Kosmos Energy Ltd.
Form 10-Q
May 09, 2016

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2016

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: 001-35167

Kosmos Energy Ltd.

(Exact name of registrant as specified in its charter)

Bermuda	98-0686001
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Clarendon House 2 Church Street Hamilton, Bermuda	HM 11
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: +1 441 295 5950

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 2, 2016
Common Shares, $0.01 par value	385,179,418

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Unless otherwise stated in this report, references to "Kosmos," "we," "us" or "the company" refer to Kosmos Energy Ltd. and its subsidiaries. We have provided definitions for some of the industry terms used in this report in the "Glossary and Selected Abbreviations" beginning on page 3.

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KOSMOS ENERGY LTD.

GLOSSARY AND SELECTED ABBREVIATIONS

The following are abbreviations and definitions of certain terms that may be used in this report. Unless listed below, all defined terms under Rule 4-10(a) of Regulation S-X shall have their statutorily prescribed meanings.

"2D seismic data"	Two-dimensional seismic data, serving as interpretive data that allows a view of a vertical cross-section beneath a prospective area.
"3D seismic data"	Three-dimensional seismic data, serving as geophysical data that depicts the subsurface strata in three dimensions. 3D seismic data typically provides a more detailed and accurate interpretation of the subsurface strata than 2D seismic data.
"API"	A specific gravity scale, expressed in degrees, that denotes the relative density of various petroleum liquids. The scale increases inversely with density. Thus lighter petroleum liquids will have a higher API than heavier ones.
"ASC"	Financial Accounting Standards Board Accounting Standards Codification.
"ASU"	Financial Accounting Standards Board Accounting Standards Update.
"Barrel" or "Bbl"	A standard measure of volume for petroleum corresponding to approximately 42 gallons at 60 degrees Fahrenheit.
"BBbl"	Billion barrels of oil.
"BBoe"	Billion barrels of oil equivalent.
"Bcf"	Billion cubic feet.
"Boe"	Barrels of oil equivalent. Volumes of natural gas converted to barrels of oil using a conversion factor of 6,000 cubic feet of natural gas to one barrel of oil.
"Boepd"	Barrels of oil equivalent per day.
"Bopd"	Barrels of oil per day.
"Bwpd"	Barrels of water per day.
"Debt cover ratio"	The "debt cover ratio" is broadly defined, for each applicable calculation date, as the ratio of (x) total long-term debt less cash and cash equivalents and restricted cash, to (y) the aggregate EBITDAX (see below) of the Company for the previous twelve months.

"Developed acreage"	The number of acres that are allocated or assignable to productive wells or wells capable of production.
"Development"	The phase in which an oil or natural gas field is brought into production by drilling development wells and installing appropriate production systems.
"Dry hole"	A well that has not encountered a hydrocarbon bearing reservoir expected to produce in commercial quantities.

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"EBITDAX"	Net income (loss) plus (i) exploration expense, (ii) depletion, depreciation and amortization expense, (iii) equity-based compensation expense, (iv) unrealized (gain) loss on commodity derivatives (realized losses are deducted and realized gains are added back), (v) (gain) loss on sale of oil and gas properties, (vi) interest (income) expense, (vii) income taxes, (viii) loss on extinguishment of debt, (ix) doubtful accounts expense and (x) similar other material items which management believes affect the comparability of operating results.
"E&P"	Exploration and production.
"FASB"	Financial Accounting Standards Board.
"Farm-in"	An agreement whereby a party acquires a portion of the participating interest in a block from the owner of such interest, usually in return for cash and for taking on a portion of the drilling costs of one or more specific wells or other performance by the assignee as a condition of the assignment.
"Farm-out"	An agreement whereby the owner of the participating interest agrees to assign a portion of its participating interest in a block to another party for cash and/or for the assignee taking on a portion of the drilling costs of one or more specific wells and/or other work as a condition of the assignment.
"Field life cover ratio"	The "field life cover ratio" is broadly defined, for each applicable forecast period, as the ratio of (x) the forecasted net present value of net cash flow through the depletion of the Jubilee Field plus the net present value of the forecast of certain capital expenditures incurred in relation to the Jubilee Field and certain other fields in Ghana, to (y) the aggregate loan amounts outstanding under the Facility less the Resource Bridge, as applicable.
"FPSO"	Floating production, storage and offloading vessel.
"Interest cover ratio"	The "interest cover ratio" is broadly defined, for each applicable calculation date, as the ratio of (x) the aggregate EBITDAX (see above) of the Company for the previous twelve months, to (y) interest expense less interest income for the Company for the previous twelve months.
"Loan life cover ratio"	The "loan life cover ratio" is broadly defined, for each applicable forecast period, as the ratio of (x) net present value of forecasted net cash flow through the final maturity date of the Facility plus the net present value of forecasted capital expenditures incurred in relation to the Jubilee Field and certain other fields in Ghana, to (y) the aggregate loan amounts outstanding under the Facility less the Resource Bridge, as applicable.
"Make-whole redemption price"	The "make-whole redemption price" is equal to the outstanding principal amount of such notes plus the greater of 1) 1% of the then outstanding principal amount of such notes and 2) the present value of the notes at 103.9% and required interest payments thereon through August 1, 2017 at such redemption date.
"MBbl"	Thousand barrels of oil.

“Mcf”	Thousand cubic feet of natural gas.
“Mcfpd”	Thousand cubic feet per day of natural gas.
“MMBbl”	Million barrels of oil.
“MMBoe”	Million barrels of oil equivalent.
“MMcf”	Million cubic feet of natural gas.
“Natural gas liquid” or “NGL”	Components of natural gas that are separated from the gas state in the form of liquids. These include propane, butane, and ethane, among others.
“Petroleum contract”	A contract in which the owner of hydrocarbons gives an E&P company temporary and limited rights, including an exclusive option to explore for, develop, and produce hydrocarbons from the lease area.
“Petroleum system”	A petroleum system consists of organic material that has been buried at a sufficient depth to allow adequate temperature and pressure to expel hydrocarbons and cause the movement of oil and natural gas from the area in which it was formed to a reservoir rock where it can accumulate.
“Plan of development” or “PoD”	A written document outlining the steps to be undertaken to develop a field.
“Productive well”	An exploratory or development well found to be capable of producing either oil or natural gas in sufficient quantities to justify completion as an oil or natural gas well.
“Prospect(s)”	A potential trap that may contain hydrocarbons and is supported by the necessary amount and quality of geologic and geophysical data to indicate a probability of oil and/or natural gas accumulation ready to be drilled. The five required elements (generation, migration, reservoir, seal and trap) must be present for a prospect to work and if any of these fail neither oil nor natural gas may be present, at least not in commercial volumes.
“Proved reserves”	Estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be economically recoverable in future years from known reservoirs under existing economic and operating conditions, as well as additional reserves expected to be obtained through confirmed improved recovery techniques, as defined in SEC Regulation S-X 4-10(a)(2).
“Proved developed reserves”	Those proved reserves that can be expected to be recovered through existing wells and facilities and by existing operating methods.
“Proved undeveloped reserves”	Those proved reserves that are expected to be recovered from future wells and facilities, including future improved recovery projects which are anticipated with a high degree of certainty in reservoirs which have previously shown favorable response to improved recovery projects.
“Reconnaissance contract”	A contract in which the owner of hydrocarbons gives an E&P company rights to perform evaluation of existing data or potentially acquire additional data but may not convey an exclusive

option to explore for, develop, and/or produce hydrocarbons from the lease area.

“Resource Bridge”	Borrowing Base availability attributable to probable reserves and contingent resources from Jubilee Field Future Phases, Tweneboa, Enyenra and Ntomme fields and potentially Mahogany, Teak and Akasa fields.
“Shelf margin”	The path created by the change in direction of the shoreline in reaction to the filling of a sedimentary basin.
“Stratigraphy”	The study of the composition, relative ages and distribution of layers of sedimentary rock.
“Stratigraphic trap”	A stratigraphic trap is formed from a change in the character of the rock rather than faulting or folding of the rock and oil is held in place by changes in the porosity and permeability of overlying rocks.
“Structural trap”	A topographic feature in the earth’s subsurface that forms a high point in the rock strata. This facilitates the accumulation of oil and natural gas in the strata.
“Structural-stratigraphic trap”	A structural-stratigraphic trap is a combination trap with structural and stratigraphic features.
“Submarine fan”	A fan-shaped deposit of sediments occurring in a deep water setting where sediments have been transported via mass flow, gravity induced, processes from the shallow to deep water. These systems commonly develop at the bottom of sedimentary basins or at the end of large rivers.
“Three-way fault trap”	A structural trap where at least one of the components of closure is formed by offset of rock layers across a fault.
“Trap”	A configuration of rocks suitable for containing hydrocarbons and sealed by a relatively impermeable formation through which hydrocarbons will not migrate.
“Undeveloped acreage”	Lease acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of natural gas and oil regardless of whether such acreage contains discovered resources.

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KOSMOS ENERGY LTD.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	March 31, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 212,917	$ 275,004
Restricted cash	28,557	28,533
Receivables:		
Joint interest billings	65,677	67,200
Oil sales	—	35,950
Other	29,193	34,882
Inventories	67,227	85,173
Prepaid expenses and other	11,092	24,766
Derivatives	155,796	182,640
Total current assets	570,459	734,148
Property and equipment:		
Oil and gas properties, net	2,528,527	2,314,226
Other property, net	7,725	8,613
Property and equipment, net	2,536,252	2,322,839
Other assets:		
Restricted cash	7,313	7,325
Long-term receivables - joint interest billings	38,513	37,687
Deferred financing costs, net of accumulated amortization of $9,159 and $8,475 at March 31, 2016 and December 31, 2015, respectively	7,302	7,986
Long-term deferred tax assets	30,866	33,209
Derivatives	40,675	59,856
Other	3,439	—
Total assets	$ 3,234,819	$ 3,203,050
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$ 237,188	$ 295,689
Accrued liabilities	142,104	159,897

Derivatives	1,473	1,155
Total current liabilities	380,765	456,741
Long-term liabilities:		
Long-term debt	1,013,596	860,878
Derivatives	12,377	4,196
Asset retirement obligations	45,122	43,938
Deferred tax liabilities	497,895	502,189
Other long-term liabilities	8,942	9,595
Total long-term liabilities	1,577,932	1,420,796
Shareholders' equity:		
Preference shares, $0.01 par value; 200,000,000 authorized shares; zero issued at March 31, 2016 and December 31, 2015	—	—
Common shares, $0.01 par value; 2,000,000,000 authorized shares; 394,163,942 and 393,902,643 issued at March 31, 2016 and December 31, 2015, respectively	3,942	3,939
Additional paid-in capital	1,943,280	1,933,189
Accumulated deficit	(623,679)	(564,686)
Treasury stock, at cost, 9,006,216 and 8,812,054 shares at March 31, 2016 and December 31, 2015, respectively	(47,421)	(46,929)
Total shareholders' equity	1,276,122	1,325,513
Total liabilities and shareholders' equity	$ 3,234,819	$ 3,203,050

See accompanying notes.

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KOSMOS ENERGY LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Revenues and other income:		
Oil and gas revenue	$ 62,125	$ 109,164
Gain on sale of assets	—	22,751
Other income	8	642
Total revenues and other income	62,133	132,557
Costs and expenses:		
Oil and gas production	29,392	32,100
Exploration expenses	23,858	98,941
General and administrative	17,920	38,667
Depletion and depreciation	31,266	37,007
Interest and other financing costs, net	10,324	10,751
Derivatives, net	(4,345)	(32,327)
Other expenses, net	14,733	628
Total costs and expenses	123,148	185,767
Loss before income taxes	(61,015)	(53,210)
Income tax expense (benefit)	(2,022)	25,699
Net loss	$ (58,993)	$ (78,909)
Net loss per share:		
Basic	$ (0.15)	$ (0.21)
Diluted	$ (0.15)	$ (0.21)
Weighted average number of shares used to compute net loss per share:		
Basic	384,435	380,355

Diluted	384,435	380,355

See accompanying notes.

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KOSMOS ENERGY LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Net loss	$ (58,993)	$ (78,909)
Other comprehensive loss:		
Reclassification adjustments for derivative gains included in net loss	—	(194)
Other comprehensive loss	—	(194)
Comprehensive loss	$ (58,993)	$ (79,103)

See accompanying notes.

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KOSMOS ENERGY LTD.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)

(Unaudited)

	Common Shares		Additional Paid-in	Accumulated	Treasury	
	Shares	Amount	Capital	Deficit	Stock	Total
Balance as of December 31, 2015	393,903	$ 3,939	$ 1,933,189	$ (564,686)	$ (46,929)	$ 1,325,513
Equity-based compensation	—	—	10,676	—	—	10,676
Restricted stock awards and units	261	3	(3)	—	—	—
Restricted stock forfeitures	—	—	1	—	(1)	—
Purchase of treasury stock	—	—	(583)	—	(491)	(1,074)
Net loss	—	—	—	(58,993)	—	(58,993)
Balance as of March 31, 2016	394,164	$ 3,942	$ 1,943,280	$ (623,679)	$ (47,421)	$ 1,276,122

See accompanying notes.

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KOSMOS ENERGY LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Operating activities		
Net loss	$ (58,993)	$ (78,909)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depletion, depreciation and amortization	33,817	39,617
Deferred income taxes	(1,951)	5,783
Unsuccessful well costs	2,222	83,627
Change in fair value of derivatives	(2,377)	(34,980)
Cash settlements on derivatives (including $56.6 million and $51.3 million on commodity hedges during 2016 and 2015)	56,901	53,932
Equity-based compensation	10,635	25,183
Gain on sale of assets	—	(22,751)
Other	14,969	1,171
Changes in assets and liabilities:		
Decrease in receivables	39,894	35,926
(Increase) decrease in inventories	2,237	(18,443)
(Increase) decrease in prepaid expenses and other	13,674	(4,399)
Decrease in accounts payable	(58,501)	(58,286)
Decrease in accrued liabilities	(36,910)	(36,451)
Net cash provided by (used in) operating activities	15,617	(8,980)
Investing activities		
Oil and gas assets	(226,571)	(184,899)
Other property	(47)	(280)
Restricted cash	(12)	(59)
Net cash used in investing activities	(226,630)	(185,238)
Financing activities		
Borrowings under long-term debt	150,000	—

Purchase of treasury stock	(1,074)	(148)
Net cash provided by (used in) financing activities	148,926	(148)
Net decrease in cash and cash equivalents	(62,087)	(194,366)
Cash and cash equivalents at beginning of period	275,004	554,831
Cash and cash equivalents at end of period	$ 212,917	$ 360,465
Supplemental cash flow information		
Cash paid for:		
Interest	$ 14,611	$ 32,179
Income taxes	$ 2,734	$ 10,000
Non-cash activity:		
Conversion of joint interest billings receivable to long-term note receivable	$ 3,417	$ —

See accompanying notes.

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KOSMOS ENERGY LTD.

Notes to Consolidated Financial Statements

(Unaudited)

1. Organization

Kosmos Energy Ltd. was incorporated pursuant to the laws of Bermuda in January 2011 to become a holding company for Kosmos Energy Holdings. Kosmos Energy Holdings is a privately held Cayman Islands company that was formed in March 2004. As a holding company, Kosmos Energy Ltd.'s management operations are conducted through a wholly owned subsidiary, Kosmos Energy, LLC. The terms "Kosmos," the "Company," "we," "us," "our," "ours," a similar terms refer to Kosmos Energy Ltd. and its wholly owned subsidiaries, unless the context indicates otherwise.

Kosmos is a leading independent oil and gas exploration and production company focused on frontier and emerging areas along the Atlantic Margin. Our assets include existing production and development projects offshore Ghana, large discoveries offshore Mauritania and Senegal, as well as exploration licenses with significant hydrocarbon potential offshore Portugal, Sao Tome and Principe, Suriname, Morocco and Western Sahara. Kosmos is listed on the New York Stock Exchange and is traded under the ticker symbol KOS.

We have one reportable segment, which is the exploration and production of oil and natural gas. Substantially all of our long-lived assets and product sales are currently related to production located offshore Ghana.

2. Accounting Policies

General

The interim-period financial information presented in the consolidated financial statements included in this report is unaudited and, in the opinion of management, includes all adjustments of a normal recurring nature necessary to present fairly the consolidated financial position as of March 31, 2016, the changes in the consolidated statements of shareholders' equity for the three months ended March 31, 2016, the consolidated results of operations for the three months ended March 31, 2016 and 2015, and the consolidated cash flows for the three months ended March 31, 2016 and 2015. The results of the interim periods shown in this report are not necessarily indicative of the final results to be expected for the full year. The consolidated financial statements were prepared in accordance with the requirements of the Securities and Exchange Commission ("SEC") for interim reporting. As permitted under those rules, certain notes or other financial information that are normally required by Generally Accepted Accounting Principles in the United States of America ("GAAP") have been condensed or omitted from these interim consolidated financial statements. These consolidated financial statements and the accompanying notes should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2015, included in our annual report on Form 10-K.

Restricted Cash

In accordance with our commercial debt facility (the "Facility"), we are required to maintain a restricted cash balance that is sufficient to meet the payment of interest and fees for the next six-month period on the 7.875% Senior Secured Notes due 2021 ("Senior Notes") plus the Corporate Revolver or the Facility, whichever is greater. As of March 31, 2016 and December 31, 2015, we had $24.4 million in current restricted cash to meet this requirement.

In addition, in accordance with certain of our petroleum contracts, we have posted letters of credit related to performance guarantees for our minimum work obligations. These letters of credit are cash collateralized in accounts held by us and as such are classified as restricted cash. Upon completion of the minimum work obligations and/or entering into the next phase of the petroleum contract, the requirement to post the existing letters of credit will be satisfied and the cash collateral will be released. However, additional letters of credit may be required should we choose to move into the next phase of certain of our petroleum contracts. As of March 31, 2016 and December 31, 2015, we had $4.2 million and $4.1 million, respectively, of short-term restricted cash and $7.3 million of long-term restricted cash used to collateralize performance guarantees related to our petroleum contracts.

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Inventories

Inventories consisted of $67.1 million and $84.4 million of materials and supplies and $0.1 million and $0.8 million of hydrocarbons as of March 31, 2016 and December 31, 2015, respectively. The Company's materials and supplies inventory primarily consists of casing and wellheads and is stated at the lower of cost, using the weighted average cost method, or net realizable value. We recorded a write down of $15.7 million during the first quarter of 2016 for materials and supplies inventories as other expenses, net in the consolidated statement of operations and other in the consolidated statement of cash flows.

Hydrocarbon inventory is carried at the lower of cost, using the weighted average cost method, or net realizable value. Hydrocarbon inventory costs include expenditures and other charges incurred in bringing the inventory to its existing condition. Selling expenses and general and administrative expenses are reported as period costs and excluded from inventory costs.

Recent Accounting Standards

In July 2015, the FASB issued ASU 2015-11, "Inventory (Topic 330) — Simplifying the Measurement of Inventory." ASU 2015-11 changes the measurement principle for entities that do not measure inventory using the last-in, first-out (LIFO) or retail inventory method from the lower of cost or market to lower of cost and net realizable value. The ASU also eliminates the requirement for these entities to consider replacement cost or net realizable value less an approximately normal profit margin when measuring inventory. The standard requires prospective application upon adoption. The Company has elected to early adopt ASU 2015-11 during the first quarter of 2016. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." ASU 2016-02 was issued to increase transparency and comparability across organizations by recognizing substantially all leases on the balance sheet through the concept of right-of-use lease assets and liabilities. Under current accounting guidance, lessees do not recognize lease assets or liabilities for leases classified as operating leases. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years with early adoption permitted. The Company is in the process of evaluating the impact of this accounting standard on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Compensation — Stock Compensation (Topic 816)." ASU 2016-09 simplifies several aspects of accounting for share-based compensation including the tax consequences, classification of awards as equity or liabilities, forfeitures and classification on the statement of cash flows. The ASU is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years with early adoption permitted. The Company plans to early adopt this standard during the second quarter of 2016. The adoption of this standard will result in all excess tax benefits and shortfalls being recognized as tax expense or benefit in the reporting period they occur regardless of whether the benefit reduces taxes payable in the current period. Excess tax benefits will be classified along with other income tax as an operating activity and cash paid by the Company when directly withholding shares for tax withholding purposes will be classified as a financing activity. The Company is in the process of evaluating the impact of this accounting standard on its consolidated financial statements.

3. Acquisitions and Divestitures

In January and February 2016, we entered into farm-in agreements with Equator, an affiliate of Oando, for Block 5 and Block 12, respectively, offshore Sao Tome and Principe, and whereby we acquired a 65% participating interest and operatorship in each block, effective as of February and March 2016, respectively. The national petroleum agency, Agencia Nacional do Petroleo ("ANP"), has a 15% and 12.5% carried interest in Block 5 and Block 12, respectively.

In April 2016, we entered into a farm-out agreement with Hess Suriname Exploration Limited, a wholly-owned subsidiary of the Hess Corporation ("Hess"), covering the Block 42 contract area offshore Suriname. Under the terms of the agreement, Hess will acquire a one-third non-operated interest in Block 42 from both Chevron Corporation ("Chevron") and Kosmos. As part of the agreement, Hess will fund the cost of a 6,500 square kilometer 3D seismic survey, subject to an agreed maximum limit, inclusive of Hess' share, expected to commence in the third quarter of 2016. Additionally, Hess will disproportionately fund a portion of the first exploration well, if drilled, in the Block 42 contract area, subject to an agreed maximum limit, inclusive of Hess' share, contingent upon the partnership entering the

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next phase of the exploration period. The new participating interests will be one-third to each of Kosmos, Chevron and Hess, respectively. Kosmos will remain the operator. The agreement is subject to certain customary closing conditions before the new participating interests are effective.

4. Joint Interest Billings

The Company's joint interest billings consist of receivables from partners with interests in common oil and gas properties operated by the Company. Joint interest billings are classified on the face of the consolidated balance sheets as current and long-term receivables based on when collection is expected to occur.

In 2014, the Ghana National Petroleum Corporation ("GNPC") notified us and our block partners that it would exercise its right for the contractor group to pay its 5% share of the Tweneboa, Enyenra and Ntomme ("TEN") development costs. The block partners will be reimbursed for such costs plus interest out of a portion of GNPC's TEN production revenues under the terms of the Deepwater Tano ("DT") petroleum contract. As of March 31, 2016 and December 31, 2015, the joint interest billing receivables due from GNPC for the TEN development costs were $37.3 million and $35.3 million, respectively, which are classified as long-term on the consolidated balance sheets.

5. Property and Equipment

Property and equipment is stated at cost and consisted of the following:

	March 31, 2016	December 31, 2015
	(In thousands)	
Oil and gas properties:		
Proved properties	$ 1,364,169	$ 1,337,215
Unproved properties	731,777	593,510
Support equipment and facilities	1,320,200	1,241,943
Total oil and gas properties	3,416,146	3,172,668
Accumulated depletion	(887,619)	(858,442)
Oil and gas properties, net	2,528,527	2,314,226
Other property	34,800	34,807

Accumulated depreciation	(27,075)	(26,194)
Other property, net	7,725	8,613
Property and equipment, net	$ 2,536,252	$ 2,322,839

We recorded depletion expense of $29.2 million and $34.7 million for the three months ended March 31, 2016 and 2015, respectively.

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6. Suspended Well Costs

The following table reflects the Company's capitalized exploratory well costs on completed wells as of and during the three months ended March 31, 2016. The table excludes $2.2 million in costs that were capitalized and subsequently expensed during the same period.

	March 31, 2016 (In thousands)
Beginning balance	$ 426,881
Additions to capitalized exploratory well costs pending the determination of proved reserves	198,031
Reclassification due to determination of proved reserves	—
Capitalized exploratory well costs charged to expense	—
Ending balance	$ 624,912

The following table provides an aging of capitalized exploratory well costs based on the date drilling was completed and the number of projects for which exploratory well costs have been capitalized for more than one year since the completion of drilling:

	March 31, 2016	December 31, 2015
	(In thousands, except well counts)	
Exploratory well costs capitalized for a period of one year or less	$ 397,318	$ 199,486
Exploratory well costs capitalized for a period of one to two years	17,901	17,702
Exploratory well costs capitalized for a period of three to seven years	209,693	209,693
Ending balance	$ 624,912	$ 426,881
Number of projects that have exploratory well costs that have been capitalized for a period greater than one year	3	3

As of March 31, 2016, the projects with exploratory well costs capitalized for more than one year since the completion of drilling are related to the Mahogany, Teak (formerly Teak-1 and Teak-2) and Akasa discoveries in the West Cape Three Points ("WCTP") Block and the Wawa discovery in the DT Block, which are all in Ghana.

Mahogany and Teak Discoveries — In November 2015, we signed the Jubilee Field Unit Expansion Agreement with our partners to allow for the development of the Mahogany and Teak discoveries through the Jubilee FPSO and infrastructure. The expansion of the Jubilee Unit becomes effective upon approval by Ghana's Ministry of Petroleum of the Greater Jubilee Full Field Development Plan ("GJFFDP"), which was submitted to the government of Ghana in December 2015. The GJFFDP encompasses future development of the Jubilee Field, in addition to future development of the Mahogany and Teak discoveries, which were declared commercial during 2015. We are currently in discussions with the government of Ghana concerning the GJFFDP. Upon approval of the GJFFDP by the Ministry of Petroleum, the Jubilee Unit will be expanded to include the Mahogany and Teak discoveries and revenues and expenses associated with these discoveries will be at the Jubilee Unit interests. The WCTP Block partners have agreed they will take the steps necessary to transfer operatorship of the remaining portions of the WCTP Block to Tullow after approval of the GJFFDP by Ghana's Ministry of Petroleum.

Akasa Discovery — We are currently in discussions with the government of Ghana regarding additional technical studies and evaluation that we want to conduct before we are able to make a determination regarding commerciality of the discovery. If we determine the discovery to be commercial, a declaration of commerciality would be provided and a PoD would be prepared and submitted to Ghana's Ministry of Petroleum, as required under the WCTP petroleum contract. The WCTP Block partners have agreed they will take the steps necessary to transfer operatorship of the remaining portions of the WCTP Block to Tullow after approval of the GJFFDP by Ghana's Ministry of Petroleum.

Wawa Discovery — In February 2016, we requested the Ghana Ministry of Petroleum to approve the enlargement of the areal extent of the TEN development and production area to capture the resource accumulation located in the Wawa Discovery Area for a potential future integrated development with TEN. In April 2016, the Ghana Ministry of Petroleum approved our request to enlarge the TEN development and production area subject to continued subsurface and development concept evaluation, along with the requirement to integrate the Wawa Discovery into the TEN PoD.

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7. Accrued Liabilities

Accrued liabilities consisted of the following:

	March 31, 2016	December 31, 2015
	(In thousands)	
Accrued liabilities:		
Exploration, development and production	$ 119,135	$ 111,064
General and administrative expenses	9,399	24,839
Interest	6,891	17,512
Income taxes	1,176	3,418
Taxes other than income	5,503	3,064
	$ 142,104	$ 159,897

8. Debt

	March 31, 2016	December 31, 2015
	(In thousands)	
Outstanding debt principal balances:		
Facility	$ 550,000	$ 400,000
Senior Notes	525,000	525,000
Total	1,075,000	925,000
Unamortized issuance costs and discounts	(61,404)	(64,122)
Long-term debt	$ 1,013,596	$ 860,878

Facility

In March 2014, the Company amended and restated the Facility with a total commitment of $1.5 billion from a number of financial institutions. The Facility supports our oil and gas exploration, appraisal and development programs and corporate activities. As of March 31, 2016, we have $35.7 million of net deferred financing costs related to the Facility, which will be amortized over the remaining term of the Facility, including certain costs related to the amendment.

In March 2016, following the lender's semi-annual redetermination, the borrowing base under our Facility was reduced by $73.5 million to $1.427 billion. The borrowing base calculation includes value related to the Jubilee field and TEN development project. As of March 31, 2016, borrowings under the Facility totaled $550.0 million and the undrawn availability under the Facility was $876.5 million.

The Facility provides a revolving-credit and letter of credit facility. The availability period for the revolving-credit facility, as amended in March 2014, expires on March 31, 2018, however, the Facility has a revolving-credit sublimit, which will be the lesser of $500.0 million and the total available facility at that time, that will be available for drawing until the date falling one month prior to the final maturity date. The letter of credit facility expires on the final maturity date. The available facility amount is subject to borrowing base constraints and, beginning on March 31, 2018, outstanding borrowings will be constrained by an amortization schedule. The Facility has a final maturity date of March 31, 2021. As of March 31, 2016, we had no letters of credit issued under the Facility.

We were in compliance with the financial covenants contained in the Facility as of March 31, 2016 (the most recent assessment date). The Facility contains customary cross default provisions.

Corporate Revolver

In June 2015, we amended and restated the Corporate Revolver from a number of financial institutions, increasing the borrowing capacity to $400.0 million, extending the maturity date to November 2018 and lowering the commitment fees on the undrawn portion of the total commitments to 30% per annum of the respective margin. The

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Corporate Revolver is available for all subsidiaries for general corporate purposes and for oil and gas exploration; appraisal and development programs. As of March 31, 2016, we have $7.3 million of net deferred financing costs related to the Corporate Revolver, which will be amortized over the remaining term.

As of March 31, 2016, there were no borrowings outstanding under the Corporate Revolver and the undrawn availability under the Corporate Revolver was $400.0 million. We were in compliance with the financial covenants contained in the Corporate Revolver as of March 31, 2016 (the most recent assessment date). The Corporate Revolver contains customary cross default provisions.

Revolving Letter of Credit Facility

In July 2013, we entered into a revolving letter of credit facility agreement ("LC Facility"). The size of the LC Facility is $75.0 million, as amended in July 2015, with additional commitments up to $50.0 million being available if the existing lender increases its commitment or if commitments from new financial institutions are added. As of March 31, 2016, there were nine outstanding letters of credit totaling $15.3 million under the LC Facility. The LC Facility contains customary cross default provisions.

7.875% Senior Secured Notes due 2021

During August 2014, the Company issued $300.0 million of Senior Notes and received net proceeds of approximately $292.5 million after deducting discounts, commissions and deferred financing costs. The Company used the net proceeds to repay a portion of the outstanding indebtedness under the Facility and for general corporate purposes.

During April 2015, we issued an additional $225.0 million of Senior Notes and received net proceeds of $206.8 million after deducting discounts, commissions and other expenses. We used the net proceeds to repay a portion of the outstanding indebtedness under the Facility and for general corporate purposes. The additional $225.0 million of Senior Notes have identical terms to the initial $300.0 million of Senior Notes, other than the date of issue, the initial price, the first interest payment date and the first date from which interest will accrue.

The Senior Notes mature on August 1, 2021. Interest is payable semi-annually in arrears each February 1 and August 1 commencing on February 1, 2015 for the initial $300.0 million Senior Notes and August 1, 2015 for the additional $225.0 million Senior Notes. The Senior Notes are secured (subject to certain exceptions and permitted liens) by a first ranking fixed equitable charge on all shares held by us in our direct subsidiary, Kosmos Energy Holdings. The Senior Notes are currently guaranteed on a subordinated, unsecured basis by our existing restricted subsidiaries that guarantee the Facility and the Corporate Revolver, and, in certain circumstances, the Senior Notes will become guaranteed by certain of our other existing or future restricted subsidiaries.

At March 31, 2016, the estimated repayments of debt during the five fiscal year periods and thereafter are as follows:

	Payments Due by Year					
	2016(2)	2017	2018	2019	2020	Thereafter
	(In thousands)					
Principal debt repayments(1)	$ —	$ —	$ —	$ 32,271	$ 348,123	$ 694,606

(1) Includes the scheduled principal maturities for the $525.0 million aggregate principal amount of Senior Notes issued in August 2014 and April 2015 and the Facility. The scheduled maturities of debt related to the Facility are based on the level of borrowings and the estimated future available borrowing base as of March 31, 2016. Any increases or decreases in the level of borrowings or increases or decreases in the available borrowing base would impact the scheduled maturities of debt during the next five years and thereafter. As of March 31, 2016, there were no borrowings under the Corporate Revolver.

(2) Represents payments for the period April 1, 2016 through December 31, 2016.

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Interest and other financing costs, net

Interest and other financing costs, net incurred during the period is comprised of the following:

	Three Months Ended March 31,	
	2016	2015
	(In thousands)	
Interest expense	$ 20,948	$ 15,397
Amortization—deferred financing costs	2,551	2,610
Capitalized interest	(16,446)	(8,840)
Deferred interest	(407)	1,154
Interest income	(368)	(168)
Other, net	4,046	598
Interest and other financing costs, net	$ 10,324	$ 10,751

9. Derivative Financial Instruments

We use financial derivative contracts to manage exposures to commodity price and interest rate fluctuations. We do not hold or issue derivative financial instruments for trading purposes.

We manage market and counterparty credit risk in accordance with our policies and guidelines. In accordance with these policies and guidelines, our management determines the appropriate timing and extent of derivative transactions. We have included an estimate of non-performance risk in the fair value measurement of our derivative contracts as required by ASC 820 — Fair Value Measurements and Disclosures.

Oil Derivative Contracts

The following table sets forth the volumes in barrels underlying the Company’s outstanding oil derivative contracts and the weighted average Dated Brent prices per Bbl for those contracts as of March 31, 2016.

			Weighted Average Dated Brent Price per Bbl					
Term	Type of Contract	MBbl	Net Deferred Premium Payable	Swap	Put	Floor	Ceiling	Call
2016:								
April — December	Purchased puts	1,501	$ 3.41	$ —	$ —	$ 85.00	$ —	$ —
April — December	Three-way collars	1,504	—	—	—	85.00	110.00	135.00
April — December	Swaps with puts	1,500	—	75.00	60.00	—	—	—
2017:								
January — December	Swap with puts/calls	2,000	$ 2.13	$ 72.50	$ 55.00	$ —	$ —	$ 90.00
January — December	Swap with puts	2,000	—	64.95	50.00	—	—	—
January — December	Sold calls(1)	2,000	—	—	—	—	85.00	—
January — December	Three-way collars	2,000	1.68	—	30.00	45.00	60.00	—
2018:								
January — December	Three-way collars	913	$ 2.37	$ —	$ 45.00	$ 60.00	$ 75.00	$ —
January — December	Sold calls(1)	2,000	—	—	—	—	65.00	—
2019:								
January — December	Sold calls(1)	913	$ —	$ —	$ —	$ —	$ 80.00	$ —

(1) Represents call option contracts sold to counterparties to enhance other derivative positions.

In April 2016, we entered into a three-way collar for 2.0 MMBbl from January 2017 through December 2017 with a floor price of $45.00 per barrel, a ceiling price of $55.00 per barrel and we sold a put at $30.00 per barrel. The contracts are indexed to Dated Brent and have a weighted average deferred premium payable of $1.75 per barrel.

Interest Rate Derivative Contracts

The following table summarizes our open interest rate swaps, whereby we pay a fixed rate of interest and the counterparty pays a variable LIBOR-based rate, and our capped interest rate swaps whereby we pay a fixed rate of interest if LIBOR is below the cap, and pay the market rate less the spread between the cap (sold call) and the fixed rate of interest if LIBOR is above the cap as of March 31, 2016:

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Term	Type of Contract	Floating Rate	Weighted Average Notional (In thousands)	Swap	Sold Call
April 2016 — June 2016	Swap	6-month LIBOR	$ 12,500	2.27 %	—
April 2016 — December 2018	Capped swap	1-month LIBOR	200,000	1.23 %	3.00 %

The following tables disclose the Company's derivative instruments as of March 31, 2016 and December 31, 2015 and gain/(loss) from derivatives during the three months ended March 31, 2016 and 2015, respectively:

Type of Contract	Balance Sheet Location	Estimated Fair Value Asset (Liability) March 31, 2016 (In thousands)	December 31, 2015
Derivatives not designated as hedging instruments:			
Derivative assets:			
Commodity(1)	Derivatives assets—current	$ 155,796	$ 182,640
Commodity(2)	Derivatives assets—long-term	40,675	59,197
Interest rate	Derivatives assets—long-term	—	659
Derivative liabilities:			
Commodity	Derivatives liabilities—current	(60)	—
Interest rate	Derivatives liabilities—current	(1,413)	(1,155)
Commodity	Derivatives liabilities—long-term	(11,055)	(4,196)
Interest rate	Derivatives liabilities—long-term	(1,322)	—
Total derivatives not designated as hedging instruments		$ 182,621	$ 237,145

(1) Includes net deferred premiums payable of $6.3 million and $6.2 million related to commodity derivative contracts as of March 31, 2016 and December 31, 2015, respectively.
(2) Includes net deferred premiums payable of $8.5 million and $6.9 million related to commodity derivative contracts as of March 31, 2016 and December 31, 2015, respectively.

Type of Contract	Location of Gain/(Loss)	Amount of Gain/(Loss) Three Months Ended March 31, 2016 (In thousands)	2015

Derivatives in cash flow hedging relationships:			
Interest rate(1)	Interest expense	$ —	$ 194
Total derivatives in cash flow hedging relationships		$ —	$ 194
Derivatives not designated as hedging instruments:			
Commodity(2)	Oil and gas revenue	$ 610	$ 2,633
Commodity	Derivatives, net	4,345	32,327
Interest rate	Interest expense	(2,578)	(174)
Total derivatives not designated as hedging instruments		$ 2,377	$ 34,786

(1) Amounts were reclassified from accumulated other comprehensive income or loss ("AOCI") into earnings upon settlement during 2015.
(2) Amounts represent the change in fair value of our provisional oil sales contracts.

Offsetting of Derivative Assets and Derivative Liabilities

Our derivative instruments which are subject to master netting arrangements with our counterparties only have the right of offset when there is an event of default. As of March 31, 2016 and December 31, 2015, there was not an event of default and, therefore, the associated gross asset or gross liability amounts related to these arrangements are

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presented on the consolidated balance sheets. Additionally, if an event of default occurred the offsetting amounts would be immaterial as of March 31, 2016 and December 31, 2015.

10. Fair Value Measurements

In accordance with ASC Topic 820 — Fair Value Measurements and Disclosures, fair value measurements are based upon inputs that market participants use in pricing an asset or liability, which are classified into two categories: observable inputs and unobservable inputs. Observable inputs represent market data obtained from independent sources, whereas unobservable inputs reflect a company's own market assumptions, which are used if observable inputs are not reasonably available without undue cost and effort. We prioritize the inputs used in measuring fair value into the following fair value hierarchy:

- Level 1 — quoted prices for identical assets or liabilities in active markets.

- Level 2 — quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and inputs derived principally from or corroborated by observable market data by correlation or other means.

- Level 3 — unobservable inputs for the asset or liability. The fair value input hierarchy level to which an asset or liability measurement in its entirety falls is determined based on the lowest level input that is significant to the measurement in its entirety.

The following tables present the Company's assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2016 and December 31, 2015, for each fair value hierarchy level:

	Fair Value Measurements Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(In thousands)			
March 31, 2016				
Assets:				
Commodity derivatives	$ —	$ 196,471	$ —	$ 196,471
Interest rate derivatives	—	—	—	—
Liabilities:				
Commodity derivatives	—	(11,115)	—	(11,115)

Interest rate derivatives	—	(2,735)	—	(2,735)
Total	$ —	$ 182,621	$ —	$ 182,621
December 31, 2015				
Assets:				
Commodity derivatives	$ —	$ 241,837	$ —	$ 241,837
Interest rate derivatives	—	659	—	659
Liabilities:				
Commodity derivatives	—	(4,196)	—	(4,196)
Interest rate derivatives	—	(1,155)	—	(1,155)
Total	$ —	$ 237,145	$ —	$ 237,145

The book values of cash and cash equivalents and restricted cash approximate fair value based on Level 1 inputs. Joint interest billings, oil sales and other receivables, and accounts payable and accrued liabilities approximate fair value due to the short-term nature of these instruments. Our long-term receivables, after any allowances for doubtful accounts, and other long-term assets approximate fair value. The estimates of fair value of these items are based on Level 2 inputs.

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Commodity Derivatives

Our commodity derivatives represent crude oil three-way collars, put options, call options and swaps for notional barrels of oil at fixed Dated Brent oil prices. The values attributable to our oil derivatives are based on (i) the contracted notional volumes, (ii) independent active futures price quotes for Dated Brent, (iii) a credit-adjusted yield curve applicable to each counterparty by reference to the credit default swap (“CDS”) market and (iv) an independently sourced estimate of volatility for Dated Brent. The volatility estimate was provided by certain independent brokers who are active in buying and selling oil options and was corroborated by market-quoted volatility factors. The deferred premium is included in the fair market value of the commodity derivatives. See Note 9 — Derivative Financial Instruments for additional information regarding the Company’s derivative instruments.

Provisional Oil Sales

The value attributable to the provisional oil sales derivative is based on (i) the sales volumes and (ii) the difference in the independent active futures price quotes for Dated Brent over the term of the pricing period designated in the sales contract and the spot price on the lifting date.

Interest Rate Derivatives

We have interest rate swaps, whereby the Company pays a fixed rate of interest and the counterparty pays a variable LIBOR-based rate. We also have capped interest rate swaps, whereby the Company pays a fixed rate of interest if LIBOR is below the cap, and pays the market rate less the spread between the cap and the fixed rate of interest if LIBOR is above the cap. The values attributable to the Company’s interest rate derivative contracts are based on (i) the contracted notional amounts, (ii) LIBOR yield curves provided by independent third parties and corroborated with forward active market-quoted LIBOR yield curves and (iii) a credit-adjusted yield curve as applicable to each counterparty by reference to the CDS market.

Debt

The following table presents the carrying values and fair values of financial instruments that are not carried at fair value in the consolidated balance sheets:

	March 31, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Long-term debt	$ 1,051,037	$ 992,313	$ 900,186	$ 823,612

The carrying value of the Facility approximates fair value since it is subject to short-term floating interest rates that approximate the rates available to us for those periods. The carrying value of long-term debt represents the principal amounts outstanding and does not include any unamortized issuance costs. The fair value of our Senior Notes is based on quoted market prices, which results in a Level 1 fair value measurement.

11. Equity-based Compensation

Restricted Stock Awards and Restricted Stock Units

We record compensation expense equal to the fair value of share-based payments over the vesting periods of the Long-Term Incentive Plan ("LTIP") awards. We recorded compensation expense from awards granted under our LTIP of $10.6 million and $25.2 million during the three months ended March 31, 2016 and 2015, respectively. The total tax benefit for the three months ended March 31, 2016 and 2015 was $3.6 million and $8.4 million, respectively. Additionally, we expensed a tax shortfall related to equity-based compensation of $1.2 million and $0.1 million for the three months ended March 31, 2016 and 2015 respectively. The fair value of awards vested during the three months ended March 31, 2016 and 2015 was approximately $4.6 million and $0.8 million, respectively. The Company has granted both restricted stock awards and restricted stock units with service vesting criteria and granted both restricted stock awards and restricted stock units with a combination of market and service criteria under the LTIP. Substantially, all these awards vest over three or four year periods. Restricted stock awards are issued and included in the number of

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outstanding shares upon the date of grant and, if such awards are forfeited, they become treasury stock. Upon vesting, restricted stock units become issued and outstanding stock.

The following table reflects the outstanding restricted stock awards as of March 31, 2016:

	Service Vesting Restricted Stock Awards (In thousands)	Weighted-Average Grant-Date Fair Value	Market / Service Vesting Restricted Stock Awards (In thousands)	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2015	810	9.20	261	9.44
Granted	—	—	—	—
Forfeited	—	—	(97)	9.46
Vested	(238)	9.03	(60)	9.37
Outstanding at March 31, 2016	572	9.27	104	9.45

The following table reflects the outstanding restricted stock units as of March 31, 2016:

	Weighted-	Market / Service	Weighted-