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)

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

For the quarterly period ended June 30, 2013

o 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 x Noo

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 x No o

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

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

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

Class	Outstanding at July 29, 2013
Common Shares, $0.01 par value	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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GLOSSARY AND SELECTED ABBREVIATIONS

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

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

	A well that has not encountered a hydrocarbon bearing reservoir expected to produce in commercial quantities.
EBITDAX	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.
E&P	Exploration and production.
FASB	Financial Accounting Standards Board.
Farm-in	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.
Field life cover ratio	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.
FPSO	Floating production, storage and offloading vessel.
Ghana Obligors	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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Interest cover ratio	The interest cover ratio is broadly defined, for each applicable calculation date, as the ratio of (x) the aggregate EBITDAX (see above) of the Company for the previous twelve months, to (y) interest expense less interest income for the Company for the previous twelve months.
Loan life cover ratio	The loan life cover ratio is broadly defined, for each applicable forecast period, as the ratio of (x) net present value of 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.
MBbl	Thousand barrels of oil.
Mcf	Thousand cubic feet of natural gas.
Mcfpd	Thousand cubic feet per day of natural gas.
MMBbl	Million barrels of oil.
MMBoe	Million barrels of oil equivalent.
MMcf	Million cubic feet of natural gas.
Natural gas liquid or NGL	Components of natural gas that are separated from the gas state in the form of liquids. These include propane, butane, and ethane, among others.
Petroleum contract	A contract in which the owner of 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.
Petroleum system	A petroleum system consists of organic material that has been buried at a sufficient depth to allow adequate temperature and pressure to expel hydrocarbons and cause the movement of oil and natural gas from the area in which it was formed to a reservoir rock where it can accumulate.
Plan of development or PoD	A written document outlining the steps to be undertaken to develop a field.
Productive well	An exploratory or development well found to be capable of producing either oil or natural gas in sufficient quantities to justify completion as an oil or natural gas well.
Prospect(s)	A potential trap that may contain hydrocarbons and is supported by the necessary amount and quality of geologic and geophysical data to indicate a probability of oil and/or natural gas accumulation ready to be drilled. The five required elements (generation, migration, reservoir, seal and trap) must be present for a prospect to work and if any of them fail neither oil nor natural gas will be present, at least not in commercial volumes.
Proved reserves	Estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be economically recoverable in future years from known reservoirs under existing economic and operating conditions, as well as additional reserves expected to be obtained through confirmed improved recovery techniques, as defined in SEC Regulation S-X 4-10(a)(2).
Proved developed reserves	Proved developed reserves are those proved reserves that can be expected to be recovered through existing wells and facilities and by existing operating methods.
Proved undeveloped reserves	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.
Reconnaissance contract	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

	explore for, develop, and/or produce minerals from the lease area.
Shelf margin	The path created by the change in direction of the shoreline in reaction to the filling of a sedimentary basin.
Structural trap	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.
Structural-stratigraphic trap	A structural-stratigraphic trap is a combination trap with structural and stratigraphic features.
Stratigraphy	The study of the composition, relative ages and distribution of layers of sedimentary rock.
Stratigraphic trap	A stratigraphic trap is formed from a change in the character of the rock rather than faulting or folding of the rock and oil is held in place by changes in the porosity and permeability of overlying rocks.

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Submarine fan	A fan-shaped deposit of sediments occurring in a deep water setting where sediments have been transported via mass flow, gravity induced, processes from the shallow to deep water. These systems commonly develop at the bottom of sedimentary basins or at the end of large rivers.
Three-way fault trap	A structural trap where at least one of the components of closure is formed by offset of rock layers across a fault.
Trap	A configuration of rocks suitable for containing hydrocarbons and sealed by a relatively impermeable formation through which hydrocarbons will not migrate.
Undeveloped acreage	Lease acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of natural gas and oil regardless of whether such acreage contains discovered resources.

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KOSMOS ENERGY LTD.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	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		

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.

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KOSMOS ENERGY LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 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.

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KOSMOS ENERGY LTD.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(In thousands)

(Unaudited)

	Common Shares		Additional Paid-in	Accumulated	Accumulated Other Comprehensive	Treasury	
	Shares	Amount	Capital	Deficit	Income	Stock	Total
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.

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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

Income taxes	$	28,722	$	16,620

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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4. Suspended Well Costs

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		December 31, 2012
	(In thousands, except well counts)			
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 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:

	Payments Due by Year					
	2013(1)	2014	2015	2016	2017	Thereafter
	(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.

			Weighted Average Dated Brent Price per Bbl			
Term	Type of Contract	MBbl	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

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, 2013	2012	Amount of Gain/(Loss) Six Months Ended June 30, 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)

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.

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

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

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

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.

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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:

	Payments Due By Year(1)						
	Total	2013(2)	2014	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.

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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Results of Operations

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 June 30,				Six Months Ended June 30,			
	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, 2013	Three Months Ended June 30, 2012	Increase (Decrease)
		(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.

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.

Depletion and depreciation. Depletion and depreciation increased $25.6 million during the three months ended June 30, 2013, as compared with the three months ended June 30, 2012. The increase is primarily due to the sale of two liftings of oil during the three months ended June 30, 2013 as compared to one lifting of oil during the three months ended June 30, 2012.

Derivatives, net. During the three months ended June 30, 2013 and 2012, we recorded gains of $12.7 million and $2.0 million, respectively, on our outstanding hedge positions. The gains recorded were a result of $11.3 million of unrealized gains on the change in fair value of our outstanding contracts and $1.4 million of realized gains on contracts that settled during the quarter.

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Income tax expense. The Company s effective tax rates for the three months ended June 30, 2013 and 2012 were (188)% and (970%), respectively. The large effective tax rates for the periods presented are due to losses incurred in jurisdictions in which we are not subject to taxes and, therefore, do not generate any income tax benefits and losses incurred in jurisdictions in which we have valuation allowances against our deferred tax assets and therefore we do not realize any tax benefit on such losses. Income tax expense increased $23.7 million during the three months ended June 30, 2013, as compared with June 30, 2012, primarily due to an increase in pre-tax income from our Ghanaian subsidiary.

Six months ended June 30, 2013 compared to six months ended June 30, 2012

	Six months Ended June 30, 2013	Six months Ended June 30, 2012	Increase (Decrease)
		(In thousands)	
Revenues and other income:			
Oil and gas revenue	$ 421,479	$ 227,985	$ 193,494
Interest income	114	1,028	(914)
Other income	575	205	370
Total revenues and other income	422,168	229,218	192,950
Costs and expenses:			
Oil and gas production	47,075	26,918	20,157
Exploration expenses	116,346	56,545	59,801
General and administrative	83,141	74,122	9,019
Depletion and depreciation	117,211	64,648	52,563
Amortization deferred financing costs	5,483	4,388	1,095
Interest expense	19,008	23,504	(4,496)
Derivatives, net	(7,199)	1,878	(9,077)
Other expenses, net	1,481	792	689
Total costs and expenses	382,546	252,795	129,751
Income (loss) before income taxes	39,622	(23,577)	63,199
Income tax expense	90,344	38,807	51,537
Net loss	$ (50,722)	$ (62,384)	$ 11,662

Oil and gas revenue. Oil and gas revenue increased $193.4 million during the six months ended June 30, 2013, as compared with the six months ended June 30, 2012. The increase is primarily due to having four liftings of oil during the six months ended June 30, 2013 as compared to having two liftings of oil during the six months ended June 30, 2012. This increase is partially offset by a lower realized price per barrel during the six months ended June 30, 2013.

Oil and gas production. Oil and gas production costs increased $20.2 million during the six months ended June 30, 2013, as compared with the six months ended June 30, 2012. The increase is primarily due to an increase in routine operating expenses related to the increase in production volumes and liftings during the six months ended June 30, 2013 as compared to the six months ended June 30, 2012. In addition, higher workover and rig equipment costs were incurred during2013 ascompared to 2012.

Exploration expenses. Exploration expenses increased $59.8 million during the six months ended June 30, 2013, as compared with the six months ended June 30, 2012. During the six months ended June 30, 2013, the Company incurred $83.9 million of unsuccessful well and other related costs primarily related to the Cameroon Sipo-1 exploration well and the Ghana Sapele-1 exploration well and $32.4 million for seismic costs primarily for Mauritania, Morocco and new ventures. During the six months ended June 30, 2012, we incurred $33.4 million for seismic costs for Morocco, Ghana and Cameroon and $19.2 million of unsuccessful well costs, primarily related to the Ghana Teak-4A appraisal well.

General and administrative. General and administrative costs increased $9.0 million during the six months ended June 30, 2013, as compared with the six months ended June 30, 2012, due to increase an increase in headcount. Total non-cash general and administrative costs were $37.0 million and $38.9 million for the six months ended June 30, 2013 and 2012, respectively, which was primarily related to equity-based compensation.

Depletion and depreciation. Depletion and depreciation increased $52.6 million during the six months ended June 30, 2013, as compared with the six months ended June 30, 2012. The increase is primarily due to depletion recognized related to the sale of four liftings of oil during the six months ended June 30, 2013 as compared to two liftings of oil during the six months ended June 30, 2012.

Interest expense. Interest expense decreased $4.5 million during the six months ended June 30, 2013, as compared with the six months ended June 30, 2012, primarily due to a decrease in the outstanding debt balance and a decrease in the mark to market loss on our interest rate swaps .

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Derivatives, net. During the six months ended June 30, 2013 and 2012, we recorded a gain of $7.2 million and a loss of $1.9 million, respectively, on our outstanding hedge positions. The gains recorded were a result of $5.2 million of unrealized gains on the change in fair value of our outstanding contracts and $2.0 million of realized gains on contracts that settled during the six months ended June 30, 2013.

Income tax expense. The Company s effective tax rates for the six months ended June 30, 2013 and 2012 were 228% and (165%), respectively. The large effective tax rates for the periods presented are due to losses incurred in jurisdictions in which we are not subject to taxes and, therefore, do not generate any income tax benefits as well as losses incurred in jurisdictions in which we have valuation allowances against our deferred tax assets and therefore we do not realize any tax benefit on such losses. Income tax expense increased $51.5 million during the six months ended June 30, 2013, as compared with June 30, 2012, primarily due to an increase in pre-tax income from our Ghanaian subsidiary.

Liquidity and Capital Resources

We are actively engaged in an ongoing process of anticipating and meeting our funding requirements related to exploring for and developing oil and natural gas resources along the Atlantic Margin. We have historically secured funding from issuances of equity and commercial debt facilities to meet our ongoing liquidity requirements. We received our first oil sales in January 2011 from Jubilee Field production, which generated cash flows from operations from 2011 to present. Accordingly, the cash flows generated from our operating activities may also provide an additional source of funding.

Significant Sources of Capital

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 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 the Corporate Revolver from a number of financial institutions. In April 2013, the availability under the Corporate Revolver was increased from $260.0 million to $300.0 million by additional commitments 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 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.

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Capital Expenditures and Investments

We expect to incur substantial costs as we continue to develop our oil and natural gas prospects and as we:

- complete our 2013 exploration and appraisal drilling program in our license areas;
- develop our discoveries that we determine to be commercially viable;
- purchase and analyze seismic and other geological and geophysical data to identify future prospects; and
- invest in additional oil and natural gas leases and licenses.

We have relied on a number of assumptions in budgeting for our future activities. These include the number of wells we plan to drill, our participating interests in our prospects, the costs involved in developing or participating in the development of a prospect, the timing of third-party projects, and the availability of suitable equipment and qualified personnel. These assumptions are inherently subject to significant business, political, economic, regulatory, environmental and competitive uncertainties, contingencies and risks, all of which are difficult to predict and many of which are beyond our control. We may need to raise additional funds more quickly if one or more of our assumptions proves to be incorrect or if we choose to expand our hydrocarbon asset acquisition, exploration, appraisal, development efforts or any other activity more rapidly than we presently anticipate. We may decide to raise additional funds before we need them if the conditions for raising capital are favorable. We may seek to sell equity or debt securities or obtain additional bank credit facilities. The sale of equity securities could result in dilution to our shareholders. The incurrence of additional indebtedness could result in increased fixed obligations and additional covenants that could restrict our operations.

2013 Capital Program

Our estimate for the 2013 capital program increased from $525.0 million to $560.0 million. The 2013 capital expenditure budget consists of:

- approximately 50% for developmental related expenditures offshore Ghana; and
- approximately 50% for exploration and appraisal related expenditures, including new venture opportunities.

The ultimate amount of capital we will spend may fluctuate materially based on market conditions and the success of our drilling results. Our future financial condition and liquidity will be impacted by, among other factors, our level of production of oil and the prices we receive from the sale of these commodities, the success of our exploration and appraisal drilling program, the number of commercially viable oil and natural gas discoveries made and the quantities of oil and natural gas discovered, the speed with which we can bring such discoveries to production, and the actual cost of exploration, appraisal and development of our oil and natural gas assets.

The following table presents our liquidity and financial position as of June 30, 2013:

		June 30, 2013
		(In thousands)
Cash and cash equivalents	$	508,874
Drawings under the Facility		900,000
Net debt		391,126
Availability under the Facility	$	399,141
Availability under the Corporate Revolver		300,000
Available borrowings plus cash and cash equivalents		1,208,015

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Cash Flows

	Six Months Ended June 30, 2013	2012
	(In thousands)	
Net cash provided by (used in):		
Operating activities	$ 276,870	$ 160,685
Investing activities	(167,894)	(194,194)
Financing activities	(115,266)	(9,632)

Operating activities. Net cash provided by operating activities for the six months ended June 30, 2013 was $276.9 million compared with net cash provided by operating activities for the six months ended June 30, 2012 of $160.7 million. The increase in cash provided by operating activities in the six months ended June 30, 2013 when compared to the same period in 2012 was primarily due to an increase in oil and gas revenues offset by a negative change in working capital items.

Investing activities. Net cash used in investing activities for the six months ended June 30, 2013 was $167.9 million compared with net cash used in investing activities for the six months ended June 30, 2012 of $194.2 million. The decrease in cash used in investing activities in the six months ended June 30, 2013 when compared to the same period in 2012 was primarily attributable to a decrease in expenditures for oil and gas assets in Ghana, offset by an increase in expenditures for oil and gas activities in Cameroon.

Financing activities. Net cash used in financing activities for the six months ended June 30, 2013 was $115.3 million compared with net cash used in financing activities for the six months ended June 30, 2012 of $9.6 million. The increase in cash used in financing activities in the six months ended June 30, 2013 when compared to the same period in 2012 was primarily due to the payment on our long-term debt.

Contractual Obligations

The following table summarizes by period the payments due for our estimated contractual obligations as of June 30, 2013:

	Payments Due By Year(3)						
	Total	2013(4)	2014	2015	2016	2017	Thereafter
	(In thousands)						
Facility(1)	$ 900,000	$	$ 34,759	$ 325,235	$ 35,272	$ 393,623	$ 111,111
Interest payments on long-term debt(2)	166,580	22,716	45,730	38,738	33,007	24,605	1,784
Operating leases	20,156	1,415	2,921	3,022	3,122	3,223	6,453
Drilling rig contract(5)	651,525		90,440	217,175	217,770	126,140	

(1) The estimated repayments 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 increases or decreases in the available borrowing base would impact the scheduled maturities of debt during the next five years and thereafter. As of June 30, 2013, there were no borrowings under the Corporate

Revolver.

(2) Based on outstanding borrowings as noted in (1) above and the LIBOR yield curves at the reporting date and commitment fees related to the Facility and Corporate Revolver.

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

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

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

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The following table presents maturities by expected maturity dates under the Facility, the weighted average interest rates expected to be paid on the Facility given current contractual terms and market conditions, and the debt s estimated fair value. Weighted-average interest rates are based on implied forward rates in the yield curve at the reporting date. This table does not take into account amortization of deferred financing costs.

	July 1 Through December 31, 2013(1)	2014	Years Ending December 31, 2015	2016	2017	Thereafter	Liability Fair Value at June 30, 2013
			(In thousands, except percentages)				
Variable rate debt:							
Facility(2)	$	$ 34,759	$ 325,235	$ 35,272	$ 393,623	$ 111,111	$ (900,000)
Weighted average interest rate (3)	3.54%	4.06%	4.63%	6.21%	7.30%	7.81%	
Interest rate swaps:							
Notional debt amount(4)	$	$ 47,033	$ 16,875	$ 6,250	$	$	$ (1,621)
Fixed rate payable		2.22%	2.22%	2.22%			
Variable rate receivable(5)		0.60%	1.08%	1.77%			
Notional debt amount(4)	$	$ 47,033	$ 16,875	$ 6,250	$	$	$ (1,727)
Fixed rate payable		2.31%	2.31%	2.31%			
Variable rate receivable(5)		0.60%	1.08%	1.77%			
Notional debt amount(4)	$	$ 1,868	$	$	$	$	$ (73)
Fixed rate payable		0.98%					
Variable rate receivable(5)		0.53%					
Notional debt amount(4)	$	$ 38,434	$ 23,137	$	$	$	$ (451)
Fixed rate payable		1.34%	1.34%				
Variable rate receivable(5)		0.60%	0.89%				

(1) The interest rate swaps variable rate receivable for the period July 1 through December 31, 2013 locked on June 26, 2013, therefore the notional amounts are not subject to changes in interest rates.

(2) The amounts included in the table represent principal maturities only. 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 increases or decreases in the available borrowing base would impact the scheduled maturities of debt during the next five years and thereafter. As of June 30, 2013, there were no borrowings under the Corporate Revolver.

(3) Based on outstanding borrowings as noted in (1) above and the LIBOR yield curves plus applicable margin at the reporting date. Excludes commitment fees related to the Facility and Corporate Revolver.

(4) Represents weighted average notional contract amounts of interest rate derivatives. In the final year of maturity, represents notional amount from January June.

(5) Based on implied forward rates in the yield curve at the reporting date.

Off-Balance Sheet Arrangements

We may enter into off-balance sheet arrangements and transactions that can give rise to material off-balance sheet obligations. As of June 30, 2013, our material off-balance sheet arrangements and transactions include operating leases and undrawn letters of credit. There are no other transactions, arrangements, or other relationships with unconsolidated entities or other persons that are reasonably likely to materially affect Kosmos liquidity or availability of or requirements for capital resources.

Critical Accounting Policies

We consider accounting policies related to our revenue recognition, exploration and development costs, receivables, income taxes, derivatives and hedging activities, estimates of proved oil and natural gas reserves, asset retirement obligations and impairment of long-lived assets as critical accounting policies. The policies include significant estimates made by management using information available at the time the estimates are made. However, these estimates could change materially if different information or assumptions were used. These policies are summarized in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations section in our annual report on Form 10-K, for the year ended December 31, 2012.

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Cautionary Note Regarding Forward-looking Statements

This quarterly report on Form 10-Q contains estimates and forward-looking statements, principally in Management s Discussion and Analysis of Financial Condition and Results of Operations. Our estimates and forward-looking statements are mainly based on our current expectations and estimates of future events and trends, which affect or may affect our businesses and operations. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to several risks and uncertainties and are made in light of information currently available to us. Many important factors, in addition to the factors described in our quarterly report on Form 10-Q and our annual report on Form 10-K, may adversely affect our results as indicated in forward-looking statements. You should read this quarterly report on Form 10-Q, the annual report on Form 10-K and the documents that we have filed with the Securities and Exchange Commission completely and with the understanding that our actual future results may be materially different from what we expect. Our estimates and forward-looking statements may be influenced by the following factors, among others:

- our ability to find, acquire or gain access to other discoveries and prospects and to successfully develop our current discoveries and prospects;
- uncertainties inherent in making estimates of our oil and natural gas data;
- the successful implementation of our and our block partners prospect discovery and development and drilling plans;
- projected and targeted capital expenditures and other costs, commitments and revenues;
- termination of or intervention in concessions, rights or authorizations granted by the governments of Ghana, Cameroon, Ireland, Mauritania, Morocco or Suriname (or their respective national oil companies) or any other federal, state or local governments or authorities, to us;
- our dependence on our key management personnel and our ability to attract and retain qualified technical personnel;
- the ability to obtain financing and to comply with the terms under which such financing may be available;
- the volatility of oil and natural gas prices;
- the availability, cost, function and reliability of developing appropriate infrastructure around and transportation to our discoveries and prospects;
- the availability and cost of drilling rigs, production equipment, supplies, personnel and oilfield services;
- other competitive pressures;
- potential liabilities inherent in oil and natural gas operations, including drilling risks and other operational and environmental hazards;
- current and future government regulation of the oil and gas industry;
- cost of compliance with laws and regulations;

- changes in environmental, health and safety or climate change laws, greenhouse gas regulation or the implementation, or interpretation, of those laws and regulations;
- environmental liabilities;
- geological, technical, drilling, production and processing problems;
- military operations, civil unrest, terrorist acts, wars or embargoes;
- the cost and availability of adequate insurance coverage;
- our vulnerability to severe weather events;
- our ability to meet our obligations under the agreements governing our indebtedness;
- the availability and cost of financing and refinancing our indebtedness;
- the amount of collateral, if any, required to be posted from time to time in our hedging transactions;
- our success in risk management activities, including the use of derivative financial instruments to hedge commodity and interest rate risks; and
- other risk factors discussed in the Item 1A. Risk Factors section of this quarterly report on Form 10-Q and our annual report on Form 10-K.

The words believe, may, will, aim, estimate, continue, anticipate, intend, expect, plan and similar words are intended to identi forward-looking statements. Estimates and forward-looking statements speak only as of the date they were made, and, except to the extent required by law, we undertake no obligation to update or to review any estimate and/or forward-looking statement because of new information, future events or other factors. Estimates and forward-looking statements involve risks and uncertainties and are not guarantees of future performance. As a result of the risks and uncertainties described above, the estimates and forward-looking statements discussed in this quarterly report on Form 10-Q might not occur, and our future results and our performance may differ materially from those expressed in these forward-looking statements due to, including, but not limited to, the factors mentioned above. Because of these uncertainties, you should not place undue reliance on these forward-looking statements.

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Item 3. Qualitative and Quantitative Disclosures About Market Risk

The primary objective of the following information is to provide forward-looking quantitative and qualitative information about our potential exposure to market risks. The term market risks as it relates to our currently anticipated transactions refers to the risk of loss arising from changes in commodity prices and interest rates. These disclosures are not meant to be precise indicators of expected future losses, but rather indicators of reasonably possible losses. This forward-looking information provides indicators of how we view and manage ongoing market risk exposures. We enter into market-risk sensitive instruments for purposes other than to speculate.

We manage market and counterparty credit risk in accordance with policies and guidelines. In accordance with these policies and guidelines, our management determines the appropriate timing and extent of derivative transactions. See Item 8. Financial Statements and Supplementary Data Note 2 Accounting Policies, Note 10 Derivative Financial Information and Note 11 Fair Value Measurements section of our annual report on Form 10-K for a description of the accounting procedures we follow relative to our derivative financial instruments.

The following table reconciles the changes that occurred in fair values of our open derivative contracts during the six months ended June 30, 2013:

	Derivative Contracts Assets (Liabilities)		
	Commodities	Interest Rates (In thousands)	Total
Fair value of contracts outstanding as of December 31, 2012	$ (16,603)	$ (5,939)	$ (22,542)
Changes in contract fair value	2,535	50	2,585
Contract maturities (settlements)	13,127	2,017	15,144
Fair value of contracts outstanding as of June 30, 2013	$ (941)	$ (3,872)	$ (4,813)

Commodity Derivative Instruments

We enter into various oil derivative contracts to mitigate our exposure to commodity price risk associated with anticipated future oil production. These contracts currently consist of three-way collars.

Commodity Price Sensitivity

The following table provides information about our oil derivative financial instruments that were sensitive to changes in oil prices as of June 30, 2013:

	Weighted Average Dated Brent Price per Bbl	Asset (Liability) Fair Value at

Term	Type of Contract	MBbl	Deferred Premium	Floor	Ceiling	Call	June 30, 2013(1)(2)
2013:							
July December	Three-way collars	750	$ 4.82	$ 95.00	$ 105.00	$ 125.00	$ (3,519)
July December	Three-way collars	506		87.50	115.00	135.00	175
July December	Three-way collars	500		90.00	115.39	135.00	313
July December	Three-way collars	500		90.08	115.00	135.00	312
2014:							
January December	Three-way collars	1,500	1.22	85.00	115.00	140.00	716
January December	Three-way collars	1,000		85.00	115.01	140.00	1,665

(1) Fair values are based on the average forward Dated Brent oil prices on June 30, 2013 which by year are: 2013 $100.99 and 2014 $97.81. These fair values are subject to changes in the underlying commodity price. The average forward Dated Brent oil prices based on July 29, 2013 market quotes by year are: 2013 $106.05 and 2014 $101.67.

(2) Excludes $0.6 million of cash settlements made on our three-way collars which were settled in the month subsequent to period end.

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Interest Rate Derivative Instruments

See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations section of our annual report on Form 10-K for specific information regarding the terms of our interest rate derivative instruments that are sensitive to changes in interest rates.

Interest Rate Sensitivity

At June 30, 2013, we had indebtedness outstanding under the Facility of $900.0 million, of which $699.4 million bore interest at floating rates. The interest rate on this indebtedness as of June 30, 2013 was approximately 3.4%. If LIBOR increased 10% at this level of floating rate debt, we would pay an additional $0.1 million in interest expense per year on the Facility. We pay commitment fees on the $399.1 million of undrawn availability and $200.9 million of unavailable commitments under the Facility and on the $300.0 million of undrawn availability under the Corporate Revolver, which are not subject to changes in interest rates.

As of June 30, 2013, the fair market value of our interest rate swaps was a net liability of approximately $3.9 million. If LIBOR increased by 10%, we estimate the liability would decrease to approximately $3.7 million, and if LIBOR decreased by 10%, we estimate the liability would increase to approximately $4.0 million.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) was performed under the supervision and with the participation of the Company s management, including our Chief Executive Officer and Chief Financial Officer. This evaluation considered the various processes carried out under the direction of our disclosure committee in an effort to ensure that information required to be disclosed in the SEC reports we file or submit under the Exchange Act is accurate, complete and timely. However, a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of a control system must reflect the fact that there are resource constraints, and the benefit of controls must be considered relative to their costs. Consequently, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. Based upon this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of June 30, 2013, in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, including that such information is accumulated and communicated to the Company s management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure.

Evaluation of Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material changes from the information concerning legal proceedings discussed in the Item 3. Legal Proceedings section of our annual report on Form 10-K.

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Item 1A. Risk Factors section of our annual report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There have been no material changes from the information concerning the use of proceeds from our IPO discussed in the Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities section of our annual report on Form 10-K.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information.

There have been no material changes required to be reported under this Item that have not previously been disclosed in the annual report on Form 10-K, other than as follows:

Disclosures Required Pursuant to Section 13(r) of the Securities Exchange Act of 1934

Under the Iran Threat Reduction and Syria Human Rights Act of 2012, which added Section 13(r) of the Exchange Act, we are required to include certain disclosures in our periodic reports if we or any of our affiliates (as defined in Rule 12b-2 under the Exchange Act) knowingly engaged in certain specified activities during the period covered by the report. Because the Securities and Exchange Commission (SEC) defines the term affiliate broadly, it includes any entity controlled by us as well as any person or entity that controls us or is under common control with us (control is also construed broadly by the SEC).

We are not presently aware that we and our consolidated subsidiaries have knowingly engaged in any transaction or dealing reportable under Section 13(r) of the Exchange Act during the fiscal quarter ended June 30, 2013. In addition, except as described below, at the time of filing this quarterly report on Form 10-Q, we are not aware of any such reportable transactions or dealings by companies that may be considered our affiliates as to whether they have knowingly engaged in any such reportable transactions or dealings during such periods. Upon the filing of periodic reports by such other companies for the fiscal quarter or fiscal year ended June 30, 2013, as the case may be, additional reportable transactions may be disclosed by such companies.

As of April 1, 2013, funds affiliated with The Blackstone Group (Blackstone) held approximately 29% of our outstanding common shares, and funds affiliated with Warburg Pincus (Warburg Pincus) held approximately 36% of our outstanding common shares. We are also a party to a shareholders agreement with Blackstone and Warburg Pincus pursuant to which, among other things, Blackstone and Warburg Pincus each currently have the right to designate three members of our board of directors. Accordingly, each of Blackstone and Warburg Pincus may be deemed an affiliate of us, both currently and during the fiscal quarter ended June 30, 2013.

Disclosure relating to Blackstone and its affiliates

Blackstone also informed us of the information reproduced below (the Hilton Disclosure) regarding Hilton Worldwide, Inc. (Hilton), a company that may be considered one of Blackstone s affiliates. Because both we and Hilton are controlled by Blackstone, we may be considered an affiliate of Hilton for the purposes of Section 13(r) of the Exchange Act.

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Hilton Disclosure:

Quarter ended June 30, 2013

As previously disclosed, during the reporting period, certain individual employees at two Hilton-branded hotels in the United Arab Emirates received routine wage payments as direct deposits to their personal accounts at Bank Melli, an entity identified on the Specially Designated Nationals and Blocked Persons List (SDN List) maintained by the Office of Foreign Assets Control in the U.S. Department of the Treasury. Both of these hotels are owned by a third party, staffed by employees of the third-party owner and operated pursuant to a management agreement between the owner and a Hilton affiliate. In each case, these payments originated from the third-party owner s account to the personal accounts of the employees at their chosen bank. During the reporting period, both hotels discontinued making direct deposits to accounts at Bank Melli. No revenues or net profits are associated with these transactions.

Also as previously disclosed, during the reporting period, several individuals stayed at the DoubleTree Kuala Lumpur, Malaysia, pursuant to a rate agreement between the hotel and Mahan Air, an entity identified on the SDN List. The rate agreement was terminated as of May 2, 2013. This hotel is staffed by employees of the third-party owner and operated pursuant to a management agreement between the owner and a Hilton affiliate. Under the rate agreement, which was entered into in the name of the owner, the hotel reserved a number of rooms for Mahan Air crew members at the DoubleTree Kuala Lumpur several times each week. Revenue and net profit received by Hilton attributable to Mahan Air crew hotel stays during the reporting period was approximately $430.

The Hilton Disclosure relates solely to activities conducted by Hilton and do not relate to any activities conducted by us. We have no involvement in or control over the activities of Hilton, any of its predecessor companies or any of its subsidiaries. Other than as described above, we have no knowledge of the activities of Hilton with respect to transactions with Iran, and we have not participated in the preparation of the Hilton Disclosure. We have not independently verified the Hilton Disclosure, are not representing to the accuracy or completeness of the Hilton Disclosure and undertake no obligation to correct or update the Hilton Disclosure.

Item 6. Exhibits

The information required by this Item 6 is set forth in the Index to Exhibits accompanying this quarterly report on Form 10-Q.

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SIGNATURES

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

		Kosmos Energy Ltd. (Registrant)
Date	August 5, 2013	/s/ W. GREG DUNLEVY W. Greg Dunlevy Executive Vice President and Chief Financial Officer (Principal Financial Officer)

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INDEX OF EXHIBITS

Exhibit Number	Description of Document
10.1*	Multi-Currency Revolving Letter of Credit Facility Agreement , dated as of July 3, 2013, among Kosmos Energy Credit International, as the Original Borrower, Kosmos Energy Ltd., as the Original Guarantor, and Societe Generale, London Branch, as the Original Lender, Facility Agent, Security Agent and Account Bank.
10.2*	Charge on Cash Deposits and Account Bank Agreement, dated as of July 3, 2013, among Kosmos Energy Credit International and Societe Generale, London Branch, as Security Agent and Account Bank.
10.3*+	Deepwater Drilling Unit Contract Agreement, dated as of June 9, 2013, between Kosmos Energy Ventures and Alpha Offshore Drilling Services Company.
31.1*	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

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* Filed herewith.

** Furnished herewith.

+ Confidential treatment requested as to certain portions, which portions have been provided separately to the Securities and Exchange Commission.