

Oil and Gas Investor

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Capital providers say the size of the energy opportunity is scaling up.

KOSMOS' COSMOS

This international exploration pure play's chief executive thrives on the search for elephants. Here's where the finder of La Ceiba and Jubilee fields is looking next.

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Kosmos Energy Ltd. is that rare bird, a publicly held pure-play on international exploration, nearly all offshore. If you like risk and lots of upside on the frontier, then this Dallas-based company is for you.

It has no cushy resource play back home to throw off cash flow to fund adventures in exotic places. But that doesn't bother chief executive officer Brian F. Maxted in the least; in fact, he thrives on looking for elephants—or if you prefer, “accessing new petroleum systems based on new and existing themes and geographies.”

And he sure has found some elephants. When he was head of exploration for Dallas-based Triton Energy Corp. in the early 2000s, he found La Ceiba oil field offshore Equatorial Guinea. Then, after selling Triton to Hess in 2001, he and former chief executive Jim Muselman formed Kosmos with backing from Warburg Pincus and The Blackstone Group, with a sole focus on offshore Africa. They hit paydirt again in mid-2007, when Kosmos and partners (Anadarko Petroleum Corp. and Tullow Oil Plc) tested an Upper Cretaceous prospect. It became the huge Jubilee Field (an estimated 1.6 billion barrels in place) offshore Ghana, opening up the Tano Basin. Today, Jubilee is the cash-flow generator for the company's development and exploration programs.

The partners are ramping up production capacity at Jubilee to 120,000 barrels per day, gross, on the floating production, storage and offloading vessel (FPSO). The year-end exit rate should be more than 90,000 barrels a

day. Gross recoverable resources are estimated at 600 million to 1 billion barrels of oil equivalent.

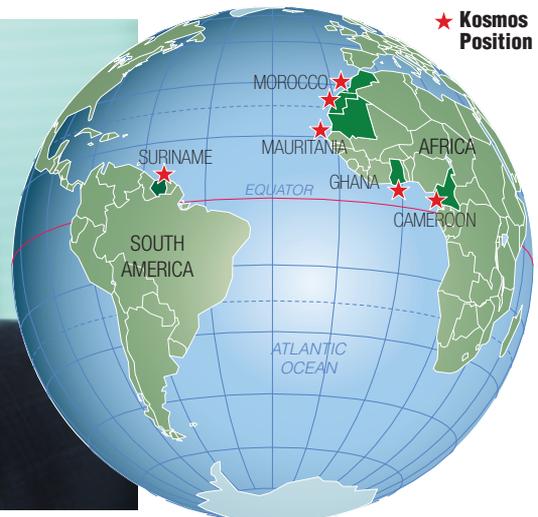
“We did it in Equatorial Guinea and we did it in Ghana, and now we're trying to swing again for a hat trick. I hope we don't stop at three,” Maxted says.

After flirting with a multibillion-dollar sale to a major, the company instead went public in May 2011, raising \$594 million. In an August 2012 research note, Raymond James & Associates said, “Building on producing assets in Ghana, Kosmos is on the cusp of starting high-risk, high-reward exploration in four other countries (Suriname, Mauritania, Cameroon and Morocco). Balancing the massive optionality with a commensurately elevated risk profile and a distant outlook for profitability, we are initiating with an Outperform rating and a high-risk suitability rating.”

There is a lot more work ahead. Beyond the Tano Basin, the company's first onshore well is expected to spud by year-end in Cameroon, where Kosmos is exploring a new theme in a familiar geography, testing the Rio del Rey petroleum system—a deepwater trend that extends onshore. The well, the Sipo prospect, is on the company's 720,000 gross acres.

In a new geography but with a familiar geological theme, Kosmos has acquired its first acreage outside Africa, in South America. This past June, Chevron Global Energy Inc. was assigned a 50% working interest in deepwater blocks 42 and 45 offshore Suriname through an

“We did it in Equatorial Guinea and we did it in Ghana, and now we're trying to swing again for a hat trick. I hope we don't stop at three,” says Brian F. Maxted, chief executive of Kosmos Energy Ltd. As it expands its portfolio, Kosmos' explorationists are always thinking about where to go next, to find a play that can stay ahead of industry.



agreement with Kosmos. They encompass 2.8 million gross acres, at water depths between 650 and 8,500 feet. Kosmos retains 50% and will operate until the end of the exploration phase. Chevron will assume the remaining half and take over following any commercial discoveries.

It's a classic first-mover business model that Maxted, who became chief executive of Kosmos in January 2011, hopes to follow several more times.

Investor You're one of the few pure-play, international exploration companies. But now, you are also in full development mode at Jubilee. How do you reconcile those two things?

Maxted Here's how we think about that: We are creating value here in two ways. One is transformationally, by opening up new petroleum systems. For Kosmos the success was in the very first inning, finding Jubilee and opening up the Tano Basin. That is now transitioning to development and production.

The second way we create value is by bringing fields into production rather quickly. There is still exploration left to do in Ghana, but we've had seven or eight discoveries there and Jubilee is onstream now. Our assets there are largely defined. This represents a good source of cash flow to fund follow-on developments and additional exploration elsewhere. It makes us financially self-sufficient and we don't need to go to the equity or debt markets for capital. That's a key factor, given the capital market uncertainty today. We can organically fund ourselves and focus on finding the next Ghana in the portfolio we are putting together.

Jubilee came onstream in 42 months, which is a record for a field that size and in that water depth (about 5,000 feet).

Investor So, no need for finding joint-venture partners?

Maxted Actually, there is a need. We are fully funded going forward, but the assumption is we would have partners, although the point is we don't have to have partners. Our business plan is built around identifying acreage and attracting partners before we drill it.

The most important thing is to align ourselves with partners that bring something to the table. Exploration is going into ever-increasing water depths and ever-increasing geological depths, so drilling and production capability is very important to us. That is *the* reason we brought Chevron into Suriname recently. They are the kind of partner we want if we find oil.

Investor Why?

Maxted They've been involved in setting some of the industry's deepest-water records in the Gulf of Mexico, such as their Jack Field in the Lower Tertiary trend. We have their respect from our track record in Equatorial Guinea at the former Triton, and now in Ghana, and we respect their capabilities.

Investor Since you are hunting for elephants everywhere, why not the Gulf of Mexico too?

Maxted That's a good question. For me, Kosmos doesn't have the license to operate, including the regional knowledge or the necessary relationships there that are key to access oppor-

Kosmos and partners are ramping up production capacity at Jubilee Field, offshore Ghana, to 120,000 barrels per day on the floating production, storage and offloading vessel.



PHOTO COURTESY KOSMOS ENERGY LTD.

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tunities. Third, we are very good at what we do internationally and we are disciplined to stay with what we know well. It takes time. Obviously the Gulf is a world-class province, but it is not a playing field for us.

Investor How do you adapt your strategy in different frontier areas?

Maxted Our business plan is simple: get the very best people, then develop a contrarian perspective and use that to drive a first-mover advantage. We like to have very large acreage positions, high working interests, and low or no-cost entry with a long contract period, and excellent fiscal terms. We originally focused on one geography—Africa—and on one theme, the Cretaceous, where there was a lot of oil left to be found. Then we rifle shot with highly targeted drilling to prove the exploration theme we’ve developed. We also think a lot about value and not just finding oil.

Investor You said the industry is trying to replicate what you’ve done.

Maxted The industry has spent well over \$1 billion from Mauritania to Togo and Benin but has failed to find the next Jubilee. While that play has become hot, we are thinking of where to go next, to find a play that can stay ahead of industry as we expand our portfolio. So we exported the same theme to Suriname.

Morocco, on the other hand, is a different theme. The pre-salt idea started with great success in the Gulf of Mexico and then was proven in Brazil, and now in Angola. So we asked ourselves, are there any other pre-salt basins along the Atlantic Margin? Turns out, yes, in Morocco. The pre-salt there is completely untested, although Shell drilled a post-salt well there eight or nine years ago before people were talking about pre-salt.

Investor Which theme are you looking at in Mauritania?

Maxted It is about learning if the next Jubilee is there. Being the architect of Jubilee, it’s a place where we think we might find another. In this case, it’s the same theme and we expanded the same geography.

Investor Talk some more about why you bring in partners.

Maxted Most of our exploration periods are six to eight years. This does take time. We are diluting our interests earlier than we might have before because costs are going up—seismic surveys cost more and we have so much acreage to shoot. We’re shooting \$30- or \$40-million seismic programs now. That’s one reason we brought in Chevron in Suriname.

Investor So you are looking for another Chevron or Anadarko?

Maxted Absolutely, at the right time. We see exploration as a team game, to bring costs down and manage the portfolio, and by the way, to bring in partners who have good projects we can participate in.

Investor What’s your secret to dealing with governments when it is so competitive out there?

Maxted Getting these new, contrarian ideas is key. We are always one of the first in, if not the very first. They’re very keen to sign up deals. If you go in early you get the pick of the acreage. We found oil in the Rio Muni Basin off Equatorial Guinea when we were Triton, and no one has found commercial oil in that basin since. (Editor’s note: A lot of natural gas been found there and is being produced by the likes of ExxonMobil, Noble Energy and Marathon.)

Investor That all comes back to geology.

Maxted We kept a good part of the old Triton team and added to it with hand-picked world-class explorers from companies like Exxon, Shell, BHP and so on. You don’t find oil when you put a bit in the ground; you find oil when you hire world-class explorers. I’ve always believed that.

If you don’t find good source rock, go somewhere else. It’s really about the process. A lot of companies come to a new basin and start looking for traps first, where we look holistically at the whole petroleum system on a different scale.

The difference between a lucky explorer who finds oil once, and a serial explorer who finds oil many times, is the process and the work flow and the people, because everyone has the same software and the same data.

Investor What’s your main goal today?

Maxted We did it in Ghana and we’ve built the portfolio to do it again. We’re in the second inning now, with some new exploration themes and new geographies, but now as a public company. The new portfolio will start to be drilled late next year. We’re trying to step-change the value of this company from \$5 billion to \$10 billion. Executing our strategy is the challenge. It’s not about ideas—we’ve never been short of ideas.

Investor What hurdles do you see?

Maxted It’s very competitive. The playing field has never been busier, because the larger companies are exploring again and kind of getting on our turf. Also, with higher oil prices, many new players have started up, so access has become more difficult. So we said, OK, we’ll take our ball and go play somewhere else—that’s Morocco, Suriname, and others.

Other issues are drilling costs, seismic, rig availability...returns are being squeezed. With high oil prices, governments are in a better negotiating position, and now you’re not the only guy in the room, so the governments have more options.

Investor What’s the end game?

Maxted Maximizing returns for our investors, and that can take a number of forms. When I think about our legacy, I want it to be that Kosmos is a world-class exploration company.

Investor And you’ll never run out of frontier basins?

Maxted I don’t think so. Not in my lifetime. I’m not worried about opportunities; I’m worried about accessing the opportunities. Everything is half full. □