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

In re:	)	Chapter 11
	)	
COBALT INTERNATIONAL ENERGY, INC., *et al.*,[1]	)	Case No. 17-36709 (MI)
	)	
Debtors.	)	(Joint Administration Requested)

DECLARATION OF DAVID D. POWELL, CHIEF FINANCIAL OFFICER OF COBALT INTERNATIONAL ENERGY, INC., IN SUPPORT OF CHAPTER 11 PETITIONS AND FIRST DAY MOTIONS

I, David D. Powell, hereby declare under penalty of perjury:

1. I am the Chief Financial Officer of Cobalt International Energy, Inc. ("Cobalt"), a publicly-traded company organized under the laws of Delaware and one of the above-captioned debtors and debtors in possession (the "Debtors"). I have served as Cobalt's CFO since July 2016.

2. I am generally familiar with Cobalt's day-to-day operations, business and financial affairs, and books and records. Except as otherwise indicated herein, all facts set forth in this declaration are based upon my personal knowledge of Cobalt's employees, operations, and finances; information learned from my review of relevant documents; information supplied to me by other members of Cobalt's management and its advisors; or my opinion based on my experience, knowledge, and information concerning Cobalt's operations and financial condition. I am over the age of 18 and authorized to submit this declaration on behalf of Cobalt, and, if called upon to testify, I could and would testify competently to the facts set forth herein.

[1] The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, are: Cobalt International Energy, Inc. (1169); Cobalt International Energy GP, LLC (7374); Cobalt International Energy, L.P. (2411); Cobalt GOM LLC (7188); Cobalt GOM # 1 LLC (7262); and Cobalt GOM # 2 LLC (7316). The Debtors' service address is: 920 Memorial City Way, Suite 100, Houston, Texas 77024.

3. To effectuate this restructuring, on the date hereof, the Debtors filed their voluntary petitions for relief under chapter 11 of the United States Bankruptcy Code, 11 U.S.C. §§ 101–1532, with the Bankruptcy Court for the Southern District of Texas. To minimize the adverse effects on their businesses, the Debtors have filed motions and pleadings seeking various types of "first day" relief to allow the Debtors to meet necessary obligations and fulfill their duties as debtors in possession. I am familiar with the contents of each first day motion and believe that the relief sought in each is necessary to enable the Debtors to operate in chapter 11 with minimal disruption or loss of productivity and value, constitutes a critical element in achieving successful chapter 11 cases, and best serves the Debtors' estates and creditors' interests. The facts set forth in each first day motion are incorporated herein by reference.

4. This declaration has been organized into four sections. The ***first*** section provides background information on Cobalt and the oil and gas industry in which it operates. The ***second*** section offers detailed information on the Debtors' capital structure.[2] The ***third*** section describes the events leading to the filing of these chapter 11 cases and the Debtors' prepetition restructuring efforts. The ***fourth*** section and **Exhibit A** summarize the relief requested in, and the legal and factual basis supporting, the First Day Motions.

Introduction

5. The Debtors own valuable offshore oil and gas assets that they have acquired and prepared for development for years. Unfortunately, a number of factors—such as a failed sale of Cobalt's Angolan assets and the related litigation, the prolonged downturn in the exploration and production industry, and nearly $3.0 billion of funded indebtedness—have interfered with Cobalt's

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[2] Many of the financial figures presented in this declaration are unaudited and potentially subject to change, but reflect the Debtors' most recent review of their businesses. The Debtors reserve all rights to revise and supplement the figures presented herein.

efforts to date. Cobalt intends to use the chapter 11 process to overcome these impediments and drive their sale and restructuring efforts to conclusion with a value-maximizing transaction. More specifically, Cobalt intends to move these cases toward a successful sale (and distribution of sale proceeds) under an efficient and expeditious chapter 11 schedule and related bidding procedures.

6. Headquartered in Houston, Texas, Cobalt holds assets in the United States Gulf of Mexico and in the waters off the coasts of the Republic of Angola and the Gabonese Republic in West Africa. Cobalt has a material position in the Gulf of Mexico and West Africa. More specifically, the Debtors have four named discoveries in the Gulf of Mexico, which include North Platte, Shenandoah, Anchor, and Heidelberg. Heidelberg began initial production in January 2016 while North Platte, Shenandoah, and Anchor have been fully appraised and are now in development. Additionally, the Debtors have made seven aggregate discoveries in offshore Angola and maintain a non-operated interest in offshore Gabon, where the Debtors have one discovery. Only one of Cobalt's assets—Heidelberg—is currently producing oil.

7. Cobalt was originally founded as an exploration company. After making multiple discoveries, Cobalt turned to appraising and developing its assets. In order to better focus its capital on its Gulf of Mexico assets and increase its liquidity, Cobalt decided to sell its Angolan assets. In August 2015, Cobalt entered into an agreement to sell its Angolan assets for $1.75 billion to the state-run oil and gas company of the Republic of Angola, Sociedade Nacional de Combustíveis de Angola—Empresa Pública ("Sonangol"). Through the Angola sale, Cobalt hoped to de-risk its balance sheet, refocus and reduce total future capital needs, and simplify its geographic footprint, resulting in significant cost savings. Cobalt also intended to use the proceeds of the sale to, among other things, fund necessary capital expenditures related to the development of its Gulf of Mexico assets. Sonangol failed to close the deal in August 2016, and Cobalt subsequently

commenced arbitration regarding the transaction and Sonangol's breach of contract. The failure to monetize the Angolan assets left Cobalt unable to fully develop its Gulf of Mexico assets to "First Oil" production. In addition to the failed Angola sale, the continuation of dramatically low commodity prices and general market uncertainty have hurt Cobalt's ability to both sustain its funded debt burdens and to commit the capital necessary for exploration, development, and production.

8. Nevertheless, Cobalt undertook a number of additional proactive steps to address these challenges, manage its balance sheet, and enhance its competitive profile, in addition to implementing cost-reduction programs. On December 6, 2016, Cobalt issued $500 million of additional first lien notes in order to increase available capital. In late 2016 and 2017, Cobalt undertook multiple debt exchanges that collectively reduced outstanding indebtedness by approximately $339.2 million and pushed out a significant amount of Cobalt's maturities from 2019 to 2023. In addition, Cobalt, with the assistance of its advisors, also explored a number of strategic alternatives, including: (a) a sale of its indirect wholly-owned subsidiaries, which hold Cobalt's 40 percent working interest in two blocks offshore Angola; (b) a sale of Cobalt's Gulf of Mexico assets; and (c) a "wholeco" sale of the entire Cobalt enterprise.

9. Ultimately, Cobalt decided to offer all of its assets for sale, either individually or as an entire going concern. To this end, Cobalt and its advisors have had numerous discussions with potential buyers participating in these sale processes, many of whom previously participated in Cobalt's aforementioned exploration of strategic alternatives. These discussions with potential buyers are ongoing and will continue postpetition, as the Debtors seek to maximize value for their stakeholders.

10. In conjunction with these sale processes, the Debtors have established and maintained consistent communication with the advisors to holders of Cobalt's funded debt obligations, including: (a) the indenture trustee for and an ad hoc group of holders of Cobalt's first lien notes; (b) an ad hoc group of holders representing approximately 45 percent of Cobalt's second lien notes; and (c) an ad hoc group of holders representing approximately 50 percent of Cobalt's convertible senior unsecured notes. The Debtors have used this dialogue, which has involved substantial diligence, discussion, and interaction among the relevant parties, to keep its creditor constituencies apprised (to the extent practicable) of the status of the sale processes and other material developments with respect to the Debtor and its assets.

11. Indeed, the Debtors have brought these creditor constituencies to the table with the goal of keeping them informed in "real time" and effectuating a consensual transaction supported by all key constituencies. The sale processes and related discussions with Cobalt's key constituencies remain ongoing and, although no definitive agreements have been reached at the present time, Cobalt looks forward to continued engagement with potential buyers and to building consensus with its key constituencies around the ultimate transaction. Considering these circumstances, and guided by their goal of maximizing value, the Debtors, in consultation with their advisors, have therefore elected to commence these chapter 11 cases and to use such venue as a means to conclude the sale processes.

I. Business Overview.

A. Cobalt's Position in the Oil and Gas Industry.

12. The oil and gas industry is typically divided into three major sectors: "upstream," "midstream," and "downstream." E&P businesses that extract oil, gas, and other hydrocarbons from the earth—like Cobalt—comprise the upstream sector. The midstream sector includes companies engaged in gathering, transporting, and storing the (unrefined) hydrocarbons. The

downstream sector is comprised of refiners, distributors, and marketers of (refined) hydrocarbon products.

13. Cobalt's assets are focused in the Gulf of Mexico deepwater basin, the Kwanza basin offshore Angola, and the Gabon basin. The Gulf of Mexico's deepwater oil basin is one of the most prolific in the world and has been a focus for major oil exploration companies for more than three decades. The Kwanza basin, also known as the Angola basin, and the Gabon basin are located off the coast of West Africa.

14. Pinpointing the right location to drill and extract oil and gas from a basin can be difficult and often involves specialized techniques and technology. Cobalt, for instance, uses extensive seismic data, among other things, to identify potential drilling targets. Despite the sophisticated nature of this technology (and others like it), predictions are often inexact. Identifying promising drilling targets requires the knowledge and training of experienced geologists, engineers, and other oil and gas experts.

15. Generally, while rewards can be large, deepwater drilling is significantly more capital intensive than drilling on land. After a company identifies an appropriate target, it usually drills an exploration well to determine whether its initial analysis was accurate and to determine the extent of reservoir volumes.

16. Once an exploration well is drilled, the company must conduct various analyses to determine whether—and how much—oil and gas can be extracted from the well. A well test measures flow rates, properties of fluid or gas produced, and surface pressures, all of which provide an E&P company with information necessary to better predict the potential of each well. In deepwater development, wells are drilled and typically tied back to a floating platform system (a "<u>FPS</u>") or other production and processing facility. The FPS separates the oil, water, and gas from

each other. The oil is pumped into a pipeline and delivered to a receiving terminal onshore. The gas is compressed into a gas pipeline and sold into an onshore distribution system. The water is treated and pumped overboard.

17. Each of the above steps depends on sophisticated technology and highly skilled personnel, and each carries a different level of uncertainty and risk. At each step, an E&P company must make complicated decisions regarding the viability—both technological and economic—of any given well or reservoir.

B. Cobalt's History.

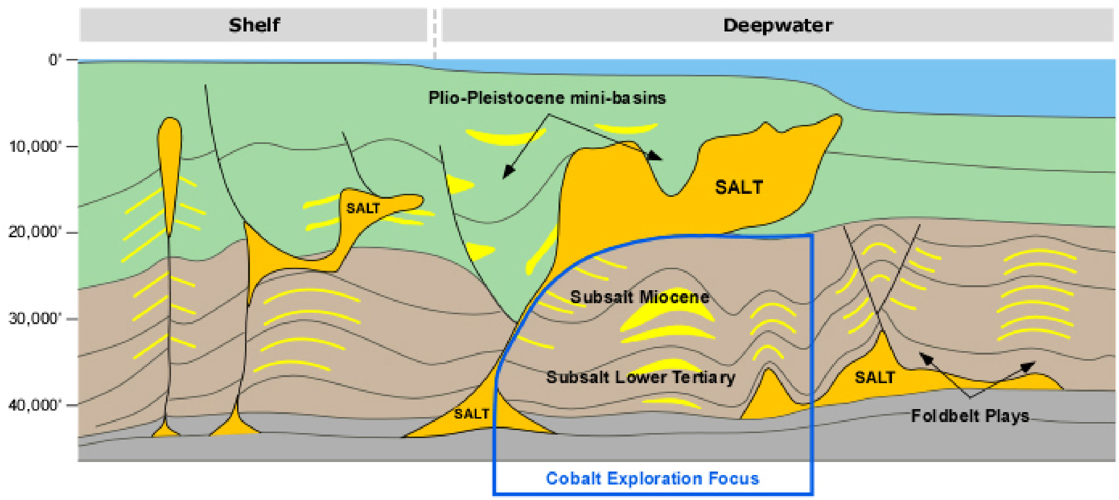
18. Cobalt was founded in November 2005 as a private company in Houston, Texas. On December 15, 2009, Cobalt executed an initial public offering of equity (the "IPO") with an approximately $4.5 billion market capitalization. Net proceeds from the IPO were used to fund capital expenditures, in particular Cobalt's exploration program, and its related operating expenses. Cobalt's common stock traded on the New York Stock Exchange (the "NYSE") under the ticker symbol "CIE" since the IPO until it was notified by the NYSE, on December 13, 2017, that the NYSE would immediately commence delisting proceedings. Cobalt's common stock is expected to begin trading on the over the counter market beginning December 14, 2017.

19. Since its founding in 2005, Cobalt has had an ongoing focus on deepwater exploration in a limited number of places—the Gulf of Mexico and offshore West Africa. Through strategic acquisitions and exploration discoveries in both locations, Cobalt has historically delivered significant shareholder value. The commodity downturn and lack of capital resources, however, made developing the assets impossible. Thus, Cobalt started exploring asset sales.

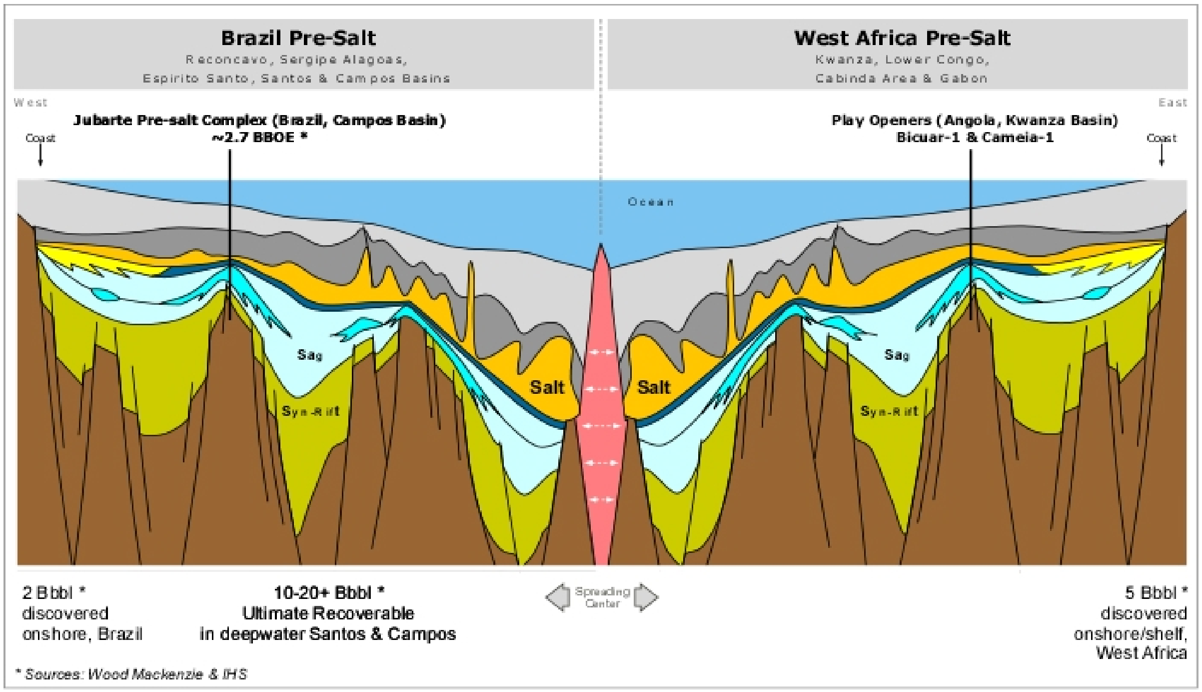
1. Subsalt and Pre-Salt Focus.

20. Cobalt focuses on deepwater offshore areas where geology exhibits the potential for subsalt or pre-salt discoveries. Subsalt exploration refers to the identification of oil deposits

below impermeable layers of salt that have deformed and moved vertically from their original position. These layers of salt and their position relative to the surrounding and underlying rocks is a principal control on hydrocarbon accumulations, especially in the Gulf of Mexico. To be successful, Cobalt must rely upon individuals who have both an advanced understanding of these complex systems and the capability to utilize advanced seismic imaging technologies.



21. Pre-salt exploration, on the other hand, refers to the identification and discovery of oil accumulations trapped in formations that are beneath, and older, than the original in-place salt layer. These pre-salt layers were formed more than 100 million years ago. In pre-salt areas, exploration is focused on potential reservoirs that were deposited prior to salt formation.



22. Advanced seismic imaging, integrated regional geologic interpretation, and a focus on the fundamentals of petroleum geology are keys to success in subsalt and pre-salt exploration. Consequently, Cobalt has spent over $400 million since its inception to acquire and process the highest quality seismic data and technology. This investment in seismic data and its utilization by Cobalt's experienced workforce has been essential to Cobalt's success in identifying prospects, acquiring leases related thereto, and successfully drilling discoveries in the Gulf of Mexico and West Africa. As a result of these efforts, Cobalt owns a significant amount of seismic data, as follows:

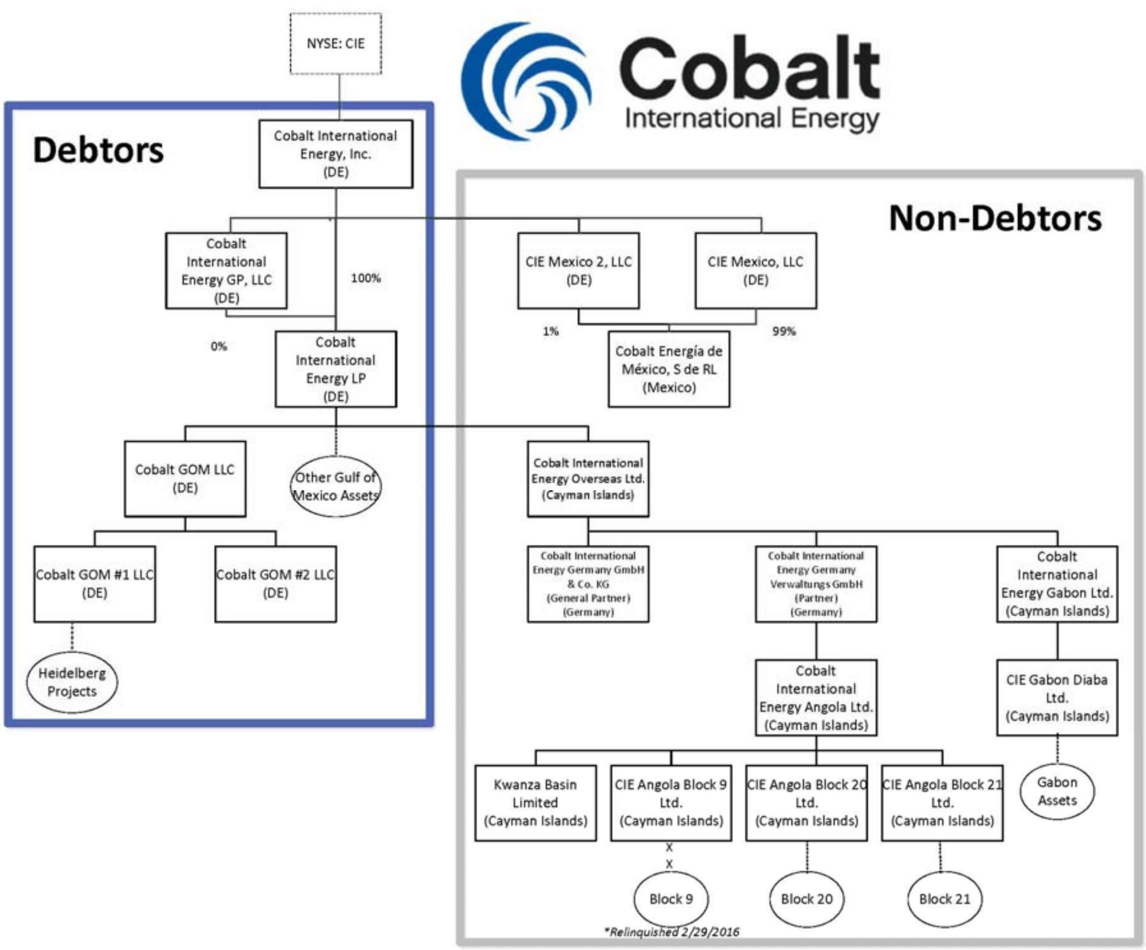
- West Africa: approximately 6,950 square miles of three dimensional ("3-D") seismic data and approximately 125,000 linear miles of two dimensional ("2-D") seismic data.

- Gulf of Mexico: (a) approximately 32,400 square miles of 3-D depth-migrated seismic data, (b) approximately 8,500 square miles of wide-azimuth 3-D depth data, (c) proprietary reprocessing of approximately 7,600 square miles of 3-D seismic data, and (d) approximately 115,000 linear miles of 2-D pre-stack, depth-migrated seismic data.

23. Cobalt's investment in seismic data, technology, and its workforce has significantly enhanced its ability to quickly identify the geological and geophysical characteristics of the subsalt and pre-salt formations. This has directly led to Cobalt's early access to leading positions in both the Gulf of Mexico and West Africa.

C. Cobalt's Current Assets and Operations.

24. As of the Petition Date, the Debtors employ approximately 82 full-time employees, none of which are represented by a collective bargaining agreement. In addition, certain of Cobalt's non-Debtor affiliates collectively employ approximately three full time employees in Angola. Cobalt is headquartered in Houston, Texas and holds interests in the Gulf of Mexico and West Africa. A corporate organizational chart is set forth below.



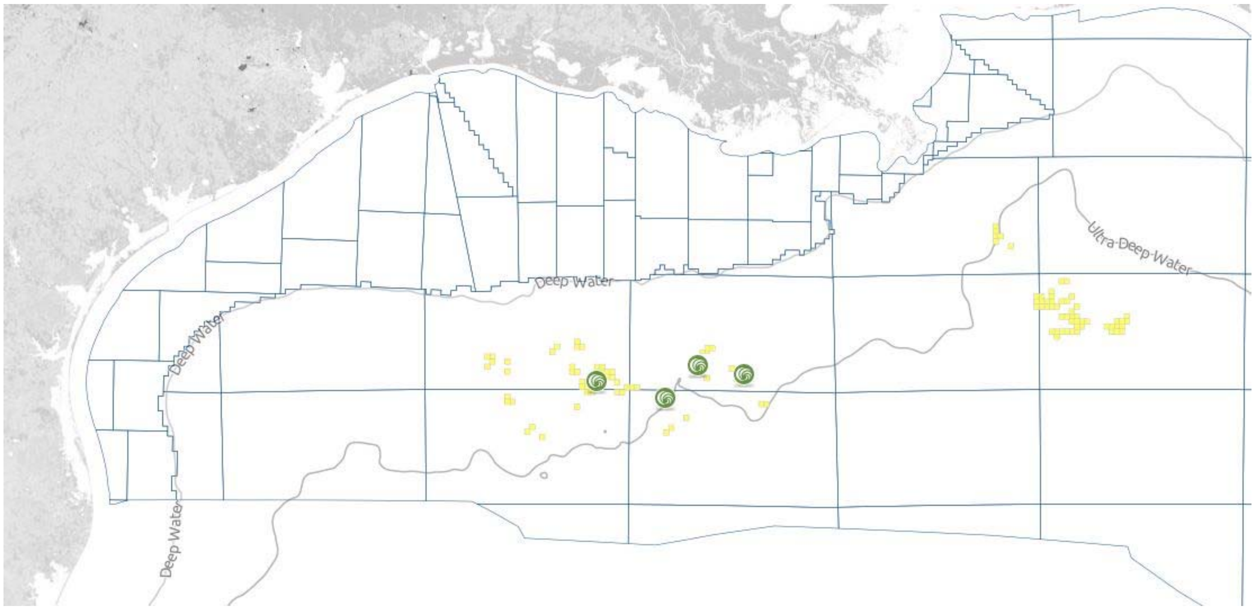
25. **Gulf of Mexico Assets**. Cobalt holds an ownership interest in approximately 125 blocks in the Gulf of Mexico, representing approximately 382,356 net acres leased. Cobalt's Gulf of Mexico assets include four major discoveries: (a) North Platte, (b) Shenandoah, (c) Anchor, and (d) Heidelberg fields.

- **North Platte**. The North Platte field is located approximately 190 miles south of Port Fourchon off the Louisiana coast in 4,500 feet of water in the "Garden Banks" area. The Debtors own a 60-percent working interest in, and is the operator of, the North Platte field in accordance with the North Platte Prospect Offshore Operating Agreement between Cobalt and Total E&P USA, Inc., dated as of April 6, 2009. The estimated gross recoverable resource range for North Platte is 500 to 650 million barrels of oil equivalent.

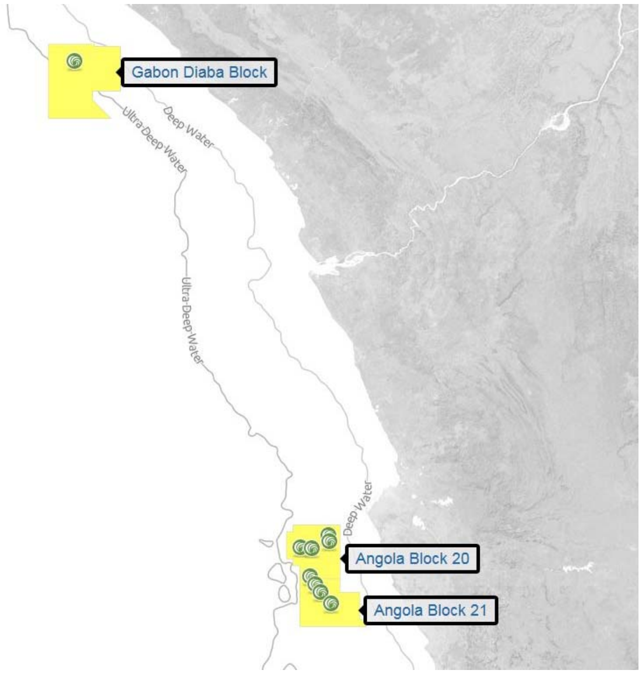
- **Shenandoah**. The Shenandoah field is located approximately 170 miles south of Port Fourchon off the Louisiana coast in 5,800 feet of water in the "Walker Ridge" area. The Debtors own a 20-percent working interest. The estimated gross recoverable resource range for Shenandoah is 165 to 300 million barrels of oil equivalent.

- **Anchor**. The Anchor field is located approximately 150 miles south of Port Fourchon off the Louisiana coast in 5,183 feet of water in the "Green Canyon" area. Chevron is the Operator, and the Debtors own a 20-percent working interest. The estimated gross recoverable resource range for Anchor under depletion is 330 to 600 million barrels of oil equivalent, while the estimated gross recoverable resource range with water injection support is 600 to 900 million barrels of oil equivalent, based on preliminary reservoir simulation modeling results.

- **Heidelberg**. The Heidelberg field is located approximately 140 miles south of Port Fourchon off the Louisiana coast in 5,300 feet of water in the "Green Canyon" area. Anadarko Petroleum Corporation is the Operator, and the Debtors own a 9.375-percent working interest. All of the Debtors' revenue to date is derived from production from the Heidelberg field, which commenced production in January 2016. Heidelberg is currently producing approximately 36,000 barrels of oil equivalents per day gross from five wells. Anadarko plans to drill an additional production well in 2018. Of the leases in which the Debtors hold a working interest, Heidelberg is the only one currently producing oil and gas.



26. **West Africa Assets**. Through non-Debtor affiliates, Cobalt holds an ownership interest in three blocks in West Africa, representing approximately 4.6 million gross acres leased. Cobalt is the operator of, and holds a 40-percent working interest in, two of these three blocks (Block 20 and Block 21), which are located off the coast of Angola and collectively represent 2.4 million of the total 4.6 million gross acres. As discussed below, Block 20 and Block 21 are the subject of ongoing arbitration due to a failed asset purchase agreement. In addition to its interests in Blocks 20 and 21, Cobalt holds a 21.25-percent interest in the Diaba license, which is located off the coast of Gabon. The Diaba license is operated by Total Gabon and represents the remaining 2.2 million of the Cobalt's total 4.6 million gross acres.



II. Cobalt's Capital Structure.

27. As of the Petition Date, the Debtors have approximately $2.8 billion in total funded debt. The following table depicts the Debtors' prepetition capital structure:

Long Term Debt Obligations	Outstanding Principal
10.75% first lien notes due 2021	$500.0 million
7.75% second lien notes due 2023	$934.7 million
2.625% senior unsecured notes due 2019	$619.2 million
3.125% senior unsecured notes due 2024	$786.9 million
Total	$2.8 billion

A. First Lien Notes.

28. The Debtors have approximately $500.0 million principal amount of outstanding 10.75% first lien secured notes due 2021, issued under that certain Senior Secured Notes Indenture dated as of December 6, 2016, by and among Cobalt, as issuer, the remaining Debtors, as

guarantors,[3] and Wilmington Trust, National Association, as trustee and collateral agent. The first lien notes mature in 2021 and require semiannual coupon payments at an interest rate of 10.75 percent per year. The first lien notes are secured by first-priority liens on substantially all of the assets of Cobalt and the guarantors, including, among other assets, 65 percent of Cobalt International, L.P.'s ownership interests in non-debtor Cobalt International Energy Overseas, Ltd.[4]

B. Second Lien Notes.

29. The Debtors have approximately $934.7 million principal amount of outstanding 7.75% second lien secured notes due 2023 issued under that certain Senior Secured Notes Indenture dated as of December 6, 2016,[5] by and among Cobalt, as issuer, the guarantors, and Wilmington Trust, National Association, as trustee and collateral agent. The second lien notes mature in 2023 and require semiannual coupon payments at an interest rate of 7.75 percent per year. The second lien notes are secured by second-priority liens on the same collateral securing the first lien notes. Cobalt, the guarantors, and Wilmington Trust, National Association, as trustee and collateral agent under the first lien notes and second lien notes are parties to an intercreditor agreement, dated as of December 6, 2016, that governs the relative rights of the parties thereto and provides other protections for the benefit of such parties.

C. 2.625% Senior Unsecured Notes.

30. The Debtors have approximately $619.2 million principal amount of outstanding 2.625% convertible senior unsecured notes due 2019, issued pursuant to that certain Senior

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[3] The guarantors are Cobalt International Energy GP, LLC; Cobalt International Energy, L.P.; Cobalt GOM LLC; Cobalt GOM #1 LLC; and Cobalt GOM #2 LLC.

[4] Cobalt International Energy Overseas, Ltd. has indirect ownership interests in certain non-debtors conducting oil and gas exploration and production operations in the coastal waters off of Angola and the Gabonese Republic.

[5] The Senior Secured Notes Indenture dated as of December 6, 2016 for the second lien notes was amended and supplemented by the First Supplemental Indenture dated as of January 30, 2017, the Second Supplemental Indenture dated as of April 24, 2017, and the Third Supplemental Indenture dated as of May 18, 2017.

Indenture dated as of December 17, 2012,[6] by and among Cobalt, as issuer, and Wells Fargo Bank, National Association, as trustee. The 2.625% unsecured notes mature in 2019 and require semiannual coupon payments at an interest rate of 2.625 percent per year. The 2.625% unsecured notes are of equal priority of payment to the obligations under the 3.125% unsecured notes. Under the indenture, the 2.625% unsecured notes are convertible before maturity at the option of the holder to approximately 28.02 shares of common stock per $1,000 in principal amount, before giving effect to the one-for-fifteen reverse stock split of Cobalt's common stock and subject to certain other adjustments. On June 19, 2017, at the time of the one-for-fifteen reverse stock split, the conversion rate for the 2.625% unsecured notes was adjusted to approximately 1.87 shares of common stock per $1,000 in principal amount.

D. 3.125% Senior Unsecured Notes.

31. The Debtors have approximately $786.9 million principal amount of outstanding 3.125% convertible senior unsecured notes due 2024, issued pursuant to that certain Senior Indenture dated as of December 17, 2012,[7] by and among Cobalt, as issuer, and Wells Fargo Bank, National Association, as trustee. The 3.125% unsecured notes mature in 2024 and require semiannual coupon payments at an interest rate of 3.125 percent per year. The 3.125% unsecured notes are of equal priority of payment to the obligations under the 2.625% unsecured notes. Under the indenture, the 3.125% unsecured notes are convertible before maturity at the option of the holder to approximately 43.36 shares of common stock per $1,000 in principal amount, before giving effect to the one-for-fifteen reverse stock split of Cobalt's common stock and subject to

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[6] The Senior Indenture dated as of December 17, 2012 was amended and supplemented pursuant to the First Supplemental Indenture dated as of December 17, 2012.

[7] The Senior Indenture dated as of December 17, 2012 was amended and supplemented pursuant to the Second Supplemental Indenture dated as of May 13, 2014.

certain other adjustments. On June 19, 2017, at the time of the one-for-fifteen reverse stock split, the conversion rate for the 3.125% unsecured notes was adjusted to approximately 2.89 shares of common stock per $1,000 in principal amount.

E. Common Stock.

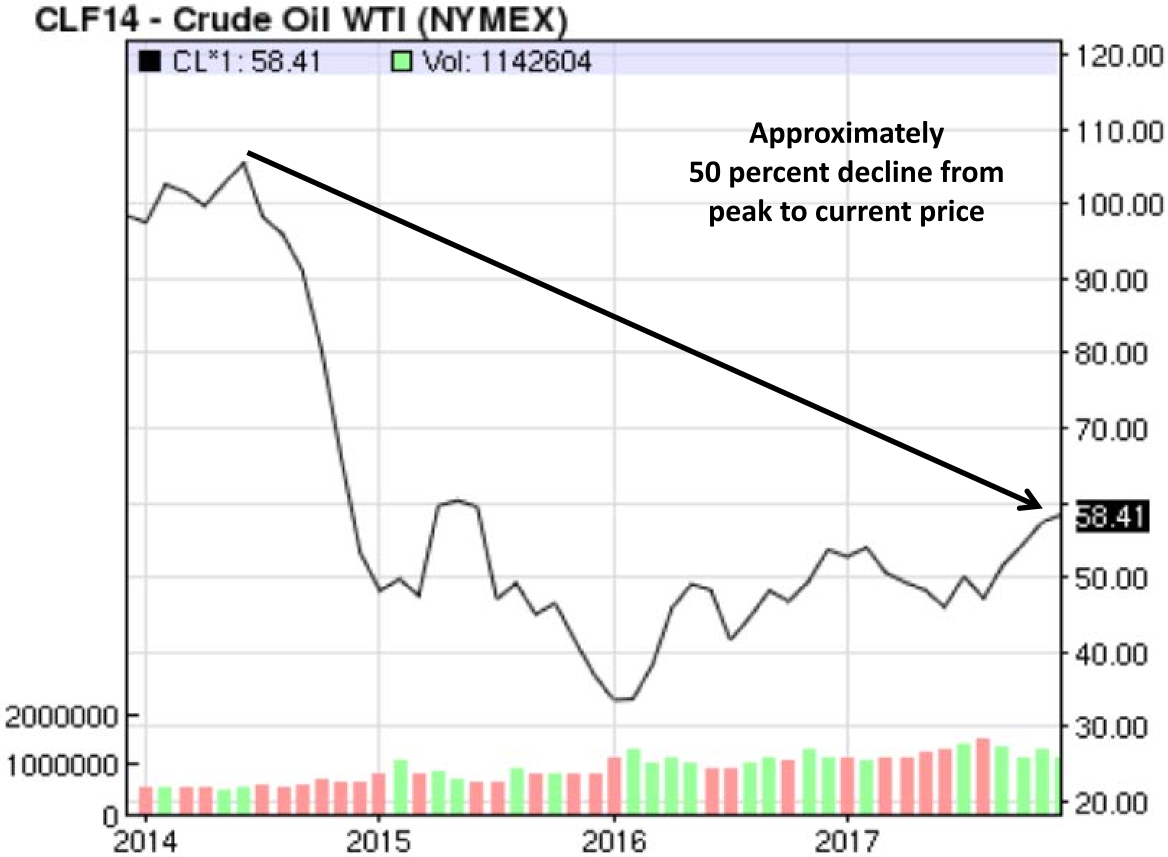
32. As of November 30, 2017, Cobalt has approximately 29.9 million shares of common stock, par value $0.01 per share, issued and outstanding. Cobalt has 133.3 million shares of authorized common stock. Cobalt's common stock traded on the NYSE under the ticker symbol "CIE," after its IPO in 2009, until it was notified by the NYSE, on December 13, 2017, that the NYSE would immediately commence delisting proceedings. Cobalt's common stock is expected to begin trading on the over the counter market beginning on December 14, 2017.

III. Events Leading to the Restructuring.

33. Approximately three years ago, the oil and gas industry entered what has become a sustained downward cycle that was brought on by low commodities prices. This severe downturn has had a significant adverse effect on Cobalt's businesses, development capital and timing, and the price of its common stock. Historically, prices for oil and natural gas have been volatile. West Texas Intermediate ("WTI") oil prices peaked in mid-2014 at more than $115 per barrel before declining to approximately $35 per barrel by early 2016. WTI prices have gradually risen to the current price of approximately $58 per barrel.[8]

[8] Chart sourced from Nasdaq.

Crude Oil WTI Price January 2014-December 2017



34. These declines materially reduced Cobalt's asset values and made it significantly less economical to drill deepwater wells. Offshore drilling requires a higher initial capital expenditure than onshore projects generally, but correspondingly can have a comparable return on investment over a longer relative period of time.

35. Facing deteriorating market conditions, significant debt obligations, and ongoing capital and operating expenditures that vastly exceeded revenue, Cobalt faced immediate challenges. Cobalt took aggressive and proactive steps to address these challenges by immediately implementing significant cost-cutting measures (including a significant reduction in work force and performance improvement initiatives) and exploring potential strategic select asset sales and an in-depth review of all assets and operations. In addition, Cobalt hired Kirkland and Ellis LLP

and Lazard Frères & Co. LLC in August 2016 and Goldman, Sachs & Co. in September 2016 to assist with exploring restructuring alternatives. In September 2017, Cobalt retained Houlihan Lokey Capital, Inc. to assist with potential out-of-court sales, chapter 11 sales, and/or restructuring alternatives. Houlihan Lokey Capital, Inc. is Cobalt's sole M&A and financial restructuring advisor, as both Lazard Frères & Co. LLC and Goldman, Sachs & Co. are no longer retained by Cobalt.

36. Starting as early as 2015, Cobalt began working in earnest to consider alternatives to enhance liquidity and address its capital structure. To achieve an orderly restructuring and maximize the value of Cobalt's business, the Debtors and their advisors took a series of coordinated steps leading up to the filing of these chapter 11 cases.

A. Marketing of Assets.

37. Beginning as early as 2015, Cobalt began a strategic review of its portfolio. As a result of the review, Cobalt decided to sell its Angola assets, which was ultimately unsuccessful following the termination of the $1.75 billion sale to Sonangol. Following the failed Angola sale and initial marketing of certain Gulf of Mexico assets, Cobalt determined to pursue a sale of all of its assets. Cobalt's marketing efforts and discussions with potential buyers for all or substantially all of Cobalt's assets remain ongoing and will continue following the Petition Date. Based on discussions with potential buyers, Cobalt believes that effecting these asset sales through an expedient chapter 11 process will maximize ultimate realized value for its stakeholders. Accordingly, the sale of all or substantially all of Cobalt's assets is the primary focused outcome of this chapter 11 process, as evidenced by the first day filing of a bid procedures and plan confirmation scheduling motion.

B. Attempted Sale of the Angolan Assets and Related Arbitration.

38. On August 22, 2015, Cobalt entered into a Purchase and Sale Agreement (the "Angola SPA") to sell to an Angolan quasi-governmental entity, Sonangol, the entire issued and outstanding share capital of Cobalt's indirect, wholly-owned subsidiaries, CIE Angola Block 20 Ltd. and CIE Angola Block 21 Ltd. for $1.75 billion. CIE Angola Block 20 Ltd. and CIE Angola Block 21 Ltd. respectively hold Cobalt's 40 percent working interest in each of Block 20 and Block 21 offshore Angola. Pursuant to the Angola SPA, Sonangol made a $250 million initial payment to Cobalt. Cobalt currently holds the $250 million initial payment that Sonangol made under the Angola SPA. These amounts are comingled in Cobalt's general operating account and are not held in escrow. The requisite Angolan government approvals were not received within one year from the execution date and the Angola SPA terminated pursuant to its terms in August 2016. Under the Angola SPA, Cobalt is entitled to be put back in its original position as if no agreement had been entered into.

39. On March 8, 2017, Cobalt submitted a Notice of Dispute to Sonangol pursuant to the Angola SPA, and filed a Request for Arbitration ("RFA") with the International Chamber of Commerce ("ICC") against Sonangol for breach of the Angola SPA. Through this arbitration proceeding, Cobalt is requesting an award against Sonangol in excess of $2 billion, plus applicable interest and costs. The arbitral tribunal has been constituted, and the parties have agreed upon the Terms of Reference and the procedural timetable. The final hearing is scheduled for October 2019.

40. Cobalt also filed a separate RFA with the ICC against Sonangol Pesquisa e Produção, S.A seeking recovery of over $160 million, plus applicable interest and costs, representing the joint interest receivable owed to Cobalt for operations on Block 21 offshore

Angola. The arbitral tribunal has been constituted, and the parties have agreed upon the Terms of Reference and the procedural timetable. The final hearing is scheduled for December 2018.

41. As of the Petition Date, both of these arbitration proceedings remain ongoing.

C. Ongoing Litigation and Investigation.

42. Cobalt is currently a defendant in four material legal proceedings, together with former and current officers and directors and equity sponsors, namely: (a) *In re Cobalt International Energy, Inc. Securities Litigation*, No. 14-3428 (S.D. Tex. 2014); (b) *Gaines v. Bryant*, No. 2016-29850, District Court 295, Harris County, Texas, May 2016; (c) *McDonaugh v. Bryant*, No. 2016-82186, District Court 80, Harris County, Texas, November 2016; and (d) *Hafkey v. Bryant*, No. 2017-23329, District Court 295, Harris County, Texas, April 2017. In addition, Cobalt is currently being investigated by the Securities and Exchange Commission.

1. Securities Action.

43. The securities action is comprised of two since-consolidated proceedings filed in the United States District Court for the Southern District of Texas against Cobalt, certain officers, directors, underwriters, and equity sponsors. The District Court entered an order [Docket No. 67] consolidating the two cases in March 2015. The consolidated amended complaint asserts violations of federal securities laws based on alleged misrepresentations and omissions in Securities and Exchange Commission filings and other public disclosures, primarily regarding compliance with the United States Foreign Corrupt Practices Act ("FCPA") with respect to Cobalt's Angolan operations and the performance of certain wells offshore Angola. In January 2016, the District Court denied Cobalt's motion to dismiss the securities action [Docket No. 108]. Thereafter, the plaintiffs to the securities action filed a motion for class certification [Docket No. 163], which the District Court granted in June 2017 [Docket No. 244]. On August 4, 2017, the United States Court of Appeals for the Fifth Circuit granted Cobalt permission to file an

interlocutory appeal challenging the class certification order. Cobalt filed its appeal on October 10, 2017, the briefing for which is now complete.

44. As of the Petition Date, the securities action remains ongoing.

2. Derivative Actions.

45. **The Gaines Lawsuit**. The Gaines lawsuit is a shareholder derivative action against Cobalt, as a nominal defendant, certain current and former officers and directors, and equity sponsors. The Gaines plaintiffs allege that, among other things: (a) the officers and directors breached their fiduciary duties by making, and permitting Cobalt to make, alleged misrepresentations about two of Cobalt's exploration wells offshore Angola; (b) certain officers received performance-based compensation in excess of that to which they were entitled absent the alleged wrongdoing; and (c) the equity sponsors owed a fiduciary duty to Cobalt as controlling stockholders and breached that duty by engaging in insider trading. The plaintiffs seek damages in the amount sustained by Cobalt as a result of the alleged breach of fiduciary duties and disgorgement of any performance-based compensation that would not have otherwise been received absent the alleged wrongdoing. In July 2016, Cobalt and its officers and directors filed their answer and special exceptions challenging the plaintiff's standing to bring such claims against them. The Court heard arguments on the special exceptions in December 2016.

46. **The McDonaugh Lawsuit**. The McDonaugh lawsuit is a shareholder derivative action against Cobalt, as a nominal defendant, and certain current and former officers and directors. The McDonaugh plaintiffs allege that, among other things: (a) the defendants breached their fiduciary duties by failing to maintain adequate internal controls and by causing or failing to prevent alleged misrepresentations and omissions in Cobalt's SEC filings and other public disclosures, including in relation to compliance with the FCPA with regard to Cobalt's Angolan operations and the performance of certain wells offshore Angola; (b) the defendants received

compensation or other benefits in excess of that to which they were entitled absent the alleged wrongdoing; and (c) certain officers and directors engaged in unlawful trading and misappropriation of information. The plaintiffs seek damages in the amount sustained by Cobalt as a result of the alleged breach of fiduciary duties and disgorgement of any performance-based compensation that would not have otherwise been received absent the alleged wrongdoing. In January 2017, the defendants to the McDonaugh lawsuit filed their answer and special exceptions challenging the plaintiff's standing to bring such claims.

47. **The Hafkey Lawsuit**. The Hafkey lawsuit is a shareholder derivative action against Cobalt, as a nominal defendant, and certain current and former officers and directors. The Hafkey plaintiffs allege that, among other things: (a) current and former officers and directors breached their fiduciary duties by making, and permitting Cobalt to make, alleged misrepresentations about two of the exploratory wells offshore Angola; (b) certain officers received performance-based compensation in excess of that to which they were entitled absent the alleged wrongdoing; and (c) certain directors caused Cobalt to waste corporate assets by approving the payment of that allegedly inflated compensation. The plaintiffs seek damages in the amount sustained by Cobalt as a result of the alleged breach of fiduciary duties and disgorgement of any performance-based compensation that would not have otherwise been received absent the alleged wrongdoing. The defendants filed their answer and special exceptions challenging the plaintiff's standing to bring such claims against Cobalt in June 2017.

48. As of the Petition Date, the three derivative actions remain pending. The Debtors' chapter 11 filing will stay the lawsuits and bring the causes of action into the Debtors' estates.

3. The SEC Investigation.

49. In March 2017, the SEC informed Cobalt that it has initiated an informal inquiry regarding the Sonangol Research and Technology Center (the "SRTC"). As background, in

December 2011, Cobalt executed the Block 20 Production Sharing Contract under which Cobalt and BP Exploration Angola (Kwanza Benguela) Limited are required to make certain social contributions to Sonangol, including for the SRTC. In March 2017, Cobalt also received from the SEC a voluntary request for information regarding such inquiry. Cobalt has been cooperating with the SEC, and has been providing requested information regarding the SRTC and other aspects of its Angolan operations.

50. As of the Petition Date, the SEC investigation remains ongoing.

D. Debt Transactions.

1. 2016 Debt Exchange and Financing Transaction.

51. The terms of Cobalt's unsecured debt largely allow Cobalt to exchange such unsecured debt for secured debt and common stock. On December 6, 2016, Cobalt entered into a purchase and exchange agreement with certain holders of its unsecured notes that provided Cobalt with incremental liquidity while significantly extending its debt maturity profile. Under the terms of the purchase and exchange agreement, Cobalt issued $500.0 million of the first lien notes for cash at a price of 98 percent of par and issued approximately $584.7 million of the second lien notes and 30.0 million shares of common stock in exchange for: (a) $616.6 million aggregate principal amount of the 2.625% unsecured notes, and (b) $95.9 million aggregate principal amount of the 3.125% unsecured notes. Although the 2016 transaction involved both the 2.625% unsecured notes and the 3.125% unsecured notes, only one ad hoc group, largely comprised of the 2.625% unsecured notes, elected to participate. Overall, the exchange increased Cobalt's liquidity by $490.0 million and decreased the principal amount of outstanding notes with a 2019 maturity by nearly half.

2. 2017 Debt Exchanges.

52. During the first half of 2017, Cobalt effectuated three additional debt exchanges. On January 30, 2017, Cobalt issued approximately $139.2 million of additional second lien notes in exchange for: (a) $137.8 million of the 2.625% unsecured notes, and (b) $60.0 million of the 3.125% unsecured notes. On April 24, 2017, Cobalt issued approximately $178.6 million of additional second lien notes in exchange for: (a) $6.4 million of the 2.625% unsecured notes, and (b) $296.3 million of the 3.125% unsecured notes. On May 18, 2017, Cobalt issued approximately $32.1 million of additional second lien notes in exchange for $60.9 million of the 3.125% unsecured notes.

53. Collectively, the three 2017 transactions completely utilized the availability under the first lien notes indenture and the second lien notes indenture to issue additional second lien notes. The debt exchanges collectively resulted in an aggregate reduction in principal face amount outstanding under Cobalt's long-term indebtedness by approximately $339.2 million and pushed out a significant amount of Cobalt's maturities from 2019 to 2023.

E. 2017 Interest Payments.

54. For all the reasons discussed herein, despite Cobalt's thoughtful attention to judiciously spending capital in order to maximize liquidity and value, its liquidity position nevertheless deteriorated. Considering its diminishing liquidity position, Cobalt critically analyzed and considered the implications of making the $12.3 million interest payment due on November 15, 2017 under the 3.125% unsecured notes indenture. Cobalt's board of directors, in consultation with its advisors, carefully balanced the Company's need for short term liquidity with Cobalt's long-term prospects, and ultimately decided to defer making the November 2017 interest payment and entered into the 30-day grace period.

55. Shortly thereafter, the board once again reviewed the Debtors' liquidity position as it examined the upcoming interest payments due on December 1, 2017 under the first lien indenture, the second lien indenture, and the 2.625% unsecured notes indenture. The board, in consultation with its advisors, decided to pay the interest payments due under the first lien indenture and second line indenture, but deferred making the $8.1 million interest payment due under the 2.625% unsecured notes indenture. Cobalt's decision to forgo the November 2017 interest payment and the December 2017 2.625% unsecured notes interest payment preserved liquidity.

F. Discussions with Creditors.

56. The Debtors and their advisors have engaged in discussions with advisors to ad hoc groups of and the indenture trustees for their first lien, second lien, and unsecured notes. More specifically, in October 2017, the Debtors and their advisors hosted multiple in-person meetings with advisors to an ad hoc group of second lien noteholders and an ad hoc group of unsecured note holders. Since then, the Debtors have continued discussions and consultations with creditor constituencies regarding a sale process and chapter 11 filing, including cash collateral negotiations with the first lien constituency. Through such discussions, the Debtors have communicated their belief that a sale of all or substantially all of Cobalt's assets represents the value maximizing alternative for Cobalt's stakeholders, and that such a sale is best effected through a Chapter 11 filing. Further, the Debtors have kept the ad hoc advisors apprised as to the status of the sale processes. The ad hoc advisors, in turn, have exhibited patience and thoughtful consideration of the various alternatives, and (on behalf of their clients) have indicated that if value is maximized through such a sale process they would be supportive of a sale to one or more third parties. The Debtors, the ad hoc advisors, and the ad hoc noteholders welcome and look forward to receiving bids through the chapter 11 sale process, as per the bid procedures.

57. The discussions with the ad hoc groups also focused on a reaching a consensual deal on the Debtors' use of their cash collateral. The Debtors currently have approximately $437 million in cash on hand which the Debtors believe is sufficient to fund these chapter 11 cases and a sale process without the need for debtor-in-possession financing.

IV. **First Day Motions**.

58. Contemporaneously herewith, the Debtors have filed a number of first day motions seeking orders granting relief intended to stabilize Cobalt's business operations, facilitate the efficient administration of these chapter 11 cases, and expedite a swift and smooth sale of Cobalt's assets. I have reviewed each of the first day motions. I believe that the relief requested in each is necessary to allow the Debtors to operate with minimal disruption during the pendency of these chapter 11 cases. A description of the relief requested and the facts supporting each of the first day motions is detailed in **Exhibit A**.

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: December 14, 2017

David Powell

David D. Powell
Chief Financial Officer,
Cobalt International Energy, Inc.