

Kosmos Energy Ltd.
Form 10-Q
August 05, 2013
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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 June 30, 2013

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
(State or other jurisdiction of
incorporation or organization)

98-0686001
(I.R.S. Employer
Identification No.)

Clarendon House
2 Church Street
Hamilton, Bermuda
(Address of principal executive offices)

HM 11
(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.

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Class
Common Shares, \$0.01 par value

Outstanding at July 29, 2013
387,852,126

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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 2.

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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.

<i>2D seismic data</i>	Two-dimensional seismic data, serving as interpretive data that allows a view of a vertical cross-section beneath a prospective area.
<i>3D seismic data</i>	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.
<i>API</i>	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.
<i>ASC</i>	Financial Accounting Standards Board Accounting Standards Codification.
<i>ASU</i>	Financial Accounting Standards Board Accounting Standards Update.
<i>Barrel or Bbl</i>	A standard measure of volume for petroleum corresponding to approximately 42 gallons at 60 degrees Fahrenheit.
<i>BBbl</i>	Billion barrels of oil.
<i>BBoe</i>	Billion barrels of oil equivalent.
<i>Bcf</i>	Billion cubic feet.
<i>Boe</i>	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.
<i>Boepd</i>	Barrels of oil equivalent per day.
<i>Bopd</i>	Barrels of oil per day.
<i>Bwpd</i>	Barrels of water per day.
<i>Debt cover ratio</i>	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.
<i>Developed acreage</i>	The number of acres that are allocated or assignable to productive wells or wells capable of production.
<i>Development</i>	The phase in which an oil or natural gas field is brought into production by drilling development wells and installing appropriate production systems.
<i>Dry hole</i>	

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	A well that has not encountered a hydrocarbon bearing reservoir expected to produce in commercial quantities.
<i>EBITDAX</i>	Net income (loss) plus (1) exploration expense, (2) depletion, depreciation and amortization expense, (3) equity-based compensation expense, (4) (gain) loss on commodity derivatives, (5) (gain) loss on sale of oil and gas properties, (6) interest (income) expense, (7) income taxes, (8) loss on extinguishment of debt, (9) doubtful accounts expense, and (10) similar items.
<i>E&P</i>	Exploration and production.
<i>FASB</i>	Financial Accounting Standards Board.
<i>Farm-in</i>	An agreement whereby an oil company 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.
<i>Field life cover ratio</i>	The field life cover ratio is broadly defined, for each applicable forecast period, as the ratio of (x) net present value of net cash flow through the depletion of the Jubilee Field plus the net present value 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.
<i>FPSO</i>	Floating production, storage and offloading vessel.
<i>Ghana Obligors</i>	Kosmos Energy Operating, Kosmos Energy International, Kosmos Energy Finance International, Kosmos Energy Development, Kosmos Energy Ghana HC and an Obligor from time to time, as defined under the Facility Agreement, as amended and restated, dated November 23, 2012.

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<i>Interest cover ratio</i>	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.
<i>Loan life cover ratio</i>	The loan life cover ratio is broadly defined, for each applicable forecast period, as the ratio of (x) net present value of net cash flow through the final maturity date of the Facility plus the net present value of 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.
<i>MBbl</i>	Thousand barrels of oil.
<i>Mcf</i>	Thousand cubic feet of natural gas.
<i>Mcfpd</i>	Thousand cubic feet per day of natural gas.
<i>MMBbl</i>	Million barrels of oil.
<i>MMBoe</i>	Million barrels of oil equivalent.
<i>MMcf</i>	Million cubic feet of natural gas.
<i>Natural gas liquid or NGL</i>	Components of natural gas that are separated from the gas state in the form of liquids. These include propane, butane, and ethane, among others.
<i>Petroleum contract</i>	A contract in which the owner of minerals gives an E&P company temporary and limited rights, including an exclusive option to explore for, develop, and produce minerals from the lease area.
<i>Petroleum system</i>	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.
<i>Plan of development or PoD</i>	A written document outlining the steps to be undertaken to develop a field.
<i>Productive well</i>	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.
<i>Prospect(s)</i>	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 them fail neither oil nor natural gas will be present, at least not in commercial volumes.
<i>Proved reserves</i>	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).
<i>Proved developed reserves</i>	Proved developed reserves are those proved reserves that can be expected to be recovered through existing wells and facilities and by existing operating methods.
<i>Proved undeveloped reserves</i>	Proved undeveloped reserves are 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.
<i>Reconnaissance contract</i>	A contract in which the owner of minerals gives an E&P company rights to perform evaluation of existing data or potentially acquire additional data but does not convey an exclusive option to

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	explore for, develop, and/or produce minerals from the lease area.
<i>Shelf margin</i>	The path created by the change in direction of the shoreline in reaction to the filling of a sedimentary basin.
<i>Structural trap</i>	A structural trap is a topographic feature in the earth's subsurface that forms a high point in the rock strata. This facilitates the accumulation of oil and gas in the strata.
<i>Structural-stratigraphic trap</i>	A structural-stratigraphic trap is a combination trap with structural and stratigraphic features.
<i>Stratigraphy</i>	The study of the composition, relative ages and distribution of layers of sedimentary rock.
<i>Stratigraphic trap</i>	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.

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<i>Submarine fan</i>	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.
<i>Three-way fault trap</i>	A structural trap where at least one of the components of closure is formed by offset of rock layers across a fault.
<i>Trap</i>	A configuration of rocks suitable for containing hydrocarbons and sealed by a relatively impermeable formation through which hydrocarbons will not migrate.
<i>Undeveloped acreage</i>	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.

Table of Contents**KOSMOS ENERGY LTD.****CONSOLIDATED BALANCE SHEETS**

(In thousands, except share data)

	June 30, 2013 (Unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 508,874	\$ 515,164
Restricted cash	19,376	21,341
Receivables:		
Joint interest billings	36,032	21,539
Oil sales		108,995
Other	9,710	3,682
Inventories	53,482	33,281
Prepaid expenses and other	14,409	10,470
Current deferred tax assets	9,275	34,585
Derivatives	1,254	1,061
Total current assets	652,412	750,118
Property and equipment:		
Oil and gas properties, net	1,465,723	1,510,312
Other property, net	16,241	15,450
Property and equipment, net	1,481,964	1,525,762
Other assets:		
Restricted cash	29,884	29,884
Deferred financing costs, net of accumulated amortization of \$19,405 and \$13,922 at June 30, 2013 and December 31, 2012, respectively	45,682	50,214
Long-term deferred tax assets	13,653	10,145
Derivatives	2,135	
Total assets	\$ 2,225,730	\$ 2,366,123
Liabilities and shareholders equity		
Current liabilities:		
Accounts payable	\$ 63,955	\$ 128,855
Accrued liabilities	71,812	41,021
Derivatives	7,000	20,377
Total current liabilities	142,767	190,253
Long-term liabilities:		
Long-term debt	900,000	1,000,000
Derivatives	1,202	3,226
Asset retirement obligations	32,602	27,484
Deferred tax liability	129,241	104,137
Other long-term liabilities	18,492	12,117
Total long-term liabilities	1,081,537	1,146,964
Shareholders equity:		
Preference shares, \$0.01 par value; 200,000,000 authorized shares; zero issued at June 30, 2013 and December 31, 2012		

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Common shares, \$0.01 par value; 2,000,000,000 authorized shares; 391,867,410 and 391,423,703 issued at June 30, 2013 and December 31, 2012, respectively	3,919	3,914
Additional paid-in capital	1,749,461	1,712,880
Accumulated deficit	(733,898)	(683,176)
Accumulated other comprehensive income	2,968	3,685
Treasury stock, at cost, 4,041,831 and 2,731,941 shares at June 30, 2013 and December 31, 2012, respectively	(21,024)	(8,397)
Total shareholders' equity	1,001,426	1,028,906
Total liabilities and shareholders' equity	\$ 2,225,730	\$ 2,366,123

See accompanying notes.

Table of Contents**KOSMOS ENERGY LTD.****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share data)****(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues and other income:				
Oil and gas revenue	\$ 193,413	\$ 112,214	\$ 421,479	\$ 227,985
Interest income	44	282	114	1,028
Other income	321	175	575	205
Total revenues and other income	193,778	112,671	422,168	229,218
Costs and expenses:				
Oil and gas production	22,674	19,592	47,075	26,918
Exploration expenses	93,050	16,901	116,346	56,545
General and administrative	43,111	34,799	83,141	74,122
Depletion and depreciation	58,562	32,999	117,211	64,648
Amortization deferred financing costs	2,785	2,194	5,483	4,388
Interest expense	10,017	10,446	19,008	23,504
Derivatives, net	(12,707)	(1,982)	(7,199)	1,878
Other expenses, net	849	44	1,481	792
Total costs and expenses	218,341	114,993	382,546	252,795
Income (loss) before income taxes	(24,563)	(2,322)	39,622	(23,577)
Income tax expense	46,253	22,521	90,344	38,807
Net loss	\$ (70,816)	\$ (24,843)	\$ (50,722)	\$ (62,384)
Net loss per share:				
Basic	\$ (0.19)	\$ (0.07)	\$ (0.13)	\$ (0.17)
Diluted	\$ (0.19)	\$ (0.07)	\$ (0.13)	\$ (0.17)
Weighted average number of shares used to compute net loss per share:				
Basic	376,563	370,720	375,927	369,973
Diluted	376,563	370,720	375,927	369,973

See accompanying notes.

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KOSMOS ENERGY LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net loss	\$ (70,816)	\$ (24,843)	\$ (50,722)	\$ (62,384)
Other comprehensive income (loss):				
Reclassification adjustments for derivative (gains) losses included in net loss	(358)	214	(717)	428
Other comprehensive income (loss)	(358)	214	(717)	428
Comprehensive loss	\$ (71,174)	\$ (24,629)	\$ (51,439)	\$ (61,956)

See accompanying notes.

Table of Contents**KOSMOS ENERGY LTD.****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

(In thousands)

(Unaudited)

	Common Shares		Additional	Accumulated	Accumulated	Treasury	Total
	Shares	Amount	Paid-in	Deficit	Other	Stock	
			Capital		Comprehensive		
					Income		
Balance as of December 31, 2012	391,424	\$ 3,914	\$ 1,712,880	\$ (683,176)	\$ 3,685	\$ (8,397)	\$ 1,028,906
Equity-based compensation			37,000				37,000
Derivatives, net					(717)		(717)
Restricted stock awards and units	443	5	(5)				
Restricted stock forfeitures			2			(2)	
Purchase of treasury stock			(416)			(12,625)	(13,041)
Net loss				(50,722)			(50,722)
Balance as of June 30, 2013	391,867	\$ 3,919	\$ 1,749,461	\$ (733,898)	\$ 2,968	\$ (21,024)	\$ 1,001,426

See accompanying notes.

Table of Contents**KOSMOS ENERGY LTD.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	Six Months Ended June 30,	
	2013	2012
Operating activities		
Net loss	\$ (50,722)	\$ (62,384)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depletion, depreciation and amortization	122,694	69,036
Deferred income taxes	52,646	33,447
Unsuccessful well costs	85,668	19,237
Change in fair value of derivatives	(3,302)	14
Cash settlements on derivatives	(15,144)	(7,081)
Equity-based compensation	37,000	38,851
Other	2,827	4,983
Changes in assets and liabilities:		
Decrease in receivables	88,092	155,884
Increase in inventories	(11,927)	(14,075)
Increase in prepaid expenses and other	(3,939)	(1,344)
Decrease in accounts payable	(64,900)	(66,536)
Increase (decrease) in accrued liabilities	37,877	(9,347)
Net cash provided by operating activities	276,870	160,685
Investing activities		
Oil and gas assets	(166,581)	(188,075)
Other property	(3,278)	(6,912)
Restricted cash	1,965	793
Net cash used in investing activities	(167,894)	(194,194)
Financing activities		
Payment on long-term debt	(100,000)	
Purchase of treasury stock	(13,041)	(8,378)
Deferred financing costs	(2,225)	(1,254)
Net cash used in financing activities	(115,266)	(9,632)
Net decrease in cash and cash equivalents	(6,290)	(43,141)
Cash and cash equivalents at beginning of period	515,164	673,092
Cash and cash equivalents at end of period	\$ 508,874	\$ 629,951
Supplemental cash flow information		
Cash paid for:		
Interest	\$ 17,198	\$ 21,339

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Income taxes	\$	28,722	\$	16,620
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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," and similar terms refer to Kosmos Energy Ltd. and its wholly owned subsidiaries, unless the context indicates otherwise.

We are a leading independent oil and gas exploration and production company focused on frontier and emerging areas along the Atlantic Margin. Our asset portfolio includes existing production and other major project developments offshore Ghana, as well as exploration licenses with significant hydrocarbon potential offshore Ireland, Mauritania, Morocco and Suriname. 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 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 June 30, 2013, the changes in the consolidated statements of shareholders' equity for the six months ended June 30, 2013, the consolidated results of operations for the three and six months ended June 30, 2013 and 2012, and consolidated cash flows for the six months ended June 30, 2013 and 2012. 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 ("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, 2012, included in our annual report on Form 10-K.

Reclassifications

Certain prior period amounts have been reclassified to conform with the current year presentation. Such reclassifications had no impact on our reported net loss, current assets, total assets, current liabilities, total liabilities or shareholders' equity.

Restricted Cash

In accordance with our commercial debt 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. As of June 30, 2013 and December 31, 2012, we had \$19.4 million and \$21.3 million, respectively, 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 letters of credit will be satisfied and the cash collateral will be released. As of June 30, 2013 and December 31, 2012, we had \$29.9 million of long-term restricted cash used to cash collateralize performance guarantees related to our petroleum agreements.

Inventories

Inventories consisted of \$32.4 million and \$33.1 million of materials and supplies and \$21.1 million and \$0.2 million of hydrocarbons as of June 30, 2013 and December 31, 2012, 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 market.

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Hydrocarbon inventory is carried at the lower of cost, using the weighted average cost method, or market. Hydrocarbon inventory costs include expenditures and other charges (including depletion) directly and indirectly 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.

Variable Interest Entity

Our wholly owned subsidiary, Kosmos Energy Finance International, is a variable interest entity (VIE). The Company is the primary beneficiary of this VIE, which is consolidated in these financial statements.

Kosmos Energy Finance International's following assets and liabilities are shown separately on the face of the consolidated balance sheet as of June 30, 2013 and December 31, 2012: current restricted cash; long-term derivatives assets; long-term debt; and current and long-term derivatives liabilities. At June 30, 2013, Kosmos Energy Finance International had \$37.5 million in cash and cash equivalents; \$0.5 million in prepaid expenses and other; \$1.3 million current derivative assets; \$38.2 million deferred financing costs, net; \$0.3 million in accounts payable; \$0.2 million in accrued liabilities and \$7.6 million in other long-term liabilities, which are included in the amounts shown on the face of the consolidated balance sheet. At December 31, 2012, Kosmos Energy Finance International had \$118.8 million in cash and cash equivalents; \$0.2 million in prepaid expenses and other; \$42.2 million deferred financing costs, net; \$0.5 million in accrued liabilities and \$6.6 million in other long-term liabilities, which are included in the amounts shown on the face of the consolidated balance sheet.

3. Property and Equipment

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

	June 30, 2013	December 31, 2012
	(In thousands)	
Oil and gas properties:		
Proved properties	\$ 730,977	\$ 682,276
Unproved properties	465,900	454,391
Support equipment and facilities	706,090	687,835
Total oil and gas properties	1,902,967	1,824,502
Less: accumulated depletion	(437,244)	(314,190)
Oil and gas properties, net	1,465,723	1,510,312
Other property	30,366	27,316
Less: accumulated depreciation	(14,125)	(11,866)
Other property, net	16,241	15,450
Property and equipment, net	\$ 1,481,964	\$ 1,525,762

We recorded depletion expense of \$56.4 million and \$31.2 million for the three months ended June 30, 2013 and 2012, respectively and \$113.1 million and \$61.3 million for the six months ended June 30, 2013 and 2012, respectively.

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The following table reflects the Company's capitalized exploratory well costs on completed wells as of and during the six months ended June 30, 2013. The table excludes \$56.5 million in costs that were capitalized and subsequently expensed during the same period.

	Six months ended June 30, 2013 (In thousands)
Beginning balance	\$ 372,492
Additions to capitalized exploratory well costs pending the determination of proved reserves	30,395
Reclassification due to determination of proved reserves	
Capitalized exploratory well costs charged to expense	(26,997)
Ending balance	\$ 375,890

The following table provides 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:

	June 30, 2013 (In thousands, except well counts)	December 31, 2012
Exploratory well costs capitalized for a period of one year or less	\$ 41,289	\$ 106,635
Exploratory well costs capitalized for a period one to two years	214,593	179,933
Exploratory well costs capitalized for a period three to four years	120,008	85,924
Ending balance	\$ 375,890	\$ 372,492
Number of projects that have exploratory well costs that have been capitalized for a period greater than one year	7	7

As of June 30, 2013, the projects with exploratory well costs capitalized for more than one year since the completion of drilling are related to Mahogany, Teak-1, Teak-2 and Akasa discoveries in the West Cape Three Points (WCTP) Block and the Tweneboa, Enyenra and Ntomme discoveries in the Deepwater Tano (DT) Block, which are all in Ghana.

Mahogany Mahogany, a combined area covering parts of the Mahogany East discovery and the Mahogany Deep discovery, was declared commercial in September 2010, and a PoD was submitted to Ghana's Ministry of Energy as of May 2, 2011. In a letter dated May 16, 2011, the Ministry of Energy did not approve the PoD and requested that the WCTP Block partners take certain steps regarding notifications of discovery and commerciality; and requested other information. The WCTP Block partners believe the combined submission was proper and have held meetings with Ghana National Petroleum Corporation (GNPC) which resolved issues relating to the PoD work program. From May 2011, the Ministry of Energy, GNPC and the WCTP Block partners continued working to resolve other differences; however, the WCTP Petroleum Agreement (PA) contains specific timelines for PoD approval and discussions, which expired at the end of June 2011. On June 30, 2011, we, as Operator of the WCTP Block and on behalf of the WCTP Block partners, delivered a Notice of Dispute to the Ministry of Energy and GNPC as provided under the WCTP PA, which is the initial step in triggering the formal dispute resolution process under the WCTP PA with the government of Ghana regarding approval of the Mahogany PoD. This Notice of Dispute establishes a process for negotiation and consultation for a period of 30 days (or longer if mutually agreed) among senior representatives from the Ministry of Energy, GNPC and the WCTP Block partners to resolve the matter. We and the WCTP Block partners are in discussions with the Ministry of Energy and GNPC to resolve differences

on the PoD.

Teak-1 Discovery Two appraisal wells have been drilled. Following additional appraisal and evaluation, a decision regarding commerciality of the Teak-1 discovery is expected to be made by the WCTP Block partners in 2014. Within six months of such a declaration, a PoD would be prepared and submitted to Ghana's Ministry of Energy, as required under the WCTP PA.

Teak-2 Discovery We have performed a gauge installation on the well and are reprocessing seismic data. Following additional appraisal and evaluation, a decision regarding commerciality of the Teak-2 discovery is expected to be made by the WCTP Block partners in 2014. Within six months of such a declaration, a PoD would be prepared and submitted to Ghana's Ministry of Energy, as required under the WCTP PA.

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Akasa Discovery We have performed a drill stem test and gauge installation on the well and are analyzing the data. Following additional appraisal and evaluation, a decision regarding commerciality of the Akasa discovery is expected to be made by the WCTP Block partners in 2013. Within six months of such a declaration, a PoD would be prepared and submitted to Ghana's Ministry of Energy, as required under the WCTP PA.

Tweneboa, Enyenra and Ntomme (TEN) Discoveries In May 2013, the government of Ghana approved the PoD over the TEN discoveries. Development of TEN will include the drilling and completion of up to 24 development wells, half of the wells designed as producers and the remainder for water and gas injection to support ultimate field recoveries. The TEN project is expected to deliver first oil in 2016. The costs associated with the TEN development will remain as unproved property pending the determination of whether the discoveries are associated with proved reserves.

5. Accounts Payable and Accrued Liabilities

At June 30, 2013 and December 31, 2012, accounts payable of \$64.0 million and \$128.9 million, respectively, were recorded for invoices received but not paid. Accrued liabilities consisted of the following:

	June 30, 2013	December 31, 2012
	(In thousands)	
Accrued liabilities:		
Accrued exploration, development and production	\$ 25,978	\$ 20,616
Accrued general and administrative expenses	11,173	5,089
Accrued taxes other than income	13,635	11,124
Accrued interest	248	
Income taxes	20,778	4,192
	\$ 71,812	\$ 41,021

6. Debt*Facility*

In March 2011, the Company secured a \$2.0 billion commercial debt facility (the Facility) from a number of financial institutions and extinguished the then existing commercial debt facilities. The Facility was syndicated to certain participants of the existing facilities, as well as new participants. The Facility supports our oil and gas exploration, appraisal and development programs and corporate activities. As part of the November 2012 amendment, the total commitments for the Facility were reduced to \$1.5 billion.

The Facility provides a revolving-credit and letter of credit facility. The availability period for the revolving-credit facility, as amended in April 2013, expires on December 15, 2014 and the letter of credit sublimit expires on the final maturity date. The available facility amount is

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subject to borrowing base constraints and, beginning on December 15, 2014, outstanding borrowings will also be constrained by an amortization schedule. The final maturity date is March 29, 2018. As of June 30, 2013, borrowings under the Facility totaled \$900.0 million and the undrawn availability under the Facility was \$399.1 million.

Corporate Revolver

In November 2012, we secured a revolving credit facility (the *Corporate Revolver*). In April 2013, the availability under the *Corporate Revolver* was increased from \$260.0 million to \$300.0 million due to additional commitments received from existing and new financial institutions. As of June 30, 2013 and December 31, 2012, there were no borrowings outstanding under the *Corporate Revolver* and the undrawn availability under the *Corporate Revolver* was \$300.0 million and \$260.0 million, respectively.

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 \$100.0 million, with additional commitments up to \$50.0 million being available if existing lenders increase their commitments or if commitments from new financial institutions are added. The *LC Facility* provides that we maintain cash collateral in an amount equal to at least 75% of all outstanding letters of credit under the *LC Facility*, provided that during the period of any breach of certain financial covenants, the required cash collateral amount shall increase to 100%. The fees associated with outstanding letters of credit issued will be 0.5% per annum. The *LC Facility* has an availability period which expires on June 1, 2016. We may voluntarily cancel any commitments available under the *LC Facility* at any time. As of July 29, 2013, there were three outstanding letters of credit totaling \$27.0 million under the *LC Facility*.

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At June 30, 2013, the estimated repayments of debt during the five year period and thereafter are as follows:

	2013(1)	2014	Payments Due by Year		2017	Thereafter
			2015	2016		
	(In thousands)					
Facility(2)	\$	\$ 34,759	\$ 325,235	\$ 35,272	\$ 393,623	\$ 111,111

(1) Represents payments for the period July 1, 2013 through December 31, 2013.

(2) The scheduled maturities of debt are based on the level of borrowings and the available borrowing base as of June 30, 2013. Any increases or decreases in the level of borrowings or decreases in the available borrowing base would impact the scheduled maturities of debt during the next five years and thereafter.

7. 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.

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 June 30, 2013.

Term	Type of Contract	MBbl	Weighted Average Dated Brent Price per Bbl			
			Deferred Premium	Floor	Ceiling	Call
2013:						
July - December	Three-way collars	750	\$ 4.82	\$ 95.00	\$ 105.00	\$ 125.00
July - December	Three-way collars	506		87.50	115.00	135.00
July - December	Three-way collars	500		90.00	115.39	135.00
July - December	Three-way collars	500		90.08	115.00	135.00
2014:						
January - December	Three-way collars	1,500	1.22	85.00	115.00	140.00
January - December	Three-way collars	1,000		85.00	115.01	140.00

Interest Rate Swaps Derivative Contracts

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The following table summarizes our open interest rate swaps as of June 30, 2013, whereby we pay a fixed rate of interest and the counterparty pays a variable LIBOR-based rate:

Term	Weighted Average Notional Amount (In thousands)	Weighted Average Fixed Rate	Floating Rate
July 2013 - December 2013	\$ 200,617	1.99%	6-month LIBOR
January 2014 - December 2014	133,434	1.99%	6-month LIBOR
January 2015 - December 2015	45,319	2.03%	6-month LIBOR
January 2016 - June 2016	12,500	2.27%	6-month LIBOR

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The following tables disclose the Company's derivative instruments as of June 30, 2013 and December 31, 2012 and gain/(loss) from derivatives during the three and six months ended June 30, 2013 and 2012, respectively:

Type of Contract	Balance Sheet Location	Estimated Fair Value Asset (Liability)	
		June 30, 2013	December 31, 2012
(In thousands)			
Derivatives not designated as hedging instruments:			
Derivative assets:			
Commodity(1)	Derivatives assets current	\$ 1,254	\$ 1,061
Commodity (2)	Derivatives assets long-term	2,135	
Derivative liabilities:			
Commodity(3)	Derivatives liabilities current	(4,330)	(17,005)
Interest rate	Derivatives liabilities current	(2,670)	(3,372)
Commodity(4)	Derivatives liabilities long-term		(659)
Interest rate	Derivatives liabilities long-term	(1,202)	(2,567)
Total derivatives not designated as hedging instruments		\$ (4,813)	\$ (22,542)

(1) The commodity derivative asset represents \$1.3 million of our oil derivative contracts as of June 30, 2013 and \$1.1 million of our provisional oil sales contract as of December 31, 2012.

(2) Includes deferred premiums of \$1.1 million related to commodity derivative contracts as of June 30, 2013.

(3) Includes \$0.6 million and \$3.4 million, as of June 30, 2013 and December 31, 2012, respectively of cash settlements made on our commodity derivative contracts which were settled in the month subsequent to period end. Also, includes deferred premiums of \$5.0 million and \$7.6 million related to commodity derivative contracts as of June 30, 2013 and December 31, 2012, respectively.

(4) Includes deferred premiums of \$2.4 million related to commodity derivative contracts as of December 31, 2012.

Type of Contract	Location of Gain/(Loss)	Amount of Gain/(Loss) Three Months Ended June 30,		Amount of Gain/(Loss) Six Months Ended June 30,	
		2013	2012	2013	2012
(In thousands)					
Derivatives in cash flow hedging relationships:					
Interest rate(1)	Interest expense	\$ 358	\$ (214)	\$ 717	\$ (428)
Total derivatives in cash flow hedging relationships		\$ 358	\$ (214)	\$ 717	\$ (428)

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Derivatives not designated as hedging instruments:						
Commodity(2)	Oil and gas revenue	\$	(9,252)	\$	987	\$ (4,664) \$ 3,727
Commodity	Derivatives, net		12,707		1,982	7,199 (1,878)
Interest rate	Interest expense		23		(725)	50 (1,435)
Total derivatives not designated as hedging instruments		\$	3,478	\$	2,244	\$ 2,585 \$ 414

(1) Amounts were reclassified from AOCI into earnings upon settlement.

(2) Amounts represent the mark-to-market portion of our provisional oil sales contracts.

In accordance with the mark-to-market method of accounting, the Company recognizes changes in fair values of its derivative contracts as gains or losses in earnings during the period in which they occur. The fair value of the effective portion of the interest rate derivative contracts on May 31, 2010, is reflected in AOCI and is being transferred to interest expense over the remaining term of the contracts. The Company expects to reclassify \$1.6 million of gains from AOCI to interest expense within the next 12 months. See Note 8 Fair Value Measurements for additional information regarding the Company's derivative instruments.

Table of Contents**Offsetting of Derivative Assets and Derivative Liabilities**

Our derivative instruments subject to master netting arrangements with our counterparties only have the right of offset when there is an event of default. As of June 30, 2013 and December 31, 2012, there was not an event of default and, therefore, the associated gross asset or gross liability amounts related to these arrangements are presented on the consolidated balance sheets. Additionally, there were no material rights of offset available, if an event of default occurred, as of June 30, 2013 and December 31, 2012.

8. Fair Value Measurements

In accordance with ASC 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 June 30, 2013 and December 31, 2012, for each fair value hierarchy level:

	Fair Value Measurements Using:			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
June 30, 2013	(In thousands)			
Assets:				
Commodity derivatives	\$	\$	3,389	\$ 3,389
Liabilities:				

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Commodity derivatives			(4,330)			(4,330)
Interest rate derivatives			(3,872)			(3,872)
Total	\$	\$	(4,813)	\$	\$	(4,813)
December 31, 2012						
Assets:						
Commodity derivatives	\$	\$	1,061	\$	\$	1,061
Liabilities:						
Commodity derivatives			(17,664)			(17,664)
Interest rate derivatives			(5,939)			(5,939)
Total	\$	\$	(22,542)	\$	\$	(22,542)

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. The carrying values of our debt approximates fair value since they are subject to short-term floating interest rates that approximate the rates available to us for those periods. Our long-term receivables, if any, after any allowances for doubtful accounts 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 for notional barrels of oil at fixed Dated Brent oil prices. The values attributable to the 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 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 puts and compound options. See Note 7 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 subject to provisional pricing and (ii) an independently sourced forward curve over the term of the provisional pricing period.

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. 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.

9. 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 \$18.1 million and \$17.6 million during the three months ended June 30, 2013 and 2012, respectively, and \$37.0 million and \$38.9 million during the six months ended June 30, 2013 and 2012, respectively. The tax benefit resulting from equity-based compensation expense for the three months ended June 30, 2013 and 2012 was \$6.3 million and \$6.1 million, respectively, and for the six months ended June 30, 2013 and 2012 was \$12.7 million and \$13.5 million, respectively. Additionally, we expensed a tax shortfall (the difference between the estimated tax deduction on the grant date and the actual tax deduction on the vest date) of \$6.9 million and \$7.4 million for the three months ended June 30, 2013 and 2012, respectively, and \$6.9 million and \$7.4 million during the six months ended June 30, 2013 and 2012, respectively

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The following table reflects the outstanding restricted stock awards as of June 30, 2013:

	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, 2012	9,898	\$ 16.92	3,534	\$ 12.93
Granted	351	10.73		
Forfeited	(187)	15.14	(16)	8.21
Vested	(3,336)	17.27		
Outstanding at June 30, 2013	6,726	16.48	3,518	12.95

The following table reflects the outstanding restricted stock units as of June 30, 2013:

	Service Vesting Restricted Stock Units (In thousands)	Weighted- Average Grant-Date Fair Value	Market / Service Vesting Restricted Stock Units (In thousands)	Weighted- Average Grant-Date Fair Value
Outstanding at December 31, 2012	1,023	\$ 10.59	825	\$ 15.81
Granted	1,310	10.83	990	15.44
Forfeited	(56)	10.58	(34)	15.81
Vested	(133)	10.98		
Outstanding at June 30, 2013	2,144	10.72	1,781	15.60

As of June 30, 2013, total equity-based compensation to be recognized on unvested restricted stock awards and restricted stock units is \$164.9 million over a weighted average period of 2.42 years. At June 30, 2013, the Company had approximately 5.4 million shares that remain available for issuance under the LTIP.

For restricted stock awards with a combination of market and service vesting criteria, the number of common shares to be issued is determined by comparing the Company's total shareholder return with the total shareholder return of a predetermined group of peer companies over the performance period and can vest in up to 100% of the awards granted. The grant date fair value of these awards ranged from \$6.70 to \$13.57 per award. The Monte Carlo simulation model used to estimate the grant-date fair value utilizes multiple input variables that determine the probability of satisfying the market condition stipulated in the award grant and calculates the fair value of the award. The expected volatility utilized in the model was estimated using our historical volatility and the historical volatilities of our peer companies and ranged from 41.3% to 56.7%. The risk-free interest rate was based on the U.S. treasury rate for a term commensurate with the expected life of the grant and ranged from 0.5% to 1.1%.

For restricted stock units with a combination of market and service vesting criteria, the number of common shares to be issued is determined by comparing the Company's total shareholder return with the total shareholder return of a predetermined group of peer companies over the performance period and can vest in up to 200% of the awards granted. The grant date fair value of these awards ranged from \$15.44 to \$15.81 per award. The Monte Carlo simulation model used to estimate the grant-date fair value utilizes multiple input variables that determine the probability of satisfying the market condition stipulated in the award grant and calculates the fair value of the award. The expected volatility utilized in the model was estimated using our historical volatility and the historical volatilities of our peer companies and ranged from 53.0% to

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54.0%. The risk-free interest rate was based on the U.S. treasury rate for a term commensurate with the expected life of the grant and ranged from 0.5% to 0.7%.

10. Income Taxes

Income tax expense was \$46.3 million and \$22.5 million for the three months ended June 30, 2013 and 2012, respectively, and was \$90.3 million and \$38.8 million for the six months ended June 30, 2013 and 2012, respectively. The income tax provision consists of U.S. and Ghanaian income and Texas margin taxes.

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The components of income (loss) before income taxes were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Bermuda	\$ (6,663)	\$ (3,251)	\$ (13,440)	\$ (6,419)
United States	2,903	3,035	5,273	6,347
Foreign other	(20,803)	(2,106)	47,789	(23,505)
Income (loss) before income taxes	\$ (24,563)	\$ (2,322)	\$ 39,622	\$ (23,577)

Our effective tax rate for the three months ended June 30, 2013 and 2012 is (188)% and (970)%, respectively. For the six months ended, June 30, 2013 and 2012, our effective tax rate is 228% and (165)%. The effective tax rate for the United States is approximately 274% and 277% for the three months ended June 30, 2013 and 2012, respectively, and 167% and 152% for the six months ended June 30, 2013 and 2012, respectively. The high effective tax rates in the United States are due to the deferred tax impact related to equity-based compensation. The effective tax rate for Ghana is approximately 34% and 38% for the three months ended June 30, 2013 and 2012, respectively, and 36% for the six months ended June 30, 2013 and 2012. Our other foreign jurisdictions have a 0% effective tax rate because they reside in countries with a 0% statutory rate, or we have experienced losses in those countries and have a full valuation allowance reserved against the corresponding net deferred tax assets.

The Company has no material unrecognized income tax benefits.

A subsidiary of the Company files a U.S. federal income tax return and a Texas margin tax return. In addition to the United States, the Company files income tax returns in the countries in which the Company operates. The Company is open to U.S. federal income tax examinations for tax years 2009 through 2012 and to Texas margin tax examinations for the tax years 2008 through 2012. In addition, the Company is open to income tax examinations for years 2004 through 2012 in Ghana.

As of June 30, 2013, the Company had no material uncertain tax positions. The Company's policy is to recognize potential interest and penalties related to income tax matters in income tax expense, but has not accrued any material amounts to date.

11. Net Income (Loss) Per Share

The following table is a reconciliation between net income (loss) and the amounts used to compute basic and diluted net income (loss) per share and the weighted average shares outstanding used to compute basic and diluted net income (loss) per share:

	Three Months Ended		Six Months Ended	
	2013	2012	2013	2012
	June 30, June 30, (In thousands, except per share data)			
Numerator:				

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Net income (loss)	\$	(70,816)	\$	(24,843)	\$	(50,722)	\$	(62,384)
Less: Basic income allocable to participating securities(1)								
Basic net income (loss) allocable to common shareholders		(70,816)		(24,843)		(50,722)		(62,384)
Diluted adjustments to income allocable to participating securities(1)								
Diluted net income (loss) allocable to common shareholders	\$	(70,816)	\$	(24,843)	\$	(50,722)	\$	(62,384)
Denominator:								
Weighted average number of shares used to compute net income (loss) per share:								
Basic		376,563		370,720		375,927		369,973
Restricted stock awards and units(1)(2)								
Diluted		376,563		370,720		375,927		369,973
Net income (loss) per share:								
Basic	\$	(0.19)	\$	(0.07)	\$	(0.13)	\$	(0.17)
Diluted	\$	(0.19)	\$	(0.07)	\$	(0.13)	\$	(0.17)

(1) Our service vesting restricted stock awards represent participating securities because they participate in nonforfeitable dividends with common equity owners. Income allocable to participating securities represents the distributed and undistributed earnings attributable to the participating securities. Our restricted stock awards with market and service vesting criteria and all restricted stock units are not considered to be participating securities and, therefore, are excluded from the basic net income (loss) per common share calculation. Our service vesting restricted stock awards do not participate in undistributed net losses and, therefore, are excluded from the basic net income (loss) per common share calculation in periods we are in a net loss position.

(2) We excluded outstanding restricted stock awards and units of 14.2 million and 16.9 million for the three months ended June 30, 2013 and 2012, respectively, and 14.2 million and 16.9 million for the six months ended June 30, 2013 and 2012, respectively, from the computations of diluted net income per share because the effect would have been anti-dilutive.

Table of Contents**12. Commitments and Contingencies**

We are involved in litigation, regulatory examinations and administrative proceedings primarily arising in the ordinary course of our business in jurisdictions in which we do business. Although the outcome of these matters cannot be predicted with certainty, management believes none of these matters, either individually or in the aggregate, would have a material effect upon the Company's consolidated financial statements; however, an unfavorable outcome could have a material adverse effect on our results from operations for a specific interim period or year.

In June 2013, we signed a long-term rig agreement with a subsidiary of Atwood Oceanics, Inc. for the new build drillship Atwood Achiever. Currently under construction, the rig is scheduled for completion in June 2014 and expected to commence drilling operations in the second half of 2014. The rig agreement covers an initial period of three years at a day rate of approximately \$0.6 million, with an option to extend the agreement for an additional three-year term.

The estimated future minimum commitments under this contract as of June 30, 2013, are:

	Total	2013(2)	2014	Payments Due By Year(1) 2015	2016	2017	Thereafter
				(In thousands)			
Drilling rig contract (3)	651,525		90,440	217,175	217,770	126,140	

(1) Does not include purchase commitments for jointly owned fields and facilities where we are not the operator, excludes commitments for development activities under our petroleum contracts where we are not the operator and excludes commitments for exploration activities, including well commitments, in our petroleum contracts and farm-in agreements.

(2) Represents payments for the period from July 1, 2013 through December 31, 2013.

(3) Commitments calculated using a day rate of \$595,000 and an estimated rig delivery date of August 1, 2014.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our consolidated financial statements and notes thereto contained herein and our annual financial statements for the year ended December 31, 2012, included in our annual report on Form 10-K along with the section Management's Discussion and Analysis of financial condition and Results of Operations contained in such annual report. Any terms used but not defined in the following discussion have the same meaning given to them in the annual report. Our discussion and analysis includes forward-looking information that involves risks and uncertainties and should be read in conjunction with Risk Factors under Item 1A of this report and in the annual report, along with Forward-Looking Information at the end of this section for information about the risks and uncertainties that could cause our actual results to be materially different than our forward-looking statements.

Overview

We are a leading independent oil and gas exploration and production company focused on frontier and emerging areas along the Atlantic Margin. Our asset portfolio includes existing production and other major project developments offshore Ghana, as well as exploration licenses with significant hydrocarbon potential offshore Ireland, Mauritania, Morocco and Suriname.

We were incorporated pursuant to the laws of Bermuda as Kosmos Energy Ltd. in January 2011 to become a holding company for Kosmos Energy Holdings. Pursuant to the terms of a corporate reorganization that was completed immediately prior to the closing of Kosmos Energy Ltd.'s IPO on May 16, 2011, all of the interests in Kosmos Energy Holdings were exchanged for newly issued common shares of Kosmos Energy Ltd. As a result, Kosmos Energy Holdings became wholly owned by Kosmos Energy Ltd.

Recent Developments

Debt

Our \$2.0 billion commercial debt facility (Facility) provides a revolving-credit and letter of credit facility. The availability period for the revolving-credit facility, as amended in April 2013, expires on December 15, 2014 and the letter of credit sublimit expires on the final maturity date. The available facility amount is subject to borrowing base constraints and, beginning on December 15, 2014, outstanding borrowings will also be constrained by an amortization schedule. The final maturity date is March 29, 2018.

In April 2013, the availability under our revolving credit facility (Corporate Revolver) was increased from \$260.0 million to \$300.0 million by additional commitments from existing and new financial institutions.

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In July 2013, we entered into a revolving letter of credit facility agreement (LC Facility). The size of the LC Facility is \$100.0 million, with additional commitments up to \$50.0 million being available if existing lenders increase their commitments or if commitments from new financial institutions are added. The LC Facility provides that we shall maintain cash collateral in an amount equal to at least 75% of all outstanding letters of credit under the LC Facility, provided that during the period of any breach of certain financial covenants, the required cash collateral amount shall increase to 100%. The fees associated with outstanding letters of credit issued will be 0.5% per annum. The LC Facility has an availability period which expires on June 1, 2016. We may voluntarily cancel any commitments available under the LC Facility at any time. As of July 29, 2013, there were three outstanding letters of credit totaling \$27.0 million under the LC Facility.

Rig Agreement

In June 2013, we signed a long-term rig agreement with a subsidiary of Atwood Oceanics, Inc. for the new build drillship Atwood Achiever. Currently under construction, the rig is scheduled for completion in June 2014 and expected to commence drilling operations in the second half of 2014. The rig's capabilities include drilling to total depths of up to 40,000 feet, and in water depths of up to 12,000 feet. The rig agreement covers an initial period of three years at a day rate of approximately \$0.6 million, with an option to extend the agreement for an additional three-year term.

Ghana

During the second quarter of 2013, we had two liftings of oil totaling 1,944 MBbl from the Jubilee Field production resulting in revenues of \$193.4 million. Our average realized price was \$99.51 per barrel.

We previously received an approval for the Phase 1A PoD of the Jubilee Field, and production from Phase 1A commenced in late 2012. The Phase 1A program includes the drilling of up to eight additional wells consisting of up to five production wells and three water injection wells. Three wells, two producers and one injector, are online. Program execution is expected to continue into the first half of 2014.

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In May 2013, the government of Ghana approved the PoD over the Tweneboa, Enyenra and Ntomme (TEN) discoveries. Development of TEN will include the drilling and completion of up to 24 development wells, half of the wells designed as producers and the remainder for water and gas injection to support ultimate field recoveries. The TEN development is expected to deliver first oil in 2016. Future development of gas resources at TEN is anticipated following the commencement of oil startup. Our net portion of the estimated cost for the TEN development is approximately \$931.0 million.

Cameroon

Drilling of the Sipo-1 exploration well on the Ndian River Block was completed in May 2013. Oil and gas shows evidenced during drilling indicated a working petroleum system; however, the well failed to encounter commercial reservoirs and accordingly was plugged and abandoned. Total well and other related costs of \$75.6 million are included in exploration expenses in the accompanying consolidated statement of operations for the three and six months ended June 30, 2013.

In July 2013, we informed the government of Cameroon that we do not intend to enter into the next phase of our petroleum contracts in Cameroon.

Ireland

In April 2013, the Company entered into a farm-in agreement with Antrim Energy Inc., whereby Kosmos acquired a 75% participating interest and operatorship, covering Licensing Option 11/5 offshore the west coast of Ireland. As part of the agreement, Kosmos will reimburse a portion of previously-incurred exploration costs, as well as carry the partner on future 3D seismic costs. In July 2013, Ireland granted a Frontier Exploration License 1-13, pursuant to Licensing Option 11/5.

In April 2013, the Company entered into a farm-in agreement with Europa Oil & Gas (Holdings) plc, whereby Kosmos acquired an 85% participating interest and operatorship, covering Licensing Option 11/7 and 11/8 offshore the west coast of Ireland. As part of the agreement, Kosmos will reimburse a portion of previously-incurred exploration costs, as well as carry the partner on future 3D seismic costs. Contingent upon an election by Kosmos and our partner to enter into a subsequent exploration drilling phase on one or both of the blocks, Kosmos will also fund 100% of the costs of the first exploration well on each block, subject to an investment cap of \$90.0 million and \$110.0 million, respectively, on each block. In July 2013, Ireland granted Frontier Exploration Licenses 2-13 and 3-13, pursuant to Licensing Options 11/7 and 11/8. In July 2013, we commenced a 3D seismic program over these blocks which is expected to be completed during 2013.

Mauritania

In May 2013, we completed a 2D seismic data acquisition program on approximately 6,000 line-kilometers, covering Blocks C8, C12 and C13 offshore Mauritania. In June 2013, we commenced a 3D seismic program over portions of Blocks C8 and C12 which is expected to be completed during 2013.

Morocco

In January 2013, Kosmos closed an agreement to acquire an additional 37.5% participating interest in the Essaouira Offshore Block from Canamens Energy Morocco SARL, one of our block partners. Certain governmental approvals and processes are still required to be completed before this acquisition is effective. After completing the acquisition, our participating interest in the Essaouira Offshore Block will be 75%.

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All of our results, as presented in the table below, represent operations from the Jubilee Field in Ghana. Certain operating results and statistics for the three and six months ended June 30, 2013 and 2012, are included in the following table:

	Three Months Ended				Six Months Ended			
	June 30,		June 30,		June 30,		June 30,	
	2013	2012	2013	2012	2013	2012	2013	2012
	(In thousands, except per barrel data)							
Sales volumes:								
MBbl	1,944		997		3,935		1,928	
Revenues:								
Oil sales	\$	193,413	\$	112,214	\$	421,479	\$	227,985
Average sales price per Bbl		99.51		112.60		107.11		118.25
Costs:								
Oil production, excluding workovers	\$	12,700	\$	9,333	\$	26,119	\$	16,659
Oil production, workovers		9,974		10,259		20,956		10,259
Total oil production costs		22,674		19,592		47,075		26,918
Depletion		56,448		31,288		113,069		61,343
Average cost per Bbl:								
Oil production, excluding workovers		6.54		9.37		6.63		8.64
Oil production, workovers		5.13		10.29		5.33		5.32
Total oil production costs		11.67		19.66		11.96		13.96
Depletion		29.04		31.39		28.73		31.82
Oil production cost and depletion costs	\$	40.71	\$	51.05	\$	40.69	\$	45.78

The following table shows the number of wells in the process of being drilled or are in active completion stages, and the number of wells suspended or waiting on completion as of June 30, 2013:

	Actively Drilling or Completing				Wells Suspended or Waiting on Completion			
	Exploration		Development		Exploration		Development	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Ghana								
West Cape Three Points					8	2.47		
Deepwater Tano			1	0.18	12	2.16		
Jubilee Unit							3	0.72
Total			1	0.18	20	4.63	3	0.72

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The discussion of the results of operations and the period-to-period comparisons presented below analyze our historical results. The following discussion may not be indicative of future results.

Three months ended June 30, 2013 compared to three months ended June 30, 2012

	Three Months Ended June 30,		Increase (Decrease)
	2013	2012 (In thousands)	
Revenues and other income:			
Oil and gas revenue	\$ 193,413	\$ 112,214	\$ 81,199
Interest income	44	282	(238)
Other income	321	175	146
Total revenues and other income	193,778	112,671	81,107
Costs and expenses:			
Oil and gas production	22,674	19,592	3,082
Exploration expenses	93,050	16,901	76,149
General and administrative	43,111	34,799	8,312
Depletion and depreciation	58,562	32,999	25,563
Amortization deferred financing costs	2,785	2,194	591
Interest expense	10,017	10,446	(429)
Derivatives, net	(12,707)	(1,982)	(10,725)
Other expenses, net	849	44	805
Total costs and expenses	218,341	114,993	103,348
Loss before income taxes	(24,563)	(2,322)	(22,241)
Income tax expense	46,253	22,521	23,732
Net loss	\$ (70,816)	\$ (24,843)	\$ (45,973)

Oil and gas revenue. Oil and gas revenue increased by \$81.2 million during the three months ended June 30, 2013 as compared to the three months ended June 30, 2012. The increase is primarily due to having two liftings of oil during the three months ended June 30, 2013 as compared to having one lifting of oil during the three months ended June 30, 2012. This increase is partially offset by a lower realized price per barrel during the three months ended June 30, 2013.

Oil and gas production. Oil and gas production costs increased by \$3.1 million during the three months ended June 30, 2013 as compared to the three months ended June 30, 2012. The increase is primarily due to two liftings in the three months ended June 30, 2013 as compared to one lifting in the three months ended June 30, 2012 offset by a reduction in well workover costs on a per barrel basis.

Exploration expenses. Exploration expenses increased by \$76.1 million during the three months ended June 30, 2013, as compared to the three months ended June 30, 2012. During the three months ended June 30, 2013, we incurred \$75.6 million for unsuccessful well and other related costs for the Cameroon Sipo-1 exploration well and \$17.1 million for seismic costs for Morocco, Mauritania and new ventures. During the three months ended June 30, 2012, we incurred \$10.1 million of unsuccessful well costs related to the Ghana Teak-4A appraisal well.

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General and administrative. General and administrative costs increased by \$8.3 million during the three months ended June 30, 2013, as compared to the three months ended June 30, 2012 primarily due to an increase in headcount. Total non-cash general and administrative costs were \$18.1 million and \$17.6 million for the three months ended June 30, 2013 and 2012, respectively, which was primarily related to equity-based compensation.