
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____ to ____

Commission file number: 001-34579

Cobalt International Energy, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

27-0821169
(I.R.S. Employer Identification No.)

Cobalt Center
920 Memorial City Way, Suite 100
Houston, Texas
(Address of principal executive offices)

77024
(Zip code)

(713) 579-9100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer (Do not check if a smaller reporting company)		Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of the registrant's common stock outstanding at March 31, 2017: 448,309,776 shares.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws including, but not limited to, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act (each a “forward-looking statement”). We have based our forward-looking statements on our current expectations and estimates of future events and trends, which affect or may affect our businesses and operations. Although we believe that these forward-looking statements are based upon reasonable assumptions, they are subject to several risks and uncertainties and are made in light of information currently available to us. Many important factors, in addition to the risk factors identified in the “Risk Factors” section included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016, may have a material adverse effect on our results as indicated in forward-looking statements. You should read this Quarterly Report on Form 10-Q and the documents that we have filed as exhibits hereto completely and with the understanding that our actual future results may be materially different from what we expect.

Our forward-looking statements may be influenced by the following factors, among others:

- our liquidity and ability to finance our exploration, appraisal, development, and acquisition activities and continue as a going concern;
- the availability and cost of financing, and refinancing, our indebtedness;
- the financial and operational implications of the termination of the purchase and sale agreement with Sociedade Nacional de Combustiveis de Angola—Empresa Publica (“Sonangol”) for the sale of our working interest in Blocks 20 and 21 offshore Angola;
- our ability to sell our interests in Blocks 20 and 21 offshore Angola, U.S. Gulf of Mexico or other assets on acceptable terms;
- our ability to evaluate and execute upon potential strategic alternatives and initiatives to improve liquidity;
- our ability to meet our obligations under the agreements governing our current or any future indebtedness;
- volatility and extended depression of oil and natural gas prices;
- our ability to successfully and efficiently execute our project appraisal, development and exploration activities;
- projected and targeted capital expenditures and other costs and commitments;
- lack or delay of partner, government and regulatory approvals related to our business or required pursuant to agreements to which we are party;
- changes in environmental, safety, health, climate change or greenhouse gas laws and regulations or the implementation or interpretation of those laws and regulations;
- current and future government regulation of the oil and natural gas industry and our operations;
- oil and natural gas production rates on our properties that are currently producing oil and natural gas;
- uncertainties inherent in making estimates of our oil and natural gas data;
- our and our partners’ ability to obtain permits to drill and develop our properties;
- termination of or intervention in concessions, licenses, permits, rights or authorizations granted by the United States, Angolan and Gabonese governments to us;

- our dependence on our key management personnel and our ability to attract and retain qualified personnel;
- our ability to find, acquire or gain access to new prospects;
- the ability of the containment resources we have under contract to perform as designed or contain or cap any oil spill, blow-out or uncontrolled flow of hydrocarbons;
- the availability and cost of developing appropriate oil and natural gas transportation and infrastructure;
- military operations, civil unrest, disease, piracy, terrorist acts, wars or embargoes;
- our vulnerability to severe weather events, especially tropical storms and hurricanes in the U.S. Gulf of Mexico;
- the cost and availability of adequate insurance coverage, and the ability to collect under our insurance policies;
- the results or outcome of any legal proceedings or investigations;
- our ability to maintain the listing of our common stock on the New York Stock Exchange or another national securities exchange; and
- other risk factors discussed in the “Risk Factors” section of our Annual Report on Form 10–K for the year ended December 31, 2016 that was filed with the Securities and Exchange Commission on March 14, 2017.

The words “anticipate,” “believe,” “may,” “will,” “aim,” “estimate,” “continue,” “intend,” “could,” “expect,” “plan” and other similar expressions, and the negative thereof, are intended to identify forward–looking statements. These statements discuss future expectations, contain projections of results of operations or of financial condition or state other “forward–looking” information. The forward–looking statements speak only as of the date they were made, and, except to the extent required by law, we undertake no obligation to update or to review any estimate and/or forward–looking statement because of new information, future events or other factors. All of our forward–looking information involve risks and uncertainties that could cause actual results to differ materially from the results expected. Although it is not possible to identify all factors, these risks and uncertainties include the risk factors and the timing of any of the risk factors identified in the “Risk Factors” section included in Item 1A of our Annual Report on Form 10–K for the year ended December 31, 2016.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

COBALT INTERNATIONAL ENERGY, INC.

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Cobalt International Energy, Inc.
Condensed Consolidated Balance Sheets
(In thousands, except number of shares and par value amounts)
(Unaudited)

	March 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 118,493	\$ 613,534
Restricted cash	11,274	2,517
Joint interest and other receivables	176,402	167,573
Other current assets	29,109	23,149
Investments	<u>640,642</u>	<u>340,418</u>
Total current assets	975,920	1,147,191
Oil and natural gas properties, net of accumulated depletion of \$28,721 and \$20,204 as of March 31, 2017 and December 31, 2016, respectively	952,150	1,078,885
Other property, net of accumulated depreciation and amortization of \$8,788 and \$8,426, as of March 31, 2017 and December, 31, 2016, respectively	3,540	3,902
Other assets	500	500
Total assets	<u>\$ 1,932,110</u>	<u>\$ 2,230,478</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade and other accounts payable	\$ 34,868	\$ 36,954
Accrued liabilities	235,265	227,418
Accrued contract amendment costs	—	19,582
Angolan preliminary consideration	<u>250,000</u>	<u>250,000</u>
Total current liabilities	520,133	533,954
Long-term debt	2,492,093	2,479,349
Long-term derivative liabilities	54,117	50,123
Asset retirement obligations	7,893	6,523
Other long-term liabilities	1,799	1,863
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value per share; 2,000,000,000 shares authorized, 442,738,080 and 441,210,817 issued and outstanding as of March 31, 2017 and December 31, 2016, respectively	4,427	4,412
Additional paid-in capital	4,223,635	4,219,611
Accumulated deficit	<u>(5,371,987)</u>	<u>(5,065,357)</u>
Total stockholders' equity	<u>(1,143,925)</u>	<u>(841,334)</u>
Total liabilities and stockholders' equity	<u>\$ 1,932,110</u>	<u>\$ 2,230,478</u>

See accompanying notes to unaudited condensed consolidated financial statements.

Cobalt International Energy, Inc.
Condensed Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Three Months Ended March 31,	
	2017	2016
Oil, natural gas and natural gas liquids revenues	\$ 9,867	\$ 1,636
Operating costs and expenses:		
Seismic and exploration costs	7,019	6,063
Dry hole costs and impairments	237,105	(425)
Lease operating expenses	2,698	956
General and administrative expenses	18,926	28,456
Accretion expense	290	102
Depreciation, depletion and amortization	8,879	3,170
Total operating costs and expenses	274,917	38,322
Operating loss	(265,050)	(36,686)
Other (expense) income, net:		
Other income	1,845	4,375
Interest income	1,434	1,338
Interest expense	(44,484)	(15,642)
Total other expense, net	(41,205)	(9,929)
Net loss	\$ (306,255)	\$ (46,615)
Basic and diluted loss per share	\$ (0.69)	\$ (0.11)
Weighted average common shares outstanding (basic and diluted)	441,792	409,260

See accompanying notes to unaudited condensed consolidated financial statements.

Cobalt International Energy, Inc.
Condensed Consolidated Statement of Changes in Stockholders' Equity
(In thousands)
(Unaudited)

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total
Balance, December 31, 2016	\$ 4,412	\$ 4,219,611	\$ (5,065,357)	\$ (841,334)
Cumulative effect of change in accounting for equity based compensation	—	375	(375)	—
Equity based compensation	—	3,664	—	3,664
Common stock issued for restricted stock	15	(15)	—	—
Net loss	—	—	(306,255)	(306,255)
Balance, March 31, 2017	<u>\$ 4,427</u>	<u>\$ 4,223,635</u>	<u>\$ (5,371,987)</u>	<u>\$ (1,143,925)</u>

See accompanying notes to unaudited condensed consolidated financial statements.

Cobalt International Energy, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended	
	March 31,	
	2017	2016
Cash flows from operating activities:		
Net loss	\$ (306,255)	\$ (46,615)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Dry hole costs and impairments	237,105	(425)
Equity based compensation	3,593	7,763
Accretion expense	290	102
Depreciation, depletion and amortization	8,879	3,170
Gain on embedded derivatives	(1,906)	—
Amortization of premium (accretion of discount) on investments	217	733
Amortization of debt discount and debt issuance costs	4,416	24,901
Changes in operating assets and liabilities:		
Joint interest and other receivables	(7,384)	(1,791)
Other current assets	(6,179)	22,132
Trade and other accounts payable	(3,008)	11,954
Accrued liabilities	24,352	(3,399)
Accrued contract amendment costs	(19,582)	—
Other	14	3,392
Net cash flows (used in) provided by operating activities	(65,448)	21,917
Cash flows from investing activities:		
Additions to oil and natural gas properties	(118,950)	(211,533)
Capital expenditures for other property	—	(2,946)
Proceeds from maturity of investment securities	88,995	910,041
Purchase of investment securities	(390,881)	(673,633)
Net cash flows (used in) provided by investing activities	(420,836)	21,929
Cash flows from financing activities		
	—	—
(Decrease) increase in cash, cash equivalents and restricted cash	(486,284)	43,846
Cash, cash equivalents and restricted cash — beginning of year	616,051	138,886
Cash, cash equivalents and restricted cash — end of period	\$ 129,767	\$ 182,732

See accompanying notes to unaudited condensed consolidated financial statements.

Cobalt International Energy, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Cobalt International Energy, Inc., together with its wholly-owned subsidiaries (“we,” “our” or “us”) is an independent exploration and production company with operations in the deepwater U.S. Gulf of Mexico and offshore Angola and Gabon in West Africa. We operate in one reportable segment as our chief operating decision maker, the Chief Executive Officer, assesses performance and allocates resources based on the consolidated results of our business.

Liquidity and Going Concern

The accompanying unaudited condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The unaudited condensed consolidated financial statements do not include any adjustments that might be necessary should we be unable to continue as a going concern.

Although we commenced initial production from our Heidelberg project in January 2016, our ongoing capital and operating expenditures will vastly exceed the revenue we expect to receive from our oil and natural gas operations for the foreseeable future. In order to grow production, we need to develop our discoveries into producing oil and natural gas properties, which will require that we raise substantial additional funding. If we are unable to raise substantial additional funding on a timely basis or on acceptable terms, we may be required to significantly curtail our exploration, appraisal and development activities.

In assessing whether there is substantial doubt about our ability to continue as a going concern, we prepared a detailed cash forecast that included all projected cash inflows and outflows as well as consideration of any cash related covenants associated with our financing structure. The indentures governing our 10.75% first lien notes due 2021 (the “First Lien Notes”) and our 7.75% second lien notes due 2023 (the “Second Lien Notes”) (collectively, the “Secured Notes”) contain certain covenants including the maintenance of a minimum consolidated cash balance of at least \$200.0 million. As this detailed cash forecast shows that our projected cash balance would be out of compliance with the minimum consolidated cash balance covenant within one year after the date these unaudited condensed consolidated financial statements are issued, we have concluded that there is substantial doubt about our ability to continue as a going concern.

Our ability to continue as a going concern is subject to, among other factors, (i) our ability to monetize assets, obtain financing or refinance existing indebtedness and continue our cost cutting efforts for long-term rig and support services; (ii) the production rates achieved from Heidelberg; (iii) oil and natural gas prices; (iv) the number of commercially viable hydrocarbon discoveries made and the quantities of hydrocarbons discovered; (v) the speed and cost with which we can bring such discoveries to production; (vi) whether and to what extent we invest in additional oil leases and concessional licenses; and (vii) the actual cost of exploration, appraisal and development of our prospects.

There can be no assurance that we will be able to obtain additional funding on satisfactory terms or at all. In addition, no assurance can be given that any such financing, if obtained, will be adequate to meet our capital needs and support our growth. If additional funding cannot be obtained on a timely basis and on satisfactory terms, then our operations would be materially negatively impacted.

If we become unable to continue as a going concern, we may find it necessary to file a voluntary petition for reorganization under the Bankruptcy Code in order to provide us additional time to identify an appropriate solution to our financial situation and implement a plan of reorganization aimed at improving our capital structure.

Basis of Presentation

Our unaudited condensed consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Accordingly, certain information and disclosures normally included in annual financial statements prepared in accordance with accounting principles

Cobalt International Energy, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements (continued)

generally accepted in the United States of America have been condensed or omitted. We believe that the presentations and disclosures herein are adequate to make the information not misleading. The unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) for a fair presentation of the interim periods. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2016.

All intercompany accounts and transactions have been eliminated in consolidation. In the Notes to Unaudited Condensed Consolidated Financial Statements, all dollar and share amounts in tabulations are in thousands of dollars and shares, respectively, unless otherwise indicated.

Recently Issued Accounting Standards

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09, *Compensation – Stock Compensation (Subtopic 718)*. This ASU simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and statutory withholding requirements, as well as classification in the statement of cash flows. We adopted ASU 2016-09 on January 1, 2017 and elected to change our policy to account for forfeitures as they occur rather than by applying an estimated forfeiture rate at the time of grant. As a result, we recorded a \$0.4 million cumulative effect adjustment to beginning accumulated deficit and additional paid in capital on January 1, 2017. Prior periods have not been retrospectively adjusted. There was no cumulative effect adjustment for previously unrecognized excess tax benefits as the related deferred tax assets were fully offset by a valuation allowance.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows*, which requires that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The provisions of ASU 2016-18 are effective for annual and interim periods beginning after December 15, 2017. We elected to early adopt the provisions of ASU 2016-18 on December 31, 2016, which required that we apply the guidance on a retrospective basis, wherein our unaudited condensed consolidated statements of cash flows was adjusted to reflect the effects of applying the guidance. The following table shows the effects of applying the guidance:

	<u>Prior to Adoption</u> <u>(1)</u>	<u>After Adoption</u>
Three months ended March 31, 2016:		
(Accretion of discount) amortization of premium on investments	\$ 928	\$ 733
Joint interest and other receivables	(1,901)	(1,791)
Net cash flows provided by operating activities	22,002	21,917
Change in restricted funds	14,339	—
Proceeds from maturity of investment securities	570,582	910,041
Purchase of investment securities	(387,209)	(673,633)
Net cash flows (used in) provided by investing activities	(16,767)	21,929
Increase in cash, cash equivalents and restricted cash	5,235	43,846

(1) Amounts are after reclassification of Angolan operations to no longer reflect these operations as discontinued.

No other new accounting pronouncements issued or effective during the three months ended March 31, 2017 have had or are expected to have a material impact on our unaudited condensed consolidated financial statements.

Cobalt International Energy, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements (continued)

NOTE 2. INVESTMENTS

Our investments in held-to-maturity securities consist of the following:

	March 31, 2017	December 31, 2016
Corporate securities	\$ 396,153	\$ 227,854
Commercial paper	273,046	292,466
U.S. Treasury securities	—	161,778
Total	<u>\$ 669,199</u>	<u>\$ 682,098</u>

These investments are recorded in our unaudited condensed consolidated balance sheets as follows:

	March 31, 2017	December 31, 2016
Cash and cash equivalents	\$ 28,557	\$ 341,680
Short-term investments (1)	640,642	340,418
	<u>\$ 669,199</u>	<u>\$ 682,098</u>

(1) As of December 31, 2016, \$9.1 million of these investments served as collateral for certain of our obligations.

At March 31, 2017 and December 31, 2016, the contractual maturities of our investments were within one year. Actual maturities may differ from contractual maturities as some borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

NOTE 3. FAIR VALUE MEASUREMENTS

The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. Level 1 refers to fair values determined based on quoted prices in active markets for identical assets or liabilities. Level 2 refers to fair values determined based on quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration. Level 3 refers to fair values determined based on unobservable inputs used in the measurement of assets and liabilities at fair value.

Recurring Basis

The following tables presents the fair value hierarchy for our assets that are required to be measured at fair value on a recurring basis:

	Fair Value	Fair Value Measurements at the End of the Reporting Period		
		Level 1	Level 2	Level 3
As of March 31, 2017:				
Embedded derivative liabilities:				
10.75% first lien notes due 2021	\$ 21,572	\$ —	\$ —	\$ 21,572
7.75% second lien notes due 2023	32,545	—	—	32,545
Total	<u>\$ 54,117</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 54,117</u>
As of December 31, 2016:				
Embedded derivative liabilities:				
10.75% first lien notes due 2021	\$ 27,012	\$ —	\$ —	\$ 27,012
7.75% second lien notes due 2023	23,111	—	—	23,111
Total	<u>\$ 50,123</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 50,123</u>

Cobalt International Energy, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements (continued)

The fair values of these embedded derivatives were estimated using the “with” and “without” method. Using this methodology, the First Lien Notes and the Second Lien Notes were first valued with the embedded derivatives (the “with” scenario) and subsequently valued without the embedded derivative (the “without” scenario). The fair values of the embedded derivatives were estimated as the difference between the fair values of the First Lien Notes and Second Lien Notes in the “with” and “without” scenarios. The fair values of the First Lien Notes and Second Lien Notes in the “with” and “without” scenarios were estimated using a risk-neutral probability of default model. Significant Level 3 assumptions used in the valuation of the embedded derivatives were the fair values of our long-term debt, the expected recovery rates, the risk-neutral probability of default and the risk-free rates.

The reconciliation of changes in the fair value of our embedded derivatives is as follows for the three months ended March 31:

	2017
Beginning of period	\$ 50,123
Issuance of additional Second Lien Notes	5,900
Change in fair value	(1,906)
End of period	<u>\$ 54,117</u>

Financial Instruments

The estimated fair values of our financial instruments have been determined at discrete points in time based on relevant market information. Our financial instruments consist of cash and cash equivalents, joint interest and other receivables, held-to-maturity investments, accounts payable and accrued liabilities. The carrying amounts of our financial instruments, other than held-to-maturity investments and long-term debt, approximate fair value because of the short-term nature of the items.

There were no significant unrecognized holding gains or losses related to our held-to-maturity investments as of March 31, 2017 and December 31, 2016. Accordingly, the carrying value of our held-to-maturity investments approximates their fair value. Our held-to-maturity investments are not traded on a public exchange and the fair value of these investments is based on inputs using valuations obtained from independent brokers. As these valuations use readily observable market parameters that are actively quoted and can be validated through external sources, we have categorized these investments as Level 2.

The estimated fair values of our long-term debt are as follows:

	March 31, 2017	December 31, 2016
10.75% first lien notes due 2021	\$ 473,440	\$ 482,250
7.75% second lien notes due 2023	361,985	327,449
2.625% convertible senior notes due 2019	203,321	305,378
3.125% convertible senior notes due 2024	268,872	332,344
	<u>\$ 1,307,618</u>	<u>\$ 1,447,421</u>

The fair values of our long-term debt were estimated using quoted market prices. As these valuations use quoted prices in active markets for identical assets or liabilities, we have categorized the long-term debt as Level 1.

Cobalt International Energy, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements (continued)

NOTE 4. OIL AND NATURAL GAS PROPERTIES

Oil and natural gas properties consist of the following:

	March 31, 2017	December 31, 2016
Proved oil and natural gas properties:		
Well and development costs	\$ 128,575	\$ 118,245
Accumulated depletion	(28,721)	(20,204)
Total proved oil and natural gas properties	<u>99,854</u>	<u>98,041</u>
Unproved oil and natural gas properties:		
Oil and natural gas leaseholds	629,770	651,295
Accumulated valuation allowance	(490,189)	(507,198)
	<u>139,581</u>	<u>144,097</u>
Exploratory wells in process	712,715	836,747
Total unproved oil and natural gas properties	<u>852,296</u>	<u>980,844</u>
Total oil and natural gas properties, net	<u>\$ 952,150</u>	<u>\$ 1,078,885</u>

Capitalized Exploratory Well Costs

Costs for exploratory wells that find reserves that cannot yet be classified as proved are capitalized if the well has found a sufficient quantity of reserves to justify its completion as a producing well and we are making sufficient progress assessing the reserves and the economic and operating viability of the project. Often, the ability to move into the development phase and record proved reserves is dependent on obtaining permits and government or partner approvals, the timing of which is ultimately beyond our control. Exploratory well costs remain suspended as long as we are actively pursuing such approvals and permits, and believe they will be obtained. For complex exploratory projects, it is not unusual to have exploratory wells remain suspended on the balance sheet for several years while additional appraisal drilling and seismic work is performed on the field or while we seek government or partner approval of development plans. Our assessment of suspended exploratory well costs is continuous until a determination is made to either sanction the project or to expense the well costs as dry hole costs as sufficient progress has not been made in assessing the reserves and the economic and operating viability of the project.

In the three months ended March 31, 2017, we expensed suspended exploratory well costs of \$232.8 million related to our Shenandoah discovery following the suspension of appraisal activity by the operator. Of this amount, \$159.7 million had been capitalized for a period greater than one year after completion of drilling.

The net changes in and the cumulative costs of capitalized exploratory wells (excluding any related leasehold costs) are as follows:

	March 31, 2017	December 31, 2016
Beginning of period	\$ 836,747	\$ 1,727,181
Additions to capitalized exploration		
Exploratory well costs	94,189	499,985
Capitalized interest	14,228	99,541
Amounts charged to expense (1)	(232,449)	(1,489,960)
End of period	<u>\$ 712,715</u>	<u>\$ 836,747</u>

(1) Amounts represent dry hole costs related to exploratory wells which did not encounter commercial hydrocarbons or where it was determined that sufficient progress was not being made.

Cobalt International Energy, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements (continued)

	March 31, 2017	December 31, 2016
Cumulative costs:		
Exploratory well costs	\$ 443,855	\$ 582,115
Capitalized interest	268,860	254,632
	<u>\$ 712,715</u>	<u>\$ 836,747</u>
Well costs capitalized for a period greater than one year after completion of drilling (included in table above)	<u>\$ 458,924</u>	<u>\$ 609,893</u>

As of March 31, 2017 and December 31, 2016, capitalized exploratory well costs that have been suspended longer than one year are associated with our North Platte, Anchor, and Diaman discoveries. These well costs are suspended pending ongoing evaluation including, but not limited to, results of additional appraisal drilling, well-test analysis, additional geological and geophysical data and approval of a development plan. We believe these discoveries exhibit sufficient indications of hydrocarbons to justify potential development and are actively pursuing efforts to fully assess them. If additional information becomes available that raises substantial doubt as to the economic or operational viability of these discoveries, the associated costs will be expensed at that time.

NOTE 5. LONG-TERM DEBT, NET

Long-term debt, net consisted of the following:

	March 31, 2017	December 31, 2016
10.75% first lien notes due 2021:		
Principal outstanding	\$ 500,000	\$ 500,000
Unamortized discount (1)	(33,131)	(34,416)
Carrying amount	<u>466,869</u>	<u>465,584</u>
7.75% second lien notes due 2023:		
Principal outstanding	723,970	584,732
Unamortized discount (2)	(38,757)	(54,856)
Carrying amount	<u>685,213</u>	<u>529,876</u>
2.625% convertible senior notes due 2019:		
Principal outstanding	625,603	763,446
Unamortized discount and debt issuance costs (3)	(82,990)	(109,689)
Carrying amount	<u>542,613</u>	<u>653,757</u>
3.125% convertible senior notes due 2024:		
Principal outstanding	1,144,136	1,204,145
Unamortized discount and debt issuance costs (4)	(346,738)	(374,013)
Carrying amount	<u>797,398</u>	<u>830,132</u>
Total	<u>\$ 2,492,093</u>	<u>\$ 2,479,349</u>

(1) Effective interest rate of 12.6%

(2) Effective interest rate of 8.8%

(3) Effective interest rate of 8.2%

(4) Effective interest rate of 8.9%

On January 31, 2017, we consummated a follow-on debt exchange transaction (the "Transaction") with certain holders (the "Holders") of our outstanding 2.625% convertible senior notes due 2019 (the "2019 Notes") and 3.125% convertible senior notes due 2024 (the "2024 Notes") whereby we issued an aggregate principal amount of

Cobalt International Energy, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements (continued)

\$139.2 million in additional Second Lien Notes in exchange for \$137.8 million aggregate principal amount of the 2019 Notes and \$60.0 million aggregate principal amount of the 2024 Notes held by the Holders.

Our Secured Notes have requirements to pay an applicable premium upon a change in control or an event of default and also have a requirement to repay amounts outstanding using the proceeds from an asset sale. These requirements were determined to be an embedded derivative that requires us to bifurcate and fair value the derivative as of January 31, 2017 and to fair value the derivative as of each subsequent reporting date (see Note 3). At January 31, 2017, we recognized an additional derivative liability of \$5.9 million for our Second Lien Notes, which decreased the carrying value of these notes.

We accounted for the Transaction as a troubled debt restructuring. We did not recognize any gain or loss on the Transaction and have prospectively adjusted the effective interest rates on the 2019 Notes and 2024 Notes. Costs related to the Transaction totaled \$1.0 million and are included in "General and administrative expenses" in our unaudited condensed consolidated statements of operations.

NOTE 6. COMMITMENTS AND CONTINGENCIES

We are currently, and from time to time we may become, involved in various legal and regulatory proceedings arising in the normal course of business.

In November 2014, two purported stockholders, St. Lucie County Fire District Firefighters' Pension Trust Fund and Fire and Police Retiree Health Care Fund, San Antonio, filed a class action lawsuit in the U.S. District Court for the Southern District of Texas on behalf of a putative class of all purchasers of our securities from February 21, 2012 through November 4, 2014 (the "St. Lucie lawsuit"). The St. Lucie lawsuit, filed against us and certain officers, former and current members of the Board of Directors, underwriters, and investment firms and funds, asserted violations of federal securities laws based on alleged misrepresentations and omissions in SEC filings and other public disclosures, primarily regarding compliance with the U.S. Foreign Corrupt Practices Act ("FCPA") in our Angolan operations and the performance of certain wells offshore Angola.

In December 2014, Steven Neuman, a purported stockholder, filed a substantially similar lawsuit against us and certain of our officers in the U.S. District Court for the Southern District of Texas on behalf of a putative class of all purchasers of our securities from February 21, 2012 through August 4, 2014 (the "Neuman lawsuit"). Like the St. Lucie lawsuit, the Neuman lawsuit asserted violations of federal securities laws based on alleged misrepresentations and omissions in SEC filings and other public disclosures regarding our compliance with the FCPA in our Angolan operations.

In March 2015, the Court entered an order consolidating the Neuman lawsuit with the St. Lucie lawsuit (the "Consolidated Action") and also entered an order in the Consolidated Action appointing Lead Plaintiffs and Lead Counsel. Lead Plaintiffs filed their consolidated amended complaint in May 2015. Among other remedies, the Consolidated Action seeks damages in an unspecified amount, along with an award of attorney fees and other costs and expenses to the plaintiffs. We filed a motion to dismiss the consolidated amended complaint in June 2015, and the other defendants also filed motions to dismiss. The Court denied our motion to dismiss in January 2016, and, in March 2016, the Court also denied our motion requesting that the Court certify its order on the motions to dismiss so that we may seek interlocutory appellate review of the order. Lead Plaintiffs also have filed a motion for class certification, seeking to certify a class of all persons and entities who purchased or otherwise acquired our securities between March 1, 2011 and November 3, 2014. The matter remains ongoing.

In May 2016, Gaines, a purported stockholder, filed a derivative action in the 295th District Court in Harris County, Texas against us, as a nominal defendant, certain of our current and former officers and directors, and certain investment firms and funds. The lawsuit alleges that current and former officers and directors breached their fiduciary duties by making, and permitting us to make, alleged misrepresentations about two of our exploration wells offshore Angola; that certain officers received performance-based compensation in excess of what they were entitled; and that the investment firms and funds owed a fiduciary duty to us as controlling stockholders and breached that duty by engaging in insider trading. The lawsuit further alleges that demand was wrongfully refused. The plaintiff asserts claims for breach of fiduciary duty and unjust enrichment and seeks damages in an unspecified amount, disgorgement of profits, appropriate equitable relief, and an award of attorney fees and other

Cobalt International Energy, Inc.
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costs and expenses. In July 2016, we filed our answer and special exceptions challenging the plaintiff's standing to bring such claims against us. The Court heard arguments on our special exceptions in December 2016. The matter remains ongoing.

In November 2016, McDonough, a purported stockholder, filed a derivative action in the 80th District Court in Harris County, Texas against us, as a nominal defendant, and certain of our current and former officers and directors. The lawsuit alleges that defendants breached their fiduciary duties by failing to maintain adequate internal controls and by permitting or failing to prevent alleged misrepresentations and omissions in our SEC filings and other public disclosures, including in relation to compliance with the FCPA in our Angolan operations and regarding the performance of certain wells offshore Angola. The lawsuit also alleges that defendants received compensation or other benefits in excess of what they were entitled and that certain officers and directors engaged in unlawful trading and misappropriation of information. The lawsuit further alleges that demand was wrongfully refused. The plaintiff asserts claims for breach of fiduciary duty and unjust enrichment and seeks damages in an unspecified amount, reform of our governance and internal controls, restitution and disgorgement of profits, and an award of attorney fees and other costs and expenses. We filed our answer and special exceptions challenging the plaintiff's standing to bring such claims against us in January 2017. The matter remains ongoing.

In April 2017, Hafkey, a purported stockholder, filed a derivative action in the 295th District Court in Harris County, Texas against us, as a nominal defendant, and certain of our current and former officers and directors. The lawsuit alleges that current and former officers and directors breached their fiduciary duties by making, and permitting us to make, alleged misrepresentations about two of our exploratory wells offshore Angola; that certain directors caused us to waste corporate assets; and that certain officers received performance-based compensation in excess of what they were entitled. The lawsuit further alleges that demand was wrongfully refused. The plaintiff asserts claims for breach of fiduciary duty, corporate waste, and unjust enrichment and seeks damages in an unspecified amount, disgorgement of profits, appropriate equitable relief, and an award of attorney fees and other costs and expenses. Our deadline to answer or otherwise respond to the plaintiff's petition is June 5, 2017.

In May 2016, we filed suit against XL Specialty Insurance Company ("XL") in Harris County District Court in Houston, Texas. We assert XL improperly denied coverage for insurance claims made in July 2012 and other claims subsequently submitted to them in connection with our defending against the St. Lucie lawsuit, the Ogden derivative action, and other investigations and actions. In December 2016, we amended our petition to add Axis Insurance Company ("Axis"). Axis provides coverage in excess of the XL policy's limit of liability. We allege breach of contract, violation of the Texas Prompt Payment of Claims Act, and seek a declaratory judgment that XL and Axis are obligated to pay any additional loss suffered by us due to the circumstances, investigation, and claims described in the suit. In December 2016, we also amended our petition to add claims against Illinois National Insurance Company, an AIG subsidiary ("AIG"), which served as our insurer after XL. Against AIG, we allege breach of contract, violation of the Texas Prompt Payment of Claims Act, violation of the Texas Deceptive Trade Practices-Consumer Protection Act, and seek a declaratory judgment that AIG is obligated to pay any additional loss suffered by us due to the circumstances, investigations, and actions related to the Lontra and/or Loengo wells. In April 2017, we and certain of our current and former officers and directors settled claims against XL pursuant to which XL agreed to pay \$11.5 million. We continue to pursue our claims against both Axis and AIG.

We are vigorously defending against the current lawsuits and do not believe they will have a material adverse effect on our business. However, we cannot predict the occurrence or outcome of these proceedings with certainty, and if we are unsuccessful in these litigations and any loss exceeds our available insurance, this could have a material adverse effect on our results of operations.

As previously disclosed, on March 8, 2017, we submitted a Notice of Dispute to Sonangol pursuant to the purchase and sale agreement (the "Agreement") for the sale by us to Sonangol of the entire issued and outstanding share capital of our indirect wholly-owned subsidiaries, CIE Angola Block 20 Ltd. and CIE Angola Block 21 Ltd., which respectively hold our 40% working interest in each of Block 20 and Block 21 offshore Angola. Subsequently, we filed a Request for Arbitration ("RFA") with the International Chamber of Commerce ("ICC") against Sonangol for breach of the Agreement. Through this arbitration proceeding, we are requesting an award against Sonangol in excess of \$2 billion dollars, plus applicable interest and costs. We also filed a separate RFA with the ICC against Sonangol Pesquisa e Produção, S.A. ("Sonangol P&P") seeking recovery of over \$174 million, plus applicable interest and costs, representing the joint interest receivable owed to us for operations on Block 21

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Notes to Unaudited Condensed Consolidated Financial Statements (continued)

offshore Angola. Unless resolved to our satisfaction, we intend to vigorously prosecute these claims in arbitration and seek all available remedies in law and equity.

NOTE 7. EQUITY-BASED COMPENSATION

We grant various forms of equity-based compensation to our employees and non-employee directors. These equity-based awards consist of restricted stock awards, non-qualified stock options, performance stock units (“PSUs”), restricted stock units (“RSUs”) and stock appreciation rights.

Grants in 2017

Performance Stock Units

In February 2017, we issued 6.6 million PSUs to our employees. These PSUs vest in March 2020 subject to our common stock attaining a specified return by the vesting date. These PSUs may be settled by, at our discretion, either the issuance of our common stock, cash or a combination thereof. As these PSUs had both service and market conditions, we estimated the fair value of these PSUs using the Monte Carlo simulation model. The fair value of these PSUs on the date of grant was \$4.3 million.

Restricted Stock Units

In February 2017, we issued 9.9 million RSUs to our employees. These RSU’s vest in three equal annual installments by, at our discretion, either the issuance of our common stock, cash, or a combination thereof. The fair value of these RSUs on the date of grant was \$7.5 million.

Non-Employee Director Grants

In the three months ended March 31, 2017, we granted a total of 0.1 million shares of our common stock to our non-employee directors as retainer awards. The directors have elected to defer the issuance of this stock. Accordingly, we have recorded a liability for the future issuance of these shares. The fair value of these retainer awards on the date of grant was \$0.1 million.

In addition, we granted 0.03 million RSUs to one of our non-employee directors. These RSUs will be settled by, at our discretion, either the issuance of our common stock, cash or a combination thereof. The fair value of these RSUs on the date of grant was \$0.04 million.

Compensation Costs

Equity-based compensation cost is measured at the date of grant based on the calculated fair value of the award and is generally recognized on a straight-line basis over the requisite service period, including those with graded vesting. We account for forfeitures as they occur rather than by applying an estimated forfeiture rate at the time of grant.

The following table presents the compensation costs recognized in our unaudited condensed consolidated statements of operations:

	Three Months Ended March 31,	
	2017	2016
Equity awards	\$ 3,664	\$ 7,763
Liability awards	(71)	—
Total	\$ 3,593	\$ 7,763

Cobalt International Energy, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements (continued)

These costs are included in “General and administrative expenses” in our unaudited condensed consolidated statements of operations. As of March 31, 2017, there was \$27.8 million of unrecognized compensation costs which are expected to be recognized over a weighted average period of 2.1 years.

NOTE 8. EARNINGS PER SHARE

A reconciliation of the number of shares used for the basic and diluted loss per share computations is as follows:

	Three Months Ended March 31,	
	2017	2016
Weighted average common shares outstanding (basic and diluted)	441,792	409,260
Anti-dilutive shares excluded from diluted loss per share (1)	92,713	105,252

(1) Excludes restricted stock awards, non-qualified stock options, PSUs, RSUs, stock appreciation rights, the 2019 Notes and the 2024 Notes that are potentially issuable as their effect, if included, would have been anti-dilutive.

NOTE 9. OTHER SUPPLEMENTAL INFORMATION

Cash, cash equivalents and restricted cash are recorded in our unaudited condensed consolidated balance sheet as follows:

	As of March 31,	
	2017	2016
Cash and cash equivalents	\$ 118,493	\$ 85,406
Restricted cash	11,274	97,326
Cash, cash equivalents and restricted cash	\$ 129,767	\$ 182,732

Restricted cash serves as collateral for certain of our obligations and is invested in interest-bearing accounts.

Supplemental noncash transactions are as follows:

	As of March 31,	
	2017	2016
Non-cash disclosure - changes in accrued capital expenditures	\$ (15,512)	\$ 11,232

Accrued liabilities consist of the following:

	March 31,	December 31,
	2017	2016
Costs for additions to oil and natural gas properties	\$ 59,026	\$ 73,808
Social obligation payments	86,273	86,473
Funds from release of letter of credit on Block 9	18,375	18,375
Interest	54,511	13,793
Angolan consumption tax and withholding on services	9,796	9,796
Bonuses	2,692	8,900
Seismic and other operating costs	575	5,625
General expenses	2,209	5,849
Other	1,808	4,799
Total accrued liabilities	\$ 235,265	\$ 227,418

Cobalt International Energy, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements (continued)

NOTE 10. OTHER MATTERS

In February 2017, we received a letter from the Department of Justice (“DOJ”) advising us that the DOJ has closed its investigation into our operations in Angola. This formally concluded the DOJ investigation and no regulatory action has been taken against us as a result of this investigation.

In March 2017, the SEC informed us by telephone that they have initiated an informal inquiry regarding the Sonangol Research and Technology Center (the “Technology Center”). As background, in December 2011, we executed the Block 20 Production Sharing Contract under which we and BP Exploration Angola (Kwanza Benguela) Limited are required to make certain social contributions to Sonangol, including for the Technology Center. In March 2017, we also received a voluntary request for information regarding such inquiry. We believe our activities in Angola have complied with all applicable laws, including the Foreign Corrupt Practices Act, and we are cooperating with the SEC’s inquiry.

In September 2016, we announced that we entered into an amendment to our drilling contract with Rowan (UK) Reliance Limited (“Rowan”) and recorded a charge of \$95.9 million, of which \$76.3 million was paid in 2016. This amendment provided for the early termination of our long-term drilling contract for one of their drillships. The drilling contract was originally scheduled to terminate in February 2018, but the amendment provides for a contract termination date in March 2017. As of December 31, 2016, we had accrued costs of \$19.6 million, which was paid in March 2017.

NOTE 11. SUBSEQUENT EVENTS

In April 2017, we completed an additional follow-on debt exchange transaction with certain holders of our outstanding convertible notes whereby we issued an aggregate principal amount of \$178.6 million in additional Second Lien Notes in exchange for \$6.4 million aggregate principal amount of the 2019 Notes and \$296.3 million aggregate principal amount of the 2024 Notes held by these holders.

We evaluated subsequent events for appropriate accounting and disclosure through the date these unaudited condensed consolidated financial statements were issued and determined that there were no other material items that required recognition or disclosure in our unaudited condensed consolidated financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including, without limitation, those set forth in "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" and other matters set forth in this Quarterly Report on Form 10-Q. The following discussion of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes thereto, as well as our Annual Report on Form 10-K for the year ended December 31, 2016.

OVERVIEW

We are an independent exploration and production company with operations in the deepwater U.S. Gulf of Mexico and offshore Angola and Gabon in West Africa. In the U.S. Gulf of Mexico, we have four discoveries: North Platte, Shenandoah, Anchor and Heidelberg. Heidelberg began initial production in January 2016, and North Platte, Shenandoah and Anchor are currently being appraised. In West Africa, we have made seven aggregate discoveries offshore Angola on Blocks 20 (Orca, Zalophus, Golfinho and Lontra) and 21 (Cameia, Bicuar and Mavinga). We also have a non-operated interest in the Diaba block offshore Gabon, where we have one discovery (Diaman).

Operational Highlights

- In January 2017, we completed a follow-on debt exchange transaction with certain holders of our outstanding convertible notes whereby we issued an aggregate principal amount of \$139.2 million in additional Second Lien Notes in exchange for \$137.8 million aggregate principal amount of the 2019 Notes and \$60.0 million aggregate principal amount of the 2024 Notes held by these holders. In April 2017, we completed an additional follow-on debt exchange transaction with certain holders of our outstanding convertible notes whereby we issued an aggregate principal amount of \$178.6 million in additional Second Lien Notes in exchange for \$6.4 million aggregate principal amount of the 2019 Notes and \$296.3 million aggregate principal amount of the 2024 Notes held by these holders.
- Net production from Heidelberg averaged approximately 2,300 barrels of oil equivalent per day ("boepd") during the three months ended March 31, 2017, and is currently producing approximately 3,200 boepd on a net basis. In March 2017, we completed the drilling and completion of one additional development well that is now on production.
- In January 2017, we completed drilling North Platte #4, the second appraisal well at our North Platte discovery. The well encountered approximately 650 feet of net oil pay and results indicate high quality Inboard Lower Tertiary Wilcox reservoirs on the eastern flank of the North Platte field. In March 2017, drilling of the North Platte #4 first sidetrack wellbore was completed to further analyze the extent of the eastern flank of the North Platte field. The sidetrack wellbore targeted a down dip location 1.2 miles away from the appraisal well and encountered thick, continuous Wilcox reservoir quality sands. The well found both oil-filled and wet sands and was helpful in building an understanding of the oil water contact on the eastern flank. A second sidetrack operation began in March 2017. This sidetrack drilled approximately one-half mile away and updip from the first sidetrack wellbore and encountered high-quality Wilcox reservoirs that were oil-filled to base. We are currently conducting a bypass for core operation.
- In February 2017, we completed drilling Anchor #4, the third appraisal well at our Anchor discovery. The well encountered approximately 800 feet of net oil pay and confirmed high quality reservoir sands high on structure. In addition, we own a 100% working interest in two leases that are immediately south of the current Anchor Unit, with terms currently set to expire in February 2018. We have reached a verbal understanding in principle with Chevron and the other owners of the Anchor Unit to petition the government to expand the Anchor Unit to include these leases, which we believe will lead to an optimized development plan and maximize oil recovery from the Anchor Unit. Subject to definitive documentation and regulatory

approval, we will have a 20% working interest in a revised Anchor Unit and thereby preserve the value of the two leases.

- As part of its first quarter financials, the operator of Shenandoah expensed all of its capitalized costs associated with Shenandoah and disclosed that it had “currently suspended further appraisal activities.” As a result of this disclosure, we have determined that Shenandoah is not making sufficient progress and that accounting requirements therefore require us to expense all of our capitalized costs associated with Shenandoah at this time. This has resulted in us expensing \$232.8 million of suspended exploratory well costs related to Shenandoah. The impairment is not associated with, nor is it indicative of, what we believe to be the intrinsic or fair market value of our Shenandoah discovery. We are currently in the preliminary stages of working with our partners to understand the operator’s intentions with respect to Shenandoah and are evaluating multiple ways to progress efforts at Shenandoah.

Changes to Continuous Operations Regulations

On May 5, 2017, President Trump signed into law the Consolidated Appropriations Act, 2017 (the "CAA"). Section 121 of the Act requires the Secretary of the Interior to amend certain regulations regarding the continuous operation requirements for offshore oil and gas leases in the U.S. Gulf of Mexico. Prior to the enactment of the CAA, such leases could be held by lessees beyond their primary terms if continuing operations were conducted every 180 days. Continuing operations includes drilling, well re-working or production in paying quantities. This meant that, absent production from the lease or receipt of a Suspension of Production (an "SOP"), drilling or well re-working operations could not be discontinued for more than 180 days on leases beyond their primary term, or such leases would expire.

The CAA, among other things, changes the continuous operations requirement from 180 days to one year. We believe this is a significant positive development for us. As previously disclosed, certain of our leases associated with our North Platte, Anchor and Shenandoah discoveries are beyond their primary term and are held by continuous operations, requiring us to conduct operations every 180 days or, absent an SOP or production, lose the related leases. The change from 180 days to one year allows us the flexibility to defer drilling related capital spend up to an additional six months and to appropriately develop technical studies and commercial activities prior to drilling any wells.

For example, since we expect to finish our current operations at North Platte during the second quarter 2017, the enactment of the CAA has extended the deadline by which we will need to either obtain an SOP or recommence drilling or well-reworking operations from the fourth quarter 2017 to the second quarter 2018. We believe this significantly increases our flexibility in capital allocation and preservation as well as optimizing the timing and sequencing of our operations.

Angola

As previously disclosed, on March 8, 2017, we submitted a Notice of Dispute to Sonangol pursuant to the Agreement for the sale by us to Sonangol of the entire issued and outstanding share capital of our indirect wholly-owned subsidiaries, CIE Angola Block 20 Ltd. and CIE Angola Block 21 Ltd., which respectively hold our 40% working interest in each of Block 20 and Block 21 offshore Angola. Subsequently, we filed a RFA with the ICC against Sonangol for breach of the Agreement. Through this arbitration proceeding, we are requesting an award against Sonangol in excess of \$2 billion dollars, plus applicable interest and costs. We also filed a separate RFA with the ICC against Sonangol P&P seeking recovery of over \$174 million, plus applicable interest and costs, representing the joint interest receivable owed to us for operations on Block 21 offshore Angola. Unless resolved to our satisfaction, we intend to vigorously prosecute these claims in arbitration and seek all available remedies in law and equity.

RESULTS OF OPERATIONS

	Three Months Ended March 31,	
	2017	2016
Production data:		
Oil (MBbls)	188.8	55.6
Natural gas (MMcf)	55.1	13.1
Natural gas liquids (MBbls)	8.3	—
Net production (MBOE)	206.3	57.8
Average sales price per unit:		
Oil (Bbls)	\$ 49.87	\$ 28.96
Natural gas (Mcf)	3.54	1.89
Natural gas liquids (Bbls)	0.02	—
BOE	47.84	29.29
Average unit cost per BOE:		
Lease operating expenses	\$ 13.08	\$ 16.52
Depreciation, depletion and amortization	43.05	54.79

Three Months Ended March 31, 2017 Compared With the Three Months Ended March 31, 2016

Net loss for the three months ended March 31, 2017 was \$306.3 million compared with \$46.6 million for the three months ended March 31, 2016. The significant factors in the change were increases of (i) \$236.1 million in dry hole costs and impairments; (ii) \$28.8 million in interest expense; and (iii) \$5.7 million in depreciation, depletion and amortization (“DD&A”); offset by (iv) a \$9.5 million decrease in general and administrative (“G&A”) expenses; and (v) an \$8.2 million increase in oil, natural gas and natural gas liquids revenues.

Oil, natural gas and natural gas liquids revenues for the three months ended March 31, 2017 totaled \$9.9 million, an increase of \$8.2 million compared with the three months ended March 31, 2016. This was the result of increases of \$4.1 million from higher production at Heidelberg and \$4.1 million from improved prices. .

Seismic and exploration costs increased \$1.0 million during the three months ended March 31, 2017 compared with the three months ended March 31, 2016 as a result of costs incurred for development studies related to North Platte.

In the three months ended March 31, 2017, we incurred \$237.1 million of dry hole costs and impairments. Of this amount, \$232.8 million related to the write off of costs associated with the Shenandoah #6 well, \$4.5 million related to impairment of unproved leaseholds and \$(0.2) million related to additional Angola impairments. In the three months ended March 31, 2016, we incurred \$(0.4) million of dry hole costs and impairments. Of this amount, \$(8.5) million related to the correction of an immaterial error in the impairment of our proved oil and natural gas properties that was recorded in 2015, \$4.2 million related to impairment of unproved leaseholds and \$3.4 million related to the impairment of inventory in Angola.

Lease operating expenses for the three months ended March 31, 2017 increased \$1.7 million compared with the three months ended March 31, 2016 as the result of \$2.4 from increased production at Heidelberg offset by \$0.7 million from a lower unit cost per BOE. Lease operating expenses were \$13.08 per BOE in the three months ended March 31, 2017 compared with \$16.52 per BOE in the three months ended March 31, 2016.

G&A expenses for the three months ended March 31, 2017 decreased \$9.5 million compared with the three months ended March 31, 2016. The decrease was primarily attributable to \$5.5 million of severance costs incurred in the three months ended March 31, 2016 associated with our workforce reduction plan and decreases of \$4.5 million in equity based compensation costs and \$2.9 million in reduced partner reimbursements due to lower activity levels in Angola offset by a \$1.2 million increase in legal expenses.

Depreciation, depletion and amortization (“DD&A”) for the three months ended March 31, 2017 increased \$5.7 million compared with the three months ended March 31, 2016 as a result of \$8.1 million from increased production at Heidelberg offset by \$2.4 million from a lower unit cost per BOE. The lower average DD&A rate per BOE reflects the change that prices and additional wells had on our reserves estimates. DD&A was \$43.05 per BOE in the three months ended March 31, 2017 compared with \$54.79 per BOE in the three months ended March 31, 2016.

Interest expense for the three months ended March 31, 2017 increased \$28.8 million compared with the three months ended March 31, 2016 due to \$20.8 million of increased interest expense related to the effects of the December 2016 and January 2017 debt exchanges and \$14.5 million of decreased interest capitalization as we are no longer capitalizing interest on our Angolan exploratory wells offset by decreases of \$6.1 million associated with the amortization of debt discounts and debt issuance costs and \$0.4 million associated with our borrowing base facility that was terminated in 2016.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2017, we had approximately \$770.4 million in cash and cash equivalents, restricted cash and short-term investments. This amount (i) includes the \$250.0 million paid to us by Sonangol pursuant to the purchase and sale agreement that we intend to retain, along with other payments due to Sonangol, until the matters with respect to the extensions are resolved, and (ii) excludes the \$159.1 million receivable owed to us by Sonangol as disclosed in more detail in “Part I—Item 1. Business – Angola Transaction” in our Annual Report on Form 10-K for the year ended December 31, 2016.

In 2017, we currently expect to spend approximately \$250.0 million for our development activities, of which approximately \$119.0 million has been spent as of March 31, 2017. We expect that our cash outlays will significantly decrease for the remainder of 2017 as we have completed our drilling activities at our Shenandoah and Anchor discoveries, and we expect to complete drilling activities at our North Platte discovery in the second quarter of 2017. Total cash outlays in 2017 are currently expected to be between \$550.0 million and \$600.0 million, of which approximately \$196.0 million has been spent as of March 31, 2017.

Our ongoing capital and operating expenditures will vastly exceed the revenue we expect to receive from our oil and natural gas operations for the foreseeable future. We expect to incur substantial expenditures and generate significant operating losses as we:

- progress our discoveries toward project sanction; all of which are subject to, or will soon be subject to, the requirement that we conduct continuous operations on such leases or until such time as we are granted a suspension of production by the Bureau of Safety and Environmental Enforcement;
- continue development drilling activities on the Heidelberg field with the aim to increase its oil and natural gas production over time;
- selectively conduct exploration drilling on our current acreage;
- incur increased interest expense; and
- incur expenses related to operating as a public company and compliance with regulatory requirements.

These activities will require that we raise substantial additional funding. If we are unable to raise substantial additional funding on a timely basis or on acceptable terms, we may be required to significantly curtail our exploration, appraisal and development activities.

In assessing whether there is substantial doubt about our ability to continue as a going concern, we prepared a detailed cash forecast that included all projected cash inflows and outflows as well as consideration of any cash related covenants associated with our financing structure. The indentures governing our Secured Notes contain certain covenants including the maintenance of a minimum consolidated cash balance of at least \$200.0 million. As this detailed cash forecast shows that our projected cash balance would be out of compliance with the minimum consolidated cash balance covenant within one year after the date these unaudited condensed consolidated financial

statements are issued, we have concluded that there is substantial doubt about our ability to continue as a going concern.

Our ability to continue as a going concern is subject to, among other factors, (i) our ability to monetize assets, obtain financing or refinance existing indebtedness and continue our cost cutting efforts for long-term rig and support services; (ii) the production rates achieved from Heidelberg; (iii) oil and natural gas prices; (iv) the number of commercially viable hydrocarbon discoveries made and the quantities of hydrocarbons discovered; (v) the speed and cost with which we can bring such discoveries to production; (vi) whether and to what extent we invest in additional oil leases and concessional licenses; and (vii) the actual cost of exploration, appraisal and development of our prospects.

There can be no assurance that we will be able to obtain additional funding on satisfactory terms or at all. In addition, no assurance can be given that any such financing, if obtained, will be adequate to meet our capital needs and support our growth. If additional funding cannot be obtained on a timely basis and on satisfactory terms, then our operations would be materially negatively impacted.

If we become unable to continue as a going concern, we may find it necessary to file a voluntary petition for reorganization under the Bankruptcy Code in order to provide us additional time to identify an appropriate solution to our financial situation and implement a plan of reorganization aimed at improving our capital structure.

Long-term Debt

As of March 31, 2017, we have \$2,492.1 million in aggregate principal amount of long-term debt outstanding. For additional information about our long-term debt, please see “Part I—Financial Information—Item 1. Financial Statements” contained herein.

Cash Flows

Cash flows provided by (used in) type of activity were as follows:

	Three Months Ended March 31,	
	2017	2016
Operating activities	\$ (65,448)	\$ 21,917
Investing activities	(420,836)	21,929
Financing activities	—	—

Operating Activities

Cash flows from operating activities (used) provided \$(65.4) million and \$21.9 million in the three months ended March 31, 2017 and 2016, respectively. The significant factors in the change were an increase in short-term investments, the \$19.6 million final payment related to the amendment of the Rowan contract and an unfavorable change in working capital offset by our decreased cash operating expenditures.

Investing Activities

During the three months ended March 31, 2017, cash flows provided by investing activities consisted of \$89.0 million in proceeds from maturity of our held-to-maturity investments offset by \$390.9 million of purchases of held-to-maturity investments and \$119.0 million for additions to our oil and natural gas properties.

During the three months ended March 31, 2016, cash flows provided by investing activities consisted of \$910.0 million in proceeds from maturity of our held-to-maturity investments offset by \$673.6 million of purchases of held-to-maturity investments, \$211.5 million for additions to our oil and natural gas properties and \$2.9 million of additions to other property.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk refers to the risk of loss arising from changes in commodity prices, interest rates, foreign currency exchange rates and other relevant market risks. We are exposed to certain market risks that are inherent in our financial statements that arise in the normal course of business. We may enter into various derivative instruments to manage or reduce market risk, but we will not enter into derivative instruments for speculative purposes.

Commodity Price Risk

Our major market risk exposure is to prices for oil, natural gas and natural gas liquids. These prices have historically been volatile, and, as such, future earnings are impacted by changes in these prices. Realized prices are primarily driven by the prevailing worldwide price for oil and regional spot prices for natural gas production.

We may use options (including floors and collars) and fixed price swaps to mitigate the impact of downward swings in commodity prices to our cash flows. All contracts will be settled with cash and would not require the delivery of physical volumes to satisfy settlement. While in times of rising commodity prices this strategy may result in our having lower net cash inflows than we would otherwise have if we had not utilized these instruments, management believes the risk reduction benefits of such a strategy would outweigh the potential costs. We currently have no outstanding hedges or similar instruments.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

In accordance with Exchange Act Rule 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2017 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Our disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Controls Over Financial Reporting

There have not been any changes in our internal control over financial reporting during the three months ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Please refer to the information in "Part I—Financial Information—Item 1. Financial Statements" contained herein.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The exhibits listed below are filed or furnished as part of this report:

- 3.1* Second Amended and Restated Certificate of Incorporation of the Cobalt International Energy, Inc.
- 10.1 Exchange Agreement, dated January 30, 2017, among Cobalt International Energy, Inc., the Guarantors party thereto and the Holders named in Schedule I thereto (incorporated by reference from Exhibit 10.1 to Cobalt International Energy, Inc.'s Current Report on Form 8-K filed with the SEC on January 30, 2017)
- 10.2 First Supplemental Indenture, dated as of January 30, 2017, among Cobalt International Energy, Inc., the Guarantors party thereto and Wilmington Trust, National Association related to the 7.75% Second Lien Senior Secured Notes due 2023 (incorporated by reference from Exhibit 10.2 to Cobalt International Energy, Inc.'s Current Report on Form 8-K filed with the SEC on January 30, 2017)
- 10.3 Cobalt International Energy, Inc. Amended and Restated Executive Severance and Change in Control Benefit Plan (incorporated by reference from Exhibit 10.43 to Cobalt International Energy, Inc.'s Annual Report on Form 10-K filed with the SEC on March 14, 2017)
- 10.4 Form of Performance Stock Unit Award Agreement under Cobalt International Energy Inc.'s 2015 Long-Term Incentive Plan (incorporated by reference from Exhibit 10.48 to Cobalt International Energy, Inc.'s Annual Report on Form 10-K filed with the SEC on March 14, 2017)
- 10.5 Form of Restricted Stock Unit Award Agreement under Cobalt International Energy Inc.'s 2015 Long-Term Incentive Plan (incorporated by reference from Exhibit 10.49 to Cobalt International Energy, Inc.'s Annual Report on Form 10-K filed with the SEC on March 14, 2017)
- 10.6 Exchange Agreement, dated April 24, 2017, among Cobalt International Energy, Inc., the Guarantors party thereto and the Holders named in Schedule I thereto (incorporated by reference from Exhibit 10.1 to Cobalt International Energy, Inc.'s Current Report on Form 8-K filed with the SEC on April 24, 2017)
- 10.7 Second Supplemental Indenture, dated as of April 24, 2017, among Cobalt International Energy, Inc., the Guarantors party thereto and Wilmington Trust, National Association related to the 7.75% Second Lien Senior Secured Notes due 2023 (incorporated by reference from Exhibit 10.2 to Cobalt International Energy, Inc.'s Current Report on Form 8-K filed with the SEC on April 24, 2017)
- 31.1* Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934
- 31.2* Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934

32.1** Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2** Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101* Interactive Data Files

* Filed herewith.

** Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

Cobalt International Energy, Inc.

By: /s/ Timothy J. Cutt
Name: Timothy J. Cutt
Title: Chief Executive Officer

By: /s/ David D. Powell
Name: David D. Powell
Title: Chief Financial Officer

Dated: May 8, 2017

EXHIBIT INDEX

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- 101* Interactive Data Files

* Filed herewith.

** Furnished herewith.

**SECOND AMENDED AND RESTATED CERTIFICATE
OF INCORPORATION OF
COBALT INTERNATIONAL ENERGY, INC.**

The original name of the corporation is Cobalt International Energy, Inc. The original certificate of incorporation of the corporation was filed with the Secretary of State of the State of Delaware on August 27, 2009. This ~~Second Amended~~ and Restated Certificate of Incorporation, which both restates and integrates and further amends the provisions of the corporation's certificate of incorporation, was duly adopted in accordance with the provisions of Sections 242 and 245 of the General Corporation Law of the State of Delaware.

The certificate of incorporation of the corporation is hereby amended and restated to read in its entirety as follows:

ARTICLE 1
NAME

The name of the corporation is Cobalt International Energy, Inc. (the "**Corporation**").

ARTICLE 2 REGISTERED OFFICE
AND AGENT

The address of its registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, City of Wilmington, County of New Castle, Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company.

ARTICLE 3
PURPOSE

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware as the same exists or may hereafter be amended ("**Delaware Law**").

ARTICLE 4 CAPITAL
STOCK

Section 1. *Authorized Capital Stock.* The total number of shares of stock which the Corporation shall have authority to issue is 2,200,000,000, consisting of 2,000,000,000 shares of common stock, par value \$0.01 per share (the “**Common Stock**”), and 200,000,000 shares of preferred stock, par value \$0.01 per share (the “**Preferred Stock**”).

Section 2. *Preferred Stock.* The Board of Directors is hereby empowered to authorize by resolution or resolutions from time to time the issuance of one or more series of Preferred Stock and to fix the designations, powers, preferences and relative, participating, optional or other rights, if any, and the qualifications, limitations or restrictions thereof, if any, with respect to each such series of Preferred Stock and the number of shares constituting each such series, and to increase or decrease the number of shares of any such series to the extent permitted by Delaware Law.

ARTICLE 5 BOARD OF
DIRECTORS

Section 1. *Power of the Board of Directors.* The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors.

Section 2. *Number of Directors.* Subject to the terms of any series of Preferred Stock entitled to separately elect directors, the Board of Directors shall consist of not less than 5 nor more than 15 directors, with the exact number of directors to be determined from time to time solely by resolution adopted by the affirmative vote of a majority of the entire Board of Directors.

Section 3. *Election of Directors.*

(a) Except as otherwise provided in the terms of any series of Preferred Stock entitled to separately elect directors, the directors shall be divided into three classes, designated Class I, Class II and Class III. Each class shall consist, as nearly as may be possible, of one-third of the total number of directors constituting the entire Board of Directors. Each director shall serve for a term ending on the date of the third annual meeting of stockholders next following the annual meeting at which such director was elected. Commencing at the annual meeting of stockholders to be held in 2017 (each annual meeting of stockholders, an “**Annual Meeting**”), subject to the special rights of holders of any series of Preferred Stock to elect additional directors, the directors of the Corporation shall be elected annually and shall hold office until the next Annual Meeting and until his or her successor shall be elected and qualified, or his or her death, resignation, retirement, disqualification or removal from office. Notwithstanding the foregoing, any director in office at the 2017 Annual Meeting whose term expires at the 2018 Annual Meeting or the 2019 Annual Meeting (each such director, a “**Continuing Classified Director**”), shall continue to hold office until the end of the term for which such director was elected and until his or her successor shall be elected and

qualified, or his or her death, resignation, retirement, disqualification or removal from office. In the event of any increase or decrease in the authorized number of directors, each Continuing Classified Director then serving shall nevertheless continue as a Continuing Classified Director until the expiration of his or her term or his or her death, resignation, retirement, disqualification or removal from office. In no event shall a decrease in the number of directors remove or shorten the term of any incumbent director.

- (b) Each director shall hold office until such director's successor shall have been duly elected and qualified or until such director's earlier death, resignation or removal and, in the case of a classified board, for a term that shall coincide with the term of the class to which such director shall have been elected.

- (c) There shall be no cumulative voting in the election of directors.

Section 4. *Vacancies.* Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled solely by a majority of the directors then in office (although less than a quorum) or by the sole remaining director. Subject to the terms of any series of Preferred Stock entitled to separately elect directors, whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by this certificate of incorporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected. If there are no directors in office, then an election of directors may be held in accordance with Delaware Law. When one or more directors shall resign from the Board of Directors, effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have the power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold office as provided in the filling of other vacancies.

Section 5. *Removal.* (a) Until the 2017 Annual Meeting, no director may be removed from office by the stockholders except for cause with the affirmative vote of the holders of not less than a majority of the shares then entitled to vote generally in the election of directors, voting together as a single class.

- (b) Following the 2017 Annual Meeting, any director may be removed from office, with or without cause, by the affirmative vote of the holders of not less than a majority of the shares then entitled to vote generally in the election of directors, voting together as a single class; *provided, that* any Continuing Classified Directors may only be removed for cause with the affirmative vote of the holders of not less than a majority of the shares then entitled to vote generally in the election of directors, voting together as a single class, until the end of the term for which such Continuing Classified Director was elected.

- (c) Notwithstanding the foregoing, whenever the holder of one or more classes or series of Preferred Stock shall have the right, voting separately as a class or series, to elect directors, the election, term of office, filling of vacancies, removal and other features of such directorships shall be governed by the terms of
-

the resolution or resolutions adopted by the Board of Directors pursuant to Article 4 applicable thereto, and such directors so elected shall not be subject to the provisions of this Article 5 unless otherwise provided therein.

ARTICLE 6 STOCKHOLDERS

Section 1. *Action by Written Consent of Stockholders.* (a) Until the Effective Date, any action required or permitted to be taken at any annual or special meeting of stockholders may be taken (i) by a vote of stockholders at a meeting of stockholders duly noticed and called in accordance with Delaware Law or (ii) without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding capital stock of the Corporation having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

- (b) From and after the Effective Date, any action required or permitted to be taken at any annual or special meeting of stockholders may only be taken upon a vote of stockholders at an annual or special meeting of stockholders duly noticed and called in accordance with the Corporation's bylaws and Delaware Law and may not be taken by written consent of stockholders without a meeting.

Section 2. *Special Meetings of Stockholders.* Special meetings of stockholders may be called only by the Board of Directors or the Chairman of the Board; *provided that*, until the Effective Date, special meetings of stockholders will also be called by the Secretary of the Corporation at the request of the holders of a majority of the outstanding shares of Common Stock.

ARTICLE 7 LIMITATIONS ON LIABILITY AND INDEMNIFICATION

Section 1. *Limited Liability.* A director of the Corporation shall not be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director to the fullest extent permitted by Delaware Law.

Section 2. *Right to Indemnification.* (a) Each person (and the heirs, executors or administrators of such person) who was or is a party or is threatened to be made a party to, or is otherwise involved in, any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a director or principal officer (as defined in the Corporation's bylaws) of the Corporation shall be indemnified and held harmless by the Corporation to the fullest extent permitted by Delaware Law; *provided*, that the Corporation shall not be obligated to indemnify (or advance) expenses to such a director or principal officer with respect to a proceeding (or part thereof) initiated by such director or principal officer (other than a proceeding to enforce the rights granted under this Article 7) unless the Board of Directors approved the initiation of such proceeding (or part

thereof). The right to indemnification conferred in this Article 7 shall also include the right to be paid by the Corporation the expenses (including attorneys' fees) incurred in connection with any such proceeding in advance of its final disposition to the fullest extent authorized by Delaware Law. The right to indemnification conferred in this Article 7 shall be a contract right.

- (b) The Corporation may, by action of its Board of Directors, provide rights to indemnification and to advancement of expenses to such other officers, employees and agents of the Corporation to such extent and to such effect as the Board of Directors shall determine to be appropriate and authorized by Delaware Law.

Section 3. *Insurance.* The Corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity or arising out of such person's status as such, whether or not the Corporation would have the power to indemnify such person against such liability under Delaware Law.

Section 4. *Nonexclusivity of Rights.* The rights and authority conferred in this Article 7 shall not be exclusive of any other right which any person may otherwise have or hereafter acquire.

Section 5. *Preservation of Rights.* Neither the amendment nor repeal of this Article 7, nor the adoption of any provision of this certificate of incorporation or the bylaws of the Corporation, nor, to the fullest extent permitted by Delaware Law, any modification of law, shall adversely affect any right or protection of any person granted pursuant hereto existing at, or arising out of or related to any event, act or omission that occurred prior to, the time of such amendment, repeal, adoption or modification (regardless of when any proceeding (or part thereof) relating to such event, act or omission arises or is first threatened, commenced or completed).

ARTICLE 8 CORPORATE OPPORTUNITIES

To the fullest extent permitted by applicable law, the Corporation, on behalf of itself and its subsidiaries, renounces any interest or expectancy of the Corporation and its subsidiaries in, or in being offered an opportunity to participate in, business opportunities that are from time to time presented to any of the Sponsors or any of their respective officers, directors, agents, shareholders, members, partners, affiliates and subsidiaries (other than the Corporation and its subsidiaries) (each, a "**Specified Party**"), even if the opportunity is one that the Corporation or its subsidiaries might reasonably be deemed to have pursued or had the ability or desire to pursue if granted the opportunity to do so and each such Specified Party shall have no duty to communicate or offer such business opportunity to the Corporation and, to the fullest extent permitted by applicable law, shall not be liable to the Corporation or any of its subsidiaries for breach of any fiduciary or other duty, as a director or officer or otherwise, by reason of the

fact that such Specified Party pursues or acquires such business opportunity, directs such business opportunity to another person or fails to present such business opportunity, or information regarding such business opportunity, to the Corporation or its subsidiaries. Notwithstanding the foregoing, a Specified Party who is a director or officer of the Corporation and who is offered a business opportunity in his or her capacity as a director or officer of the Corporation (a “**Directed Opportunity**”) shall be obligated to communicate such Directed Opportunity to the Corporation, *provided, however*, that all of the protections of this Article 8 shall otherwise apply to the Specified Parties with respect to such Directed Opportunity, including, without limitation, the ability of the Specified Parties to pursue or acquire such Directed Opportunity or to direct such Directed Opportunity to another person.

Neither the amendment nor repeal of this Article 8, nor the adoption of any provision of this certificate of incorporation or the bylaws of the Corporation, nor, to the fullest extent permitted by Delaware Law, any modification of law, shall adversely affect any right or protection of any person granted pursuant hereto existing at, or arising out of or related to any event, act or omission that occurred prior to, the time of such amendment, repeal, adoption or modification (regardless of when any proceeding (or part thereof) relating to such event, act or omission arises or is first threatened, commenced or completed).

If any provision or provisions of this Article 8 shall be held to be invalid, illegal or unenforceable as applied to any circumstance for any reason whatsoever: (a) the validity, legality and enforceability of such provisions in any other circumstance and of the remaining provisions of this Article 8 (including, without limitation, each portion of any paragraph of this Article 8 containing any such provision held to be invalid, illegal or unenforceable that is not itself held to be invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and (b) to the fullest extent possible, the provisions of this Article 8 (including, without limitation, each such portion of any paragraph of this Article 8 containing any such provision held to be invalid, illegal or unenforceable) shall be construed so as to permit the Corporation to protect its directors, officers, employees and agents from personal liability in respect of their good faith service to or for the benefit of the Corporation to the fullest extent permitted by law.

This Article 8 shall not limit any protections or defenses available to, or indemnification rights of, any director or officer of the Corporation under this certificate of incorporation or applicable law.

Any person or entity purchasing or otherwise acquiring any interest in any securities of the Corporation shall be deemed to have notice of and to have consented to the provisions of this Article 8.

ARTICLE 9 MISCELLANEOUS

The following provisions are inserted for the management of the business and the conduct of the affairs of the Corporation and for the further definition of the powers of the Corporation and of its directors and stockholders:

- (a) The directors shall have the concurrent power with the stockholders to adopt, amend or repeal the bylaws of the Corporation.
- (b) Elections of directors need not be by written ballot unless the bylaws of the Corporation so provide.
- (c) The Corporation elects not to be governed by Section 203 of the Delaware Law, and the restrictions contained in Section 203 shall not apply to the Corporation, until the first date on which the Sponsors and their affiliates no longer beneficially own at least 25% of the outstanding shares of Common Stock of the Corporation. From and after such date, the Corporation shall be governed by Section 203 so long as Section 203 by its terms would apply to the Corporation.

For so long as that certain Stockholders Agreement, dated as of December 15, 2009, by and among the Corporation and the Sponsors, as amended from time to time (the “**Stockholders Agreement**”), is in effect, the provisions of the Stockholders Agreement shall be incorporated by reference into the relevant provisions hereof, and such provisions shall be interpreted and applied in a manner consistent with the terms of the Stockholders Agreement.

As used herein, the following terms shall have the following meanings:

“**Carlyle/Riverstone**” shall mean Riverstone Energy Coinvestment III, L.P., C/R Cobalt Investment Partnership, L.P., C/R Energy Coinvestment II, L.P., C/R Energy III Cobalt Partnership, L.P., Carlyle/Riverstone Global Energy and Power Fund III, L.P. and Carlyle Energy Coinvestment III, L.P. collectively.

“**GSCP**” shall mean GSCP V Cobalt Holdings, LLC, GSCP V Offshore Cobalt Holdings, LLC, GS Capital Partners V Institutional, L.P., GSCP V GmbH Cobalt Holdings, LLC, GSCP VI Cobalt Holdings, LLC, GSCP VI Offshore Cobalt Holdings, LLC, GS Capital Partners VI Parallel, L.P. and GSCP VI GmbH Cobalt Holdings, LLC, collectively.

“**First Reserve**” shall mean First Reserve Fund XI, L.P. and FR XI Onshore AIV, L.P , collectively.

“**KERN**” shall mean KERN Cobalt Co-Invest Partners AP LP.

“**Effective Date**” shall mean the first date on which the Sponsors and their affiliates no longer beneficially own more than 50% of the outstanding shares of Common Stock of the Corporation or the Corporation no longer qualifies as a “controlled company” under Section 303A of the New York Stock Exchange Listed Company Manual as in effect on December 15, 2009.

“**Sponsors**” means Carlyle/Riverstone, GSCP, First Reserve and KERN.

ARTICLE 10
AMENDMENT OF CERTIFICATE OF INCORPORATION

The Corporation reserves the right from time to time to amend this certificate of incorporation in any manner permitted by Delaware Law, and all rights and powers conferred upon stockholders, directors and officers herein are granted subject to this reservation.

IN WITNESS WHEREOF, the undersigned has executed this Second Amended and Restated Certificate of Incorporation this 2nd day of May, 2017.

COBALT INTERNATIONAL ENERGY, INC.

By: /s/ Jeffrey A. Starzec
Name: Jeffrey A. Starzec
Title: Executive Vice President and
General Counsel

CERTIFICATIONS

I, Timothy J. Cutt, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cobalt International Energy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2017

/s/ Timothy J. Cutt
Timothy J. Cutt
Chief Executive Officer

CERTIFICATIONS

I, David D. Powell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cobalt International Energy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2017

/s/ David D. Powell
David D. Powell
*Chief Financial Officer and
Executive Vice President*

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Cobalt International Energy, Inc. (the "Company") for the quarterly period ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Timothy J. Cutt, as Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Timothy J. Cutt
Name: Timothy J. Cutt
Title: *Chief Executive Officer*

Date: May 8, 2017

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Cobalt International Energy, Inc. (the "Company") for the quarterly period ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), David D. Powell, as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ David D. Powell
Name: David D. Powell
Title: *Chief Financial Officer and Executive Vice
President*

Date: May 8, 2017

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

