Operator

Good day, everyone. Welcome to Kosmos Energy's Second Quarter 2016 Conference Call. Just a reminder, today's call is being recorded.

At this time, let me turn the call over to Neal Shah, Vice President of Finance and Treasurer at Kosmos Energy. Thank you. You may begin.

Neal Shah

Thank you, operator, and thanks to all of you for joining us today. This morning, we issued our second quarter earnings release, which is available on the Investors page at kosmosenergy.com website. We also anticipate filing our 10-Q with the SEC later today.

Joining me on the call today are Andy Inglis, Chairman and Chief Executive Officer and Tom Chambers, Chief Financial Officer.

Before we get started, I'd like to mention that this conference call includes certain forward-looking statements based on our current expectations. The risks associated with forward-looking statements have been outlined in our earnings release and in our SEC filings.

We may also refer to certain non-GAAP financial measures in our discussion. Management believes such measures are important in looking at the company's historical and future performance, and these are commonly referred to industry metrics. These measures are provided in addition to, and should be read in conjunction with, the information contained in our financial statements prepared in accordance with GAAP and included in our SEC filings.

At this time, I'll turn the call over to Andy.

Andy Inglis

Thanks, Neal and good morning everyone.

It's been a tough year and a half for the industry and for a lot of companies in our space. Lower oil prices and squeezed liquidity, forcing some companies out of business and others to dilute their investors to deleverage.

Only in this business environment we have the assets, balance sheet, management at Kosmos differentiated themselves. Our strategy is designed to work in a low commodity price environment where we remain committed to its disciplined execution.

We are now at inflection point in the company's history with production and cash flow set to increase the same time as our committed CapEx declines. This combined with our exploration success and the opportunities created for us, positions Kosmos to be one of the most successful companies as we emerge from this commodity cycle.

As I go to my remarks today, there are two key points I want to discuss. First, our Ghana asset remains a strong foundation in delivering our near term production and cash flow growth. And second, the quality of our exploration portfolio has never been better and Kosmos is well positioned to live a value from both our discovery resource, as well as renew high quality opportunities our team has identified. Tom will then finish up with a review of our strong financial position and quarterly results.

Turning first to Ghana. Last quarter we provided an update on the status of the turret bearing Jubilee. I am pleased to say that since then we made considerable progress on addressing the issue. In a short term, the revised operating procedures are working as anticipated.

As a reminder these procedures consist of the use of tug boats to ensure to FPSO remain statically positioned, as shuttle tanker to overflow the FPSO and the storage tanker to hold the production until the buyer's vessels arrive for transport to market. The partnership is now completed more than 25 off-loading for several tankers since implementation. We support the operators' second half 2016 gross production guidance of approximately 85,000 barrels of oil per day.

Furthermore, we recently announced that our long term solution for the turret issue is identified and the Jubilee partnership is quickly moving towards implementation. After exploring a range of options, the partnership agreed to spread more in the FPSO with a CALM buoy as the optimal solution that ensures the FPSO to maintain a 20-year effective life and is doubtful of loading, functionality with the least disruptions of oil production and gas export during the remediation work.

[The other plant] [ph] described in other vessel consist of several steps primarily allocated across three phases. The first phase of work involve the installation of stern anchoring system which means mechanically locking and repairing so that the FPSO can no longer rotate, followed by the insurance spread mooring of the vessels current heading.

The first phase of work will eliminate the need for the tug boats totally being used by heading control and is expected to commence in September this year with completion anticipated by the end of 2016.

The second phase of work is centered on rotating the FPSO to its optimal heading and firmly spread mooring the vessel. This heading was selected by some of the analysis of the FPSO which confirm that rotating the FPSO through approximately 190 degrees where the weather hits the [bar] [ph] of the FPSO would minimize the impact to the FPSO's useful life.

This phase is expected to be completed in the first half of 2017 and includes an 8 to 12 weeks shutdown. Following the completion of the spread mooring work program, we expect production to return to the levels achieved before the turret bearing issue occurred.

The final step for the FPSO remediation involves installation of an off-loading CALM buoy. The installation of buoy is expected to restore the full off-loading functionality and removing the sample tanker storage tanker associated operating expense. Installation of CALM buoy is expected in the first half of 2018.

Despite the issue with the turret bearing, we believe our cash flow from and the value off the field is intact. Based on recent discussions with our insurers, Kosmos does not expect these issues to have a significant long term financial impact on the company. We believe the impact to Kosmos is substantially mitigated through a combination of the reestablishment of field production and the coverage of the revenue short-fall additional cost by our LOPI and H&M policies.

We met with our insurers recently on both policies and have made good progress on the details of the claim process. Our LOPI insurance provided to the grid on the framework to ensure Kosmos for loss production on a monthly basis going forward to minimize the impact from reduced near-term production.

We're in final discussions on the benchmark production level from which we'll calculate lost production volumes for which we will receive compensation at $62 per barrel. We expect to file our first claim this month with payment anticipated to be received in late September pending the finalization of the framework details.

In addition, constructive discussions have continued between the Jubilee Partnership and our H&M insurers. We expect to agree on the process and timings of payment in the third quarter this year. However, given the complexity of the claim, the number of parties involved, it could stretch into the fourth quarter.

So in summary, revised operating proceeds have been implemented and we're working -- and are working as anticipated, allowing field production, offloading and export to continue.

Our long-term solution to the tariff barring issue has been identified and Jubilee Partnership is moving towards implementation and our cash flow from and the value of the Jubilee field remains intact.

Now moving on to TEN, our second major oil development in Ghana, the project remains on schedule and within budget with eight out of 11 wells now completed with first oil expected shortly. A gradual ramp-up in oil productions towards the FPSO capacity of 80,000 barrels of oil per day is anticipated around the end of 2016 as the facility is complete, performance testing and well production levels are increased to optimal rates.

For operated guidance, average annualized production from TEN in 2016 is expected to be approximately 23,000 barrels of oil per day gross, which equates to approximately 55,000 barrels of oil per day gross over the five months when the field is producing during 2016.

Associated gas from TEN is expected to be re-injected until gas export is enabled. While gas export was initially expected to commence 12 months after field start up, plans to accelerate gas export are currently under evaluation, allowing connection to existing gas infrastructure in early 2017.

So we're pleased with the progress the Ghana partnership has made in both advancing the solution to the Jubilee tariff barring issue and delivering the TEN project on time and on budget, both critical to growing the cash flow of Kosmos.

Now let me turn to exploration, where the quality of the prospectivity in our portfolio continues to improve with the addition of new data following our drilling success over the last year.

Across the portfolio, we're very much focused on finding oil as soon as possible and based on our early work, our overall prospectivity is growing and continues to be de-risk by additional industry proprietary data.

To that end, we're pursuing to deliver this result. Firstly, in Mauritania and Senegal, we've continued to uncover new information which has confirmed our view of the basin's significant scale as well as liquids potential.

As you know, our first exploration phase, which was completed earlier this year, was designed to test the primary prospects on each of three inboard slope channel fairways to the Senegal river, including the central, northern and southern systems.

Respectively, the campaign as we've disclosed, resulted in the finding of three significant fields, including Tortue, Marsouin and Teranga with a 100% success rate.

Together with the successful appraisal in delineation of Tortue by the Guembeul and Ahmeyim-2 wells, we've now delivered our goal of demonstrating 15 Tcf of gas for our first phase development.

Combined with Marsouin and Teranga, in aggregate, the drilling to date is conservatively discovered around 25 Tcf of gas resource and de-risk a total resource base of more than 50 Tcf of gas in the inward fairways, as well as providing us with a proven calibrated Seismic amplitude and AVO exploration tool.

We've now taken a deliberate pause in drilling, which provides us with a time to carefully analyze and integrate geological information obtained from the wells we drilled during our first exploration phase as well as acquired process and interpret new 3D Seismic.

Respectively this work is designed to one, refine our hydrocarbon charge model to better predict fluid phase, specifically for oil and liquids and second, identify mature and ranked prospects in each of the three potential oil prone, oil mature source kitchens, more on this shortly.

During the last quarter, while we're still at a relatively early stage, substantial progress was made with respect to both sub surface work flows. In regard to our hydrocarbon charge modeling, we've earned more direct and compelling evidence in support of the presence, quality and maturity of the three potential oil source systems, including the Cenomanian-Turonian or CT, the Albian and the third deeper Apto-Barremian.

The presence of a working world-class CT source system in board, Northern Mauritania has been demonstrated by the Chinguitel Field as well as offsetting wells. Fluid and sidewall core samples recovered from the exploration side of the Teranga-1 well, have now confirmed the presence of a rich, mature, oil prone, Albian source system in the inboard Northern Senegal.

For example, a 40 degree API liquid sample recovered from the Albian and Teranga-1, had a condensate-to-gas ratio of more than 150 barrels per million standard cubic feet, which is approximately 10 times richer than the gas in the Cenomanian reservoir at Tortue.

Based on this wetness, a 6 TCF gas discovery would yield a billion barrels of liquids. Similarly, new in-house analysis of core samples acquired by deep sea research drilling, coupled with intense, direct, florescence observed in whole coal taken in the Ahmeyim-2 appraisal well, more strongly infer a deeper, highly acted gas and oil source kitchen, of Apto-Barremian age, Albian, Northern, Senegal and Southern Mauritania.

Going forward, our charge work will focus on the four dimensional modeling of oil and gas generation from each of the three oil prone, oil mature source kitchens, centering in particular on the nature and timing of maturation and migration, which we believe is crucial to our understanding and predicting hydrocarbon phase.

In parallel with this new data being input into the hydrocarbon charge modeling, we also have new data from the fast track processing of our recent 3D AVO Seismic, as well as nearly the reprocess 2D.

This is already confirming that the Cenomanian and younger exploration potential of the outboard pool fan system is in order of magnitude larger than what we've discovered and de-risked with the inboard slope channel fairways.

New giant and super giant class prospects have been defined on the basin for fan play fairways within each of the potential oil prone, oil mature source kitchens.

These combination structural stratigraphic prospects has played strong and confirming geophysical support for reservoir, strap and charge, including Seismic geometries and attributes, notably AVO. They're located down depth of the existing inboard slope channel discoveries, which we've calibrated and de-risk them.

We believe these prospects are some of the largest undrilled exploration opportunities identified by the industry today along the Atlantic margins. In addition to further 3D Seismic surveys are planned for Northern and Southern Mauritania during the third and fourth quarter of this year respectively.

And we fully expect the potential resource base will continue to grow further as new data become available. We anticipate beginning a second multi well program mid 2017 to test this multibillion barrel potential.

The significant scale of the discovered and de-risk gas resource base with the inboard slope channel systems, coupled with the transformational exploration upside within the outboard basin pool fan systems has attracted the attention of both IOCs as well as contractor developers who are seeking to partner with us.

Indeed the substantial increase in size of the hydrocarbon resource base in Mauritania and Senegal has made the opportunity to enter the basin, more strategic for potential partners but also demands that we secure our partner who is strategically aligned with our forward plans. This would include our first phase Tortue gas development which is making good progress as well as our second phase drilling program.

With regard to Tortue we continue to move the project forward. Last quarter we completed our appraisal drilling campaign and defined a 15 Tcf of resource necessary to underpin the first phase of the project. Now our attention is shifted to advance in the above ground agenda. Significant work is ongoing to progress the intergovernmental cooperation agreements or ICA to Mauritania & Senegal and finalize the development contract.

During the last quarter we reached an important milestone when we secured the agreement of both governments on a project location for phase one eight kilometers offshore on the border of Mauritania & Senegal. This is an important prerequisite in ICA which we believe remains on track to be signed by the end of this year. With the strong support of both governments the project continues to move along at pace.

All of the lends to quarter two and indeed we believe confirms our view that the deepwater Mauritania & Senegal basin is progressively growing into one of the largest and most important new petroleum systems ever opened up along the Atlantic margins. With a super major scale up potential resource base including oil and gas we're focused on continuing to derisk the basin for further exploration and development.

Our second set of exploration initiative involves finding oil in other regions of our exploration portfolio which overall and we believe has never been as attractive as it is today. We continue to our technical aspects to identify mature and ranked the prospectively through new 3D seismic, progress high graded prospects in the operationally drill ready and strategically align our partners and the host governments.

Two assets in particular are displaying most promise at the present time, Suriname and Sao Tome. Suriname has received a very positive read through from the Liza discovery and its successful follow-up appraisal. This is confirmed by the recent farm-out at Block 42 with Hess a part owner of the lease at discovery. A, we will acquire a new 3D seismic survey in the third quarter this year with a view to drilling to two down in late 1017 or early 2018.

Similarly in Sao Tome which represents the outward extension of the proven Rio Muni Basin petroleum system we're planning a new 3D seismic survey which is expected to commence in January next year and covers 13,000 square kilometers. This will be the largest 3D seismic survey in the company's history and while the largest single 3D seismic surveys every covered offshore West Africa.

Finally a third initiative targeting or involves new ventures. As one of the few active deepwater explores today we have the advantage continuing to learn from the results of our ongoing seismic and drilling operations and then applying this new proprietary knowledge to identify and access additional opportunities through execution of our second cycle reentry strategy into the transform margin of West Africa. In this regard we're actively pursuing a number of new venture opportunities at this time.

So in conclusion new data confirming the scale of the Mauritania & Senegal basin and the potential for liquids together with the derisk prospectively in Surinam and Sao Tome provide Kosmos with high quality opportunities for near term drilling.

I'd now like to turn this call over to Tom to discuss our liquidity and financial results for the quarter.

Tom Chambers

Thank you Neal and good morning everyone. Before turning to the results of the quarter I'd like to cover our financial position. We've reached an inflexion point for Kosmos with the company's cash flow increasing from the upcoming start up of the TEN project and the corresponding decrease in Ghana CapEx.

As we become free cash flow positive starting in the fourth quarter of this year and as this trend continues into 2017 Kosmos is positioned to be one of the few companies able to improve its balance sheet in a low commodity price environment. Kosmos remains a well capitalized company and we expect to remain that position while prudently investing through the cycle.

At quarter end Kosmos had total corporate liquidity of $1.2 billion including $700 million of undrawn availability on our reserve base lending facility or RBL or $1 million of undrawn availability on our revolving credit facility and $113 million of available cash.

Cost control continues to be a priority for Kosmos. We rigorously challenge ourselves to reduce expenses and work more efficiently and effectively. To that end that net cash G&A continue to decrease and we're on target to meet our full year capital budget of approximately $650 million excluding any capital associated with the Jubilee FPSO remediation.

With the Atwood Achiever now stacked our team is spending this time to minimize associated expenses and retender all our contracts ensuring that when we restart drilling in 2017 we're operating at the lowest cost possible.

Hedging also continues to play a key role in supporting our CapEx program by allowing us to protect the Ghana cash flow despite volatile oil prices. We continue to maintain our strong hedge position and at quarter end our commodity hedges had a mark to market value of approximately $85 million.

As of June 30, our crude oil hedge portfolio included approximately 3 million barrels remaining in 2016, 8 million hedged in 2017 and just less of 1 million hedged in 2018. This robust hedging programs remains a core part of our strategy to maintain a strong balance sheet and protect our cash flows and liquidity and we plan to continue to add additional protection on a regular basis.

Now I'll turn to our financial results for the second quarter. We finished the quarter with one crude lifting which was in line with our previous guidance and generated oil revenue of $46 million excluding $45 million of derivative settlements. When you add our oil revenue to our settled hedges it results in a realized price of $95.61 per barrel sold for the second quarter of 2016. At the end of the quarter the company was in a over lift position of approximately 110,000 barrels more than our entitlement.

For the quarter we generated a net loss of $108 million or $0.28 per diluted share. Adjusting for the impact of one-time items that affect comparability the company generated a net loss of $44 million or $0.11 per diluted share for the quarter. It's important to note that our calculated adjusted net income includes the operating expense related to the recently revised Jubilee procedures. We expect any related insurance recoveries for these revised operating procedures to be netted against total operating expenses once accrued.

On the cost side operating expense in the second quarter was $33 million or $34.47 per barrels sold versus $20 million or $10.40 per barrel sold in the second quarter in 2015. The sequential increase in absolute operating cost during the second quarter was primarily related to the cost of additional operating procedures related the turret bearing issue including tugs, the shuttle tanker and the storage tanker with a small amount related to our over lived position.

Exploration expense of $36 million for the quarter was largely related to our ongoing 3D seismic processing and interpretation for the outboard Senegal area. Exploration expense during the second quarter included approximately $16 million associated with the stacking of the Atwood Achiever beginning in late May through the end of the quarter.

General and administrative cost for the quarter included non-cash equity based compensation came in at $20 million which represents a 52% decreased from the second quarter of 2015 and as we indicated as a result of our cost control efforts as well as lower equity compensation expense.

Second quarter DD&A was approximately %17 million or $17.86 per barrel compared to $38 million or $19.29 per barrel in the second quarter of 2015. The absolute decrease was based on one last cargo being lifted in the second quarter of 2016 compared to 2015 and the decrease of rate was the result of an increase in proved reserves associated with the Jubilee field booked in the fourth quarter of 2015.

Effective income tax rate for the quarter was a 13% benefit. The effective rate was impacted by lower oil prices, losses primarily related to expiration expenses incurred in jurisdictions in which we're now subject to taxes and mark-to-mark loses in derivatives.

Now I'd like to transition to the expectations for the remainder of 2016. Based on the current forecast Kosmos now expects to sell seven cargoes in 2016. We currently anticipate having one lifting from Jubilee in the third quarter and two liftings in the fourth quarter. This translates to a total of six liftings from Jubilee for 2016 while we're maintenance our guidance of one cargo from TEN for the year in the fourth quarter.

As Andy discussed earlier we're in the process of agreeing on the details of the claim process on both insurance policies. On the LOPI policy the insurers have agreed on a framework to reimburse Kosmos for loss production and we're in final discussions on the benchmark production level from which we will calculate loss product volumes.

The framework provides for LOPI insurers to reimburse Kosmos for loss production on a monthly basis with the first claim expected to be filed. Once the claims process is up and running smoothly we anticipated accruing the payment the month following the loss and receiving the cash a month after that. This minimizes the difference in timing of the loss of cash flow and timing of the payments. When accrued these payments will be recorded a other revenue on the income statement starting in the third quarter.

Based on our second half 2016 production forecast we anticipate recognizing LOPI proceeds of approximately $35 million per quarter in the second half of 2016 subject to actual production and downtime. Once we finalize the process for the H&M we will provide the details for this claims process as well.

On the cost side in the second half of 2016 we expect Jubilee OpEx to average approximately $15 per barrel with total OpEx averaging approximately %17.50 per barrel in the fourth quarter when we sell our first 10 cargo. This includes the previously disclosed additional operating cost associated with the Jubilee FPSO and does not reflect insurance reimbursement of these costs given the potential timing of receipts which could cause quarterly OpEx to fluctuate. Once we begin to incur insurance proceeds related to operating cost they will show up as offset to OpEx.

In addition to OpEx we also expect to incur an additional $20 million of net CapEx related to the FPSO spread mooring that is planned to be executed in 2016. We ultimately expect our insurance coverage to reimburse these costs but the exact timing and accounting treatment of the reimbursement is not currently known.

As I started out saying Kosmos remains a well capitalized company and we expect to maintain that position while prudently investing through the cycle. We expect to be one of the few companies able to improve our balance sheet in this low commodity price environment.

That concludes my remarks and operator we'd now like to open the call for questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from Manish Kapadia from Tudor Pickering. Please go ahead.

Manish Kapadia

Hi, so the first question was on the Senegal & Mauritania development. I was just wondering if you could give somewhat of an update on the partnering process is there still some expectation that you get partnered by year end and from a final investment decision perspective I think there has been some talk about getting for that in 2017 is that still realistic in the current environment?

Andy Inglis

Yes, thanks Manish, it's Andy. I think what I'd say is that the interest remains high and we've been approached by several parties both [IOCs] [ph] and contractor developers. I think the interesting sort of new news I think we've talked about this morning is really around the newly identified prospectivity in the outboard of Senegal where we have from the early 3D seismic identified some large structures, some very large structures basin for plan structures where we see strong evidence from the seismic and strong AVO conformance.

So really it’s moved on from simply about a process of how do we get the right partner for the development of Greater Tortue into I think a bigger conversation about the right exploration partner to drill out the prospectively we see in Senegal and clearly we're starting the outboard seismic shoot outboard Mauritania in September next month. So we want to have all the data from that back.

So I think the process is moving forward. What I would say is that we need to be aligned around both the exploration phase that we see now for the outboard and particularly the basin for fans, as well as the development phase and we’ll take the time necessary to come to the right conclusion. So it could well be by the end of the year but that will really depend on the speed at which we get the early products in from seismic.

Manish Kapadia

And then just another question on exploration looking at 2017, I think you gave some guidance on timing of the wells. Just wanted to get an idea of in the current environment where are you seeing exploration well cost in the region for you would be expecting to be drilling. And also if you can just give an update on the plans you have for the rigs that is currently stacked for alignment and what is the potential cost and if you can pass that next year?

Andy Inglis

Okay. In terms of the forward program we haven’t yet defined drilling program for next year. I think at this stage we see potential from multi-well program. It would start in mid 2017. Just sort of back to the most important point about the timing here clearly the rig not being used is an irritant but back to the fundamentals which is Kosmos is a rifle shot exploration company, we’ve only drilled six basin opening wells in our 12-year history with a success rate of one in three. We’ve drilled five wells now in Mauritania and Senegal with 100% success.

The most important thing now is that we spend the time to identify the liquids potential of the basin which we firmly believe is there and drill the next best prospects, and we see the potential both the out boarders in Mauritania, the outboard Senegal and in northern Mauritania. So there are potentially three independent tests. What we need to do now is high grade and ensure that we’ve got the best program.

And so we'll be disciplined around reducing the cost as Tom said, while the register is packed but the most important thing is that we drill the best prospects and we will start that program around the middle of the year.

Manish Kapadia

Okay. One just quick follow on and other thing on the carried well that you had from BP in Morocco and what were the problems with that, are you still intending to drill that at some point.

Andy Inglis

Let's just say we're in discussions with BP. I would say at momentum Manish we're trying to figure out what the best way forward is on that. So clearly we have to carry but is it the best thing to do to drill that well or not and we're in discussions with BP.

Manish Kapadia

Great. Thanks so much.

Operator

Our next question comes from Brendan Warn from BMO Capital Markets. Please go ahead.

Brendan Warn

Yes, thanks gentlemen. It's Brendan from BMO. Just following - the first question just following on from Manish, I guess in terms of either farm down or active sell [ph], can you just talk through what you're actually trying to do, is it a single partner across all your blocks or are you looking at also parceling up perhaps just as you get discovery and I appreciate that stats about three blocks. And then just again what sort of process you have actually been running to roll that - this is going to be pushed into 2017.

And then just second question just following on from your comments regarding outboard Senegal, can you just talk through the - obviously the upside and you made comments to better understanding of the source in the region, but can you just talk about these basin floor ends, just what type of trap that you see that is just relying on stratigraphic and just the risks in and around this type structure and particularly I just remember those similar type of structure offshore Tanzania a number of years ago that ended up actually not working out. Can you just talk about the risks of what you may actually see on Seismic please?

Andy Inglis

Yes. Okay. If you go back, so starting with the endpoint, I think we've progressively worked the basin in terms of our overall standing of it. We clearly focused initially on the slope channel system. We got very good calibration of the Seismic-2 and we now have something both in terms of amplitude and AVO, which is fully calibrated.

We always believe there was the potential for launch of sand packages outboard in terms of the fan plays and we've now seen those come through on the 3D seismic. So I think it's very different from the Tanzania example that you've talked about.

This is about an evolving understanding of the basin. We've now highly calibrated high quality seismic tools, which we've significantly de-risked there. So I think the trap type is the same stratigraphic structural trap that has worked in the channel system and I think the key point is that we've got very strong geophysical markers now, which support it.

I think the time out is really about understanding charge so that we can get the best possibility of finding liquids with an extended well and that's really what we're focused on. So I think when you get to the reservoir story and you get the structural story, we have a high degree of confidence given the quality of the Seismic we have and the tools that we're using.

I think the real challenge in a big basin like this is ultimately about understanding the four dimensional aspect of the charge model. So there are no different to the Gulf of Mexico and it's complexities, but for an oil and gas basin, the trick is to really understand the charge model and we're very early in that process given the scale of this basin,

But nevertheless, I think certainly over the last three months and particularly the exploration tail on Teranga allowed us to get lot more confidence around an oil mature source rock in the Albian, which I think is a key piece of new information for you all.

And then to your last question, which is about what you're trying to do and I think the point strategically Brendan is really around history would say when you have a large basin such as this where people are part elements of it out, it led to quite a challenged partnership at the end of the day given the ownership structures at least a fragmentation and it leads to differing agendas.

And so our view today is that we're best served given the scale of potential we believe is that to try and secure a development partner that allows us to keep the ownership intact and keep it simple.

So I think when you look at it, what we're trying to do is find a way forward, which maintains the integrity of a very simple ownership structure that we have today and enables the exploration drill to occur as well as the first development to move forward and I think that's the goal.

I think the strategic alignment of that is as important as passing out pieces of it and as I say, we're in conversations with folks today. It could well occur before the end of the year, we just need to remain -- we just need to let that process run out because it's important that we pick the right partner and don't create complexity where it didn't occur.

Brendan Warn

That's ideal. Thank you.

Operator

Our next question comes from John Herrlin from Societe Generale. Please go ahead.

John Herrlin

Yes. Going back to what you just said Andy, you wouldn't have any containership thing or you really want to do the whole [insulate] [ph] inboard versus outboard rather than having separate deals? Is that really what you're saying?

Andy Inglis

John, and again nothing is excluded at this point in time, but I think there are some very good examples that you know of well where trying to leverage maybe the last cent has ultimately led to a reduction in value because things become complicated and actually get deferred.

East Africa is an example of that and I think our view at the moment is to ensure that we don't create complexity where it doesn’t need to be. So nothing is excluded, but I think our approach is that this is a high quality basin that we currently have a significant working interest in.

We need to ensure we align with a partner in a way that they create the full potential to the explored and developed rather than something which is just a stop gap measure. So that's not what we're trying to do.

John Herrlin

Great. Regarding the Albian discussion that you had in terms of sourcing, would that be then our retrograde type situation?

Andy Inglis

I think it's a little early to say. I think it's a little early to say, John actually. We're still working the data. It could be, but I think we need to let the work continue.

John Herrlin

Okay. Thanks.

Operator

[Operator Instructions] And our next question comes from Pavel Molchanov from Raymond James. Please go ahead.

Pavel Molchanov

Thanks for taking the question guys. Just in the last three-four weeks, we saw stranded gas related M&A deal in Papua New Guinea and reportedly a pending one in Mozambique as well.

As you look at these industry milestones that are not related to you guys specifically, what kind of read through do you think investors should draw? What kind of conclusions from looking at these other deals?

Andy Inglis

Hi Pavel, it's Andy. Look what I would say is that and you know as well as I do is the distinctive assets which have scale and quality in terms of the resource are valuable today and quote, even gas, and that's my read through and I think as you look at both P&G do and the Mozambique, reported Mozambique deal, then this is about world scale resource and it's about operator ship, it's about significant working interest, it's about the ability of larger scale companies to take control of assets.

So I think those are the hallmarks of those deals and ultimately there are other scales where it makes a difference to a super major. So I think if I would have identified the cream on top of the bottle, there is lots of stuff floating around in the industry today, but the stuff that's actually moving is characterized by its quality, its scale of working interest and the degree to operate and I think those are the things that clearly we've been talking about in Kosmos around Mauritania and Senegal from the very beginning and the prior questions from Brendan and John have all been about the nature of what sort of relationship are you looking for and I think that those types of deals are the ones that are clearly in discussion at the moment.

Pavel Molchanov

Okay. Can I just drill a little bit more into the insurance issue that you guys talked about in the press release, when you begin to collect the reimbursements on a monthly basis, what's the revenue recognition going to be?

In other words which line item will you actually will they feed into your product sales or other revenue and then on related point, will it be recognized as received or will there be some sort of black?

Andy Inglis

Tom, why don't you pick that up.

Tom Chambers

That's a good question Pavel. What will happen, let me talk about the LOPI proceeds first. So the loss of production proceeds will come through the line as other revenue on our income statement. So you will see those proceeds in that line. It will not come through as oil and gas revenue. It will come through as other revenue.

In terms of we talked about the framework that we're in final agreement on or we're getting to a final agreement on and what we're going to do is we're going to recognize the loss a month after -- the month after it's incurred and then the cash will show up a month after that.

Okay. And so there is two month lag in the cash, but we're going to accrue the proceeds, the month after the loss. And in terms of the operating expense and we're less furloughing on those discussions, but from an accounting treatment, the operating expense, the additional operating expense of the toughs, the shell tanker and the storage tanker are already included in our operating expense.

You saw to the tune of little over $12 million in the second quarter and the guidance from the operator is $115 million for the year. So that will continue to show up in the operating expense line. When we get reimbursed from the insurers for operating expenses that will show up as an offset in operating expense in the operating expense line.

So we'll net it out against the increased cost and in terms of the capital spending, we're not quite sure on the accounting treatment of the accounts. We're still looking at that and determining how we should actually show that on the income statement or if we should show it some other way.

Pavel Molchanov

Okay. Appreciate the detail guys. Thank you.

Operator

Our next question comes from Al Stanton from RBC Capital Markets. Please go ahead.

Al Stanton

Yes. Good morning, guys. I want to stick with the LOPI insurance if I can please. Can you give some guidance as to what rate of tax you pay on that revenue and also the duration, is it just something that will run from I suppose the end of the excess period, i.e. May for 12 month or should we assume that the -- when the offloading boy is installed in 2018, that you're also going to be reimbursed LOPI at that time as well?

Andy Inglis

Tom.

Tom Chambers

Okay. Al, in terms of the LOPI, we will get 12 months from the end of May. We will collect it and the current schedule shows the current spread to be complete in the first half of 2017. We think that our coverage will extend through that. That spread mooring will be done prior to the expiration of that coverage. So we'll have full coverage of that through the first half of ’17.

That's when that coverage expires. So any shut down in '18 for the com boy installation we will not be covered under our LOPI proceeds or policies.

Al Stanton

Okay. And just sorry on the tax what rate.

Tom Chambers

Currently we're -- those proceeds are not considered taxable.

Al Stanton

To get revenue that's not taxed.

Tom Chambers

That's correct.

Al Stanton

Okay.

Tom Chambers

The revenue is not received in Ghana. So it will not be taxed there.

Al Stanton

Okay. And I assume there are losses at the corporate level that prevents you getting paying tax in Texas or wherever.

Tom Chambers

Yes.

Al Stanton

Okay. Cool. Thank you.

Operator

Thank you. I would now like to turn the floor back over to Mr. Shah for any closing comments.

Neal Shah

Thank you, operator. We appreciate all of you joining us on the call today and your interest in Kosmos. If you have any further questions, please don't hesitate to contact me. Thank you very much.