UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

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

For the transition period from to

Commission file number: 001-35167

Kosmos Energy Ltd.

(Exact name of registrant as specified in its charter)

Bermuda (State or other jurisdiction of incorporation or organization)	**98-0686001** (I.R.S. Employer Identification No.)
Clarendon House **2 Church Street** **Hamilton, Bermuda** (Address of principal executive offices)	**HM 11** (Zip Code)

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

Not applicable

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

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

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

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

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

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

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

Class	Outstanding at October 28, 2014
Common Shares, $0.01 par value	386,872,550

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

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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.

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

EBITDAX	Net income (loss) plus (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.
E&P	Exploration and production.
FASB	Financial Accounting Standards Board.

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

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

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KOSMOS ENERGY LTD.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

[redacted]

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:		

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.

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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

See accompanying notes.

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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.

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KOSMOS ENERGY LTD.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(In thousands)

(Unaudited)

	Common Shares		Additional Paid-in	Accumulated	Accumulated Other Comprehensive	Treasury	
	Shares	Amount	Capital	Deficit	Income	Stock	Total
Balance as of December 31, 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.

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KOSMOS ENERGY LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 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.

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KOSMOS ENERGY LTD.

Notes to Consolidated Financial Statements

(Unaudited)

1. Organization

Kosmos Energy Ltd. was incorporated pursuant to the laws of Bermuda in January 2011 to become a holding company for Kosmos Energy Holdings. Kosmos Energy Holdings is a privately held Cayman Islands company that was formed in March 2004. As a holding company, Kosmos Energy Ltd. s management operations are conducted through a wholly owned subsidiary, Kosmos Energy, LLC. The terms Kosmos, the Company, we, us, our, ours, and similar terms refer to Kosmos Energy Ltd. and its wholly owned subsidiaries, unless the context indicates otherwise.

We are a leading independent oil and gas exploration and production company focused on frontier and emerging areas along the Atlantic Margin. Our 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.

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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

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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, Foum 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, Foum 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

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

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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: