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.

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[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

[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 "FPS") 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.

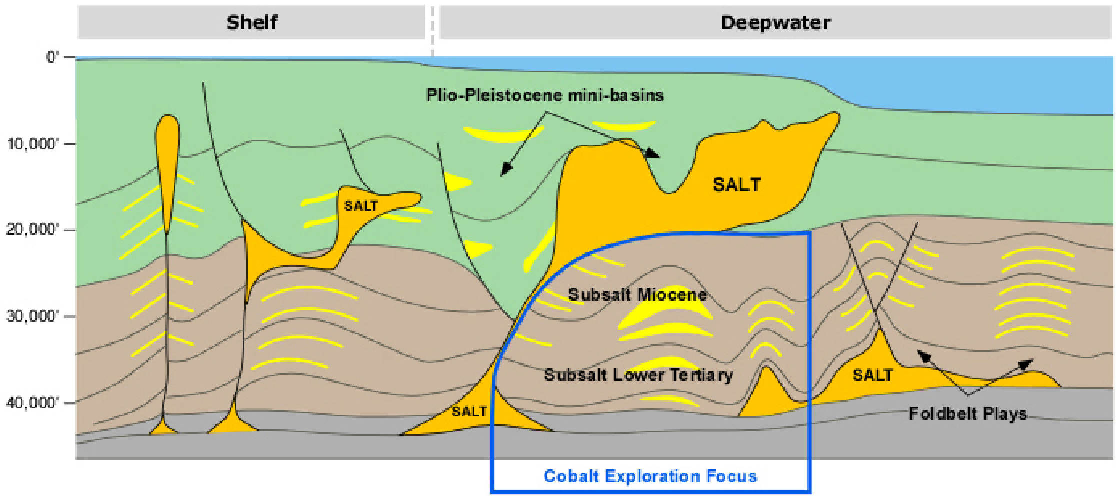
18. Cobalt was founded in November 2005 as a private company in Houston, Texas. On December 15, 2009, Cobalt executed an initial public offering of equity (the "IPO") with an approximately $4.5 billion market capitalization. Net proceeds from the IPO were used to fund capital expenditures, in particular 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.

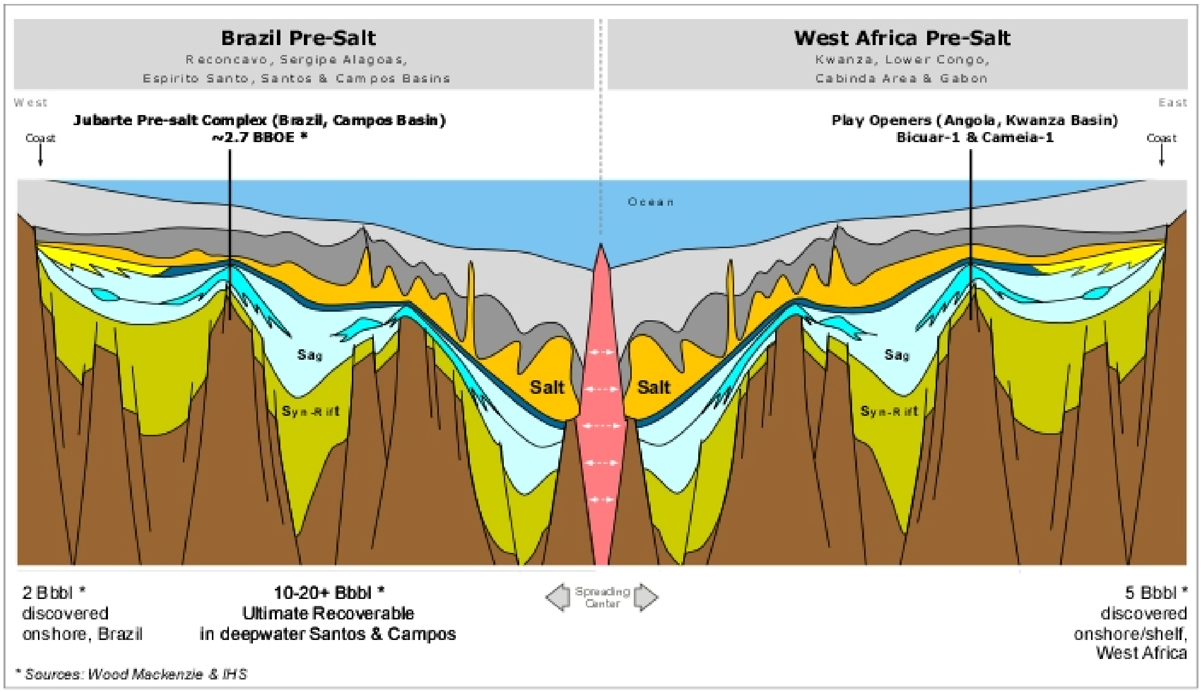
1. Subsalt and Pre-Salt Focus.

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:

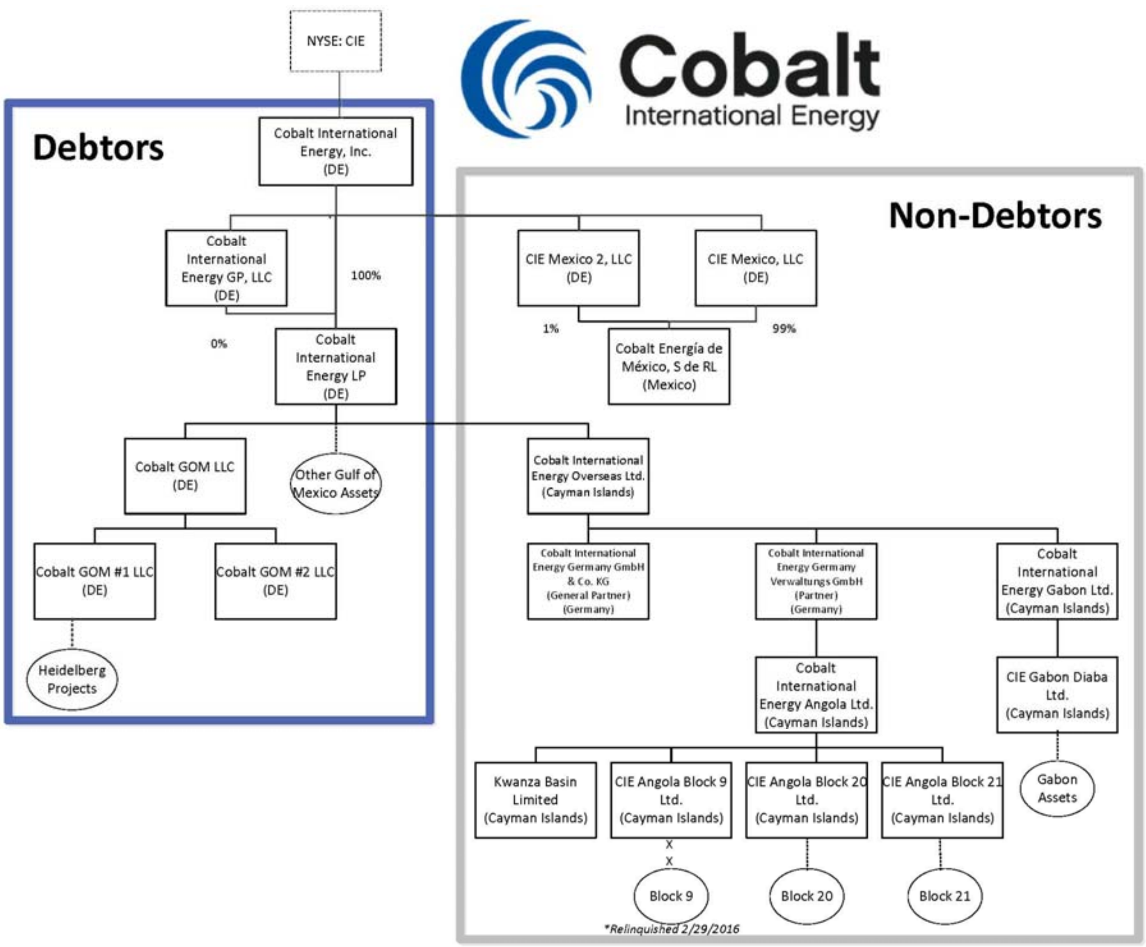
- West Africa: approximately 6,950 square miles of three dimensional ("3-D") seismic data and approximately 125,000 linear miles of two dimensional ("2-D") seismic data.

- 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.



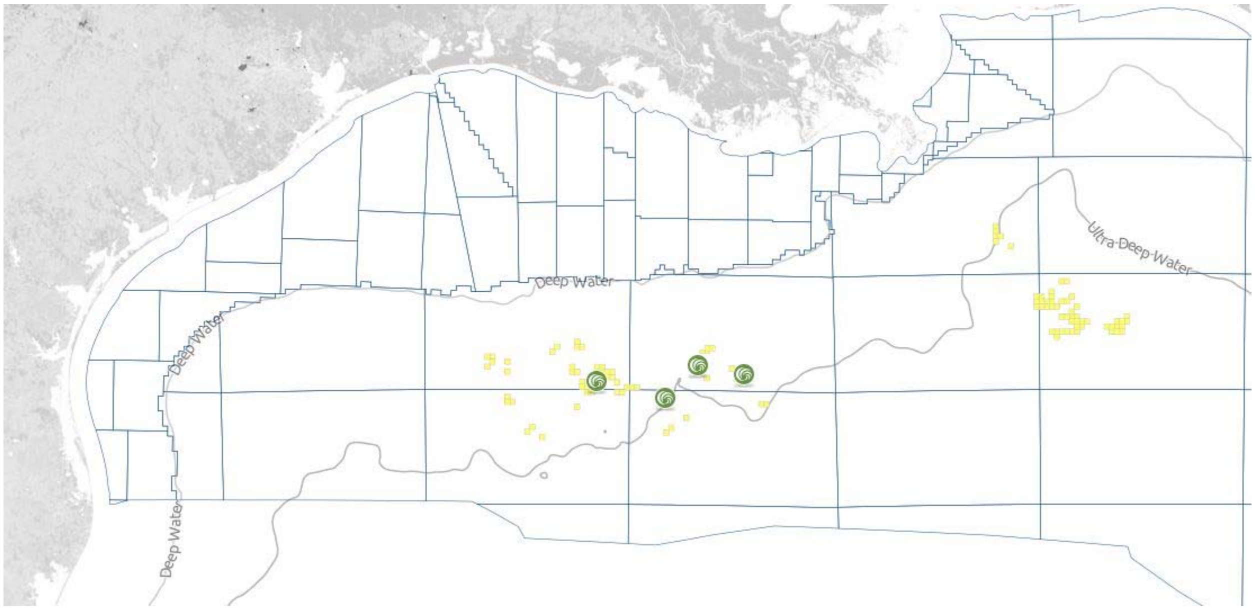
25. **Gulf of Mexico Assets**. Cobalt holds an ownership interest in approximately 125 blocks in the Gulf of Mexico, representing approximately 382,356 net acres leased. Cobalt's Gulf of Mexico assets include four major discoveries: (a) North Platte, (b) Shenandoah, (c) Anchor, and (d) Heidelberg fields.

- **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.

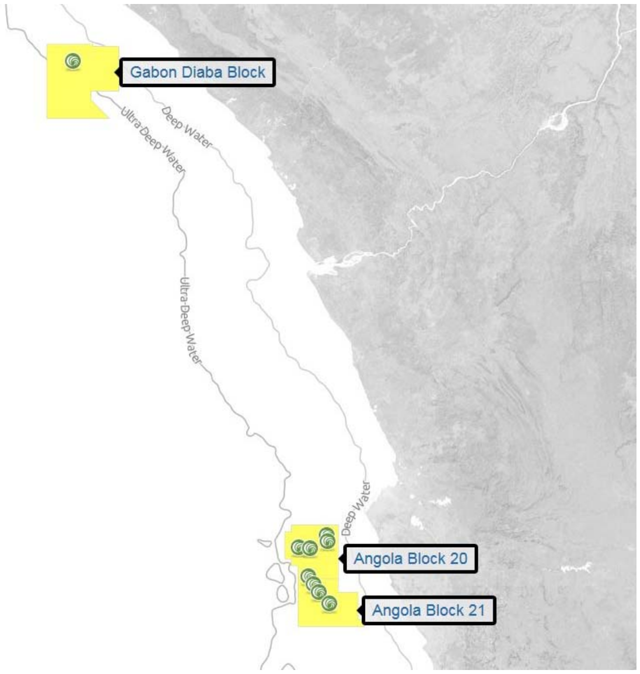
- **Shenandoah**. The Shenandoah field is located approximately 170 miles south of Port Fourchon off the Louisiana coast in 5,800 feet of water in the "Walker Ridge" area. The Debtors own a 20-percent working interest. The estimated gross recoverable resource range for Shenandoah is 165 to 300 million 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. **<u>Cobalt's Capital Structure</u>**.

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

[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.

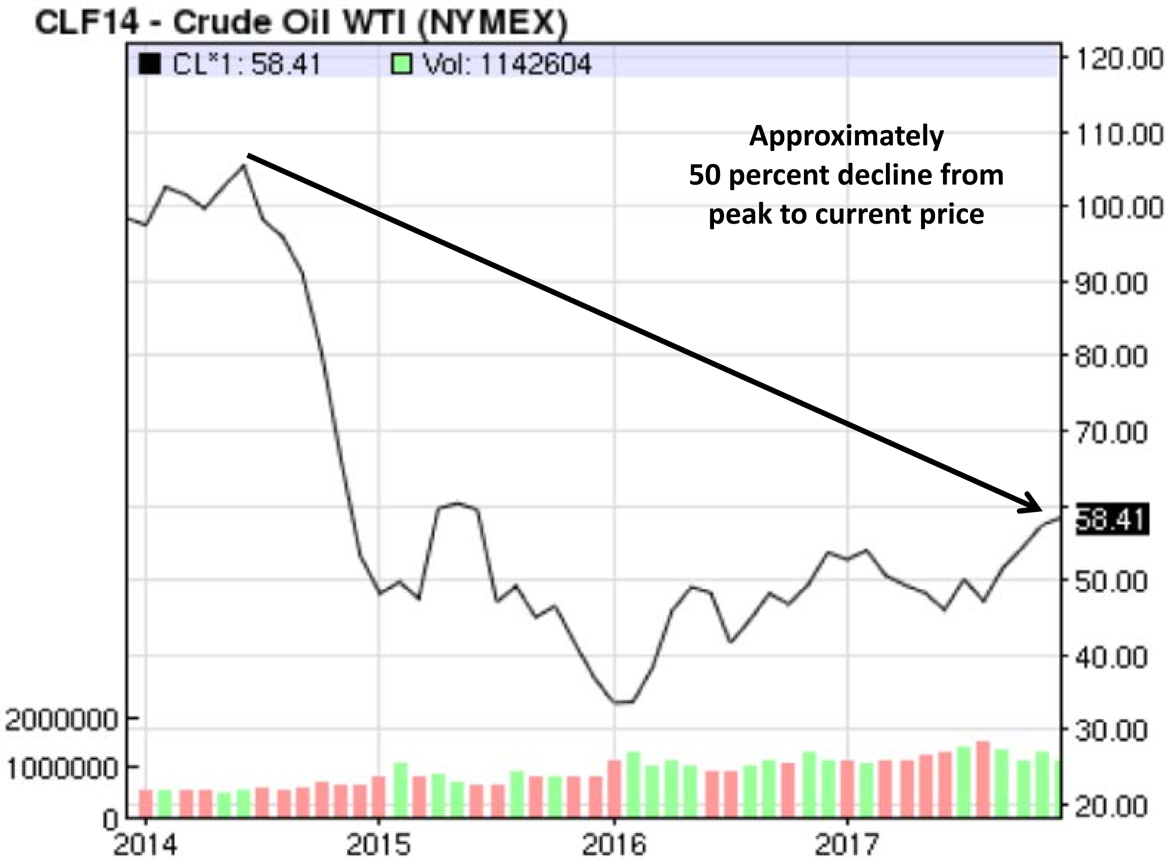
32. As of November 30, 2017, Cobalt has approximately 29.9 million shares of common stock, par value $0.01 per share, issued and outstanding. Cobalt has 133.3 million shares of authorized common stock. Cobalt's common stock traded on the NYSE under the ticker symbol "CIE," after its IPO in 2009, until 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 D. Powell
Chief Financial Officer,
Cobalt International Energy, Inc.

Exhibit A

Evidentiary Support for First Day Motions

EVIDENTIARY SUPPORT FOR FIRST DAY MOTIONS[1]

Administrative and Procedural Motions

I. Debtors' *Emergency* Application for Entry of an Order Authorizing the Debtors to Employ and Retain Kurtzman Carson Consultants LLC as Claims, Noticing, and Solicitation Agent, Effective *Nunc Pro Tunc* to the Petition Date (the "Claims Agent Application").

1. Pursuant to the Claims Agent Application, the Debtors seek entry of an order appointing appointing Kurtzman Carson Consultants LLC as claims, noticing, and balloting agent in the Debtors' chapter 11 cases effective *nunc pro tunc* to the Petition Date. Specifically, the Debtors request entry of an order to appoint KCC as the Claims and Noticing Agent to, among other tasks, (i) serve as the noticing agent to mail notices to the estates' creditors, equity security holders, and parties in interest, (ii) provide computerized claims, objection, solicitation, and balloting database services, and (iii) provide expertise, consultation, and assistance in claim and ballot processing and other administrative services with respect to the Debtors' bankruptcy cases.

2. KCC is one of the country's leading chapter 11 administrators and its professionals have experience in noticing, claims administration, solicitation, balloting, and facilitating other administrative aspects of chapter 11 cases and experience in matters of this size and complexity. KCC's professionals have acted as official claims and noticing agent in many large bankruptcy cases in this District and in other districts nationwide. KCC is well-qualified to provide experienced claims and noticing services in connection with these Chapter 11 Cases.

3. Given the complexity of these chapter 11 cases and the number of creditors and other parties in interest involved in these chapter 11 cases, I believe that appointing KCC as the

[1] Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the applicable first day motion.

notice and claims agent in these chapter 11 cases will maximize the value of the Debtors' estates for all its stakeholders.

II. Debtors' *Emergency* Motion for Entry of an Order (I) Authorizing the Debtors to File a Consolidated List of Creditors and the 30 Largest Unsecured Creditors, (II) Authorizing the Debtors to Redact Certain Personal Identification Information, and (III) Approving the Form and Manner of Notifying Creditors of the Commencement of These Chapter 11 Cases and Other Information (the "Creditor Matrix Motion").

4. Pursuant to the Creditor Matrix Motion, the Debtors seek entry of an order (a) 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, (b) authorizing the Debtors to redact certain personal identification information, and (c) approving the form and manner of notice of commencement of these chapter 11 cases and the scheduling of the meeting of creditors under section 341 of the Bankruptcy Code.

5. Here, the preparation of separate lists of creditors for each Debtor would be expensive, time consuming, and administratively burdensome. Accordingly, I believe that the permitting the Debtors to maintain a single consolidated list of creditors, in lieu of filing a separate creditor matrix for each Debtor, will maximize the value of the Debtors' estates and is in the interests of all of the Debtors' stakeholders. Further, because a large number of creditors may be shared amongst the Debtors, on behalf of the Debtors, I request authority to file a single, consolidated list of their 30 largest general unsecured creditors. The Top 30 List will help alleviate administrative burdens, costs, and the possibility of duplicative service. I also believe that that cause exists to authorize the Debtors to redact address information of individual creditors—many of whom are the Debtors' employees—and interest holders from the Creditor Matrix because such information could be used to perpetrate identity theft.

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

6. Pursuant to the Joint Administration Motion, the Debtors request entry of an order (a) directing procedural consolidation and joint administration of these chapter 11 cases and (b) granting related relief, including the ability to add later filed cases to 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.

7. Many of the motions, hearings, and orders in these chapter 11 cases will affect each and every Debtor entity. For example, virtually all of the relief sought by the Debtors in the first day motions is sought on behalf of all of the Debtors. The entry of an order directing joint administration of these chapter 11 cases will reduce fees and costs by avoiding duplicative filings and objections. Joint administration of these chapter 11 cases, for procedural purposes only, under a single docket, will also ease the administrative burdens on the Court by allowing the Debtors' cases to be administered as a single joint proceeding instead of six independent chapter 11 cases. Accordingly, on behalf of the Debtors, I respectfully submit that the Joint Administration Motion should be approved.

IV. 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 Extension Motion").

8. Pursuant to the Schedules and Statements Extension Motion, the Debtors seek entry of an order (a) granting the Debtors an additional 46 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"), (b) allowing the Debtors additional time to file financial information reports under Bankruptcy Rule 2015.3(a) (the "2015.3 Reports") to the later of (i) 30 days after the meeting of creditors to be held pursuant to section 341 of the Bankruptcy Code (the "341 Meeting"), (ii) 60 days after the Petition Date, or (iii) another such date ordered by the court upon request by the Debtors pursuant to a motion seeking a modification of such reporting requirements for cause, without prejudice to the Debtors' ability to request additional extensions, (c) waiving the requirement to file a list of and provide notice directly to the Debtor's equity security holders, and (d) granting related relief.

9. 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. The collection of the necessary information will require a significant expenditure of time and effort on the part of the Debtors and their employees. Additionally, the Debtors may lack access to certain information necessary to complete the Schedules and Statements because invoices related to prepetition expenditures have not been received and entered into the Debtors' accounting system, among other reasons.

10. Given the size and complexity of the Debtors' business and financial affairs and the critical matters that the Debtors' management and professionals were required to address prior to the commencement of these chapter 11 cases, the Debtors were not in a position to complete the Schedules and Statements as of the Petition Date. Rather, in the days leading up to the Petition Date, the Debtors' primary focus has been preparing for these chapter 11 cases to ensure a smooth transition into chapter 11, thereby maximizing value for their estates, their creditors, and other parties in interest. Moreover, I believe that an extension will not harm creditors or other parties in

interest because, even under the extended deadline, the Debtors will file the Schedules and Statements in advance of any deadline for filing proofs of claim in these chapter 11 cases. Accordingly, I believe that the Debtors' request for a 46-day extension of time to file the Schedules and Statements, without prejudice to the Debtors' ability to request additional extensions for cause shown, is appropriate and warranted under the circumstances.

11. Further, cause exists to extend the deadline for filing the 2015.3 Reports as requested herein based on (a) the size, complexity, and geographic scope of the Debtors' businesses and (b) the substantial burdens imposed by complying with Bankruptcy Rule 2015.3 in the early days of these chapter 11 cases. The Debtors are not in a position to complete the initial 2015.3 Reports within the time required under Bankruptcy Rule 2015.3. Extending the deadline to file the initial 2015.3 Reports will enable the Debtors to work with their advisors and the U.S. Trustee to determine the appropriate nature and scope of the reports and any proposed modifications to the reporting requirements established by Bankruptcy Rule 2015.3.

12. In addition, I believe that the requirements to file a list of, and to provide notice directly to, equity holders should be waived as to Cobalt in this case. As an initial matter, Cobalt is a publicly-traded company with over 29 million common shares outstanding. Cobalt does not maintain a list of its equity security holders and, therefore, must obtain the names and addresses of its shareholders from a securities agent. Preparing and submitting such a list with last known addresses for each such equity security holder and sending notices to all such parties will be expensive and time consuming and will serve little or no beneficial purpose. Moreover, Cobalt filed with its petition a list of significant holders of its outstanding common stock, and as soon as is practicable following the Petition Date, the Debtors intend to cause the notices required under Bankruptcy Rule 2002(d) to be served on registered holders of the Debtors common stock.

13. Accordingly, on behalf of the Debtors, I respectfully request that the Debtors are granted an additional 46 days from the Petition Date to file the Schedules and Statements, that the Debtors are allowed additional time to file financial information reports under Bankruptcy Rule 2015.3, and the requirements to file a list of and to provide notice directly to the Debtors equity security holders be waived.

Operational Motions

V. Debtors' *Emergency* Motion for Entry of Interim and Final Orders (I) Authorizing Postpetition Use of Cash Collateral, (II) Granting Adequate Protection To the Prepetition Secured Parties, (III) Modifying the Automatic Stay, (IV) Scheduling a Final Hearing, and (V) Granting Related Relief (the "Cash Collateral Motion").

14. Pursuant to the Cash Collateral Motion, the Debtors seek entry of an interim and final order, (a) authorizing the Debtors to use Cash Collateral, (b) granting adequate protection, solely to the extent provided herein, to the Prepetition Secured Parties, (c) modifying the automatic stay imposed by section 362 of the Bankruptcy Code to the extent necessary to implement and effectuate the terms of the Orders, (d) scheduling a final hearing to consider approval of this motion on a final basis, and (e) granting related relief.

15. I believe that the Debtors' access to cash collateral is critical for achieving their goals of steering these chapter 11 cases to a value-maximizing sale and delivering recoveries to their stakeholders with sale proceeds through an accompanying chapter 11 plan. Without access to cash collateral—over $400 million as of the petition date—the Debtors would be incapable of continuing to operate their businesses, and these estates and their stakeholders would be immediately and irreparably harmed by the accompanying destruction of value. The nature of the Debtors' businesses requires the Debtors to have immediate use of cash collateral. By having access to cash collateral, the Debtors will be able to continue their operations and preserve value while simultaneously pursuing a sale of some or all of the Debtors' assets under a chapter 11 plan. Through the use of cash collateral, the Debtors will have access to the necessary funding to (a) continue the day-to-day operations of their businesses, (b) maintain the value of their assets, (c) formulate, negotiate, and implement a value-maximizing sale transaction, and (d) fund these chapter 11 cases.

16. With their chapter 11 goals in mind, and recognizing that substantially all of their cash and other assets were pledged as collateral to secure their first and second note obligations, the Debtors engaged in discussions with advisors to the indenture trustee for and an ad hoc group of holders of their first lien notes before the Petition Date. At the same time, the Debtors consulted with advisors to other key constituencies, including an ad hoc group of unsecured noteholders holding approximately 50 percent of the Debtors outstanding unsecured notes. The Debtors successfully negotiated an agreed cash collateral order with these first lien advisors.

17. The provisions of the Interim Order were extensively negotiated and are the most favorable terms that the Debtors were able to obtain under the circumstances. Approval of the motion will ensure the Debtors are able to maintain their operations, pursue and achieve a successful restructuring transaction, and maximize the value of their estates for the benefit of all stakeholders.

18. The Debtors' businesses are cash intensive, with significant daily costs to produce oil and natural gas and transport such production to customers and fulfill their environmental and regulatory requirements. The Debtors require immediate access to liquidity to ensure that they are able to continue operating during the chapter 11 cases, preserve the value of their estates for the benefit of all parties in interest, and pursue the restructuring transaction contemplated by the chapter 11 cases. Without prompt access to Cash Collateral, the Debtors may be unable to satisfy trade payables incurred in the ordinary course of business, preserve and maximize the value of their estates, and administer these chapter 11 cases, which would cause immediate and irreparable harm to the value of the Debtors' estates to the detriment of all stakeholders.

19. The Debtors also rely on the encumbered cash generated from their producing asset (Heidelberg) to fund working capital, capital expenditures, research and development efforts, and

for other general corporate purposes. During the chapter 11 cases, the Debtors will need this operating revenue to satisfy payroll, pay suppliers, meet overhead, pay expenses pursuant to joint operating agreements for their North Platte assets (operated by the Debtors), satisfy joint interest billings for their other properties (where the Debtors are a non-operating working interest holder), satisfy delay rental payments required to maintain their interests in oil and gas leases, fund committed and uncommitted authorizations for expenditure, and make any other payments that are essential for the continued management, operation, and preservation of the Debtors' businesses. The ability to satisfy these expenses as and when due is essential to the Debtors' continued operation of their businesses during the pendency of the chapter 11 cases.

20. Accordingly, I believe that the Debtors' consensual use of Cash Collateral and agreed-upon adequate protection package is fair and appropriate under the circumstances of these chapter 11 cases. Accordingly, on behalf of the Debtors, I respectfully submit that the Cash Collateral Motion should be approved.

VI. Debtors' *Emergency* Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to (A) Continue to Operate Their Cash Management System, (B) Honor Certain Prepetition Obligations Related Thereto, (C) Maintain Existing Business Forms, and (D) Perform Intercompany Transactions, and (II) Granting Related Relief (the "Cash Management Motion").

21. Pursuant to the Cash Management Motion, the Debtors seek entry of an order (a) authorizing the Debtors to (i) continue to operate their Cash Management System, (ii) pay any prepetition or postpetition amounts outstanding on account of the Bank Fees, (iii) maintain existing Business Forms in the ordinary course of business, and (iv) continue to perform the Intercompany Transactions consistent with historical practice, and (b) granting related relief.

A. Cash Management System.

22. In the ordinary course of business, the Debtors maintain an integrated, centralized cash management system. The Cash Management System is comparable to the centralized cash

management systems used by similarly situated companies to manage the cash of operating units in a cost-effective, efficient manner. The Debtors use the Cash Management System in the ordinary course of their businesses to collect, transfer, and disburse funds generated from their operations and to facilitate cash monitoring, forecasting, and reporting. The Debtors' treasury department maintains daily oversight over the Cash Management System and utilizes cash management controls for entering, processing, and releasing funds, including in connection with Intercompany Transactions. The Debtors' accounting department regularly reconciles the Debtors' books and records to ensure that all transfers are accounted for properly.

23. The Debtors' Cash Management System is composed of seven Debtor-owned and controlled bank accounts with the following banking institutions: four Bank Accounts maintained at Citibank N.A.; one Bank Account maintained at Société Générale S.A.; one investment Bank Account maintained at UBS Financial Services Inc.; and one Bank Account maintained at Wells Fargo Bank, N.A. The majority of the Bank Accounts are collectively maintained at Citibank and Wells Fargo, which, I have been informed, are both designated as authorized depositories by the U.S. Trustee, pursuant to the U.S. Trustee Guidelines.

24. As of the Petition Date, the Debtors have approximately $437 million in cash on hand. The Bank Accounts are further described below.

- Concentration Account. The Debtors maintain a Concentration Account at Citibank, which serves as the Debtors' centralized operating account for the Cash Management System and provides funding for the other Bank Accounts. The Concentration Account generally maintains a balance sufficient to fund the Debtors' day-to-day cash needs. The Concentration Account also disburses funds to Bank Accounts throughout the Cash Management System, including the Non-Debtor Subsidiary Accounts (as defined below), at the Debtors' discretion, as needed. Interest and other debt payments are made directly from the Concentration Account. The Concentration Account is subject to a deposit account control agreement. As of the Petition Date, the Concentration Account held a balance of approximately $32 million.

- Payroll Account. The Payroll Account a zero-balance account which is automatically funded by the Concentration Account, as needed, to maintain a zero balance. The Payroll Account disburses funds to the Debtors' payroll processor, Automatic Data Processing Inc., which then processes payroll checks and direct deposits to the Debtors' employees.

- Investment Account. The Investment Account holds excess cash in high-credit-quality commercial paper, corporate bonds, and money market mutual funds that invest in U.S. government obligations. The Investment Account is subject to a deposit account control agreement. The Debtors transfer excess cash from the Concentration Account to the Investment Account on a discretionary basis. Likewise, the Debtors transfer cash from the Investment Account to the Concentration Account to fund operations at the Debtors' discretion, as needed. As of the Petition Date, the Investment Account held a balance of approximately $376 million.

- Proceeds Account. The Proceeds Account holds the proceeds of the Debtors' Heidelberg operations. The Debtors manually transfer funds, as necessary, from the Proceeds Account to the Concentration Account for subsequent transfers to other Bank Accounts in the Cash Management Systems on a discretionary basis. Likewise, the Debtors transfer cash from the Concertation Account to the Proceeds Account on a discretionary basis based on, among other factors, timing of receivables and cash forecast. The Proceeds Account is subject to a deposit account control agreement. As of the Petition Date, the Proceeds Account held a balance of approximately $18 million.

- Cash Collateral Account. The Cash Collateral Account holds the proceeds of Cobalt International Energy, Inc.'s $9 million letter of credit with Enbridge Offshore Facilities, LLC. The proceeds of the letter of credit are comingled with Debtor funds used for the Corporate Cards. As of the Petition Date, the Cash Collateral Account held a balance of approximately $11 million.

- Operating Account. The Operating Account is a controlled disbursements account utilized by Cobalt International Energy, L.P., to fund operations related expenses. The account is a zero-balance account with a low volume of payments. The Debtors fund the account by automatically transferring funds from the Concentration Account to the Operating Account in the exact amount needed to fund the operational expenses.

- Deposit Account. The Deposit Account is a demand deposit account controlled by Cobalt International Energy, L.P., which holds cash sufficient to fund the Debtors' local safety deposit box fees. As of the Petition Date, the Deposit Account held a balance of approximately $1,000.

25. In addition, the Debtors' non-Debtor subsidiaries maintain additional accounts in the ordinary course of their operations. Certain Non-Debtor Subsidiary Accounts are necessary to

comply with foreign rules and regulations. For example, Angola requires that all taxes and fees are paid in Angolan Kwanza. In order to have Angolan Kwanza available to pay those taxes and fees, the Debtors' Angolan subsidiaries maintain local accounts. In the ordinary course of business, the Cash Management System makes payments to or creates an intercompany claim that may be settled in cash, as the case may require, among the Debtors and the non-Debtor subsidiaries pursuant to the Intercompany Transactions.

26. The Debtors incur periodic service charges and other fees in connection with the maintenance of the Cash Management System, which fees and services are generally paid each month. The Debtors have historically incurred Bank Fees between approximately $400 and $500 per month, which are debited from the respective Bank Account for which the Bank Fee was incurred. As of the Petition Date, the Debtors estimate that approximately $500 in Bank Fees have accrued and remain unpaid and seek permission to pay these Bank Fees and continue paying the Bank Fees in accordance with past practices.

27. The Debtors' Cash Management System is critical to the ongoing stability of the Debtors' business and transition into chapter 11.

B. Section 345 of the Bankruptcy Code Compliance.

28. The Debtors maintain Bank Accounts at Citibank, Societe Generale, UBS, and Wells Fargo. I have been informed that both Citibank and Wells Fargo are authorized depositories. Although UBS and Societe Generale are not authorized depositories, both Cash Management Banks are highly rated, global financial institutions that are recognized as well capitalized and financially stable, and I believe that UBS and Societe Generale are well positioned to continue to perform the depository and cash management functions for the Debtors during the chapter 11 cases. The Investment Account is domestically held at UBS, which is further protected by the Securities Investor Protection Corporation ("SIPC"). The SIPC is a federally mandated non-profit

overseen by the Securities and Exchange Commission that provides, among other things, insurance coverage up to $500,000 of the customer's net equity balance, including up to $250,000 in cash, against losses that arise when the broker becomes insolvent. I therefore believe that they can maintain the Bank Accounts at UBS and Societe Generale without jeopardizing any parties in interest.

29. I believe that requiring the Debtors to transfer all of the Bank Accounts to a designated authorized depository would place a needless administrative burden on the Debtors that would unnecessarily divert the attention of the Debtors' management at a critical junction in these chapter 11 cases. Therefore, on the Debtors behalf, I request that the court authorize the Cash Management Banks to continue to maintain, service, and administer the Bank Accounts as accounts of the Debtors and Debtors in possession, without interruption and in the ordinary course of business, notwithstanding that certain of the banks are not authorized depository institutions in the Southern District of Texas.

30. Further, as part of the Cash Management System, the Debtors maintain their excess cash in conservative investments that satisfy prudent investment guidelines, which have a primary goal of protecting principal and a secondary goal of maximizing yield. As discussed above, consistent with the Investment Policy, the Debtors transfer excess cash to the Investment Account at their discretion. Pursuant to the Investment Policy, the Debtors invest in high credit quality commercial paper, corporate bonds, and pre-approved money market funds that invest only in obligations issued or backed by the United States Treasury and carry the highest possible ratings (i.e., AAA or Aaa) issued by Standard & Poor's Ratings Group, Moody's Investor Service, Inc., and Fitch Ratings, Inc. The commercial paper and corporate bonds are generally not readily redeemable, and trading out of them prior to maturity could result in a loss. All of the Debtors'

commercial paper and corporate bonds are scheduled to mature before the end of December 2017. As the commercial paper and corporate bonds mature, such funds will automatically be returned to Money Market Funds, which can be readily liquidated. The Debtors expect that all of the commercial paper and corporate bonds will mature and be deposited into the Money Market Funds by the end of 2017.

31. The Investment Policy permits the Debtors to balance their need to access liquidity on a daily basis with protections that are comparable to those contemplated by section 345(b) of the Bankruptcy Code. The Investment Account is domestically held at a well-capitalized and financially-stable institution, UBS, which is a member of the SIPC. Moreover, the Investment Policy reflects a disciplined and prudent strategy, permitting the Debtors to balance the need to maximize returns on excess cash while ensuring that such excess cash is readily available for use in the Debtors' business operations. I believe that requiring the Debtors to bond the Investment Account, as contemplated by section 345(b) of the Bankruptcy Code (unless the court orders otherwise), would impose considerable costs on the Debtors and their estates and would hamper the Debtors' already pressed liquidity needs. I, on behalf of the Debtors, respectfully request that the court waive section 345(b) and the U.S. Trustee Guidelines with respect to the Investment Account.

C. Intercompany Transactions.

32. The Debtors have historically in the ordinary course of business engaged in routine business relationships with each other and certain of their non-Debtor affiliates, resulting in intercompany receivables and payables. At any given time, as a result of the Intercompany Transactions, there may be claims owing by one Debtor to another Debtor or non-Debtor affiliate. More specifically, in connection with the daily operation of the Cash Management System, funds from the Concentration Account are disbursed to Bank Accounts throughout the Cash

Management System, including the Non-Debtor Subsidiary Accounts. Similarly, funds are transferred from various Bank Accounts, including the Proceeds Account and the Investment Account to the Concentration Account. These disbursements and transfers create Intercompany Claims between Debtors and non-Debtor affiliates. The Debtors have historically reflected Intercompany Claims as journal entry receivables and payables, as applicable, in the respective Debtor's accounting system. The Debtors closely track all fund transfers in their respective accounting system and, therefore, can ascertain, trace, and account for all Intercompany Transactions.

33. I believe that the Intercompany Transactions are an essential component of the Debtors' operations and centralized Cash Management System. More specifically, the Debtors engage in Intercompany Transactions to, among other things, process payroll, provide enterprise-wide management and support services, facilitate operations on a daily basis, and fund necessary capital expenditures. The Intercompany Transactions are trackable, and the Debtors intend to account for all postpetition Intercompany Transactions in accordance with past practice. I believe that any interruption of the Intercompany Transactions would severely disrupt the Debtors' operations and result in great harm to the Debtors' estates and their stakeholders. Accordingly, the Debtors seek authority—and, to the extent applicable, relief from the automatic stay—to continue the Intercompany Transactions in the ordinary course of business on a postpetition basis, in a manner substantially consistent with the Debtors' past practice.

- **Debtor Intercompany Transactions**. The Debtors have historically completed various operations-related Intercompany Transactions in the ordinary course of business. For example, excess cash received into the Debtor Cobalt GOM # 1 LLC owned Proceeds Account on account of the Debtors' Heidelberg operations is transferred to the Debtor Cobalt International L.P. owned Concentration Account on a discretionary basis.

- **Non-Debtor Affiliate Intercompany Transactions**. Certain Debtors have also historically engaged in Intercompany Transactions in the ordinary course of business with certain non-Debtor affiliates, including, among others, Cobalt's West African and Mexican based subsidiaries. As none of these non-Debtors affiliates have active drilling operations, these transactions are simply intended to maintain the status quo. For example, the Debtors have historically transferred approximately $6.3 million annually to their Angolan subsidiaries to pay for certain overhead expenses including, among others, office rent payments, employee compensation and benefits, and sample oil storage costs. The employee compensation and benefits packages for the approximately three non-Debtor employees are substantially similar to those described in the Wages Motion (as defined below). Although there are no active drilling operations in Angola, the Angola assets remain subject to audits. Currently, non-Debtor affiliate CIE Angola Block 20 Ltd. is subject to an ongoing audit on account of certain working interest expenditures associated with Block 20. No amounts are currently outstanding as a result of the audit, but CIE Angola Block 20 could face potential liability up to $2.5 million. Out of an abundance of caution, the Debtors seek authorization to transfer any amounts from the Debtors' Bank Accounts to CIE Angola Block 20 that may become due and owing during the chapter 11 cases following the completion of the audit. In addition, the Debtors have historically paid *de minimis* amounts to their German, Mexican, and Gabonese subsidiaries for expenses, including, among others, accounting services and governmental registration costs. I, on behalf of the Debtors, seek authority to continue such transactions in the ordinary course of business on a postpetition basis, substantially consistent with past practice

34. I believe that the relief requested in the Cash Management Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their business in chapter 11. Accordingly, on behalf of the Debtors, I respectfully submit that the Cash Management Motion should be approved.

VII. Debtors' Motion for Entry of an Order Authorizing the Debtors to (I) Continue Insurance Coverage Entered Into Prepetition and Satisfy Prepetition Obligations Related Thereto, If Any, and (II) Renew, Amend, Supplement, Extend, or Purchase Insurance Policies, and (III) Granting Related Relief (the "Insurance Motion").

35. Pursuant to the Insurance Motion, the Debtors seek entry of an order authorizing the Debtors to authorizing, but not directing, (a) the Debtors to continue prepetition practices related to the Insurance Policies and satisfy payment obligations related thereto, if any, (b) renew, amend, supplement, extend, or purchase insurance coverage in the ordinary course of business, and (c) granting related relief. In the ordinary course of business, the Debtors maintain

approximately 28 insurance policies that are administered by various third-party insurance carriers. These policies provide coverage for, among other things, the Debtors' property, general liability, automobile liability, excess umbrella liability, directors' and officers' liability, employer's liability, operator's liability, and pollution and environmental legal liability.

36. The aggregate annual premium for the Insurance Policies is approximately $8,600,745, not including applicable taxes and surcharges, deductibles, broker and consulting fees and commissions. The Debtors prepay the entire annual premium for each of the Insurance Policies on or around the start date of each policy period. The Insurance Policies renew throughout the year, mostly in November and December. As of the Petition Date, I do not believe that the Debtors owe any prepetition amounts on account of the Insurance Policies.

37. Continuation of the Debtors' Insurance Policies, and entry into new insurance policies, is essential to the preservation of the value of the Debtors' business and operations. Moreover, in many instances, insurance coverage is required by the regulations, laws, and contracts that govern the Debtors' commercial activities, including the Office of the U.S. Trustee requirement that a debtor maintain adequate coverage given the circumstances of its chapter 11 case.

38. The Debtors obtain the majority of their Insurance Policies through broker Lockton Companies, LLC. Lockton assists the Debtors in (a) obtaining comprehensive insurance coverage for its operations in the most cost-effective manner, (b) negotiating policy terms, provisions, and premiums, (c) assisting the Debtors with claims, and (d) providing ongoing support throughout the applicable policy periods. The Debtors pay Lockton a flat annual fee pursuant to a negotiated fee agreement. The Debtors pay approximately $150,000 to Lockton on an annual basis. John L. Wortham & Son, L.P. is the broker of record with respect to the Debtors' directors' and officers'

insurance policies. In this capacity, Wortham is authorized to cancel or negotiate changes with respect to the Debtors' existing policies. Wortham is also authorized to procure new policies for the Debtors. Wortham's brokerage fees are paid by the insurers in the form of rebates. In 2017, Wortham's brokerage fees totaled approximately $1.1 million. As of the Petition Date, I do not believe that the Debtors owe any amounts to the Brokers on account of fees or any other prepetition obligations.

39. I believe that the relief requested in the Insurance Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their business in chapter 11 without disruption. Accordingly, on behalf of the Debtors, I respectfully submit that the Insurance Motion should be approved.

VIII. Debtors' *Emergency* Motion for Entry of Interim and Final Orders Approving Notification and Hearing Procedures for Certain Transfers of and Declarations of Worthlessness with Respect to Common Stock (the "Equity Trading Motion").

40. Pursuant to the Equity Trading Motion, the Debtors seek entry of orders (a) approving certain notification and hearing procedures related to certain transfers of, or declarations of worthlessness with respect to, Debtor Cobalt International Energy, Inc.'s existing common stock or any Beneficial Ownership thereof; (b) directing that any purchase, sale, or other transfer of, or declaration of worthlessness with respect to, Common Stock in violation of the Procedures shall be null and void *ab initio*; and (c) granting related relief.

41. The Debtors estimate that, as of December 31, 2016, they had NOLs in the total amount of approximately $2.1684 billion, consisting of NOL carryforwards for federal, state, and foreign income tax purposes of approximately $2.0 billion, $82.8 million, and $85.6 million, respectively. The Debtors may generate additional Tax Attributes during the pendency of these chapter 11 cases. These Tax Attributes may provide the potential for material future tax savings (including in post-emergence years) and may be vital to certain transactions (including asset sales)

that may be consummated in these chapter 11 cases. In addition, such Tax Attributes may be utilized by the Debtors to offset any taxable income generated by transactions consummated during these chapter 11 cases. The value of the Tax Attributes will, therefore, inure to the benefit of all of the Debtors' stakeholders.

42. Additionally, the Procedures do not bar all transfers of or declarations of worthlessness with respect to Beneficial Interests of Common Stock. The Debtors seek to establish procedures only to monitor those types of transactions that would pose a serious risk under the ownership change test pursuant to sections 382 of the IRC to preserve the Debtors' ability to seek substantive relief if it appears that a proposed transfer or declaration of worthlessness could jeopardize the Debtors' utilization of the Tax Attributes. Because of the Tax Attributes' importance to the Debtors' restructuring, and thus all parties in interest, implementation of the Procedures outweighs subjecting a limited number of transfers to the Procedures.

43. I believe that the loss of these valuable estate assets could lead to significant negative consequences for the Debtors, their estates, their stakeholders, and the overall reorganization process. Accordingly, on behalf of the Debtors, I respectfully submit the Court should grant the relief requested in the Equity Trading Motion.

IX. Debtors' *Emergency* Motion for Entry of Interim and Final Orders Authorizing the Payment of Working Interest Expenditures, Joint Interest Billings, Royalty Payments, Delay Rental Payments, and Production Sale Expenditures (the "Oil and Gas Expenditures Motion").

44. Pursuant to the Oil and Gas Expenditures 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 prepetition and postpetition amounts owing on account of (a) Working Interest Expenditures, (b) Joint Interest Billings, (c) Royalty Payments, (d) Delay Rental Payments, and (e) Production Sale Expenditures. For the reasons set forth below, I believe that the relief requested in the Oil

and Gas Expenditures Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their business in the ordinary course without disruption. Accordingly, on behalf of the Debtors, I respectfully submit that the Oil and Gas Expenditures Motion should be approved.

45. The Debtors' U.S. operations are focused on the exploration, development, and production of oil and gas in the Gulf of Mexico.

46. The Debtors are the Operator of one oil and gas field located in the Gulf of Mexico, North Platte, and hold Non-Op Working Interests in three other fields in the Gulf of Mexico—Heidelberg, Shenandoah, and Anchor. The Debtors also hold approximately 111 other leasehold interests in the Gulf of Mexico. The Debtors are designated Operator for 107 of these leases, with the Debtors holding Non-Op Working Interests in the remainder.

A. The Debtors' Oil and Gas Obligations.

47. In order to maintain their Leases and Working Interests in the Gulf of Mexico, the Debtors' must pay certain obligations, namely: (a) the upfront expenditures associated with exploration, development, and production on account of themselves as Operator and, where applicable, Non-Op Working Interest Holders; (b) the *pro rata* share of Working Interest Expenditures owed by the Debtors as Non-Op Working Interest Holders under JOAs, UOAs, or other applicable contractual or budgetary arrangements; (c) payments in lieu of a share of production owed to the United States Office of Natural Resources Revenue pursuant to the terms of the Debtors' respective Leases; (d) minimum rental payments owed to the ONRR to delay initial exploration and development of certain Leases; and (e) payments owed by the Debtors for gathering, transportation, storage, and marketing of oil, gas, and natural gas liquids, as well as other similar services necessary or desirable to get such production to market in a condition ready for sale, including treating, dehydration, compression, processing, and fractionation.

48. **Working Interest Expenditures**. In the typical arrangement, the Operator remits substantially all of the Working Interest Expenditures associated with a project, including payments to third parties such as vendors, contractors, drillers, haulers, and other suppliers of oil and gas related services, and submits associated invoices to the Non-Operating Parties for Joint Interest Billings. Large capital expenditures are commonly preceded by circulation of an "Authorization for Expenditure" (an "AFE") by the Operator to the Non-Operating Parties. An AFE is a budgetary document usually prepared by the Operator listing estimated expenditures of a given project, which may include expenditures for geophysical studies, appraisals, and drilling wells, among others. This estimate of expenditures is typically provided to Working Interest Holders for approval prior to commencement. Depending on the project, Working Interest Holders will have anywhere from 30 to 120 days to sign and participate in a given AFE. The Operator subsequently will issue Joint Interest Billings to Non-Operating Parties under the applicable JOA, UOA, AFE, or other agreement.

49. Regardless of when an Operator is reimbursed by Non-Operating Parties pursuant to a JOA, UOA, or AFE through the Joint Interest Billing process, the Operator must continue to pay Working Interest Expenditures in a timely fashion. I believe that failure to pay Working Interest Expenditures when due could result in the Operator's removal as Operator under the applicable JOA, UOA, and/or, as discussed in greater detail below, the perfection or enforcement of liens on the Debtors' assets, among other remedies. The Debtors serve as the Operator for only one of the active projects in which they own a Working Interest, North Platte.

50. **Joint Interest Billings**. The Debtors are also a Non-Operating Party in three of the projects in which they own a Working Interest (i.e., Heidelberg, Shenandoah, and Anchor), for which the Debtors are obligated for their *pro rata* share of the Working Interest Expenditures upon

receipt of any Joint Interest Billings. In such circumstances, a third party, such as Chevron (in the case of Anchor), acts as Operator and is charged with the daily operations and related Working Interest Expenditures. The Debtors' Joint Interest Billings are not uniform and are not predictable on a month-to-month basis. The Debtors' primary responsibility with respect to their Working Interests where they are a Non-Operating Party is to timely pay the Operators their *pro rata* share of the Working Interest Expenditures following a Joint Interest Billing.

51. In the ordinary course of business, the Debtors commit to paying future Working Interest Expenditures by entering into AFEs with other Working Interest Holders. If the AFE is for a unit saving operation, such as drilling a well, failure to participate will result in the forfeiture of the Debtors' interests in the Leases. Alternatively, failure to timely elect to participate in an AFE may result in the imposition of underinvestment penalties ranging from two to six times of the amount the Debtors would have paid if they participated in the AFE, depending on the type of expenditure and the terms of the governing JOA or UOA.

52. Further, the Operator of an oil and gas property is often granted a contractual lien on Non-Operating Parties' interests in the oil and gas property to secure the payment of obligations owed to the Operator. As such, I believe that the Debtors' failure to timely pay the Joint Interest Billings will likely result in Operators asserting liens under applicable state and federal law against the Debtors' interests in their Leases or any production therefrom. If asserted, such liens could restrict the Debtors' ability to dispose, transfer, or otherwise assign their property, potentially severely impairing the Debtors' businesses.

53. **Royalty Payments**. In connection with the Debtors' Working Interests in Heidelberg, the Debtors are responsible for Royalty Payments to the ONRR pursuant to the terms of the Debtors' respective Leases. The monthly amount of Royalty Payments paid by the Debtors

are subject to variation due to many factors. Because the Royalty Payments are made in cash, and due to the time required to market and sell the oil and gas production and the significant accounting process required each month to accurately disburse the resulting proceeds, the Debtors have historically made Royalty Payments approximately 60 days in arrears, which is consistent with industry standards. The Debtors generally remit Royalty Payments to the ONRR during the last week of each month.

54. I believe that failure to make Royalty Payments to the ONRR could result in a material adverse effect to the Debtors and their Working Interests in their Leases, including exposing the Debtors to statutory remedies, regulatory actions, or civil fines and penalties. Moreover, the ONRR may exercise additional remedies pursuant to the terms of the applicable Leases. Thus, failure to pay the Royalty Payments would expose the Debtors to enforcement actions that may result in the forfeiture, cancellation, or termination of their Leases and Working Interests.

55. **Delay Rental Payments**. The Debtors are also required to make Delay Rental Payments to the ONRR during the term of their Leases. Payment of the Delay Rental Payments postpones the Debtors' obligations under a Lease for exploration and development of such Lease for the entire period for which they are paid. Thus, if Delay Rental Payments are paid on or before the anniversary date each year during the primary term of a Lease, such Lease will not be cancelled even if the Debtors do not engage in exploration or development on such Lease. Typically, the Debtors remit Delay Rental Payments to the ONRR during the last week of the month immediately preceding the anniversary date. If the Delay Rental Payments are not paid, and the Debtors do not otherwise engage in exploration and development, the Leases will terminate. Accordingly, I

believe that failure to pay the Delay Rental Payments could have a material adverse effect upon the Debtors and their operations, including the loss of the Debtors' related Leases.

56. **Production Sale Expenditures**. In connection with their Working Interest in Heidelberg, the Debtors make contractual arrangements under which third parties purchasing oil and gas production will request payment from the Debtors for Production Sale Expenditures. Production Sale Expenditures include the cost of transporting and distributing oil, gas, and natural gas liquids, through pipelines, which is the most common method by which the Debtors deliver production to market, and any take or pay obligations under the relevant contractual agreements. The Debtors' Production Sale Expenditures are generally not uniform and are not predictable on a month-to-month basis.

57. The Debtors' compliance with the Production Sale Arrangements and timely payment of the Production Sale Expenditures is critical to the Debtors' ability to receive revenue from production. I believe that failure to receive such revenue would directly threaten and may prevent the Debtors' from making timely payments to third parties holding an interest in production, such as pipeline companies and the ONRR.

58. Moreover, like shippers, warehouses, and materialmen relied on by companies in other industries, counterparties to Production Sale Arrangements often have possession of, and may assert liens on, or title to, Marketed Production. This includes, for example, any oil, gas, or natural gas liquids presently in a third-party pipeline system. Accordingly, I believe that failure to pay Production Sale Expenditures when due could result in such counterparties refusing to release Marketed Production or the associated revenues or refusing to accept delivery of additional Marketed Production.

59. In many instances, the Production Sale Expenditures of gas and natural gas liquids are deducted from the purchase price received by the Debtors for Marketed Production and are incurred directly by the purchasers of the Marketed Production. The Debtors do, however, make cash payments on account of Production Sale Expenditures of oil.

B. Specific Oil and Gas Obligations Sought to Be Paid

60. **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. North Platte is the only field in which the Debtors serve as Operator. In 2012, the Debtors announced the North Platte discovery well, and subsequently drilled five additional penetration wells to appraise the field. Currently, the Debtors are in the process of submitting a Suspension of Production ("SOP") to the Bureau of Safety and Environmental Enforcement ("BSEE") for approval. The SOP provides a schedule of key deliverables to develop the North Platte unit. The SOP eliminates the requirement of the Operator to conduct further unit saving drilling operations under the terms of the applicable Leases. In the event the SOP is not approved by BSEE, a unit saving drilling operation will need to commence by June 2018. Therefore, as a contingency, the Operator is in the planning stages of an additional well—North Platte #5—as a unit saving operation. The Debtors own a 60-percent Working Interest in the North Platte unit, with the remaining 40-percent held by Total E&P USA, Inc. ("Total E&P") as a Non-Operating Party. The estimated gross recoverable resource range for North Platte is 500 to 650 million barrels of oil equivalent.

61. Around the middle of each month, the Debtors generate a Joint Interest Billing to Total E&P. The timing of payments from Total E&P on account of Joint Interest Billings can vary, but outstanding balances for Joint Interest Billings are typically paid by Total E&P within 30 days of receiving the Joint Interest Billing. As of the Petition Date, the Debtors estimate that

they have approximately $3.6 million of accrued but unpaid Working Interest Expenditures relating to North Platte, of which approximately $2.5 million will become due and owing during the first 21 days of these chapter 11 cases. The Debtors will be reimbursed approximately $335,000 by Total E&P for these unpaid Working Interest Expenditures.

62. In addition, in the twelve months following the Petition Date, the Debtors have already committed to pay a gross total of approximately $35 million pursuant to outstanding AFEs in connection with developing the North Platte unit. In addition, prior to the Petition Date the Debtors issued a formal proposal and AFE (gross total of approximately $131 million) to drill the North Platte #5 well as part of a unit saving operation in the event an SOP is not approved by the BSEE. If the BSEE does not approve an SOP, failure to drill a well will result in automatic termination of the Leases and the elimination of the Debtors' Working Interests therein. The Debtors' net share of these committed expenditures is approximately $112 million,[9] with the balance to be reimbursed by Total E&P on account of Joint Interest Billings if Total E&P elects to participate.

63. The Debtors also expect to incur additional expenditures with respect to North Platte in the twelve months following the Petition Date that are not currently committed through an AFE. The Debtors anticipate that a total of $65 million (gross) in such additional uncommitted expenditures will become necessary within the twelve months following the Petition Date on account of developing the North Platte unit. These expenditures are required to fulfill the commitments outlined in the SOP. Failure to authorize these expenditures will likely result in BSEE not approving the SOP, thereby triggering the requirement that the Operator drill North

[9] This figure consists of the Debtors' $33 million net share of outstanding AFEs relating to the development of the North Platte Unit, combined with the Debtors' $79 million net share of the AFE relating to the drilling of the North Platte #5.

Platte #5 as a unit saving operation. The Debtors' net share of these uncommitted expenditures is approximately $41 million, with the balance to be reimbursed by Total E&P on account of Joint Interest Billings. Failure to make these payments will result in economic losses to the Debtors and their bankruptcy estates by diminishing the value of the Debtors' interests in their Leases to the detriment of all parties in interest, including potential purchasers.

64. In 2017, the Debtors paid approximately $220,000 (gross) in annual Delay Rental Payments in connection with the North Platte Leases. The Debtors' net share of these Delay Rental Payments is approximately $135,000, with the balance reimbursed by Total E&P on account of Joint Interest Billings. As of the Petition Date, the Debtors do not have any outstanding Delay Rental Payments on account of the North Platte Leases.

65. **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 ("Anadarko") is the Operator, and the Debtors own a 9.375-percent Working Interest as a Non-Operating Party. The Heidelberg field began initial production in early 2016. Heidelberg is currently producing approximately 36,000 barrel of oil equivalents per day (gross) from five wells (the fifth production well was completed in early 2017). Of the Leases in which the Debtors hold a Working Interest, Heidelberg is the only one currently producing oil and gas. Anadarko plans to drill an additional production well in 2018.

66. Historically, the Debtors have paid approximately $1.9 million in Joint Interest Billings on a monthly basis in connection with Heidelberg. Typically, the Debtors are required to pay their Joint Interest Billings relating to Heidelberg within 15 days of receipt. As of the Petition Date, the Debtors estimate that they have approximately $190,000 accrued but unpaid Joint Interest

Billings relating to Heidelberg, all of which will become due and owing during the first 21 days of these chapter 11 cases.

67. The Debtors expect to incur additional expenditures with respect to Heidelberg in the twelve months following the Petition Date that are not currently committed through an AFE. In particular, the Debtors anticipate that it will be economically beneficial to drill a well and perform subsurface studies, among other expenditures, in order to maximize the value of their Heidelberg Leases. The Debtors anticipate that a total of $21.1 million in such additional uncommitted expenditures will become due and payable within the twelve months following the Petition Date. I believe that failure to make these payments will likely result in severe economic losses to the Debtors and their bankruptcy estates by diminishing the value of the Debtors' interests in their Leases, to the detriment of all parties in interest, including potential purchasers. Specifically, failure to participate in any well AFEs in connection with Heidelberg will force the Debtors to forfeit their share of production from that well. Further, failure to participate in any other AFEs will result in the imposition of underinvestment penalties under the Heidelberg UOA.

68. Additionally, the Debtors make approximately $515,000 in Royalty Payments per month in connection with Heidelberg. The Debtors estimate that, as of the Petition Date, there is approximately $590,000 in accrued but unpaid Royalty Payments relating to Heidelberg, all of which will become due and owing in the first 21 days of these chapter 11 cases.

69. Further, the Debtors pay approximately $635,000 in Production Sale Expenditures each month in connection with Heidelberg. Typically, the Debtors are required to pay their Production Sale Expenditures relating to Heidelberg within 15 days of receipt. As of the Petition Date, the Debtors estimate that they have approximately $605,000 accrued but unpaid Production

Sale Expenditures, all of which will become due and owing during the first 21 days of these chapter 11 cases.

70. **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 in Shenandoah as a Non-Operating Party. In 2009 the Shenandoah discovery well was drilled and subsequently seven additional penetration wells were completed to appraise the field, with the most recent in April 2017. Prior to the Petition Date, the Debtors agreed to participate in a proposal and AFE to drill a well in the first half of 2018 as part of a unit saving operation. Failure to participate and commit the funds necessary under the AFE would have caused the Debtors to lose their interests in certain Leases. The estimated gross recoverable resource range for Shenandoah is 165 to 300 million barrels of oil equivalent.

71. Historically, the Debtors have paid approximately $3.5 million in Joint Interest Billings on a monthly basis in connection with Shenandoah. Typically, the Debtors are required to pay their Joint Interest Billings relating to Shenandoah within 15 days of receipt. As of the Petition Date, the Debtors estimate that they have approximately $5 million accrued but unpaid Joint Interest Billings relating to Shenandoah, of which $1.6 million will become due and owing during the first 21 days of these chapter 11 cases.

72. In the twelve months following the Petition Date, the Debtors have already committed to pay $36 million under existing AFEs relating to Shenandoah. The Debtors may incur additional expenditures with respect to Shenandoah in the twelve months following the Petition Date that are not currently committed through an AFE. Specifically, expenditures may include studies, surveys, integrated project teams, and long leads, among others. The Debtors anticipate that a total of $9 million in such additional uncommitted expenditures may become due

and payable within the twelve months following the Petition Date. Similar to Heidelberg, failure to participate in any well AFE will force the Debtors to forfeit their share of production from that well. Further, failure to participate in any other AFEs will result in the imposition of underinvestment penalties under the Shenandoah JOA.

73. **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 as a Non-Operating Party. The initial discovery well was drilled in 2014, with three additional penetration wells completed in 2015 and 2016 to appraise the field. Currently, there are no plans to drill a well at Anchor in 2018. 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.

74. Historically, the Debtors have paid approximately $2.6 million in Joint Interest Billings on a monthly basis in connection with Anchor. Typically, the Debtors are required to pay their Joint Interest Billings relating to Anchor within 15 days of receipt. As of the Petition Date, the Debtors estimate that they have approximately $2.5 million accrued but unpaid Joint Interest Billings relating to Anchor, of which up to $500,000 will become due and owing during the first 21 days of these chapter 11 cases.

75. In addition, in the twelve months following the Petition Date, the Debtors have already committed approximately $19 million under existing AFEs relating to Anchor. The Debtors also expect to incur additional expenditures with respect to Anchor in the twelve months following the Petition Date that are not currently committed through an AFE. Specifically, the

Debtors anticipate that expenditures may include studies, surveys, integrated project teams, and long leads, among others. The Debtors anticipate that a total of $20 million in such additional uncommitted expenditures will become due and payable within in the twelve months following the Petition Date. I believe that failure to make these payments will result in severe economic losses to the Debtors and their bankruptcy estates by diminishing the value of the Debtors' interests in their Leases, to the detriment of all parties in interest, including potential purchasers. Moreover, failing to participate in any AFEs in connection with Anchor will result in the imposition of underinvestment penalties under the Anchor UOA.

76. **Other Leasehold Interests**. The Debtors also hold approximately 111 other leasehold interests in the Gulf of Mexico that are not otherwise affiliated with their North Platte, Shenandoah, Anchor, or Heidelberg assets. The Debtors are designated Operator for 107 of these leases, and the Debtors are a Non-Operating Party in the remainder. The Debtors will pay approximately $2.9 million in Delay Rental Payments in 2018 in connection with these other leasehold interests. As of the Petition Date, I do not believe that the Debtors have any outstanding Delay Rental Payments in connection with these other leasehold interests.

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

77. Pursuant to the Taxes Motion, the Debtors seek (a) authorization to remit and pay (or use tax credits to offset) Taxes and Fees in the ordinary course of business, without regard to whether such obligations accrued or arose before or after the Petition Date and (b) grant related relief.

78. In the ordinary course of business, the Debtors collect, withhold, and incur franchise and property taxes and annual report filing fees, as more fully described in the Taxes Motion. Taxes and Fees are remitted and paid by the Debtors through checks and electronic funds

transfers that are processed through their banks and other financial institutions. The Debtors estimate that approximately $698,575 in Taxes and Fees relating to the prepetition period will become due and owing to the Authorities after the Petition Date.

79. The Debtors pay the Taxes and Fees to the Authorities on a periodic basis, remitting them primarily in January, June, and September of each year, depending on the nature and incurrence of a particular Tax or Fee. Although the Debtors believe that they are substantially current with respect to their payment of Taxes and Fees, the Debtors seek authority, pursuant to the Taxes Motion, to make such payments where: (a) Taxes and Fees accrue or are incurred postpetition; (b) Taxes and Fees accrued or were incurred prepetition but were not paid prepetition or were paid in an amount less than actually owed; (c) Taxes and Fees paid prepetition by the Debtors were lost or otherwise not received in full by any of the Authorities; or (d) Taxes and Fees incurred for prepetition periods may become due after the commencement of these chapter 11 cases.

80. Payment of the Taxes and Fees is critical to the Debtors' continued and uninterrupted operations. I believe that any failure to pay the Taxes and Fees could materially disrupt the Debtors' business operations in several ways: (a) the Authorities may initiate audits of the Debtors, which would unnecessarily divert the Debtors' attention from the restructuring process; (b) the Authorities may attempt to suspend the Debtors' operations, file liens, seek to lift the automatic stay, and pursue other remedies that will harm the estates; and (c) certain of the Debtors' directors and officers could be subject to claims of personal liability, which would likely distract those key employees from their duties related to the Debtors' restructuring. Moreover, unpaid Taxes and Fees may result in penalties, the accrual of interest, or both.

81. I believe that the relief requested in the Taxes Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their business in chapter 11 without disruption. Accordingly, on behalf of the Debtors, I respectfully submit that the Taxes Motion should be approved.

XI. Debtors' *Emergency* Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to (A) Pay Prepetition Wages, Salaries, Other Compensation, and Reimbursable Expenses, and (B) Continue Employee Benefits Programs, and (II) Granting Related Relief (the "Wages Motion").

82. Pursuant to the Wages Motion, the Debtors seek entry of interim and final orders (a) authorizing the Debtors to (i) pay all prepetition and postpetition obligations on account of the Employee Compensation and Benefits (as defined herein) in the ordinary course of business and (ii) continue to administer the Employee Compensation and Benefits, including payment of prepetition obligations related thereto, and (b) granting related relief.

83. The Debtors employ approximately 82 individuals. Approximately 77 Employees are salaried, and approximately five Employees are paid on an hourly basis. None of the Employees are represented by a union or collective bargaining unit. The vast majority of the Employees rely exclusively on their compensation and benefits to pay their daily living expenses and support their families. Thus, Employees would be exposed to significant financial hardship if the Debtors were not permitted to continue paying their compensation, providing benefits, and maintaining existing programs. Consequently, the relief requested is necessary and appropriate.

84. The Debtors also supplement their workforce from time to time by relying on approximately 19 independent and small contractors to perform a variety of services that are essential to the Debtors' ongoing operations (the "Independent Contractors"). Oftentimes, the Independent Contractors are highly trained professionals who bring specialized knowledge and

skills not otherwise available to the Debtors. The continued use of Independent Contractors is a critical and cost-effective addition to the Debtors' Employee base.

85. In addition, the Debtors also periodically employ temporary workers (the "Temporary Staff") sourced periodically from various staffing agencies (collectively, the "Staffing Agencies") to fulfill certain duties on a short-term basis. As of the Petition Date, the Debtors retain approximately 31 Temporary Staff. The Temporary Staff are an important supplement to the efforts of the Debtors' Employees.

86. The Debtors' Employees, Independent Contractors, and Temporary Staff perform a wide variety of functions critical to the administration of these chapter 11 cases and the Debtors' restructuring. Their skills, knowledge, and understanding of the Debtors' operations and infrastructure are essential to preserving operational stability and efficiency. In many instances, these individuals are highly trained personnel and have an essential working knowledge of the Debtors' businesses that cannot be easily replaced. Without the continued, uninterrupted services of their Employees, Independent Contractors, and Temporary Staff, the Debtors' restructuring efforts will be halted.

87. The Debtors seek to minimize the personal hardship the Employees would suffer if employee obligations are not paid when due or as expected. Therefore, the Debtors are seeking authority to pay and honor certain prepetition claims relating to, among other things, wages, salaries, and other related obligations and health and welfare benefits that the Debtors have historically provided to their Employees and directors. The Debtors also seek to pay all costs incidental to the Employee Compensation and Benefits.

88. I believe that the Employees provide the Debtors with services necessary to conduct the Debtors' business, and I believe that absent the payment of the Employee Compensation and

Benefits owed to the Employees, the Debtors may experience Employee turnover and instability at this critical time in these chapter 11 cases. I believe that without these payments, the Employees may become demoralized and unproductive because of the potential significant financial strain and other hardships these Employees may face. Such Employees may then elect to seek alternative employment opportunities. Additionally, I understand that a significant portion of the value of the Debtors' business is tied to their workforce, which cannot be replaced without significant efforts—which efforts may not be successful given the overhang of these chapter 11 cases. Enterprise value may be materially impaired to the detriment of all stakeholders in such a scenario. I therefore believe that payment of the prepetition obligations with respect to the Employee Compensation and Benefits is a necessary and critical element of the Debtors' efforts to preserve value and will give the Debtors the greatest likelihood of retention of their Employees as the Debtors seek to operate their business in these chapter 11 cases.