordering new forms with reference to the Debtors’ status as debtors in possession as required by the U.S. Trustee Guidelines.

65. **Intercompany Transactions.** In the ordinary course of business, the Debtors maintain routine business relationships with each other as well as with certain of their non-Debtor affiliates (collectively, the “Intercompany Transactions”) that result in intercompany receivables and payables (the “Intercompany Claims”). These Intercompany Transactions occur as part of the daily operation of the Cash Management System, and at any given time there are Intercompany Claims owing between Debtors or between a Debtor and a non-Debtor affiliate arising in connection with the receipt and disbursement of funds. The Debtors have historically recorded Intercompany Claims as receivables and payables in SN’s general ledger. The Debtors monitor and record all fund transfers in their accounting system and can determine, trace, and account for all Intercompany Transactions.

66. The Intercompany Transactions are critical to the Debtors’ business operations and Cash Management System. The Debtors rely on the Intercompany Transactions to fund business

operations, provide administrative services, provide management services, provide support services, and fund essential capital expenditures.

67. The continuation of the Debtors' Cash Management System is critically important to the Debtors' businesses. Maintaining the current Cash Management System will facilitate the Debtors' transition into chapter 11 by minimizing delays in paying postpetition debts and eliminating administrative inefficiencies. Moreover, maintaining the current Cash Management System will allow the Debtors' workforce to attend to their daily responsibilities rather than organize and administer a new system. Requiring the Debtors to adopt a new cash management system during these chapter 11 cases would be costly, burdensome, and disruptive to the Debtors' operations. Any modification to or disruption of the Cash Management System could have a negative effect on the Debtors' ongoing business operations and restructuring efforts.

XII. *Debtors' Emergency Motion for Entry of Interim and Final Orders Authorizing Continued Performance of Obligations Under the Shared Services Arrangements (the "Shared Services Motion")*

68. Pursuant to the Shared Services Motion, the Debtors seek entry of interim and final orders authorizing the Debtors to continue performing under certain shared services arrangements (the "Shared Services") with SOG with respect to the provision by SOG of managerial, operational, and administrative services to the Debtors and the licensing of data owned or licensed by SOG to the Debtors in the ordinary course of business on a postpetition basis. The Shared Services are critical to the continued operation of the Debtors' businesses during these chapter 11 cases.

69. In connection with the Debtors' IPO in 2011, the Debtors and SOG entered into three agreements regarding SOG's provision of Shared Services: (i) services agreement dated as of December 19, 2011 (the "Services Agreement"); (ii) a contract operating agreement dated as of

December 19, 2011 (the “Contract Operating Agreement”); and (iii) a license agreement dated as of December 19, 2011 (the “License Agreement”). Since then, the parties entered into other agreements and arrangements as the Debtors’ needs and asset base evolved over time.

70. Pursuant to the Shared Services arrangements, SOG and its employees perform services that the Debtors are incapable of performing on their own, including, but not limited to, general and administrative services, geological, geophysical, and reserve engineering, lease and land administration, marketing, accounting, operational services, information technology services, compliance, treasury, risk management (including insurance activities), and management of outside professionals. In addition, as part of the Shared Services arrangements, SOG granted the Debtors a license for and access to the unrestricted use of proprietary seismic, geological, and geophysical information owned or licensed by SOG.

71. SOG does not charge the Debtors any fees, premium, or markup in connection with the Shared Services. SOG serves merely as a pass-through operating platform and allocates to the Debtors their share of the costs for the applicable Shared Services. Consistent with prepetition practice, the Debtors anticipate funding no more than \$2.5 million to SOG on account of estimated future costs for Shared Services, in the ordinary course of business in the 21 days following the Petition Date (the “Interim Period”). The amounts to be paid during the Interim Period are primarily for payroll on account of the Debtors’ workforce. Such payments will not be on account of prepetition amounts due from the Debtors to SOG. Instead, such amounts to be paid during the Interim Period cover the estimated pass-through costs that arise postpetition.

72. The Debtors would be incapable of running their business operations if the Shared Services were discontinued. The Debtors’ entire workforce consists of SOG employees. Since no personnel are directly employed by the Debtors, the Debtors would be unable to, among other

things, manage their approximately 2,400 (gross) producing oil and natural gas wells, market their hydrocarbons, or receive critical finance, accounting, finance, legal, and other necessary functions as previously described without the Shared Services. Moreover, in connection with the Shared Services arrangements, the Debtors have access to seismic data owned or licensed by SOG that is critical to their business operations. The Debtors' ability to continue utilizing the Shared Services during the chapter 11 cases is critical to stabilizing and continuing their business operations following the commencement of these chapter 11 cases and maximizing the value of the Debtors' estates for the benefit of all stakeholders.

XIII. Debtors' Emergency Motion for Entry of Interim and Final Orders (I) Authorizing the Limited Use of Cash Collateral; (II) Obtaining Postpetition Credit Secured by Senior Liens; (III) Granting Adequate Protection; (IV) Scheduling a Final Hearing; and (V) Granting Related Relief (the "DIP Motion")

73. The Debtors request that the Court approve the superpriority, priming, senior secured delayed-draw term loan credit facility (the "DIP Facility" and the loans thereunder, the "DIP Loans"), in an aggregate principal amount of \$350 million, consisting of: (i) a new money term loan credit facility in the aggregate principal amount of \$175 million (the "New Money Facility" and the loans thereunder, the "New Money Loans"), backstopped by the members of the Secured Notes Ad Hoc Group, \$50 million of which will be available for the Debtors to draw on an interim basis (the "Interim DIP Draw"); and (ii) subject to the entry of the Final Order and the Challenge Period (as defined in the Interim Order), a roll-up of \$175 million of the obligations arising under the Secured Notes Indenture held by the DIP Lenders (as defined below), or held by funds or accounts managed or held by such DIP Lenders (the "Roll-Up Loans"). The DIP Facility also provides for the Debtors' consensual use of Cash Collateral and for repayment of all amounts outstanding under the First-Out Senior Secured Revolving Credit Facility from the Proceeds of the interim draw.

74. The DIP Facility and use of Cash Collateral will ensure that the Debtors have access to sufficient liquidity to maintain ordinary course operations and meet their financial commitments throughout the course of these chapter 11 cases. The Debtors require this cash to make payments to the Debtors' vendors, customers, and workforce, for such purposes as to drill and complete new wells, pay expenses for lease operating vendors in the oilfields, pay midstream processing plants responsible for the gathering and collection of hydrocarbons, and pay working interest owners and landowners. Any failure to make those payments could cause substantial uncertainty and disruption to the Debtors' businesses. Based on the financial forecasts and analysis conducted by Debtors' management team and advisors, the Debtors are unable to generate enough operating cash flow in the ordinary course of business to cover their working capital needs in addition to the projected costs of these chapter 11 cases and, therefore, will have insufficient cash by January 2020 absent postpetition financing.

75. The DIP Facility and use of Cash Collateral also will send a positive, credible message to the Debtors' workforce and commercial counterparties that the Debtors will have sufficient liquidity to maintain ordinary course operations and meet their financial commitments throughout the course of the chapter 11 cases. In the near term, the Debtors will be resuming a substantial portion of their drilling program in satisfaction of their leasehold requirements. Having a strong liquidity position will send a further message to the Debtors' vendors and other business partners that as they commit resources to the Debtors in connection with that program, in return, the Debtors will be able to fulfill their sizeable capital expenditure commitments.

76. The Debtors' preexisting cash balances and cash generated from operations are simply not sufficient to fund business operations and the administration of these cases, and a significant cash infusion is critical to the continued operation of the Debtors' businesses, the

preservation of going concern value, and the maintenance of the Debtors' valuable business relationships. As a result, absent access to the DIP Facility and the use of Cash Collateral, the Debtors will face substantial and irreparable harm.

77. I believe the DIP Facility was the product of extensive, arm's length negotiations with the DIP Lenders. The DIP Facility was preceded by a competitive marketing process designed to secure postpetition financing on the best terms available to the Debtors. By this process, Moelis solicited proposals for debtor in possession financing from 20 potential financing counterparties. Only one of those potential financing counterparties—the Secured Notes Ad Hoc Group—submitted a formal debtor in possession financing proposal. Ultimately, after an extensive and hard-fought negotiation, the Debtors obtained a fully-committed, fully-syndicated \$350 million postpetition financing facility with a 9 month maturity.

78. In light of the foregoing, I do not believe that alternative sources of debtor in possession financing with terms as favorable as those of the DIP Facility are available to the Debtors. Furthermore, the requested relief is necessary to avoid the immediate and irreparable harm that would otherwise result if the Debtors were denied the liquidity that would be provided by the DIP Facility pursuant to the Interim Order and the Final Order.

Non-Emergency Motions

XIV. Debtors' Motion for Entry of an Order (I) Authorizing the Debtors to (A) Continue Insurance Coverage Entered into Prepetition and Satisfy Prepetition Obligations Related Thereto and (B) Renew, Amend, Supplement, Extend, or Purchase Insurance Policies; and (II) Granting Related Relief (the "Insurance Motion")

79. Pursuant to the Insurance Motion, the Debtors seek entry of an order authorizing the Debtors to (a) continue insurance coverage entered into prepetition and satisfy prepetition obligations related thereto in the ordinary course of business and (b) renew, amend, supplement, extend, or purchase insurance coverage in the ordinary course of business on a postpetition basis.

80. In the ordinary course of business, the Debtors maintain approximately 16 insurance policies administered by multiple third-party insurance carriers (the “Insurance Policies”). The Insurance Policies provide the Debtors with coverage for, among other things, certain of the Debtors’ property, vessel liability, excess umbrella marine liability, pollution, legal liability related to marine activities, and directors’ and officers’ liability. The aggregate annual premium for the Insurance Policies is approximately \$1 million, not including applicable taxes and surcharges, deductibles, broker and consulting fees, and commissions. The Insurance Policies generally are one year in length (based on market conditions and availability at the time) and renew at various intervals. The Debtors estimate that, as of the Petition Date, there are no outstanding premiums due on account of the Insurance Policies.

81. The Debtors obtain the Insurance Policies primarily through their insurance brokers (the “Brokers”), who assist the Debtors in obtaining and maintaining, in the most cost-efficient manner, comprehensive insurance coverage for their operation: negotiating policy terms, provisions, and premiums; assisting the Debtors with claims; and providing ongoing support throughout the applicable policy periods. In addition to the premiums paid on the Insurance Policies, the Brokers collect commission payments for services rendered (the “Broker Fees”). As of the Petition Date, the Debtors do not believe they owe any amounts to the Brokers on account of prepetition Broker Fees. To the extent any such prepetition amounts are determined to remain outstanding, the Debtors seek authority to honor any Broker Fees in full, to ensure uninterrupted coverage under their Insurance Policies.

82. Continuation of the Insurance Policies and entry into new insurance policies, as required in the ordinary course of business, is essential to the preservation of the value of the Debtors’ properties and assets.

XV. Debtors' Motion for Entry of an Order (I) Approving Continuation of Surety Bond Program; and (II) Granting Related Relief (the "Surety Bond Motion")

83. Pursuant to the Surety Bond Motion, the Debtors seek entry of an order authorizing the Debtors to maintain, renew, and modify their surety bond program – including, but not limited to, the procurement of new sureties – in the ordinary course of business on a postpetition basis and to pay outstanding prepetition amounts. In the ordinary course of business and as is customary in their industry, the Debtors are required to provide surety bonds to third parties, often governmental or other public agencies, to secure the payment or performance of certain obligations (the "Surety Bond Program"). These surety obligations include general performance obligations and plugging and abandonment obligations. A failure to supply, maintain, or timely replace their surety bonds may prevent the Debtors from carrying out certain critical tasks related to their operations.

84. Certain of the Debtors are party to indemnity agreements with each of U.S. Specialty Insurance Company and RLI Insurance Company (together, the "Sureties"). Historically, Debtors SN, SN Operating, LLC, and SN EF Maverick, LLC have obtained surety bonds pursuant to the Surety Indemnity Agreements. The Debtors' operations likely would suffer serious consequences if they failed to maintain appropriate surety bonds, including a complete forced cessation of all operations.

85. Two companies have issued the Debtors' current outstanding surety bonds. As of the Petition Date, the Debtors have approximately five surety bonds outstanding, which provide approximately \$14.1 million in aggregate surety bond coverage for facilities and assets owned and/or operated by the Debtors.

86. Continuing the Surety Bond Program is necessary to maintain both the Debtors' current business operations and existing relationships with the Sureties. Based on the Debtors' current circumstances, it is not likely that the Debtors will be able to renew, or obtain replacement

of, existing bonds on terms more favorable than those offered by the Sureties. The process of establishing a new Surety Bond Program would be burdensome to the Debtors, and it is unlikely that the Debtors could replace all of the surety bonds in time to avoid defaults or other consequences resulting from its Surety obligations. Accordingly, I believe that it is necessary and critical to the Debtors' businesses to ensure the continuation of the Surety Bond Program remains uninterrupted on a postpetition basis.

Exhibit B

Corporate Organizational Structure

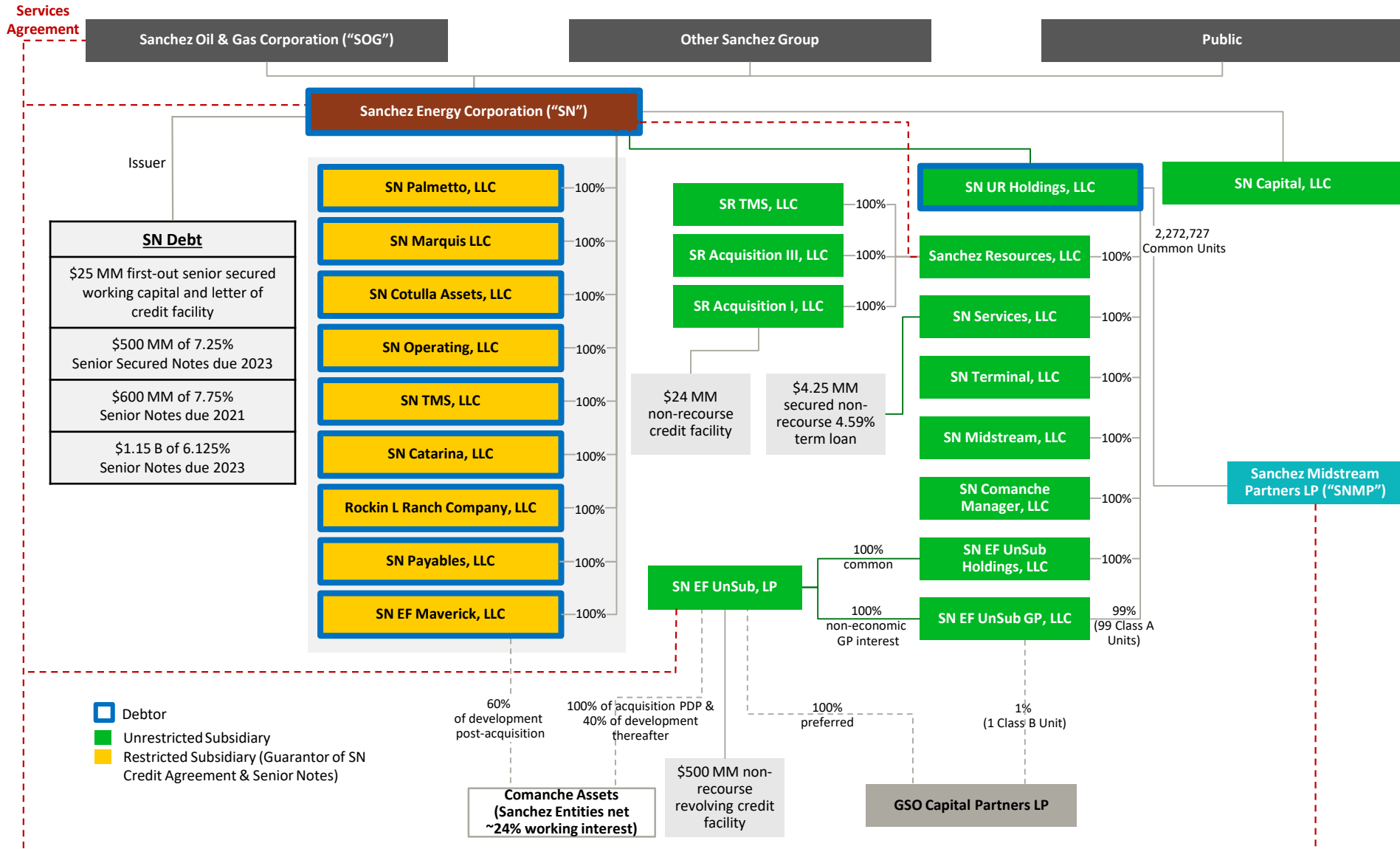


Exhibit C

Tolling Agreement

TOLLING AGREEMENT

THIS TOLLING AGREEMENT (this “**Agreement**”), is entered into effective as of August 10, 2019 (the “**Effective Date**”), by and among SN UR Holdings, LLC (“**SN UR**”), SN EF UnSub Holdings, LLC (“**Holdings**”), SN EF Maverick, LLC (“**Maverick**”), Sanchez Energy Corporation (“**SN**” and, together with SN UR, Holdings and Maverick, “**Sanchez**”), GSO ST Holdings Associates LLC (“**GSO LLC**”), and GSO ST Holdings LP (“**GSO LP**” and, together with GSO LLC, “**GSO**”). Capitalized terms used but not defined in this Agreement shall have the meanings assigned to such terms in Article XI of the LLC Agreement (as defined below) or, if not defined therein, Article I of the Partnership Agreement (as defined below). Each of SN, SN UR, Holdings, Maverick, GSO LLC and GSO LP may be referred to in this Agreement individually as a “**Party**” or collectively as the “**Parties**.”

RECITALS

WHEREAS, the Amended and Restated Limited Liability Company Agreement of SN EF UnSub GP, LLC (the “**Company**”) was executed, dated as of March 1, 2017 (the “**LLC Agreement**”); and

WHEREAS, the Amended and Restated Agreement of Limited Partnership of SN EF UnSub, LP (the “**Partnership**”) was executed, dated as of March 1, 2017 (as amended by that certain First Amendment to Amended and Restated Agreement of Limited Partnership dated as of March 1, 2017, the “**Partnership Agreement**”).

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration which is hereby acknowledged, the Parties agree, as follows:

1. TOLLING PERIOD.

- (a) Subject to Section 3 below, effective as of the Effective Date, until the expiration or termination of the Tolling Period, (i) GSO will not, directly or indirectly, including without limitation by or through another Person, exercise any rights or remedies against Sanchez, the Company, the Partnership, Sanchez Oil & Gas Corporation or any of their respective affiliates, whether at law, in equity, by agreement or otherwise, available under the LLC Agreement, the Partnership Agreement or otherwise that relate to or arise from any Investor Redemption Event, as defined in the LLC Agreement or the Partnership Agreement (which Investor Redemption Event, to the extent one may exist or arises, will be deemed tolled and to not trigger any rights or obligations of any Person or provisions of any agreement dependent upon the existence of an Investor Redemption Event until expiration or termination of the Tolling Period), and (ii) all notice or cure periods that may exist, if any, with respect to any such Investor Redemption Event shall be tolled and recommence after the expiration or termination of the Tolling Period.
- (b) As used in this Agreement, “**Tolling Period**” means the period from the Effective Date until the calendar day following the occurrence of any of the following events:

- (1) The occurrence of any Bankruptcy Event with respect to Holdings; provided, however that, unless a notice of termination of the Tolling Period has been provided by GSO or there is less than five calendar days before the Order Deadline (as defined below), Sanchez shall be obligated to provide GSO at least five Business Days' written notice (by email) prior to the commencement of a voluntary chapter 11 proceeding (a "**Proceeding**") by Holdings under chapter 11 of the United States Bankruptcy Code (the "**Bankruptcy Code**");
- (2) The failure of SN, Maverick or SN UR, to the extent such Party has commenced a Proceeding (the earliest commencement date of a Proceeding by SN, Maverick or SN UR, as applicable, being referred to in this Agreement as the "**Initial Petition Date**"), to obtain an order from the applicable bankruptcy court (the "**Court**") approving this Agreement by the 20th day after the Initial Petition Date (the "**Order Deadline**"), unless the Parties agree to extend such date by written agreement (with email being sufficient); or
- (3) The effectiveness of the delivery by any Party of a written notice (by email) of termination of the Tolling Period, with such notice to be effective on the fifth Business Day following delivery of notice to GSO, if Sanchez is the terminating Party, or to Holdings, if GSO is the terminating Party.

2. NOTICES, MOTIONS, ETC. During the Tolling Period, Sanchez agrees as follows:

- (a) For the avoidance of doubt, (i) any notice sent under Section 1(b)(3) by GSO to Holdings shall, subject to the expiration of the five-day notice period, terminate the Tolling Period of GSO as to all Sanchez Parties, and (ii) any notice sent by GSO to any Sanchez Party provided for under this Agreement shall not be subject to the automatic stay under section 362 of the Bankruptcy Code;
- (b) Sanchez will use reasonable efforts to seek approval of this Agreement on or before the 20th day after the Order Deadline;
- (c) Sanchez will provide reasonable advance notice to GSO of any pleadings to be filed by Sanchez with the Court in a Proceeding that relates to the Company, the Partnership or Holdings; and
- (d) Prior to the Order Deadline, Sanchez will undertake good faith negotiations with GSO to reach agreement on a proposed litigation schedule to resolve any dispute between Sanchez and GSO regarding Investor Redemption Events.

3. HOLDINGS PROCEEDING. In the event that Holdings commences a Proceeding at any time, the Parties agree that for all purposes, including without limitation relating to any Investor Redemption Events, as defined in the LLC Agreement or the Partnership Agreement, that may have arisen prior to the expiration or termination of the Tolling Period, the commencement by Holdings of a Proceeding will be deemed to have occurred on the Initial Petition Date immediately preceding the commencement of the Proceedings with respect to any other Sanchez entity. No Party's rights (or those of its respective affiliates) will be prejudiced by, nor be benefitted from,

Holdings not commencing a Proceeding on the Initial Petition Date as such decision is expressly predicated on and in reliance of the agreements set forth herein.

4. RESERVATION OF RIGHTS. Other than as specified by this Agreement, the rights of any Party with respect to any Investor Redemption Event shall not be modified, and all rights of the respective Parties shall be preserved. All Parties shall have the right to participate in, or file pleadings in respect of, any Sanchez Proceeding pending before the Court as long as such participation or pleadings does not conflict with this Agreement.

5. REPRESENTATIONS AND WARRANTIES.

- (a) GSO LLC represents and warrants that it is the record and beneficial owner of all the outstanding Class B Units issued to GSO LLC on March 1, 2017 (i.e, 1 Class B Unit).
- (b) GSO LP represents and warrants that it is the record and beneficial owner of 485,000 Preferred Units and is the Investor Representative and the Institutional Investor under the Partnership Agreement.
- (c) SN UR represents and warrants that it is the record and beneficial owner of all the Class A Units.
- (d) Holdings represents and warrants that it is the record and beneficial owner of all the outstanding Common Units.

6. OBLIGATIONS. The obligations of each Sanchez Party under this Agreement are several and not joint with the obligations of any other Sanchez Party, and no such Party shall be responsible in any way for the performance of the obligations of any other Sanchez Party under this Agreement. For the avoidance of doubt: (1) each Sanchez Party is entering into this Agreement directly with GSO and not with any other Sanchez Party and (2) no other Sanchez Party shall have any right to bring any action against any other Sanchez Party with respect this Agreement (or any breach thereof).

7. MISCELLANEOUS PROVISIONS.

(a) Entire Agreement. This Agreement constitutes the full and complete agreement of the Parties with respect to the subject matter hereof and supersede all prior contracts or agreements with respect to the matters addressed or governed hereby, whether oral or written.

(b) Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, without reference to any conflict of law or choice of law principles. Each Party irrevocably and unconditionally submits, for itself and its property, to the non-exclusive jurisdiction of the Court of Chancery of the State of Delaware, and any appellate court thereof, in any action or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby or for recognition or enforcement of any judgment relating thereto, and each of the Parties hereby irrevocably and unconditionally (i) agrees that any claim in respect of any such action or proceeding may be heard and determined in the Court of Chancery

GSO agrees to cause any transferee of Preferred Units or Class B Units or any successor or replacement Investor Representative to agree in writing with Sanchez, as a condition precedent to such transfer or designation as Investor Representative, as the case may be, to be bound by all of the provisions of this Agreement in the same capacity as GSO, pursuant to an agreement in form and substance reasonably acceptable to Sanchez..

(h) Rules of Construction. This Agreement is the product of negotiations among the Parties and in the enforcement or interpretation hereof, is to be interpreted in a neutral manner, and any presumption with regard to interpretation for or against any Party by reason of that Party having drafted or caused to be drafted this Agreement, or any portion hereof, shall not be effective in regard to the interpretation hereof. Each Party acknowledges that it has been represented by, or provided a reasonable period of time to obtain access to and advice by, counsel with this Agreement. Accordingly, any rule of law or any legal decision that would provide any Party with a defense to enforcement of the terms of this Agreement against such Party based upon lack of legal counsel shall have no application and is expressly waived.

(i) Notices. Except as expressly set forth to the contrary in this Agreement, all notices, requests or consents provided for or permitted to be given under this Agreement must be in writing and must be given either by (a) depositing such writing with a reputable overnight courier for next day delivery or (b) delivering such writing to the recipient in person, by courier or by electronic mail transmission (email); and a notice, request or consent given under this Agreement is effective upon receipt against the Person who receives it. All notices, requests and consents to be sent to a Party must be sent to or made at the address given for that Party below, or such other address as that Party may specify by notice to the other Parties:

If to SN UR:

SN UR Holdings, LLC
1000 Main Street, Suite 3000
Houston, TX 77002
Attention: Gregory Kopel
Email: gkopel@sanchezog.com

If to Holdings:

SN EF UnSub Holdings, LLC
1000 Main Street, Suite 3000
Houston, TX 77002
Attention: Gregory Kopel
Email: gkopel@sanchezog.com

If to Maverick:

SN EF Maverick, LLC
1000 Main Street, Suite 3000
Houston, TX 77002
Attention: Gregory Kopel
Email: gkopel@sanchezog.com

If to SN:

Sanchez Energy Corporation
1000 Main Street, Suite 3000
Houston, TX 77002
Attention: Gregory Kopel
Email: gkopel@sanchezog.com

In each case with a copy (which shall not constitute notice) to:

Akin Gump Strauss Hauer & Feld LLP
One Bryant Park
44th Floor
New York, NY 10036-6745
Attention: Ira Dizengoff
James Savin
Email: idizengoff@akingump.com
jsavin@akingump.com

If to GSO LLC:

GSO ST Holdings Associates LLC
c/o GSO Capital Partners
1111 Bagby Street, Suite 2050
Houston, TX 77002
Attention: Anthony Borreca
GSO Legal Department
Email: Anthony.borreca@gsocap.com; gsolegal@gsocap.com

If to GSO LP:

GSO ST Holdings LP
c/o GSO Capital Partners
1111 Bagby Street, Suite 2050
Houston, TX 77002
Attention: Anthony Borreca
GSO Legal Department
Email: Anthony.borreca@gsocap.com; gsolegal@gso.com

In each case with a copy (which shall not constitute notice) to:

Paul, Weiss, Rifkind, Wharton & Garrison LLP
1285 Avenue of the Americas
New York, NY 10019-6064
Attention: Paul Basta; Alice Eaton

Email: pbasta@paulweiss.com; aeaton@paulweiss.com

Robert W. Baker
Attorney-at-Law
950 Echo Lane, Suite 200
Houston, Texas 77024
Email: bob.baker@rwbakerconsulting.com

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