

Kosmos Energy Ltd.
Form 10-Q
November 03, 2014
Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

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

For the transition period from _____ to _____

Commission file number: 001-35167

Kosmos Energy Ltd.

(Exact name of registrant as specified in its charter)

Bermuda
(State or other jurisdiction of
incorporation or organization)

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

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

HM 11
(Zip Code)

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

Not applicable

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

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

Edgar Filing: Kosmos Energy Ltd. - Form 10-Q

Class
Common Shares, \$0.01 par value

Outstanding at October 28, 2014
386,872,550

Table of Contents

TABLE OF CONTENTS

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

	Page
PART I. FINANCIAL INFORMATION	
<u>Glossary and Select Abbreviations</u>	3
Item 1. Financial Statements	
<u>Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013</u>	6
<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2014 and 2013</u>	7
<u>Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2014 and 2013</u>	8
<u>Consolidated Statements of Shareholders' Equity for the nine months ended September 30, 2014</u>	9
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013</u>	10
<u>Notes to Consolidated Financial Statements</u>	11
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	34
<u>Item 4. Controls and Procedures</u>	35
PART II. OTHER INFORMATION	
<u>Item 1. Legal Proceedings</u>	36
<u>Item 1A. Risk Factors</u>	36
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	37
<u>Item 3. Defaults Upon Senior Securities</u>	37
<u>Item 4. Mine Safety Disclosures</u>	37
<u>Item 5. Other Information</u>	37
<u>Item 6. Exhibits</u>	39
<u>Signatures</u>	40
<u>Index to Exhibits</u>	41

Table of Contents**KOSMOS ENERGY LTD.****GLOSSARY AND SELECTED ABBREVIATIONS**

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

<i>2D seismic data</i>	Two-dimensional seismic data, serving as interpretive data that allows a view of a vertical cross-section beneath a prospective area.
<i>3D seismic data</i>	Three-dimensional seismic data, serving as geophysical data that depicts the subsurface strata in three dimensions. 3D seismic data typically provides a more detailed and accurate interpretation of the subsurface strata than 2D seismic data.
<i>API</i>	A specific gravity scale, expressed in degrees, that denotes the relative density of various petroleum liquids. The scale increases inversely with density. Thus lighter petroleum liquids will have a higher API than heavier ones.
<i>ASC</i>	Financial Accounting Standards Board Accounting Standards Codification.
<i>ASU</i>	Financial Accounting Standards Board Accounting Standards Update.
<i>Barrel or Bbl</i>	A standard measure of volume for petroleum corresponding to approximately 42 gallons at 60 degrees Fahrenheit.
<i>BBbl</i>	Billion barrels of oil.
<i>BBoe</i>	Billion barrels of oil equivalent.
<i>Bcf</i>	Billion cubic feet.
<i>Boe</i>	Barrels of oil equivalent. Volumes of natural gas converted to barrels of oil using a conversion factor of 6,000 cubic feet of natural gas to one barrel of oil.
<i>Boepd</i>	Barrels of oil equivalent per day.
<i>Bopd</i>	Barrels of oil per day.
<i>Bwpd</i>	Barrels of water per day.
<i>Debt cover ratio</i>	The debt cover ratio is broadly defined, for each applicable calculation date, as the ratio of (x) total long-term debt less cash and cash equivalents and restricted cash, to (y) the aggregate EBITDAX (see below) of the Company for the previous twelve months.
<i>Developed acreage</i>	The number of acres that are allocated or assignable to productive wells or wells capable of production.
<i>Development</i>	The phase in which an oil or natural gas field is brought into production by drilling development wells and installing appropriate production systems.
<i>Dry hole</i>	A well that has not encountered a hydrocarbon bearing reservoir expected to produce in commercial quantities.

Edgar Filing: Kosmos Energy Ltd. - Form 10-Q

<i>EBITDAX</i>	Net income (loss) plus (i) exploration expense, (ii) depletion, depreciation and amortization expense, (iii) equity-based compensation expense, (iv) unrealized (gain) loss on commodity derivatives, (v) (gain) loss on sale of oil and gas properties, (vi) interest (income) expense, (vii) income taxes, (viii) loss on extinguishment of debt, (ix) doubtful accounts expense and (x) similar other material items which management believes affect the comparability of operating results.
<i>E&P</i>	Exploration and production.
<i>FASB</i>	Financial Accounting Standards Board.

Edgar Filing: Kosmos Energy Ltd. - Form 10-Q

Table of Contents

<i>Farm-in</i>	An agreement whereby an oil company acquires a portion of the participating interest in a block from the owner of such interest, usually in return for cash and for taking on a portion of the drilling costs of one or more specific wells or other performance by the assignee as a condition of the assignment.
<i>Farm-out</i>	An agreement whereby the owner of the participating interest agrees to assign a portion of its participating interest in a block to another party for cash or for the assignee taking on a portion of the drilling costs of one or more specific wells and/or other work as a condition of the assignment.
<i>Field life cover ratio</i>	The field life cover ratio is broadly defined, for each applicable forecast period, as the ratio of (x) net present value of net cash flow through the depletion of the Jubilee Field plus the net present value of certain capital expenditures incurred in relation to the Jubilee Field and certain other fields in Ghana, to (y) the aggregate loan amounts outstanding under the Facility.
<i>FPSO</i>	Floating production, storage and offloading vessel.
<i>Interest cover ratio</i>	The interest cover ratio is broadly defined, for each applicable calculation date, as the ratio of (x) the aggregate EBITDAX (see above) of the Company for the previous twelve months, to (y) interest expense less interest income for the Company for the previous twelve months.
<i>Loan life cover ratio</i>	The loan life cover ratio is broadly defined, for each applicable forecast period, as the ratio of (x) net present value of net cash flow through the final maturity date of the Facility plus the net present value of capital expenditures incurred in relation to the Jubilee Field and certain other fields in Ghana, to (y) the aggregate loan amounts outstanding under the Facility.
<i>Make-whole redemption price</i>	The make-whole redemption price is equal to the outstanding principal amount of such notes plus the greater of 1) 1% of the then outstanding principal amount of such notes and 2) the present value of the notes at 103.938% and required interest payments thereon through August 1, 2017 at such redemption date.
<i>MBbl</i>	Thousand barrels of oil.
<i>Mcf</i>	Thousand cubic feet of natural gas.
<i>Mcfpd</i>	Thousand cubic feet per day of natural gas.
<i>MMBbl</i>	Million barrels of oil.
<i>MMBoe</i>	Million barrels of oil equivalent.
<i>MMcf</i>	Million cubic feet of natural gas.
<i>Natural gas liquid or NGL</i>	Components of natural gas that are separated from the gas state in the form of liquids. These include propane, butane, and ethane, among others.
<i>Petroleum contract</i>	A contract in which the owner of hydrocarbons gives an E&P company temporary and limited rights, including an exclusive option to explore for, develop, and produce hydrocarbons from the lease area.
<i>Petroleum system</i>	A petroleum system consists of organic material that has been buried at a sufficient depth to allow adequate temperature and pressure to expel hydrocarbons and cause the movement of oil and natural gas from the area in which it was formed to a reservoir rock where it can accumulate.
<i>Plan of development or PoD</i>	A written document outlining the steps to be undertaken to develop a field.
<i>Productive well</i>	An exploratory or development well found to be capable of producing either oil or natural gas in sufficient quantities to justify completion as an oil or natural gas well.

Edgar Filing: Kosmos Energy Ltd. - Form 10-Q

Table of Contents

<i>Prospect(s)</i>	A potential trap that may contain hydrocarbons and is supported by the necessary amount and quality of geologic and geophysical data to indicate a probability of oil and/or natural gas accumulation ready to be drilled. The five required elements (generation, migration, reservoir, seal and trap) must be present for a prospect to work and if any of them fail neither oil nor natural gas will be present, at least not in commercial volumes.
<i>Proved reserves</i>	Estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be economically recoverable in future years from known reservoirs under existing economic and operating conditions, as well as additional reserves expected to be obtained through confirmed improved recovery techniques, as defined in SEC Regulation S-X 4-10(a)(2).
<i>Proved developed reserves</i>	Proved developed reserves are those proved reserves that can be expected to be recovered through existing wells and facilities and by existing operating methods.
<i>Proved undeveloped reserves</i>	Proved undeveloped reserves are those proved reserves that are expected to be recovered from future wells and facilities, including future improved recovery projects which are anticipated with a high degree of certainty in reservoirs which have previously shown favorable response to improved recovery projects.
<i>Reconnaissance contract</i>	A contract in which the owner of hydrocarbons 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 hydrocarbons from the lease area.
<i>Shelf margin</i>	The path created by the change in direction of the shoreline in reaction to the filling of a sedimentary basin.
<i>Structural trap</i>	A structural trap is a topographic feature in the earth's subsurface that forms a high point in the rock strata. This facilitates the accumulation of oil and gas in the strata.
<i>Structural-stratigraphic trap</i>	A structural-stratigraphic trap is a combination trap with structural and stratigraphic features.
<i>Stratigraphy</i>	The study of the composition, relative ages and distribution of layers of sedimentary rock.
<i>Stratigraphic trap</i>	A stratigraphic trap is formed from a change in the character of the rock rather than faulting or folding of the rock and oil is held in place by changes in the porosity and permeability of overlying rocks.
<i>Submarine fan</i>	A fan-shaped deposit of sediments occurring in a deep water setting where sediments have been transported via mass flow, gravity induced, processes from the shallow to deep water. These systems commonly develop at the bottom of sedimentary basins or at the end of large rivers.
<i>Three-way fault trap</i>	A structural trap where at least one of the components of closure is formed by offset of rock layers across a fault.
<i>Trap</i>	A configuration of rocks suitable for containing hydrocarbons and sealed by a relatively impermeable formation through which hydrocarbons will not migrate.
<i>Undeveloped acreage</i>	Lease acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of natural gas and oil regardless of whether such acreage contains discovered resources.

Table of Contents**KOSMOS ENERGY LTD.****CONSOLIDATED BALANCE SHEETS****(In thousands, except share data)**

Assets			
Current assets:			
Cash and cash equivalents	\$	600,626	\$ 598,108
Restricted cash		34,621	21,475
Receivables:			
Joint interest billings		54,027	19,930
Oil sales		41,764	281
Other		20,344	1,115
Inventories		57,571	47,424
Prepaid expenses and other		20,086	27,010
Current deferred tax assets		10,474	19,618
Derivatives		6,848	
Total current assets		846,361	734,961
Property and equipment:			
Oil and gas properties, net		1,641,393	1,508,062
Other property, net		12,208	14,900
Property and equipment, net		1,653,601	1,522,962
Other assets:			
Restricted cash		16,125	31,500
Long-term receivables - joint interest billings		10,124	
Deferred financing costs, net of accumulated amortization of \$30,778 and \$24,976 at September 30, 2014 and December 31, 2013, respectively		51,337	40,111
Long-term deferred tax assets		21,767	16,292
Derivatives		3,892	
Total assets	\$	2,603,207	\$ 2,345,826
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable	\$	89,838	\$ 94,172
Accrued liabilities		197,132	115,212
Derivatives		1,994	9,940
Total current liabilities		288,964	219,324
Long-term liabilities:			
Long-term debt		794,106	900,000
Derivatives		429	3,811
Asset retirement obligations		42,861	39,596
Deferred tax liability		271,376	170,226
Other long-term liabilities		14,539	20,534
Total long-term liabilities		1,123,311	1,134,167
Shareholders' equity:			

Edgar Filing: Kosmos Energy Ltd. - Form 10-Q

Preference shares, \$0.01 par value; 200,000,000 authorized shares; zero issued at September 30, 2014 and December 31, 2013

Common shares, \$0.01 par value; 2,000,000,000 authorized shares; 392,388,533 and 391,974,287 issued at September 30, 2014 and December 31, 2013, respectively	3,924	3,920	
Additional paid-in capital	1,840,615	1,781,535	
Accumulated deficit	(623,621)	(774,220)	
Accumulated other comprehensive income	1,057	2,158	
Treasury stock, at cost, 5,543,118 and 4,400,135 shares at September 30, 2014 and December 31, 2013, respectively	(31,043)	(21,058)	
Total shareholders' equity	1,190,932	992,335	
Total liabilities and shareholders' equity	\$ 2,603,207	\$ 2,345,826	

See accompanying notes.

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

Revenues and other income:								
Oil and gas revenue	\$	137,485	\$	215,169	\$	678,635	\$	636,648
Gain on sale of assets						23,769		
Interest income		69		77		323		191
Other income		882		133		2,190		708
Total revenues and other income		138,436		215,379		704,917		637,547
Costs and expenses:								
Oil and gas production		15,097		32,576		54,366		79,651
Exploration expenses		21,334		75,607		57,652		194,384
General and administrative		35,148		38,077		95,041		118,787
Depletion and depreciation		36,959		58,367		152,883		175,578
Amortization deferred financing costs		2,593		2,786		7,938		8,269
Interest expense		9,838		8,781		20,984		27,789
Derivatives, net		(40,407)		7,585		(20,869)		386
Restructuring charges		(46)				11,758		
Loss on extinguishment of debt						2,898		
Other expenses, net		329		1,864		1,632		3,345
Total costs and expenses		80,845		225,643		384,283		608,189
Income (loss) before income taxes		57,591		(10,264)		320,634		29,358
Income tax expense		38,468		34,224		170,035		124,568
Net income (loss)	\$	19,123	\$	(44,488)	\$	150,599	\$	(95,210)
Net income (loss) per share:								
Basic	\$	0.05	\$	(0.12)	\$	0.39	\$	(0.25)
Diluted	\$	0.05	\$	(0.12)	\$	0.39	\$	(0.25)
Weighted average number of shares used to compute net income (loss) per share:								
Basic		379,969		377,654		378,881		376,509
Diluted		382,190		377,654		382,287		376,509

Edgar Filing: Kosmos Energy Ltd. - Form 10-Q

See accompanying notes.

Table of Contents

KOSMOS ENERGY LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income (loss)	\$ 19,123	\$ (44,488)	\$ 150,599	\$ (95,210)
Other comprehensive income:				
Reclassification adjustments for gains on cash flow hedges included in net income (loss)	(290)	(405)	(1,101)	(1,122)
Other comprehensive income	(290)	(405)	(1,101)	(1,122)
Comprehensive income (loss)	\$ 18,833	\$ (44,893)	\$ 149,498	\$ (96,332)

See accompanying notes.

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

	Common Shares		Additional	Accumulated	Accumulated	Treasury	Total
	Shares	Amount	Paid-in	Deficit	Other	Stock	
			Capital		Comprehensive		
					Income		
Balance as of December 31, 2013	391,974	\$ 3,920	\$ 1,781,535	\$ (774,220)	\$ 2,158	\$ (21,058)	\$ 992,335
Equity-based compensation			60,166				60,166
Derivatives, net					(1,101)		(1,101)
Restricted stock awards and units	415	4	(4)				
Restricted stock forfeitures			2			(2)	
Purchase of treasury stock			(1,084)			(9,983)	(11,067)
Net income				150,599			150,599
Balance as of September 30, 2014	392,389	\$ 3,924	\$ 1,840,615	\$ (623,621)	\$ 1,057	\$ (31,043)	\$ 1,190,932

See accompanying notes.

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

	Nine Months Ended September 30,	
	2014	2013
Operating activities		
Net income (loss)	\$ 150,599	\$ (95,210)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depletion, depreciation and amortization	160,821	183,847
Deferred income taxes	103,372	62,757
Unsuccessful well costs	3,091	98,912
Change in fair value of derivatives	(13,508)	4,752
Cash settlements on derivatives	(9,661)	(18,658)
Equity-based compensation	59,941	50,792
Gain on sale of assets	(23,769)	
Loss on extinguishment of debt	2,898	
Other	(4,368)	4,468
Changes in assets and liabilities:		
Increase in receivables	(104,708)	(56,725)
Increase in inventories	(10,197)	(2,419)
Decrease (increase) in prepaid expenses and other	6,924	(1,126)
Decrease in accounts payable	(4,334)	(30,037)
Increase in accrued liabilities	55,133	79,996
Net cash provided by operating activities	372,234	281,349
Investing activities		
Oil and gas assets	(290,218)	(244,452)
Other property	(1,403)	(3,712)
Proceeds on sale of assets	58,315	
Restricted cash	2,229	7,214
Net cash used in investing activities	(231,077)	(240,950)
Financing activities		
Payments on long-term debt	(400,000)	(100,000)
Net proceeds from issuance of senior secured notes	294,000	
Purchase of treasury stock	(11,067)	(13,069)
Deferred financing costs	(21,572)	(2,227)
Net cash used in financing activities	(138,639)	(115,296)
Net increase (decrease) in cash and cash equivalents	2,518	(74,897)
Cash and cash equivalents at beginning of period	598,108	515,164
Cash and cash equivalents at end of period	\$ 600,626	\$ 440,267

Supplemental cash flow information

Cash paid for:

Interest	\$	20,192	\$	27,046
Income taxes	\$	101,068	\$	49,716

See accompanying notes.

Table of Contents

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 assets include existing production and other major development projects offshore Ghana, as well as exploration licenses with significant hydrocarbon potential offshore Ireland, Mauritania, Morocco (including Western Sahara), Senegal 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 currently related to production located offshore Ghana.

2. Accounting Policies

General

The interim-period financial information presented in the consolidated financial statements included in this report is unaudited and, in the opinion of management, includes all adjustments of a normal recurring nature necessary to present fairly the consolidated financial position as of September 30, 2014, the changes in the consolidated statements of shareholders' equity for the nine months ended September 30, 2014, the consolidated results of operations for the three and nine months ended September 30, 2014 and 2013, and consolidated cash flows for the nine months ended September 30, 2014 and 2013. The results of the interim periods shown in this report are not necessarily indicative of the final results to be expected for the full year. The consolidated financial statements were prepared in accordance with the requirements of the Securities and Exchange Commission ("SEC") for interim reporting. As permitted under those rules, certain notes or other financial information that are normally required by Generally Accepted Accounting Principles in the United States of America ("GAAP") have been condensed or omitted from these interim consolidated financial statements. These consolidated financial statements and the accompanying notes should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2013, 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 income (loss), current assets, total assets, current liabilities, total liabilities or shareholders' equity.

Restricted Cash

In accordance with our commercial debt facility (the "Facility"), we are required to maintain a restricted cash balance that is sufficient to meet the payment of interest and fees for the next six-month period on the 7.875% Senior Secured Notes due 2021 ("Senior Notes") plus the Corporate Revolver or the Facility, whichever is greater. As of September 30, 2014 and December 31, 2013, we had \$15.5 million and \$18.6 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 the existing letters of credit will be satisfied and the cash collateral will be released. However, additional letters of credit may be required should we choose to move into the next phase of certain of our petroleum contracts. As of September 30, 2014 and December 31, 2013, we had \$19.1 million and \$2.9 million, respectively, of current restricted cash and \$16.1 million and \$31.5 million, respectively, of long-term restricted cash used to cash collateralize performance guarantees related to our petroleum contracts.

Table of Contents

Inventories

Inventories consisted of \$55.0 million and \$45.8 million of materials and supplies and \$2.6 million and \$1.6 million of hydrocarbons as of September 30, 2014 and December 31, 2013, 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.

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 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.

Restructuring Charges

The Company accounts for restructuring charges in accordance with ASC 420-Exit or Disposal Cost Obligations. Under these standards, the costs associated with restructuring charges are recorded during the period in which the liability is incurred. During the nine months ended September 30, 2014, we recognized \$11.8 million in restructuring charges for employee severance and related benefit costs incurred as part of a corporate reorganization, which includes \$5.0 million of accelerated non-cash expense related to awards previously granted under our Long-Term Incentive Plan (the "LTIP").

Recent Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") Topic 605,

Revenue Recognition, and most industry-specific guidance. ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. ASU 2014-09 applies to all contracts with customers except those that are within the scope of other topics in the FASB ASC. The new guidance is effective for annual reporting periods beginning after December 15, 2016 for public companies. Early adoption is not permitted. Entities have the option of using either a full retrospective or modified approach to adopt ASU 2014-09. The Company is currently evaluating the new guidance and has not determined the impact this standard may have on its financial statements or decided upon the method of adoption.

In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 prospectively changes the criteria for reporting discontinued operations while enhancing disclosures around disposals of assets whether or not the disposal meets the definition of a discontinued operation. ASU 2014-08 is effective for annual and interim periods beginning after December 31, 2014 with early adoption permitted but only for disposals that have not been reported in financial statements previously issued. The adoption of this new guidance is not expected to have a material impact on the Company's consolidated financial statements.

3. Property and Equipment

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

	September 30, 2014	December 31, 2013
	(In thousands)	
Oil and gas properties:		
Proved properties	\$ 865,500	\$ 801,348
Unproved properties	716,933	524,257
Support equipment and facilities	732,567	710,289
Total oil and gas properties	2,315,000	2,035,894
Less: accumulated depletion	(673,607)	(527,832)
Oil and gas properties, net	1,641,393	1,508,062
Other property	32,745	31,658
Less: accumulated depreciation	(20,537)	(16,758)
Other property, net	12,208	14,900
Property and equipment, net	\$ 1,653,601	\$ 1,522,962

Edgar Filing: Kosmos Energy Ltd. - Form 10-Q

Table of Contents

We recorded depletion expense of \$34.6 million and \$56.1 million for the three months ended September 30, 2014 and 2013, respectively and \$145.8 million and \$169.2 million for the nine months ended September 30, 2014 and 2013, respectively.

In the first quarter of 2014, the Moroccan government issued a joint ministerial order approving a partial sale of our participating interests to BP Exploration (Morocco) Limited, a wholly owned subsidiary of BP plc (BP), covering our three blocks in the Agadir Basin, offshore Morocco. Upon receipt of this order, we closed the partial sale with BP. Under the terms of the agreements, BP acquired a non-operating interest in each of the Essaouira Offshore, Fom Assaka Offshore and Tarhazoute Offshore blocks. The sales price of the farm-outs was \$56.9 million. All proceeds were received as of June 30, 2014. After giving effect to these farm-outs, our participating interests are 30.0%, 29.925% and 30.0% in the Essaouira Offshore, Fom Assaka Offshore and Tarhazoute Offshore blocks, respectively, and we remain the operator. The proceeds on the sale of the interests exceeded our book basis in the assets, resulting in a \$23.8 million gain on the transaction.

In the first quarter of 2014, the Moroccan government issued a joint ministerial order approving a partial sale of our participating interest to Capricorn Exploration and Development Company Limited, a wholly owned subsidiary of Cairn Energy PLC (Cairn), covering the Cap Boujdour Offshore block, offshore Western Sahara. Upon receipt of this order, we closed the partial sale with Cairn. During the second quarter of 2014, Cairn paid \$1.5 million for their share of costs incurred from the effective date of the farm-out agreement through the closing date, which was recorded as a reduction in our basis. After giving effect to the farm-out, our participating interest in the Cap Boujdour Offshore block is 55.0% and we remain the operator.

In August 2014, we entered into a farm-in agreement with Timis Corporation Limited, whereby we acquired a 60% participating interest and operatorship, covering the Cayar Offshore Profond and Saint Louis Offshore Profond blocks offshore Senegal. As part of the agreement, we will carry the full costs of a planned 3D seismic program. Additionally, we will carry the full costs of two contingent exploration wells, subject to a maximum gross cost per well of \$120.0 million, should Kosmos elect to drill such wells. We also retain the option to increase our equity to 65% in exchange for carrying the full cost of a third contingent exploration or appraisal well, subject to a maximum gross cost of \$120.0 million.

4. Suspended Well Costs

The following table reflects the Company's capitalized exploratory well costs on completed wells as of and during the nine months ended September 30, 2014. The table excludes \$3.1 million in costs that were capitalized and subsequently expensed during the same period.

	Nine Months Ended September 30, 2014 (In thousands)
Beginning balance	\$ 376,166
Additions to capitalized exploratory well costs pending the determination of proved reserves	53,367
Reclassification due to determination of proved reserves	
Capitalized exploratory well costs charged to expense	
Ending balance	\$ 429,533

Edgar Filing: Kosmos Energy Ltd. - Form 10-Q

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

	September 30, 2014	December 31, 2013
	(In thousands, except well counts)	
Exploratory well costs capitalized for a period of one year or less	\$ 52,502	\$ 11,426
Exploratory well costs capitalized for a period of one to two years	137,367	229,140
Exploratory well costs capitalized for a period of three to five years	239,664	135,600
Ending balance	\$ 429,533	\$ 376,166
Number of projects that have exploratory well costs that have been capitalized for a period greater than one year	8	8

Edgar Filing: Kosmos Energy Ltd. - Form 10-Q

Table of Contents

As of September 30, 2014, the projects with exploratory well costs capitalized for more than one year since the completion of drilling are related to the Mahogany, Teak-1, Teak-2 and Akasa discoveries in the West Cape Three Points (WCTP) Block and the Tweneboa, Enyenra, Ntomme and Wawa discoveries in the Deepwater Tano (DT) Block, which are all in Ghana.

Effective January 14, 2014, Ghana's Ministry of Energy and Ghana National Petroleum Corporation (GNPC) entered into a Memorandum of Understanding with Kosmos Energy, on behalf of the WCTP Petroleum Agreement (PA) Block partners, wherein all parties have settled all matters pertaining to the Notices of Dispute for the Mahogany East PoD, and the Ministry of Energy has approved the Appraisal Programs for the Mahogany, Teak, and Akasa discoveries.

Mahogany Three appraisal wells have been drilled. Additionally, we deepened a development well in the Jubilee Field to further appraise the Mahogany discovery. Following additional appraisal and evaluation, a decision regarding commerciality of the Mahogany discovery is expected to be made by the WCTP Block partners in early 2015. 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-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 early 2015. 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 early 2015. 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.

Akasa Discovery We performed a drill stem test and gauge installation on the discovery well and drilled one appraisal well. Following additional appraisal and evaluation, a decision regarding commerciality of the Akasa discovery is expected to be made by the WCTP Block partners in early 2015. 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 has commenced and is expected to include the drilling and completion of up to 24 development wells, half of the wells are designed as producers, with the remaining wells designed for water or gas injection. The TEN project is expected to deliver first oil in the second half of 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.

Wawa Discovery We are currently reprocessing seismic data and have acquired a high resolution seismic survey over the discovery area. Following additional evaluation and potential appraisal activities, a decision regarding commerciality of the Wawa discovery is expected to be made by the DT Block partners in 2016. Within six months of such declaration, a PoD would be prepared and submitted to Ghana's Ministry of Energy, as required under the DT PA.

5. Accrued Liabilities

Accrued liabilities consisted of the following:

	September 30, 2014	December 31, 2013
(In thousands)		
Accrued liabilities:		
Accrued exploration, development and production	\$ 150,149	\$ 73,976
Accrued general and administrative expenses	20,082	4,255
Accrued taxes other than income	18,472	15,188
Accrued interest	4,505	
Income taxes	2,282	20,379
Accrued other	1,642	1,414
	\$ 197,132	\$ 115,212

Table of Contents**6. Debt**

Debt consists of the following:

	September 30, 2014	December 31, 2013
	(In thousands)	
Outstanding debt principal balances:		
Facility	\$ 500,000	\$ 900,000
Senior Notes	300,000	
Total	800,000	900,000
Unamortized issuance discounts	(5,894)	
Long-term debt	\$ 794,106	\$ 900,000

Facility

In March 2014, the Company amended and restated the Facility with a total commitment of \$1.5 billion from a number of financial institutions. The Facility supports our oil and gas exploration, appraisal and development programs and corporate activities.

As part of the debt refinancing in March 2014, the repayment of borrowings under the existing facility attributable to financial institutions that did not participate in the amended Facility was accounted for as an extinguishment of debt, and existing unamortized debt issuance costs attributable to those participants were expensed. As a result, we recorded a \$2.9 million loss on the extinguishment of debt. As of September 30, 2014, we have \$46.4 million of net deferred financing costs related to the Facility, which will be amortized over the remaining term of the Facility, including certain costs related to the amendment.

As of September 30, 2014, borrowings under the Facility totaled \$500.0 million and the undrawn availability under the Facility was \$1.0 billion.

Interest is the aggregate of the applicable margin (3.25% to 4.50%, depending on the length of time that has passed from the date the Facility was entered into); LIBOR; and mandatory cost (if any, as defined in the Facility). Interest is payable on the last day of each interest period (and, if the interest period is longer than six months, on the dates falling at six-month intervals after the first day of the interest period). We pay commitment fees on the undrawn and unavailable portion of the total commitments, if any. Commitment fees are equal to 40% per annum of the then-applicable respective margin when a commitment is available for utilization and, equal to 20% per annum of the then-applicable respective margin when a commitment is not available for utilization. We recognize interest expense in accordance with ASC 835 Interest, which requires interest expense to be recognized using the effective interest method. As part of the March 2014 amendment, the Facility's estimated effective interest rate was changed and, accordingly, we adjusted our estimate of deferred interest previously recorded during prior years by \$4.5 million, which was recorded as a reduction to interest expense.

Edgar Filing: Kosmos Energy Ltd. - Form 10-Q

The Facility provides a revolving-credit and letter of credit facility. The availability period for the revolving-credit facility, as amended in March 2014 expires on March 31, 2018, however the Facility has a revolving-credit sublimit, which will be the lesser of \$500.0 million and the total available facility at that time, that will be available for drawing until the date falling one month prior to the final maturity date. The letter of credit sublimit expires on the final maturity date. The available facility amount is subject to borrowing base constraints and, beginning on March 31, 2018, outstanding borrowings will be constrained by an amortization schedule. The Facility has a final maturity date of March 31, 2021. As of September 30, 2014, we had no letters of credit issued under the Facility.

Kosmos has the right to cancel all the undrawn commitments under the Facility. The amount of funds available to be borrowed under the Facility, also known as the borrowing base amount, is determined each year on March 31 and September 30 as part of a forecast that is prepared by and agreed to by us and the Technical and Modeling Bank and the Facility Agent. The formula to calculate the borrowing base amount is based on the sum of the net present values of net cash flows and relevant capital expenditures reduced by certain percentages as well as value attributable to certain assets reserves and/or resources.

If an event of default exists under the Facility, the lenders can accelerate the maturity and exercise other rights and remedies, including the enforcement of security granted pursuant to the Facility over certain assets held by our subsidiaries. The Facility contains customary cross default provisions.

We were in compliance with the financial covenants contained in the Facility as of the September 30, 2014 forecast (the most recent assessment date).

Table of Contents

Corporate Revolver

In November 2012, we secured a 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 due to additional commitments received from existing and new financial institutions. As of September 30, 2014, there were no borrowings outstanding under the Corporate Revolver and the undrawn availability under the Corporate Revolver was \$300.0 million. The Corporate Revolver contains customary cross default provisions.

Revolving Letter of Credit Facility

In July 2013, we entered into a revolving letter of credit facility agreement (LC Facility). The size of the LC Facility is \$100.0 million, with additional commitments up to \$50.0 million being available if the existing lender increases its commitment or if commitments from new financial institutions are added. As of September 30, 2014, we had \$35.3 million of restricted cash collateralizing seven outstanding letters of credit under the LC Facility. The LC Facility contains customary cross default provisions.

7.875% Senior Secured Notes due 2021

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

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

Redemption and Repurchase. At any time prior to August 1, 2017 and subject to certain conditions, the Company may, on any one or more occasions, redeem up to 35% of the aggregate principal amount of Senior Notes issued under the indenture dated August 1, 2014 related to the Senior Notes (the Indenture) at a redemption price of 107.875%, plus accrued and unpaid interest, with the cash proceeds of certain eligible equity offerings. Additionally, at any time prior to August 1, 2017, the Company may, on any one or more occasions, redeem all or a part of the Senior Notes at a redemption price equal to 100%, plus any accrued and unpaid interest, and plus a make-whole premium. On or after August 1, 2017, the Company may redeem all or a part of the Senior Notes at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest:

Year	Percentage
On or after August 1, 2017, but before August 1, 2018	103.938%
On or after August 1, 2018, but before August 1, 2019	101.969%

Edgar Filing: Kosmos Energy Ltd. - Form 10-Q

On or after August 1, 2019 and thereafter

100.000%

We may also redeem the Senior Notes in whole, but not in part, at any time if changes in tax laws impose certain withholding taxes on amounts payable on the Senior Notes at a price equal to the principal amount of the Senior Notes plus accrued interest and additional amounts, if any, as may be necessary so that the net amount received by each holder after any withholding or deduction on payments of the Senior Notes will not be less than the amount such holder would have received if such taxes had not been withheld or deducted.

Upon the occurrence of a change of control triggering event as defined under the Indenture, the Company will be required to make an offer to repurchase the Senior Notes at a repurchase price equal to 101% of the principal amount, plus accrued and unpaid interest to, but excluding, the date of repurchase.

If we sell assets, under certain circumstances outlined in the Indenture, we will be required to use the net proceeds to make an offer to purchase the Senior Notes at an offer price in cash in an amount equal to 100% of the principal amount of the Senior Notes, plus accrued and unpaid interest to, but excluding, the repurchase date.

Covenants. The Indenture restricts our ability and the ability of our restricted subsidiaries to, among other things: incur or guarantee additional indebtedness, create liens, pay dividends or make distributions in respect of capital stock, purchase or redeem capital stock, make investments or certain other restricted payments, sell assets, enter into agreements that restrict the ability of our subsidiaries to make dividends or other payments to us, enter into transactions with affiliates, or effect certain consolidations, mergers or amalgamations. These covenants are subject to a number of important qualifications and exceptions. Certain of these covenants will be terminated if the Senior Notes are assigned an investment grade rating by both Standard & Poor's Rating Services and Fitch Ratings Inc. and no default or event of default has occurred and is continuing.

Table of Contents

Collateral. The Senior Notes are secured (subject to certain exceptions and permitted liens) by a first ranking fixed equitable charge on all currently outstanding shares, additional shares, dividends or other distributions paid in respect of such shares or any other property derived from such shares, in each case held by us in relation to the Company's direct subsidiary, Kosmos Energy Holdings, pursuant to the terms of the Charge over Shares of Kosmos Energy Holdings dated November 23, 2012, as amended and restated on March 14, 2014, between the Company and BNP Paribas as Security and Intercreditor Agent. The Senior Notes share *pari passu* in the benefit of such equitable charge based on the respective amounts of the obligations under the Indenture and the amount of obligations under the Corporate Revolver. The Guarantees are not secured.

At September 30, 2014, the estimated repayments of debt during the five fiscal year periods and thereafter are as follows:

	Payments Due by Year					
	2014(2)	2015	2016	2017	2018	Thereafter
	(In thousands)					
Principal debt repayments(1)	\$	\$	\$	\$	\$	\$ 800,000

(1) Includes the scheduled principal maturities for the Senior Notes and the Facility. The scheduled maturities of debt related to the Facility are based on the level of borrowings and the estimated future available borrowing base as of September 30, 2014. 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.

(2) Represents payments for the period October 1, 2014 through December 31, 2014.

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 September 30, 2014.

Weighted Average Dated Brent Price per Bbl

Edgar Filing: Kosmos Energy Ltd. - Form 10-Q

Term	Type of Contract	MBbl	Net Deferred Premium Payable	Swap	Floor	Ceiling	Call	
2014:								
October	December	Three-way collars	1,507 \$	0.01 \$	\$	88.44 \$	113.75 \$	134.58 \$
2015:								
January	December	Three-way collars	4,230 \$	0.46 \$	\$	87.43 \$	110.00 \$	133.82 \$
January	December	Swaps with calls	2,000		99.00			115.00
2016:								
January	December	Purchased puts	2,000 \$	3.41 \$	\$	85.00 \$	\$	\$

Provisional Oil Sales

At September 30, 2014, we had sales volumes of 447.9 MBbls provisionally priced at an average of \$92.95 per Bbl, after differentials, which are subject to final pricing during the next month.

Table of Contents**Interest Rate Swap Derivative Contracts**

The following table summarizes our open interest rate swaps as of September 30, 2014, 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
October 2014 - December 2014	\$ 110,555	1.93%	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

The following tables disclose the Company's derivative instruments as of September 30, 2014 and December 31, 2013 and gain/(loss) from derivatives during the three and nine months ended September 30, 2014 and 2013, respectively:

Type of Contract	Balance Sheet Location	Estimated Fair Value Asset (Liability)	
		September 30, 2014	December 31, 2013
(In thousands)			
Derivatives not designated as hedging instruments:			
Derivative assets:			
Commodity(1)	Derivatives assets - current	\$ 6,848	\$
Commodity(2)	Derivatives assets - long-term	3,892	
Derivative liabilities:			
Commodity(3)	Derivatives liabilities - current	\$ (523)	\$ (7,873)
Interest rate	Derivatives liabilities - current	(1,471)	(2,067)
Commodity(4)	Derivatives liabilities - long-term	(282)	(3,144)
Interest rate	Derivatives liabilities - long-term	(147)	(667)
Total derivatives not designated as hedging instruments		\$ 8,317	\$ (13,751)

(1) Includes net deferred premiums payable of \$0.4 million and zero related to commodity derivative contracts as of September 30, 2014 and December 31, 2013, respectively.

(2) Includes net deferred premiums payable of \$3.6 million and zero related to commodity derivative contracts as of September 30, 2014 and December 31, 2013, respectively.

(3) Includes \$0.1 million and zero as of September 30, 2014 and December 31, 2013, respectively which represents our provisional oil sales contract. Also, includes net deferred premiums payable of \$0.9 million and \$0.1 million related to commodity derivative contracts as of September 30, 2014 and December 31, 2013, respectively.

Edgar Filing: Kosmos Energy Ltd. - Form 10-Q

(4) Includes net deferred premiums payable of \$3.8 million and \$6.5 million related to commodity derivative contracts as of September 30, 2014 and December 31, 2013, respectively.

Type of Contract	Location of Gain/(Loss)	Amount of Gain/(Loss) Three Months Ended September 30,		Amount of Gain/(Loss) Nine Months Ended September 30,	
		2014	2013	2014	2013
(In thousands)					
Derivatives in cash flow hedging relationships:					
Interest rate(1)	Interest expense	\$ 290	\$ 405	\$ 1,101	\$ 1,122
Total derivatives in cash flow hedging relationships		\$ 290	\$ 405	\$ 1,101	\$ 1,122
Derivatives not designated as hedging instruments:					
Commodity(2)	Oil and gas revenue	\$ (4,886)	\$ (554)	\$ (8,253)	\$ (5,220)
Commodity	Derivatives, net	40,407	(7,585)	20,869	(386)
Interest rate	Interest expense	(2)	(318)	(209)	(268)
Total derivatives not designated as hedging instruments		\$ 35,519	\$ (8,457)	\$ 12,407	\$ (5,874)

(1) Amounts were reclassified from accumulated other comprehensive income or loss (AOCI) into earnings upon settlement.

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

Table of Contents

Offsetting of Derivative Assets and Derivative Liabilities

Our derivative instruments which are subject to master netting arrangements with our counterparties only have the right of offset when there is an event of default. As of September 30, 2014 and December 31, 2013, 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, if an event of default occurred the offsetting amounts would be immaterial as of September 30, 2014 and December 31, 2013.

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 September 30, 2014 and December 31, 2013, for each fair value hierarchy level:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Measurements Using:		Total
		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(In thousands)				
September 30, 2014				
Assets:				
Commodity derivatives	\$	\$	10,740	\$ 10,740
Liabilities:				

Edgar Filing: Kosmos Energy Ltd. - Form 10-Q

Commodity derivatives			(805)			(805)
Interest rate derivatives			(1,618)			(1,618)
Total	\$	\$	8,317	\$	\$	8,317

December 31, 2013

Liabilities:

Commodity derivatives	\$	\$	(11,017)	\$	\$	(11,017)
Interest rate derivatives			(2,734)			(2,734)
Total	\$	\$	(13,751)	\$	\$	(13,751)

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

Table of Contents

Commodity Derivatives

Our commodity derivatives represent crude oil three-way collars, purchased puts and swaps with calls 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 credit default swap (CDS) market and (iv) an independently sourced estimate of volatility for Dated Brent. The volatility estimate was provided by certain independent brokers who are active in buying and selling oil options and was corroborated by market-quoted volatility factors. The deferred premium is included in the fair market value of the commodity derivatives. See Note 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.

Debt

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

	September 30, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	\$ 794,106	\$ 804,500	\$ 900,000	\$ 900,000

(In thousands)

The carrying value of the Facility approximates fair value since it is subject to short-term floating interest rates that approximate the rates available to us for those periods. The fair value of our Senior Notes is based on quoted market prices, which results in a Level 1 fair value measurement.

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 LTIP awards. We recorded compensation expense from awards granted under our LTIP of \$19.0 million and \$13.8 million during the three months ended September 30, 2014 and 2013, respectively, and \$55.0 million and \$50.8 million during the nine months ended September 30, 2014 and 2013. During the nine months ended September 30, 2014, an additional \$5.0 million of equity-based compensation was recorded as restructuring charges. The total tax benefit for the three months ended September 30, 2014 and 2013 was \$6.7 million and \$4.8 million, respectively, and for the nine months ended September 30, 2014 and 2013 was \$19.2 million and \$17.4 million. Additionally, we expensed a tax shortfall related to equity-based compensation of \$6.5 million and \$6.9 million for the nine months ended September 30, 2014 and 2013 respectively. No tax shortfall was recorded for the three months ended September 30, 2014 and 2013. The Company granted both restricted stock awards and restricted stock units with service vesting criteria and granted both restricted stock awards and restricted stock units with a combination of market and service criteria under the LTIP. Restricted stock awards are issued and included in the number of outstanding shares upon the date of grant and, if such awards are forfeited, they become treasury stock. Upon vesting, restricted stock units become issued and outstanding stock.

Edgar Filing: Kosmos Energy Ltd. - Form 10-Q

Table of Contents

The following table reflects the outstanding restricted stock awards as of September 30, 2014:

	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, 2013	6,384	\$ 16.48	3,438	\$ 12.95
Granted				
Forfeited	(115)	15.58	(74)	10.87
Vested	(2,799)	17.04		
Outstanding at September 30, 2014	3,470	16.05	3,364	12.99

The following table reflects the outstanding restricted stock units as of September 30, 2014:

	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, 2013	2,238	\$ 10.74	1,858	\$ 15.59
Granted	1,962	10.95	1,462	15.71
Forfeited	(398)	10.90	(179)	15.48
Vested	(517)	10.72		
Outstanding at September 30, 2014	3,285	10.85	3,141	15.65

As of September 30, 2014, total equity-based compensation to be recognized on unvested restricted stock awards and restricted stock units is \$101.0 million over a weighted average period of 1.79 years. At September 30, 2014, the Company had approximately 2.4 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 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 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 39.0% 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 1.2%.

10. Income Taxes

Income tax expense was \$38.5 million and \$34.2 million for the three months ended September 30, 2014 and 2013, respectively, and \$170.0 million and \$124.6 million for the nine months ended September 30, 2014 and 2013, respectively. The income tax provision consists of United States and Ghanaian income and Texas margin taxes.

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Bermuda	\$ (8,368)	\$ (5,880)	\$ (20,588)	\$ (19,320)
United States	3,049	2,740	10,542	8,014
Foreign other	62,910	(7,124)	330,680	40,664
Income (loss) before income taxes	\$ 57,591	\$ (10,264)	\$ 320,634	\$ 29,358

Table of Contents

Our effective tax rate for the three months ended September 30, 2014 and 2013 is 67% and (333)%, respectively. For the nine months ended September 30, 2014 and 2013, our effective tax rate is 53% and 424%, respectively. The effective tax rate for the United States is approximately 38% and 42% for the three months ended September 30, 2014 and 2013, respectively, and 102% and 125% for the nine months ended September 30, 2014 and 2013, respectively. The effective tax rate in the United States is impacted by the effect of tax shortfalls related to equity-based compensation. The effective tax rate for Ghana is approximately 33% and 36% for the three months ended September 30, 2014 and 2013, respectively, and approximately 35% and 36% for the nine months ended September 30, 2014 and 2013, respectively. 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 2012 through 2013 and to Texas margin tax examinations for the tax years 2009 through 2013. In addition, the Company is open to income tax examinations for years 2004 through 2013 in its significant other foreign jurisdictions (Ghana, Cameroon, Mauritania, Suriname and Morocco).

As of September 30, 2014, 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 have not accrued any material amounts to date.

11. Net Income (Loss) Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands, except per share data)			
Numerator:				
Net income (loss)	\$ 19,123	\$ (44,488)	\$ 150,599	\$ (95,210)
Less: Basic income allocable to participating securities(1)	(174)		(1,919)	
Basic net income (loss) allocable to common shareholders	18,949	(44,488)	148,680	(95,210)
Diluted adjustments to income allocable to participating securities(1)	1		17	
Diluted net income (loss) allocable to common shareholders	\$ 18,950	\$ (44,488)	\$ 148,697	\$ (95,210)
Denominator:				
Weighted average number of shares used to compute net income (loss) per share:				

Edgar Filing: Kosmos Energy Ltd. - Form 10-Q

Basic	379,969	377,654	378,881	376,509
Restricted stock awards and units(1)(2)	2,221		3,406	
Diluted	382,190	377,654	382,287	376,509
Net income (loss) per share:				
Basic	\$ 0.05	\$ (0.12)	\$ 0.39	\$ (0.25)
Diluted	\$ 0.05	\$ (0.12)	\$ 0.39	\$ (0.25)

(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 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 per common share calculation in periods we are in a net loss position.

(2) We excluded outstanding restricted stock awards of 6.8 million and 13.9 million for the three months ended September 30, 2014 and 2013, respectively, and 4.7 million and 13.9 million for the nine months ended September 30, 2014 and 2013, respectively, from the computations of diluted net income per share because the effect would have been anti-dilutive.

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

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

In September 2014, we took delivery of the new build 6th generation drillship "Atwood Achiever" from Atwood Oceanics, Inc. The rig is expected to commence drilling operations in Northwest Africa in the fourth quarter 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. We have entered into a rig sharing agreement, whereby two rig slots (estimated to be 90 days during 2015 and 70 days during 2016) were assigned to a third-party.

The estimated future minimum commitments as of September 30, 2014, are:

	Total	2014(2)	2015	Payments Due By Year(1)			2018	Thereafter
				2016	2017	(In thousands)		
Operating leases	\$ 16,908	\$ 813	\$ 3,260	\$ 3,158	\$ 3,223	\$ 3,323	\$ 3,131	
Atwood Achiever drilling rig contract (3)	540,855	54,740	163,625	176,120	146,370			

(1) 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.

(2) Represents payments for the period from October 1, 2014 through December 31, 2014.

(3) Commitments calculated using a day rate of \$595,000, excluding applicable taxes. The rig commitments reflect the execution of a rig sharing agreement, whereby two rig slots (estimated to be 90 days during 2015 and 70 days during 2016) were assigned to a third-party.

Table of Contents

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, 2013, 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 assets include existing production and other major development projects offshore Ghana, as well as exploration licenses with significant hydrocarbon potential offshore Ireland, Mauritania, Morocco (including Western Sahara), Senegal 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

Corporate

During August 2014, the Company issued \$300.0 million of 7.875% Senior Secured Notes due 2021 (Senior Notes) and received net proceeds of approximately \$292.5 million after deducting discounts, commissions and deferred financing costs. The Company used the net proceeds to repay a portion of the outstanding indebtedness under the Facility and for general corporate purposes.

Rig Agreement

In September 2014, we took delivery of the new build 6th generation drillship *Atwood Achiever* from Atwood Oceanics, Inc. The rig is expected to commence drilling operations in northwest Africa in the fourth quarter 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. We have entered into a rig

Edgar Filing: Kosmos Energy Ltd. - Form 10-Q

sharing agreement, whereby two rig slots (estimated to be 90 days in total during 2015 and 70 days during 2016) were assigned to a third-party.

Ghana

Approval was granted by the Government of Ghana and the Ghanaian Environmental Protection Agency in June 2014 to permit the flaring of 500 MMcf of gas per month from the Jubilee field until the end of October 2014. This limited flaring is expected to assist in the maintenance of existing production levels until the Western Corridor Gas Infrastructure (Jubilee Gas Export) is operational. We are working with the Government of Ghana and the Ghanaian Environmental Protection Agency to extend the limited flaring until Jubilee Gas Export is operational.

Morocco (including Western Sahara)

In June 2014, we commenced a 3D seismic survey of approximately 5,100 square kilometers over the Cap Boujdour Offshore block which was completed in September 2014.

Portugal

In August 2014, we entered into a farm-in agreement with Repsol Exploración, S.A. (*Repsol*), to acquire a non-operated interest in the Camarao, Ameijoa, Mexilhao and Ostra blocks offshore Portugal. As part of the agreement, we will reimburse a portion of Repsol's previously incurred exploration costs, as well as partially carry Repsol's share of the costs of a planned 3D seismic program. 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 blocks will be 31%.

Table of Contents*Senegal*

In August 2014, we entered into a farm-in agreement with Timis Corporation Limited, whereby we acquired a 60% participating interest and operatorship, covering the Cayar Offshore Profond and Saint Louis Offshore Profond blocks offshore Senegal. As part of the agreement, we will carry the full costs of a planned 3D seismic program. Additionally, we will carry the full costs of two contingent exploration wells, subject to a maximum gross cost per well of \$120.0 million, should Kosmos elect to drill such wells. We also retain the option to increase our equity to 65% in exchange for carrying the full cost of a third contingent exploration or appraisal well, subject to a maximum gross cost of \$120.0 million.

In September 2014, we commenced a 3D seismic survey of approximately 7,000 square kilometers over the Cayar Offshore Profond and Saint Louis Offshore Profond Contract Areas which is expected to be completed in the first quarter of 2015.

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 nine months ended September 30, 2014 and 2013, are included in the following table:

	Three Months Ended		Nine Months Ended	
	2014	September 30, 2013	2014	September 30, 2013
(In thousands, except barrel and per barrel data)				
Sales volumes:				
MBbl	1,443	1,912	6,297	5,847
Revenues:				
Oil sales	\$ 137,485	\$ 215,169	\$ 678,635	\$ 636,648
Average sales price per Bbl	95.26	112.52	107.78	108.88
Costs:				
Oil production, excluding workovers	\$ 14,883	\$ 13,026	\$ 52,786	\$ 39,145
Oil production, workovers	214	19,550	1,580	40,506
Total oil production costs	\$ 15,097	\$ 32,576	\$ 54,366	\$ 79,651
Depletion	\$ 34,589	\$ 56,094	\$ 145,775	\$ 169,163
Average cost per Bbl:				
Oil production, excluding workovers	\$ 10.31	\$ 6.82	\$ 8.38	\$ 6.69
Oil production, workovers	0.15	10.22	0.25	6.93
Total oil production costs	10.46	17.04	8.63	13.62
Depletion	23.97	29.33	23.15	28.93
Oil production cost and depletion costs	\$ 34.43	\$ 46.37	\$ 31.78	\$ 42.55

Edgar Filing: Kosmos Energy Ltd. - Form 10-Q

The following table shows the number of wells in the process of being drilled or in active completion stages, and the number of wells suspended or waiting on completion as of September 30, 2014:

	Actively Drilling or Completing				Wells Suspended or Waiting on Completion			
	Exploration		Development		Exploration		Development	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Ghana								
Jubilee Unit			1	0.24			1	0.24
West Cape Three Points					9	2.78		
TEN							14	2.38
Deepwater Tano					1	0.18		
Total			1	0.24	10	2.96	15	2.62

Edgar Filing: Kosmos Energy Ltd. - Form 10-Q

Table of Contents

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 September 30, 2014 compared to three months ended September 30, 2013

	Three Months Ended September 30,		Increase (Decrease)
	2014	2013 (In thousands)	
Revenues and other income:			
Oil and gas revenue	\$ 137,485	\$ 215,169	\$ (77,684)
Interest income	69	77	(8)
Other income	882	133	749
Total revenues and other income	138,436	215,379	(76,943)
Costs and expenses:			
Oil and gas production	15,097	32,576	(17,479)
Exploration expenses	21,334	75,607	(54,273)
General and administrative	35,148	38,077	(2,929)
Depletion and depreciation	36,959	58,367	(21,408)
Amortization deferred financing costs	2,593	2,786	(193)
Interest expense	9,838	8,781	1,057
Derivatives, net	(40,407)	7,585	(47,992)
Restructuring charges	(46)		(46)
Other expenses, net	329	1,864	(1,535)
Total costs and expenses	80,845	225,643	(144,798)
Income before income taxes	57,591	(10,264)	67,855
Income tax expense	38,468	34,224	4,244
Net income (loss)	\$ 19,123	\$ (44,488)	\$ 63,611

Oil and gas revenue. Oil and gas revenue decreased by \$77.7 million during the three months ended September 30, 2014 as compared to the three months ended September 30, 2013, primarily due to a decrease in sales volumes, one and one-half liftings in 2014 compared to two in 2013, and a lower realized price per barrel. We lifted and sold approximately 1,443 MBbl at an average realized price per barrel of \$95.26 during the three months ended September 30, 2014 and approximately 1,912 MBbl at an average realized price per barrel of \$112.52 during the three months ended September 30, 2013.

Oil and gas production. Oil and gas production costs decreased by \$17.5 million during the three months ended September 30, 2014, as compared to the three months ended September 30, 2013 primarily due to a reduction in well workover costs and non-routine operating costs. Our workover costs are related to performing workovers on our wells, which are performed on an as needed basis. We expect the amount of costs associated with workovers to fluctuate based on the activity level during each quarter.

Exploration expenses. Exploration expenses decreased by \$54.3 million during the three months ended September 30, 2014, as compared to the three months ended September 30, 2013. The decrease is primarily due to \$13.2 million of unsuccessful well costs for the Ghana Akasa-2 appraisal well and Cameroon Sipo-1 exploration well and \$59.9 million for seismic costs for Mauritania, Ireland, Morocco (including Western Sahara) and new ventures incurred during the three months ended September 30, 2013 compared to \$20.0 million for seismic costs for Senegal, Mauritania, Morocco (including Western Sahara) and new ventures incurred during the three months ended September 30, 2014.

Depletion and depreciation. Depletion and depreciation decreased \$21.4 million during the three months ended September 30, 2014, as compared with the three months ended September 30, 2013. The decrease is primarily due to depletion recognized related to the sale of one and one-half liftings of oil during the three months ended September 30, 2014, as compared to two liftings during the three months ended September 30, 2013. In addition, the depletion rate is lower during the three months ended September 30, 2014 due to an increase in proved reserves in the fourth quarter of 2013.

Derivatives, net. During the three months ended September 30, 2014 and 2013, we recorded a gain of \$40.4 million and a loss of \$7.6 million, respectively, on our outstanding hedge positions. The gain and loss recorded were a result of changes in the forward curve of oil prices during the respective periods.

Edgar Filing: Kosmos Energy Ltd. - Form 10-Q

Table of Contents

Income tax expense. The Company's effective tax rates for the three months ended September 30, 2014 and 2013 were 67% and (333)%, respectively. The effective tax rates for the periods presented are impacted by losses, primarily related to exploration expenses, 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 \$4.2 million during the three months ended September 30, 2014, as compared with September 30, 2013, primarily due to an increase in pre-tax income from our Ghanaian subsidiary.

Nine months ended September 30, 2014 compared to nine months ended September 30, 2013

	Nine Months Ended September 30,		Increase (Decrease)
	2014	2013	
	(In thousands)		
Revenues and other income:			
Oil and gas revenue	\$ 678,635	\$ 636,648	\$ 41,987
Gain on sale of assets	23,769		23,769
Interest income	323	191	132
Other income	2,190	708	1,482
Total revenues and other income	704,917	637,547	67,370
Costs and expenses:			
Oil and gas production	54,366	79,651	(25,285)
Exploration expenses	57,652	194,384	(136,732)
General and administrative	95,041	118,787	(23,746)
Depletion and depreciation	152,883	175,578	(22,695)
Amortization deferred financing costs	7,938	8,269	(331)
Interest expense	20,984	27,789	(6,805)
Derivatives, net	(20,869)	386	(21,255)
Restructuring charges	11,758		11,758
Loss on extinguishment of debt	2,898		2,898
Other expenses, net	1,632	3,345	(1,713)
Total costs and expenses	384,283	608,189	(223,906)
Income before income taxes	320,634	29,358	291,276
Income tax expense	170,035	124,568	45,467
Net income (loss)	\$ 150,599	\$ (95,210)	\$ 245,809

Oil and gas revenue. Oil and gas revenue increased by \$42.0 million during the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013, primarily due an increase in sales volumes, six and one-half liftings in 2014 compared to six in 2013 offset slightly by a lower realized price per barrel. We lifted and sold approximately 6,297 MBbl at an average realized price per barrel of \$107.78 during the nine months ended September 30, 2014 and approximately 5,847 MBbl at an average realized price per barrel of \$108.88 during the nine months ended September 30, 2013.

Gain on sale of assets. During the nine months ended September 30, 2014, we closed three farm-out agreements with BP plc. As part of the transaction, we received proceeds in excess of our book basis, resulting in a gain of \$23.8 million.

Oil and gas production. Oil and gas production costs decreased by \$25.3 million during the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. The change is due a reduction in well workover costs and non-routine operating costs

Edgar Filing: Kosmos Energy Ltd. - Form 10-Q

in the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013, offsetting an increase in routine production costs due to incremental liftings in 2014 compared to 2013. Our workover costs are related to performing workovers on our wells, which are performed on an as needed basis. We expect the amount of costs associated with workovers to fluctuate based on the activity level during each period.

Exploration expenses. Exploration expenses decreased by \$136.7 million during the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013. The decrease is primarily due to \$97.2 million of unsuccessful well costs and other related costs primarily related to the Cameroon Sipo-1 exploration well, the Ghana Sapele-1 exploration well and the Ghana Akasa-2 appraisal well and \$84.9 million for seismic costs for Mauritania, Ireland, Morocco and new ventures incurred during the nine months ended September 30, 2013 compared to \$48.6 million for seismic costs for Mauritania, Morocco, Senegal, Suriname and new ventures incurred during the three months ended September 30, 2014.

General and administrative. General and administrative costs decreased by \$23.7 million during the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013. The decrease from prior year is related to an increase in capitalized general and administrative costs and general and administrative costs incurred for the benefit of and allocated to exploration expense; and a decrease in professional fees and occupancy and general expenses partially offset by an increase in compensation and benefits.

Table of Contents

Depletion and depreciation. Depletion and depreciation decreased \$22.7 million during the nine months ended September 30, 2014, as compared with the nine months ended September 30, 2013. The change is due to the increase in proved reserves in the fourth quarter of 2013, which reduced the depletion rate used for the nine months ended September 30, 2014, partially offset by an increase in depletion recognized related to the sale of six and one-half liftings of oil during the nine months ended September 30, 2014, as compared to six liftings during the nine months ended September 30, 2013.

Interest expense. Interest expense decreased \$6.8 million during the nine months ended September 30, 2014, as compared with the nine months ended September 30, 2013, primarily due to a write-down of the deferred interest (reduction in interest expense) as a result of a decrease in the estimated effective interest rate based on the terms of the amended and restated Facility effective in March 2014 and a lower average outstanding debt balance during the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013.

Derivatives, net. During the nine months ended September 30, 2014 and 2013, we recorded a gain of \$20.9 million and a loss of \$0.4 million, respectively, on our outstanding hedge positions. The gain and loss recorded were a result of changes in the forward curve of oil prices during the respective periods.

Restructuring charges. During the nine months ended September 30, 2014, we recognized \$11.8 million in restructuring charges for employee severance and related benefit costs incurred as part of a corporate reorganization, which includes \$5.0 million of non-cash expense related to awards granted under our LTIP.

Income tax expense. The Company's effective tax rates for the nine months ended September 30, 2014 and 2013 were 53% and 424%, respectively. The effective tax rates for the periods presented are impacted by losses, primarily related to exploration expenses, 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 \$45.5 million during the nine months ended September 30, 2014, as compared with September 30, 2013, 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 met our funding requirements through cash flows generated from our operating activities and secured funding from issuances of equity and debt. In relation to cash flow generated from our operating activities, if we are unable to resolve issues related to the continuous removal of associated natural gas in large quantities from the Jubilee Field, and the production restraints caused thereby, then the Company's cash flows from operations will be adversely affected. See Item 1A. Risk Factors section of this quarterly report on Form 10-Q and our annual report on Form 10-K

Significant Sources of Capital

Facility

In March 2014, the Company amended and restated the then existing commercial debt facility (the Facility) with a total commitment of \$1.5 billion from a number of financial institutions. The Facility supports our oil and gas exploration, appraisal and development programs and corporate activities.

As part of the debt refinancing in March 2014, the repayment of borrowings under the existing facility attributable to financial institutions that did not participate in the amended Facility was accounted for as an extinguishment of debt, and existing unamortized debt issuance costs attributable to those participants were expensed. As a result, we recorded a \$2.9 million loss on the extinguishment of debt. As of September 30, 2014, we have \$46.4 million of net deferred financing costs related to the Facility, which will be amortized over the remaining term of the Facility, including certain costs related to the amendment.

As of September 30, 2014, borrowings under the Facility totaled \$500.0 million and the undrawn availability under the Facility was \$1.0 billion.

Table of Contents

Interest is the aggregate of the applicable margin (3.25% to 4.50%, depending on the length of time that has passed from the date the Facility was entered into); LIBOR; and mandatory cost (if any, as defined in the Facility). Interest is payable on the last day of each interest period (and, if the interest period is longer than six months, on the dates falling at six-month intervals after the first day of the interest period). We pay commitment fees on the undrawn and unavailable portion of the total commitments, if any. Commitment fees are equal to 40% per annum of the then-applicable respective margin when a commitment is available for utilization and, equal to 20% per annum of the then-applicable respective margin when a commitment is not available for utilization. We recognize interest expense in accordance with ASC 835 Interest, which requires interest expense to be recognized using the effective interest method. As part of the March 2014 amendment, the Facility's estimated effective interest rate was changed and, accordingly, we adjusted our estimate of deferred interest previously recorded during prior years by \$4.5 million, which was recorded as a reduction to interest expense.

The Facility provides a revolving-credit and letter of credit facility. The availability period for the revolving-credit facility, as amended in March 2014 expires on March 31, 2018, however the Facility has a revolving-credit sublimit, which will be the lesser of \$500.0 million and the total available facility at that time, that will be available for drawing until the date falling one month prior to the final maturity date. The letter of credit sublimit expires on the final maturity date. The available facility amount is subject to borrowing base constraints and, beginning on March 31, 2018, outstanding borrowings will be constrained by an amortization schedule. The Facility has a final maturity date of March 31, 2021. As of September 30, 2014, we had no letters of credit issued under the Facility.

Kosmos has the right to cancel all the undrawn commitments under the Facility. The amount of funds available to be borrowed under the Facility, also known as the borrowing base amount, is determined each year on March 31 and September 30 as part of a forecast that is prepared by and agreed to by us and the Technical and Modeling Bank and the Facility Agent. The formula to calculate the borrowing base amount is based on the sum of the net present values of net cash flows and relevant capital expenditures reduced by certain percentages as well as value attributable to certain assets reserves and/or resources.

If an event of default exists under the Facility, the lenders can accelerate the maturity and exercise other rights and remedies, including the enforcement of security granted pursuant to the Facility over certain assets held by our subsidiaries. The Facility contains customary cross default provisions.

We were in compliance with the financial covenants contained in the Facility as of the September 30, 2014 forecast (the most recent assessment date).

Corporate Revolver

In November 2012, we secured a 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 due to additional commitments received from existing and new financial institutions. As of September 30, 2014, there were no borrowings outstanding under the Corporate Revolver and the undrawn availability under the Corporate Revolver was \$300.0 million. The Corporate Revolver contains customary cross default provisions.

Revolving Letter of Credit Facility

In July 2013, we entered into a revolving letter of credit facility agreement (LC Facility). The size of the LC Facility is \$100.0 million, with additional commitments up to \$50.0 million being available if the existing lender increases its commitments or if commitments from new financial institutions are added. As of September 30, 2014, we had \$35.3 million of restricted cash collateralizing seven outstanding letters of credit under the LC Facility. The LC Facility contains customary cross default provisions.

7.875% Senior Secured Notes due 2021

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

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

Table of Contents

Redemption and Repurchase. At any time prior to August 1, 2017 and subject to certain conditions, the Company may, on any one or more occasions, redeem up to 35% of the aggregate principal amount of Senior Notes issued under the indenture dated August 1, 2014 related to the Senior Notes (the Indenture) at a redemption price of 107.875%, plus accrued and unpaid interest, with the cash proceeds of certain eligible equity offerings. Additionally, at any time prior to August 1, 2017, the Company may, on any one or more occasions, redeem all or a part of the Senior Notes at a redemption price equal to 100%, plus any accrued and unpaid interest, and plus a make-whole premium. On or after August 1, 2017, the Company may redeem all or a part of the Senior Notes at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest:

Year	Percentage
On or after August 1, 2017, but before August 1, 2018	103.938%
On or after August 1, 2018, but before August 1, 2019	101.969%
On or after August 1, 2019 and thereafter	100.000%

We may also redeem the Senior Notes in whole, but not in part, at any time if changes in tax laws impose certain withholding taxes on amounts payable on the Senior Notes at a price equal to the principal amount of the Senior Notes plus accrued interest and additional amounts, if any, as may be necessary so that the net amount received by each holder after any withholding or deduction on payments of the Senior Notes will not be less than the amount such holder would have received if such taxes had not been withheld or deducted.

Upon the occurrence of a change of control triggering event as defined under the Indenture, the Company will be required to make an offer to repurchase the Senior Notes at a repurchase price equal to 101% of the principal amount, plus accrued and unpaid interest to, but excluding, the date of repurchase.

If we sell assets, under certain circumstances outlined in the Indenture, we will be required to use the net proceeds to make an offer to purchase the Senior Notes at an offer price in cash in an amount equal to 100% of the principal amount of the Senior Notes, plus accrued and unpaid interest to, but excluding, the repurchase date.

Covenants. The Indenture restricts our ability and the ability of our restricted subsidiaries to, among other things: incur or guarantee additional indebtedness, create liens, pay dividends or make distributions in respect of capital stock, purchase or redeem capital stock, make investments or certain other restricted payments, sell assets, enter into agreements that restrict the ability of our subsidiaries to make dividends or other payments to us, enter into transactions with affiliates, or effect certain consolidations, mergers or amalgamations. These covenants are subject to a number of important qualifications and exceptions. Certain of these covenants will be terminated if the Senior Notes are assigned an investment grade rating by both Standard & Poor's Rating Services and Fitch Ratings Inc. and no default or event of default has occurred and is continuing.

Collateral. The Senior Notes are secured (subject to certain exceptions and permitted liens) by a first ranking fixed equitable charge on all currently outstanding shares, additional shares, dividends or other distributions paid in respect of such shares or any other property derived from such shares, in each case held by us in relation to the Company's direct subsidiary, Kosmos Energy Holdings, pursuant to the terms of the Charge over Shares of Kosmos Energy Holdings dated November 23, 2012, as amended and restated on March 14, 2014, between the Company and BNP Paribas as Security and Intercreditor Agent. The Senior Notes share *pari passu* in the benefit of such equitable charge based on the respective amounts of the obligations under the Indenture and the amount of obligations under the Corporate Revolver. The Guarantees are not secured.

Capital Expenditures and Investments

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

- execute our 2014 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.

Table of Contents

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 reliance on joint venture partners to meet their obligations, 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.

2014 Capital Program

Our estimate for the 2014 capital program is \$575.0 million consisting of:

- approximately \$400.0 million for developmental related expenditures offshore Ghana; and
- approximately \$175.0 million 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 exploration activities and 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 September 30, 2014:

	September 30,
	2014
	(In thousands)
Cash and cash equivalents	\$ 600,626
Restricted cash	50,746
Senior Notes at par	300,000
Drawings under the Facility	500,000
Net debt	148,628
Availability under the Facility	\$ 1,000,000
Availability under the Corporate Revolver	300,000
Available borrowings plus cash and cash equivalents	1,900,626

Cash Flows

	Nine months ended September 30,	
	2014	2013
	(In thousands)	
Net cash provided by (used in):		
Operating activities	\$ 372,234	\$ 281,349
Investing activities	(231,077)	(240,950)
Financing activities	(138,639)	(115,296)

Operating activities. Net cash provided by operating activities for the nine months ended September 30, 2014 was \$372.2 million compared with net cash provided by operating activities for the nine months ended September 30, 2013 of \$281.3 million. The increase in cash provided by operating activities in the nine months ended September 30, 2014 when compared to the same period in 2013 was primarily due to an increase in results from operations offset by a negative change in working capital items.

Investing activities. Net cash used in investing activities for the nine months ended September 30, 2014 was \$231.1 million compared with net cash used in investing activities for the nine months ended September 30, 2013 of \$241.0 million. The decrease in cash used in investing activities in the nine months ended September 30, 2014 when compared to the same period in 2013 was primarily attributable to proceeds from the sale of assets of \$58.3 million offset by an increase in expenditures for oil and gas assets of \$45.8 million during 2014.

Table of Contents

Financing activities. Net cash used in financing activities for the nine months ended September 30, 2014 was \$138.6 million compared with net cash used in financing activities for the nine months ended September 30, 2013 of \$115.3 million. The increase in cash used in financing activities in the nine months ended September 30, 2014 when compared to the same period in 2013 was primarily due an increase in payments on the Facility of \$300.0 million and deferred financing costs associated with the amendment to the Facility and the Senior Notes offset by the net proceeds of \$294.0 million on the Senior Notes issuance.

Contractual Obligations

The following table summarizes by period the payments due for our estimated contractual obligations as of September 30, 2014:

	Total	2014(5)	Payments Due By Year(4)			2018	Thereafter
			2015	2016	2017		
			(In thousands)				
Principal debt repayments(1)	\$ 800,000	\$	\$	\$	\$	\$	\$ 800,000
Interest payments on long-term debt(2)	381,809	9,522	61,619	59,946	63,809	57,647	129,266
Operating leases	16,908	813	3,260	3,158	3,223	3,323	3,131
Atwood Achiever drilling rig contract(3)	554,855	54,740	163,625	176,120	146,370		

(1) Includes the scheduled principal maturities for the Senior Notes and the Facility. The scheduled maturities of the Facility are based on the level of borrowings and the available borrowing base as of September 30, 2014. 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 September 30, 2014, 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 and the interest on the Senior Notes.

(3) Commitments calculated using a day rate of \$595,000. The rig commitments reflect the execution of a rig sharing agreement, whereby two rig slots (estimated to be 90 days during 2015 and 70 days during 2016) were assigned to a third-party.

(4) 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.

(5) Represents payments for the period from October 1, 2014 through December 31, 2014.

Edgar Filing: Kosmos Energy Ltd. - Form 10-Q

The following table presents maturities by expected maturity dates under the Senior Notes and the Facility. For the Senior Notes, the interest rate represents the contractual fixed rate that we are obligated to periodically pay on the debt as of September 30, 2014. For the Facility, the interest rates represent 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.

	October 1 Through December 31, 2014		Years Ending December 31, 2016 2017 2018				Thereafter	Liability Fair Value at September 30, 2014
	2015	2016	2017	2018	2018			
Fixed rate debt:								
Senior Notes	\$	\$	\$	\$	\$	\$	\$ 300,000	\$ (304,500)
Fixed interest rate		7.88%	7.88%	7.88%	7.88%	7.88%	7.88%	
Variable rate debt:								
Facility(1)	\$	\$	\$	\$	\$	\$	\$ 500,000	\$ (500,000)
Weighted average interest rate(2)		3.41%	3.72%	4.76%	5.68%	6.28%	7.19%	
Interest rate swaps:								
Notional debt amount(3)	\$	35,000	\$ 16,875	\$ 6,250	\$	\$	\$	\$ (629)
Fixed rate payable		2.22%	2.22%	2.22%				
Variable rate receivable(4)		0.33%	0.61%	1.38%				
Notional debt amount(3)	\$	35,000	\$ 16,875	\$ 6,250	\$	\$	\$	\$ (671)
Fixed rate payable		2.31%	2.31%	2.31%				
Variable rate receivable(4)		0.33%	0.61%	1.38%				
Notional debt amount(3)	\$	40,555	\$ 23,137	\$	\$	\$	\$	\$ (318)
Fixed rate payable		1.34%	1.34%					
Variable rate receivable(4)		0.33%	0.39%					

(1) 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 September 30, 2014. 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 September 30, 2014, there were no borrowings under the Corporate Revolver.

(2) 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.

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

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

Table of Contents

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 September 30, 2014, 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, derivative instruments 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, 2013.

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, Ireland, Mauritania, Morocco (including Western Sahara), Senegal or Suriname (or their respective national oil companies) or any other federal, state or local governments or authorities, to us;

Edgar Filing: Kosmos Energy Ltd. - Form 10-Q

- 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 and production risks and other operational and environmental hazards;
- current and future government regulation of the oil and gas industry or regulation of the investment in or ability to do business with certain countries or regimes ;
- 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, outbreaks of disease, 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, including the indenture governing the Senior Notes ;
- the availability and cost of financing and refinancing our indebtedness;
- the amount of collateral 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.

Table of Contents

The words believe, may, will, aim, estimate, continue, anticipate, intend, expect, plan and similar words are intended to identify 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.

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. 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 9 Derivative Financial Information and Note 10 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 nine months ended September 30, 2014:

	Derivative Contracts Assets (Liabilities)			Total
	Commodities	Interest Rates (In thousands)		
Fair value of contracts outstanding as of December 31, 2013	\$ (11,017)	\$ (2,734)	\$	(13,751)
Changes in contract fair value	12,616	(209)		12,407
Contract maturities	8,336	1,325		9,661
Fair value of contracts outstanding as of September 30, 2014	\$ 9,935	\$ (1,618)	\$	8,317

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, purchased puts and swaps with calls. In regards to our obligations under our various commodity derivative instruments, if our production does not exceed our existing hedged positions, our exposure to our commodity derivative instruments would increase.

Commodity Price Sensitivity

The following table provides information about our oil derivative financial instruments that were sensitive to changes in oil prices as of September 30, 2014:

Term	Type of Contract	MBbl	Net Deferred Premium Payable	Weighted Average Dated Brent Price per Bbl				Asset Fair Value at September 30, 2014(1)	
				Swap	Floor	Ceiling	Call		
2014:									
October	December	Three-way collars	1,507	\$ 0.01	\$	\$ 88.44	\$ 113.75	\$ 134.58	\$ 1,105
2015:									
January	December	Three-way collars	4,230	\$ 0.46	\$	\$ 87.43	\$ 110.00	\$ 133.82	\$ 2,312
January	December	Swaps with calls	2,000		\$ 99.00			\$ 115.00	\$ 6,410
2016:									
January	December	Purchased puts	2,000	\$ 3.41	\$	\$ 85.00	\$	\$	\$ 238

(1) Fair values are based on the average forward Dated Brent oil prices on September 30, 2014 which by year are: 2014 \$94.51, 2015 \$96.64 and 2016 \$96.23. These fair values are subject to changes in the underlying commodity price. The average forward Dated Brent oil prices based on October 28, 2014 market quotes by year are: 2014 \$85.68, 2015 \$88.59 and 2016 \$90.53.

Table of Contents

At September 30, 2014, our open commodity derivative instruments were in a net asset position of \$9.9 million. As of September 30, 2014, a hypothetical 10% price increase in the commodity futures price curves would decrease future pre-tax earnings by approximately \$35.9 million. Similarly, a hypothetical 10% price decrease would increase future pre-tax earnings by approximately \$45.8 million.

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 September 30, 2014, we had indebtedness outstanding under the Facility of \$500.0 million, of which \$389.4 million bore interest at floating rates. The interest rate on this indebtedness as of September 30, 2014 was approximately 3.4%. If LIBOR increased by 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 \$1.0 billion of undrawn availability 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 September 30, 2014, the fair market value of our interest rate swaps was a net liability of approximately \$1.6 million. If LIBOR changed by 10%, we estimate it would have a negligible impact on the fair market value of our interest rate swaps.

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 September 30, 2014, 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,

Edgar Filing: Kosmos Energy Ltd. - Form 10-Q

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.

Table of Contents

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

The risk factor below supplements the risks discussed in the Item 1A. Risk Factors section of our annual report on Form 10-K for the year ended December 31, 2013 and in the Item 1A. Risk Factors section of our quarterly report on Form 10-Q for the quarter ended June 30, 2014.

Outbreaks of disease in the geographies in which we operate may adversely affect our business operations and financial condition.

Many of our operations are currently, and will likely remain in the near future, in developing countries which are susceptible to outbreaks of disease and may lack the resources to effectively contain such an outbreak quickly. Such outbreaks may impact our ability to explore for oil and gas, develop or produce our license areas by limiting access to qualified personnel, increasing costs associated with ensuring the safety and health of our personnel, restricting transportation of personnel, equipment, supplies and oil and gas production to and from our areas of operation and diverting the time, attention and resources of government agencies which are necessary to conduct our operations. In addition, any losses we experience as a result of such outbreaks of disease which impact sales or delay production may not be covered by our insurance policies.

An epidemic of the Ebola virus disease is currently ongoing in parts of West Africa. A substantial number of deaths have been reported by the World Health Organization (WHO) in West Africa, and the WHO has declared it a global health emergency. It is impossible to predict the effect and potential spread of the Ebola virus in West Africa and surrounding areas. Should the Ebola virus continue to spread, including to the countries in which we operate, or not be satisfactorily contained, our exploration, development and production plans for our operations could be delayed, or interrupted after commencement. Any changes to these operations could significantly increase costs of operations. Our operations require contractors and personnel to travel to and from Africa as well as the unhindered transportation of equipment and oil and gas production (in the case of our producing fields). Such operations also rely on infrastructure, contractors and personnel in Africa. Several countries have announced travel bans to certain African countries. If bans are extended to the countries in which we operate, including Ghana, or contractors or personnel refuse to travel there, we could be adversely affected. If services are obtained, costs associated with those services could be significantly higher than planned which could have a material adverse effect on our business, results of operations, and future cash flow. In addition, should the Ebola epidemic spread to Ghana, access to the FPSO operating at the Jubilee Field could be restricted and/or terminated. The FPSO is able to operate for approximately six weeks without access to the mainland, but if restrictions extended for a longer period we and the operator of the Jubilee Field would likely be required to cease production and other operations until such restrictions were lifted.

Table of Contents**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.

Issuer Purchases of Equity Securities

Under the terms of our Long Term Incentive Plan (LTIP), we have issued restricted shares and restricted share units to our employees. On the date that these restricted shares and restricted share units vest, we provide such employees the option to withhold, via a net exercise provision pursuant to our applicable restricted share award agreements and the LTIP, the number of vested shares (based on the closing price of our common shares on such vesting date) equal to the withholding tax obligation owed by such grantee. The shares withheld from the grantees to settle their tax liability are reallocated to the number of shares available for issuance under the LTIP. The following table outlines the total number of shares withheld during the nine months ended, September 30, 2014 and the average price paid per share.

	Total Number of Share Withheld/Purchased (In thousands)	Average Price Paid per Share
January 1, 2014 - January 31, 2014	\$	
February 1, 2014 - February 28, 2014	7	10.34
March 1, 2014 - March 31, 2014		
April 1, 2014 - April 30, 2014	1	10.99
May 1, 2014 - May 31, 2014	923	10.46
June 1, 2014 - June 30, 2014	23	10.48
July 1, 2014 - July 31, 2014	1	11.10
August 1, 2014 - August 31, 2014		
September 1, 2014 - September 30, 2014		
Total	954	10.46

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 September 30, 2014. 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 period. Upon the filing of periodic reports by such other companies for the fiscal quarter or fiscal year ended September 30, 2014, as the case may be, additional reportable transactions may be disclosed by such companies.

As of October 28, 2014, funds affiliated with The Blackstone Group (Blackstone) held approximately 25% of our outstanding common shares, and funds affiliated with Warburg Pincus (Warburg Pincus) held approximately 31% 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 has 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 September 30, 2014.

Table of Contents

Disclosure relating to Warburg Pincus and its affiliates

Warburg Pincus informed us of (i) the information reproduced below (the SAMIH Disclosure) regarding Santander Asset Management Investment Holdings Limited (SAMIH), and (ii) the information reproduced below (the EIG Disclosure) regarding the Endurance International Group (EIG). Each of SAMIH and EIG are companies that may be considered affiliates of Warburg Pincus. Because we, SAMIH, and EIG may be deemed to be controlled by Warburg Pincus, we may be considered an affiliate of each of SAMIH and EIG, respectively, for the purposes of Section 13(r) of the Exchange Act.

SAMIH Disclosure:

Quarter ended September 30, 2014

An Iranian national, resident in the U.K., who is currently designated by the U.S. under the Iranian Financial Sanctions Regulations and the Weapons of Mass Destruction Proliferators Sanctions Regulations (NPWMD sanctions program), holds two investment accounts with Santander Asset Management UK Limited. The accounts have remained frozen for the nine months ended September 30, 2014. The investment returns are being automatically reinvested, and no disbursements have been made to the customer. In the nine months ended September 30, 2014, the total revenue for the Santander Group in connection with the investment accounts was £65 and net profits were negligible relative to the overall profits of Banco Santander, S.A.

In addition, during the third quarter 2014, Santander UK identified two additional customers: a UK national designated by the U.S. under the NPWMD sanctions program who holds a business account, where no transaction have taken place. Such account is in the process of being closed. No revenue or profit has been generated. A second UK national designated by the US for reasons of terrorism held a personal current account and a personal credit card account in the third quarter 2014, both of which have now been closed. Although transactions have taken place on the current account during the reportable period, revenue and profits generated were negligible. No transactions have taken place on the credit card.

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

EIG Disclosure:

Quarter ended September 30, 2014

Edgar Filing: Kosmos Energy Ltd. - Form 10-Q

On or around September 26, 2014, during a routine compliance scan of new and existing subscriber accounts, EIG or its affiliates discovered that Seyed Mahmoud Mohaddes (Mohaddes) was named as the account contact for a subscriber account (the Subscriber Account). Previously, on July 2, 2013, before Mohaddes had been designated as a SDN, the billing information for the Subscriber Account was updated to include Mohaddes. On September 16, 2013, the Office of Foreign Assets Control (OFAC) designated Mohaddes as a Specially Designated National (SDN), pursuant to 31 C.F.R. Part 560.304. EIG discovered Mohaddes when its routine compliance scan identified an attempt on or around September 26, 2014 to add Mohaddes, an SDN, as the account contact to the Subscriber Account. EIG blocked the Subscriber Account that day and reported the domain name registered to the Subscriber Account to OFAC as potentially the property of a SDN, subject to blocking pursuant to

Table of Contents

Executive Order 13599. Since September 16, 2013, when Mohaddes was added to the SDN list, charges in the total amount of \$120.35 were made to the Subscriber Account for web hosting and domain privacy services. EIG ceased billing for the Subscriber Account. To date, EIG has not received any correspondence from OFAC regarding this matter.

On July 10, 2014, OFAC designated each of Stars Group Holding (Stars), and Teleserve Plus SAL (Teleserve), as SDNs under Executive Order 13224, and their property became subject to blocking pursuant to the Global Terrorism Sanctions Regulations, 31 C.F.R. Part 594. On July 15, 2014, as part of EIG's compliance review processes, they discovered that the domain names associated with each of Stars and Teleserve (the Stars/Teleserve Domain Names) were registered through our platform. EIG immediately took steps to suspend and lock the Stars/Teleserve Domain Names to prevent them from being transferred or resolving to a website, and they promptly reported the Domain Names as potentially blocked property to OFAC. EIG did not generate any revenue from the Stars/Teleserve Domain Names since they were added to the SDN list on July 10, 2014. To date, EIG has not received any correspondence from OFAC regarding the matter.

On July 15, 2014 during a compliance scan of all domain names on one of its platforms, EIG identified the domain name Kahanetzadac.com (the Domain Name), which was listed as an AKA of the entity Kahane Chai which operates as the American Friends of the United Yeshiva and was designated as a SDN on November 2, 2001 pursuant to Executive Order 13224. Since the Domain Name was transferred into one of EIG's reseller's customer's account, there was no direct financial transaction between EIG and the registered owner of the Domain Name. The Domain name was suspended upon discovering it on their platform, and EIG will be reporting the Domain Name to OFAC as potentially the property of a SDN.

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

Table of Contents

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	November 3, 2014	/s/ W. GREG DUNLEVY W. Greg Dunlevy Executive Vice President and Chief Financial Officer (Principal Financial Officer)

Table of Contents

INDEX OF EXHIBITS

Exhibit Number	Description of Document
10.1*	Hydrocarbon Exploration and Production Sharing Contract for the Cayar Offshore Profond between the Republic of Senegal and Petro-Tim Limited and Societe des Petroles du Senegal dated January 17, 2012.
10.2*	Hydrocarbon Exploration and Production Sharing Contract for the Saint Louis Offshore Profond between the Republic of Senegal and Petro-Tim Limited and Societe des Petroles du Senegal dated January 17, 2012.
10.3*	Deed of Transfer between La Societe Des Petroles Du Senegal (Petrosen), Timis Corporation Limited and Kosmos Energy Senegal concerning the Hydrocarbons Exploration and Production Sharing Contracts and Joint Operating Agreements covering the Cayar Offshore and Saint Louis Offshore Permits dated August 25, 2014.
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

* Filed herewith.

** Furnished herewith.