Operator

Greetings and welcome to the Kosmos Energy Third Quarter 2018 Earnings Call. [Operator instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Jamie Buckland, Vice President of Investor Relations. Thank you. You may begin.

Jamie Buckland

Thank you, operator, and thanks to you all for joining us today.

This morning, we issued our third quarter earnings release and slide presentation to accompany today's call. Both materials are available on the Investors page of the kosmosenergy.com website. We anticipate filing our 10-Q for the third quarter with the SEC later today.

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

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

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

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

Andy Inglis

Thanks, Jamie, and good morning and afternoon, everyone.

On our call last quarter, we announced the acquisition of Deep Gulf Energy and focused primarily on that transaction and what it meant for Kosmos. On the 10th of October, we provide an operational and financial update to the market, and today's results are in line with the guidance we provided then. As a result, today, I'll focus on the progress we have made during the third quarter building a full cycle E&P and start to look forward to 2019.

Beginning with slide three, which shows the impact of the Equatorial Guinea and Gulf of Mexico acquisitions. They have transformed Kosmos into a full-cycle E&P, offering investors a platform with material production and cash flow, a balanced portfolio that delivers sustainable, high-return growth and a commitment to pay a dividend, commencing the first quarter of 2019. Kosmos is evolving at a rapid pace, maintaining the strength of our balance sheet through the cycle meant that we can be nimble when pursuing attractive opportunities and our disciplined focus on allocating capital meant we only went after the right opportunities. We have built a portfolio of high margin assets that generate significant cash flow, which we will redeploy into high-return projects across our opportunity-rich portfolio, reduce debt and return capital to shareholders.

The production and EBITDAX charts on this slide illustrate the pace of this transformation. Pro forma production, EBITDAX for 2018 approximately doubled 2017. Looking forward, we expect this growth to continue with an 8% to 10% compound annual growth rate in production, and a 10% to 15% in EBITDAX from 2018 through 2021. This growth is being delivered while rigorously adhering to Kosmos' enduring strategy, a focus on the Atlantic margin, a differentiated deepwater skill set, targeting high margin resources, a low cost efficient model and a strong balance sheet.

Turn to slide four. We now have a portfolio rich in opportunity across short, medium and longer cycle projects, and we believe the quality and depth of these opportunities is a competitive advantage to Kosmos. Having multiple growth options requires a sharp focus on quality and strong discipline around capital allocation. This slide shows the various avenues of growth across our portfolio, and I'll come back to where we expect to allocate capital in 2019, later in the presentation.

Starting at the top of the slide, and following the arrows, we have a significant production base with the opportunity to grow production and utilize spare facility capacity in Ghana, Equatorial Guinea and now the Gulf of Mexico through high rate of return, well work projects and infill drilling.

In the Gulf of Mexico and Equatorial Guinea, existing infrastructure and strong exploration portfolios offer high rate of return infrastructure-led exploration potential and provide the opportunity to further drive short-cycle production growth.

In Mauritania and Senegal, our world-scale gas discoveries provide the opportunity to deliver low-cost developments, starting with the first hub at Tortue, with the potential to add others that will underpin sustainable cash generation for decades to come.

Our portfolio of exploration acreage in the world's most attractive basins including Suriname, Cote d'Ivoire, Sao Tome and Principe, and recent entries into Namibia, more on that later, provides future growth potential from longer cycle, world-class hub scale discoveries. And lastly, through maintaining a solid balance sheet, we are well-positioned for further acquisitions, in particular deepwater consolidation in the Gulf of Mexico.

On the following slides, I'd like to go through the third quarter in more detail, looking at each of these activity sets. Slide five looks at production optimization and exploitation, in particular well work and infill drilling. Production in Ghana continues to grow following a turret remediation work at Jubilee, with a two-rig drilling program now underway, new wells brought on line at both Jubilee at TEN, during the third quarter. At Jubilee, production averaged approximately 94,300 barrels of oil per day gross for the quarter, delivering two cargoes net to Kosmos as expected.

One new producer well at Jubilee was brought online in the third quarter, with the second expected in the fourth quarter. Production from these wells together with enhancements to gas handling capacity is expected to increase Jubilee production towards the FPSO nameplate capacity of 120,000 barrels of oil per day.

At TEN production averaged approximately 62,600 barrels of oil per day gross for the quarter, delivering one cargo net to Kosmos as expected. One new producer well at Ntomme came on line in August. Kosmos expects this well to support current production levels of approximately 65,000 to 70,000 barrels of oil per day through the end of the year when a second new production well is expected to increase production towards the FPSO nameplate capacity. The TEN FPSO has previously been tested at rates above the 80,000 barrels of oil per day nameplate capacity, and we expect to further test it in 2019 as additional wells come on stream.

For the full-year 2018, we expect gross production of around 82,000 barrels of oil per day for Jubilee and around 65,500 barrels of oil per day for TEN.

The partners approved a second rig in Ghana, which arrived in late September, the rig is operational and set up for a continuous completion program, which should enable the partnership to accelerate the addition of new wells in Ghana. The increased well capacity is expected to drive production towards FPSO capacity sooner, with the goal of maintaining gross production from Jubilee and TEN of 180,000 to 200,000 barrels of oil per day over the next three years.

In Ghana, one point to note from this morning's press release is the $58 million impairment of the Wawa and Akasa fields. As we look to allocate capital to the best projects across our business, we have decided not to pursue the development of these fields as they don't compete favorably with other higher return opportunities we have in our portfolio. The $58 million impairment is a non-cash charge which should flow through the income statement in the third quarter, the impairment has no impact on Kosmos' reserves.

In Equatorial Guinea, I'm pleased to report that we achieved payback on our acquisition in less than 11 months. To-date, Kosmos has received approximately $214 million in dividends from the Kosmos-Trident joint venture, surpassing the $231 million purchase price when the transaction closed in late November last year.

The Kosmos exploration team discovered the Ceiba and Okume fields in the late 1990s with Trident Energy. So, we're familiar with the assets and understand the growth opportunities. Combined with Trident's operations team, we have an optimal partnership leveraging our respective strengths to maximize asset value.

Gross production in Equatorial Guinea averaged approximately 42, 600 barrels of oil per day in third quarter with strong performance in the first half of the year. The Company's on track to slightly exceed our 2018 annual guidance of 43,000 barrels of oil per day, averaging approximately 44,000 barrels of oil per day.

At the end of October, the drilling rig and associated equipment arrived in the field to begin installation of electrical submersible pump or ESP to increase artificial lift capacity.

In the Gulf of Mexico, recently acquired assets are performing well. At Odd Job, an infill well was brought on line in late September and connected to the Delta House Floating Production System, increasing well deliverability from the field. And additional Odd Job well was drilled in May, exceeding pre-drill resource estimates, and is expected to start production through the existing subsea infrastructure to Delta House by early 2020.

Gulf of Mexico production for both the third quarter and the period from the transaction close until the end of the quarter, averaged approximately 24,200 barrels of oil equivalent per day. In October, most of our production in the Gulf of Mexico was shut in by Hurricane Michael. Taking his down time into account, we expect production for the fourth quarter to average around 24,000 barrels of oil equivalent per day.

Turning to slide six, which covers our short cycle production growth opportunities through infrastructure-led exploration. As part of the Gulf of Mexico transaction, Kosmos acquired a portfolio of short-cycle growth assets including a high-quality inventory of exploration prospects. The first of lease the Nearly Headless Nick prospect was drilled within weeks of the transaction closing. The well was successful, encountering 26 meters of net pay in the middle Miocene objective. Nearly Headless Nick is another subsea tieback oil discovery, which is expected to be brought online through the Delta House facility in 2020, adding near-term reserves and production growth.

Early delivery of this short-term growth opportunity which was not included in the purchase price, highlights the value of this acquisition. Competition for basin access remains near historical lows, and in August, we expanded our inventory as one of the most active participants in the Gulf of Mexico Lease Sale 251 with apparent high bids on seven deepwater blocks. As part of our strategy to expand our position in the Gulf of Mexico, in the third quarter, we incurred approximately $50 million of exploration expense to acquire seismic over new prospective areas and to re-license seismic over existing fields.

In Equatorial Guinea, during the third quarter Kosmos continued to acquire seismic over blocks, S, W, and EG-21 to identify short-cycle tieback prospects near the Ceiba and Okume fields. We're processing the seismic with the objective high grading prospects we're drilling in the second half of 2019.

Turning to slide seven which looks at our development portfolio with a particular focus on the Tortue project. The partnership has made significant progress towards FID for Phase 1. Led by BP, the FEED work for Phase 1 is substantially complete. The Unit Development Plan has been submitted to both governments, and we've reached agreement with the governments of Mauritania and Senegal on the non-PSA fiscal terms for this cross border project. The project remains on track for Phase 1 FID around year-end 2018. With the non-PSA fiscal terms agreed, the partnership intends to submit the Declaration of Commerciality. The next step is for the governments to grant the Exclusive Exploitation Authorization which, would enable FID. In parallel, the partnership is progressing the LNG offtake agreement.

Turning to slide eight which looks at our longer cycle exploration. Longer cycle frontier exploration remains a core part of our overall business, offering the potential for major hub scale discoveries which create future optionality for growth as we've demonstrated in Ghana, Senegal and Mauritania.

In October 2018, Kosmos entered into a strategic exploration alliance with Shell to jointly explore in Southern West Africa. Initially, the alliance will focus on Namibia, where Kosmos has completed the farm-in to Shell's acreage in PEL 39, and Sao Tome & Principe where we have entered into exclusive negotiations for Shell to take an interest in Kosmos' acreage in blocks 5, 6, 11, and 12. As part of the alliance, the two companies will also jointly evaluate opportunities in adjacent geographies. This alliance is consistent with Kosmos' strategy of partnering with supermajors to leverage complementary skillsets. Shell has deep expertise in carbonate plays, while Kosmos brings significant knowledge of the Cretaceous in West Africa. Furthermore by working with Shell, Kosmos has a partner with the expertise to move exploration successes through the development stage efficiently.

In Equatorial Guinea, Sao Tome and Cote d'Ivoire, we're currently acquiring and processing seismic to build a sustainable prospect inventory for drilling in 2020 and beyond.

Now, I'd like to turn your attention to 2019 by turning to slide nine and looking at the activity set Kosmos has planned, the capital budget for the year. I want to discuss the 2019 capital plan using the same four investment themes I used earlier. These activities and corresponding capital are the results of our focused and disciplined capital allocation process. The objective of this process is to prioritize capital to our highest return opportunities, which deliver short and medium-term production and cash flow growth. Following this plan, we will ensure we have the financial ability to execute this activity set and return capital to shareholders.

Starting with production optimization exploitation. We intend to drill the highest return wells to build the necessary well stock to push the capacity of the infrastructure. In 2019, this includes drilling in Ghana, Equatorial Guinea and the Gulf of Mexico, as well as the next phase of ESP installations in Equatorial Guinea. Our activity set include 7 to 10 infill wells in Ghana, one infill well and ESP work in Equatorial Guinea, and four infill wells in Gulf of Mexico. In the Gulf, this includes wells at Tornado, Odd Job, Kodiak and South Santa Cruz. Short-cycle production growth activities focused in the Gulf of Mexico and Equatorial Guinea. In the GoM, we plan to drill up to four infrastructure led exploration wells and in Equatorial Guinea we plan to drill one or two exploration wells and prospects that can be tied back to Ceiba and Okume infrastructure.

The Tortue activity in 2019 is primarily focused on Phase 1 development work, which will be carried out by BP. Additional capital will be allocated to the appraisal of these Tortue and Yakaar where one well will be drilled at each field. The level of capital shown is net of the BP carrying.

Within longest cycle frontier year exploration, the 2019 budget includes exploration drilling in Mauritania in the Bir Allah area, where the one-well program is designed to add resources to support a third potential LNG hub.

The new ventures and seismic acquisition of processing program will continue through 2019, to enable a sustainable drilling program in 2020 and beyond.

In total, the 2019 CapEx budget is expected to be between $500 million and $600 million and is biased towards short-cycle development and exploration project where we see the potential for near term production and cash flow growth. This can be seen on slide 10 where we've provided production and EBITDAX guidance for the year ahead.

As communicated at the time of the DGE transaction, our capital program is expected to deliver an 8% to 10% production and EBITDAX compound annual growth rate from 2018 through 2021 using the July 26 Brent strip. Adjusting Brent strip pricing to $70 per barrel flat rises the EBITDAX growth range to 10% to 15%. For 2019, we expect net production to be in the range to 70,000 to 76,000 barrels of oil per day equivalent and EBITDAX in the range of $1.2 billion to $1.3 billion at $70 Brent.

Turning to slide 11. Kosmos has always managed its balance sheet conservatively with disciplined capital allocation being critical enabler of strategy execution. With the addition of the Gulf of Mexico assets, our approach to capital allocation is not changed. At the end of the second quarter, our net debt to EBITDAX was around 1.6 times. This increase around 2.2 times at the end of the third quarter, taking account of the Gulf of Mexico transaction. With increased production and disciplined capital allocation, we expect to generate substantial free cash flow, allowing us to rapidly delever. We forecast net debt to EBITDAX around 1.7 times at the end of this year, falling to around 1.2 times at the end of 2019, well below the average level before the DGE acquisition.

So, in summary, turning to slide 12, the third quarter has been one a transition for Kosmos. Closing the Gulf of Mexico acquisition, integrating the assets and people and to the Kosmos organization, and ensuring we are positioned to take advantage of a high-quality portfolio across our growing business through a disciplined 2019 capital program. At Kosmos, we are focused on building the premier Atlantic margin deepwater E&P, a business that has increased in scale and provides visible growth in production and sustainable cash flow, generates significant cash flow which we will redeploy into high return exploitation and short cycle exploration led exploration projects in West Africa and the Gulf of Mexico, this is combined with a portfolio of world scale developments and frontier exploration platform which has been enhanced by announcement today of the Shell alliance. And finally, we have the financial strength to execute our business plans through the cycle, ensuring our ability to fund growth, delever and return capital to shareholders, starting with the dividend in the first quarter of 2019.

Thank you. And now, I'd like to turn the call over to the operator to open the session for questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question is from Neil Mehta with Goldman Sachs. Please proceed with your question.

Neil Mehta

The first question I have is, so thanks for providing this 2019, $1.2 billion to $1.3 billion of EBITDA, how does that translate to cash flow from operations? So, the reason I'm asking is, let's say, it's $900 million to $1 billion, which is -- or back of the envelope, minus 500 to $550 million in CapEx implies something like a 14% free cash flow yield on the current stock. So, I want to make sure that I'm not missing something, delta of translating EBITDAX to cash flow from operations here.

Andy Inglis

Yes. I think your math is pretty accurate actually. I think, we've given pretty good guidance from the deleveraging chart as well. So, if you kind of look at that and we sort of -- year-end 2018 at 1.7 sort of EBITDAX of around 1 billion, if you took to the middle of the range of EBITDAX of 1.25, leverage around 1.2, you can see net debt is going to reduce by $200 million to $300 million. So, I think your translation of the EBITDAX to cash flow, take CapEx, taxes you got a pretty accurate analysis. So, in summary, we've got a very strong high-return capital program where we're paying a dividend and we've got significant free cash flow in 2019, which is one of the reasons why we wanted to give you early guidance on '19.

Neil Mehta

And then, as we think about the return of capital to shareholders, you have implemented a dividend, how do you think about -- and given the liquidity of the stock, I am guessing share repurchases doesn't -- isn't necessarily best use of capital, but how do you think about dividend growth from the base of assets that you have now?

Andy Inglis

I think when we announced the intention to pay a dividend with the last quarter, we talked about the growth in the dividend in line with the growth in cash flow, growth in EBITDAX. So, what I would say is that it's early days.

What we need to do is demonstrate delivery, which is what we're focused on. We want to demonstrate the production growth next year, demonstrate the growth in EBITDAX, and we will revisit the dividend in the light.. But, I think we've been pretty clear in our projections, we were clear when we announced DGE that we were setting up the company that could grow at 8% to 10% production, a 10% to 15% EBITDAX growth in $70 world. And clearly that creates the opportunity then to revisit the dividend.

Neil Mehta

Last question for me is just the status update on Tortue, and where you're in terms of development in FID?

Andy Inglis

It was -- I think a lot's happened in a short period of time. I think actually a lot's happened since we made the operational update on the 10th of October. The key issue we've been working on I think which has been clearly quite public is to finalize the fiscal agreement for the non-PSA terms. We've done that. We've reached agreement with both governments of Mauritania and Senegal. That is a key step for us now. So, it allows us to move forward and declare commerciality of the project. With that notice to the government, then the next step in administrative sense is for them to grant the exclusive exploitation agreement. With that in hand, essentially we're then free to move forward with FID which is ultimately actually approving the major contracts. So, it's moving along really at a pace now, the FEED is substantially complete with BP, and you've heard the news for around additional contracts that have been led recently on that. So, it's moving along in a very positive way. In terms of the LNG offtake, we're in discussion with the preferred buyer. So, that's going to move in parallel with everything that I talked about. So, no, actually, it's been a busy quarter, actually moving that along and getting DGE done up and running. But, I am very positive about both.

Operator

Our next question is from Charles Meade with Johnson Rice. Please proceed with your question.

Charles Meade

I wondered if you -- going back to that October 10th announcement, I wondered, if there's anything more you guys would like to say about that partner wells and result and what you saw there, and how it might affect your appetite, your enthusiasm? And two of the details that I picked up on that I felt were interesting, one, that you guys said that you didn't find commercial hydrocarbons, suggesting there was perhaps residuals there, and that you next plan to get there in 2020. So, is there anything you'd like to offer on a follow-up to that?

Andy Inglis

Absolutely, Charles. And I think that we've always talked about that being sort of four tests in our acreage in Suriname. Pontoenoe was the second of those independent tests. And we've got two more tests to make. With Pontoenoe we tested one fairway; we have a second fairway to test on the western side which is Aurora, which is both Cretaceous objective and a carbonate objective. So, the most important thing at the moment is that we take the learning and particularly the geophysics, the calibration of the geophysics across to test the Aurora fairway. And that's what we're doing at the moment. And I think the timing of the well is to make sure that we've fully integrated all of that learning. And we're therefore targeting the next best prospect of the opportunities that exist in the Aurora fairway. And clearly, there is potential, I think, to link both the test of the Cretaceous with the test of the carbonate. So, here is a lot of stuff to go through.

So, in summary, we still regard this as extremely prospective, as you say. We found evidence of a working hydrocarbon source, which is key. The issue is really about individual prospect risk now and we need to make sure that we've integrated all of the learning from Pontoenoe into the next well. So, we remain positive about it, but we also remain disciplined about it, to ensure that we are genuinely drilling the next best prospect.

Charles Meade

That's a helpful elaboration on that. And then, if I could move on to the CapEx picture in the Gulf of Mexico for 2019, I recognize these assets are still relatively new to you guys. You've given us a really good picture of what you're going be doing in Ghana with that 30% of your CapEx in '19. But, the Gulf of Mexico piece for you is even bigger. So, I wondered if you cloud talk about how that 200 million o mix looks. And if you don't have a great picture now, when you might have a better feel for it?

Andy Inglis

What I'd say, Charles -- it's great question, is, we see the opportunity to grow our production in the Gulf of Mexico with very high return projects. So, we have the opportunity to grow the production from the existing fields through the four infill wells that I described in the text. And that's about taking account of the infrastructure that we have in place and ensure that we fully filled that infrastructure, both the subsea and then as ullage becomes available on the processing hubs that we're in a position to capitalize on that. So, these are really high rate of return projects because clearly the infrastructure is in place.

Then, as capital allocation to the short-cycle exploration aspects, and we're putting about 30% of our capital into that. So, it's about 150 to 200, and the majority of that -- four out of the five to six well are in the Gulf of Mexico. And I think as we look at that, we sort of see two things. The first is that we've got a really strong portfolio of opportunities now. In the Gulf of Mexico, it was there because DGE had not been fully funded by First Reserve. And so, there was a very good opportunity set there that we could pick up straight away. And clearly, the success, immediate success of Nearly Headless Nick is an example of that.

And then, as we've talked about on previous calls, we have the acreage in W, S and EG-21 in Equatorial Guinea. It's a geology that in a sense we know. It's had nothing done to it for 15 years. We've just shot a modern seismic over it. Even the stuff coming off the boat is a significant upgrade to the existing seismic set. So, we are quite excited about the ability to pursue those opportunities in 2019. And we are targeting 1 to 2 wells there. So, of that 150 to 200, it's high-quality return projects. And as a reminder, we had it in the DGE acquisition deck, but DGE if you look at the prospects, if you look at the track record of DGE, the infrastructure-led strategy that they pursued, they've delivered a full cycle NPV-10 at a WTI price of $35. So, that gives you some confidence of the quality of the returns we are getting from these assets. And then, of course, they are shot cycle. You would -- these things have been tied back and about 18 months. Nearly Headless Nick is an example of that that will start up in early 2020. So, we will come back probably in a quarter's time with more description around Pacific prospects. It's too early I think to do that. But, I think we've worked pretty hard over the last couple of months since everything closed to fully allocate capital to what we believe now is a really good portfolio. And the great thing about the Gulf of Mexico today is the competition is really low. So, we think this is just the start of what it is we can do.

Operator

Our next question is from Rafal Gutaj with Bank of America of Merrill Lynch. Please proceed with your question.

Rafal Gutaj

I just have two questions, please. Firstly, coming back to the CapEx guidance of 500 to $600 million, just so I understand it better, in terms of the extreme ends of that guidance, is that driven by scope oil price or are you potentially still expecting movements on inflation, cost inflation or deflation? And then, secondly, just thinking about exploration, and as you see yourselves, I guess, in 2017, you formed the alliance with BP and there was a lot of kind of momentum behind exploring Atlantic margin. And now we are looking at just 10% of your CapEx in a one frontier well being drilled in 2019. So, I guess the question is that 2019, a bit of an unusual year in the sense that you are restocking the hopper, and we should expect intensity to resume in 2020, or is this just -- this is a conscious shift away from being a frontier explorer to a full cycle E&P?

Andy Inglis

I'll take the last question first actually because this is about all of the above. We are a company that's building a strong production base, which has got a full set of opportunities. That's clear in the text. It has the ability to deliver high rate return projects from existing fields, leveraging the infrastructure to do that, a great short cycle program, world-class projects in Tortue moving forward and a phenomenally strong exploration portfolio. And we're clear about the strategy around how we execute. We formed the alliance with BP because it was a great mix of skill sets. And we've demonstrated the success of that in Mauritania and Senegal where we're moving forward the success of a world-class discovery in Tortue to be followed by we believe the world-class project in Yakaar, to be followed by world-class project in Bir Allah because BP has those engineering and development skills to be able to do that. And we're looking to do exactly the same with Shell now in the southern part of West Africa. It's a different place, it's outside the Transform Margin where we're focused with BP. It brings in the potential of a carbonate play in Namibia. So, Shell's expertise there, our expertise in the Cretaceous and then you got that development, world-class development company. And we're very clear that frontier exploration is a core part of what we do. The objective is to drill a couple of frontier wells each year. The great thing about it is that now as you sort of high grade capital, you're driving quality through choice. So, we're looking to drill two high-quality opportunities now with a portfolio that could probably support more wells, but it is about quality through choice. So, I think the announcement today of the Shell alliance is just reaffirmation as the important part of frontier exploration to Kosmos. But, it's now part of the balance. And I think that balance is critical.

In terms of the actual numbers of CapEx, Rafal, I wouldn't get too lost in it, because we're substantially carried in that exploration well and that we're drilling in Bir Allah. So, I think you've got to sort of take the year as it were as being one where there's the impact of the carrying. But, we're actually very excited about the opportunities we have now in Equatorial Guinea, our board of S, W, 24 in Block 24 is Sao Tome, Cote d'Ivoire and Namibia, and as we discussed earlier on the call, the opportunity to come back to Suriname in 2020. So, two high-quality tests for the year.

In terms of the CapEx range, it's not really about inflation. We're not seeing inflation. We've got the rigs -- our rig rates are locked in as it were in Ghana. We're taking advantage of an increased activity in Equatorial Guinea across the industry to get very competitive rates there. So, it's not about -- it's really ultimately about the activity set in terms of scale and then the efficiency of execution. There could be few wells, if we were really successful with the input drilling in Ghana, there could be -- as you say, we haven't precisely allocated the capital to Equatorial Guinea to be one or two wells, depending on the pace of which we want to move forward there. So, I think you should see that as credible bookends around the activity set -- where things aren't fully described and the efficiency with which we execute.

Operator

Our next question is from Richard Tullis with Capital One Securities. Please proceed with your question.

Richard Tullis

As we look at the initial guidance for 2019. How much of the production benefit related to the 2019 spending kind of slips into 2020? I guess, what I'm getting at is how is the cadence for drilling set up for next year, just trying to get a picture of maybe some of this spending impacts 2020 more so than 2019?

Andy Inglis

Well, clearly, absolutely yes. So, you've clearly got a series of wells in Ghana, some of which will impact 2019, depending on the timing of completions, et cetera. You will see a runover rate into 2020. And the idea is to build the well stock in a program where you may build the well stock that sort of right -- testing maybe spare capacity beyond the facility's limit, so that you take a break, you come back to it and you're fully covered. So, you could say, there's probably a degree of an investment there in Ghana, which will support 20 and potentially 2021. So, point one. And clearly, the capital and the expiration short-cycle in the Gulf of Mexico and Equatorial Guinea, you will see the benefits of it in backend of 2020 and 2021and beyond. Typically, we're talking about an 18-month tieback. So, with a programmatic exploration program in the GoM four wells, you'll see the benefit of that in following years. So, this is all about high-quality return projects that support that growth profile that we've illustrated in the slides.

Richard Tullis

Thanks, Andy. And not trying to lock in anything definitive of course, but how do you think spending sets up in the out years, 2020, 2021, based on the spending guidance for 2019, is it going to be something in similar range or does Tortue FID start to build on top of that, maybe give us some bookends for...

Andy Inglis

As we sort of think about the moving parts, I think you're seeing a very full rig program in Ghana, which I think will take a break after that. So, that will influence 2020, '21. Offsetting that you're probably going to see as you say, the carry when BP works its going through. You are probably going to see a slight increase in spending in that bucket. And then, you are probably going to see a reasonably consistent short cycle exploration program. I think we can deliver that high quality prospects in that sort of 4 to 6 range. It's going to be -- as with everything in the CapEx, given the nature of the profile that we are delivering, it is going to be lumpy. But, I think on average, it's going to be -- you can build the trajectory I think for period of '18 through '21 on the basis of the big moving parts, which is -- there's a lot of drilling going in Ghana this year, which wouldn't be the case in '20 and '21. And that's clearly less money with the carry going into the Tortue total project. But there will be in the outer years as the carry wears out. And of course, despite all of that, we are generating free cash flow after we paid the dividend. So, clearly, the first call on cash will be the dividend. And then, we have a great opportunity set of projects that we can fully fund.

Richard Tullis

And then, just lastly regarding M&A. I know you just spoke a little bit about the competition in the Gulf of Mexico being near historical lows. What level of asset dispositions could we see brought to the market over the next one to two years over the next 1 to 2 years in the Gulf of Mexico?

Andy Inglis

Just repeat the last part of the question. Your line just broke up, Richard. What…

Richard Tullis

What level of asset sales come into market -- assets come into market in the Gulf of Mexico, what level could we see over the next 1 to 2 years that you may take a look at?

Andy Inglis

You are aware as I'm of sort of what's going on at the moment. I would say that there are sort of -- there are couple of dynamics that are working in our favor. We're sort of going through the cycle of the private equity money, which is sort of coming to sort of fund and time limits, and so that's going to create a flow. And then, I think you are seeing some high grading of portfolios from the majors as well. All of that is going to create opportunity. So, I think if I would sort of do it in a rather simplistic way, I think there is more than in the past. But, of course for us, it's which of these things make absolute sense, we have the opportunity to grow the business organically, you can pick up acreage in lease sales, you can get into prospects. We have an existing strong portfolio. It has to compete with all of that. So, I just see the Gulf of Mexico as the right positive environment to do business where you can buy high margin barrels, good fiscal structure, low costs that deliver high rates of return. And we need to make sure as we look at the M&A world that we are disciplined around that.

Operator

Our next question is from Pavel Molchanov with Raymond James. Please proceed with your question.

Pavel Molchanov

Apologies if this is maybe a little basic, but if and when you reach FID on the Tortue LNG development, how much would that add to your CapEx in 2019?

Andy Inglis

That's fully assumed in these numbers, Pavel.

Pavel Molchanov

Right. So, would 2019 be a very small percentage of that? In other words, would it really be showing up in 2020?

Andy Inglis

It would show up in the out years depending on the pace of the spend. All I am saying is these are sized around that you got to get the S-curves right in terms of the phasing between years. But in 2019, our assumptions for the 2019 capital forecast are that we FID around year end.

Pavel Molchanov

And then just a quick scheduling question. Four prospects in the Gulf next year, is that going to be linear throughout the year across the quarters?

Andy Inglis

Look from a modeling perspective, assume it is. It won't be exactly that. But I think -- we'll give you more guidance when we come to our year end results. But, I think if you were to -- if you wanted to model it, I would assume that.

Operator

Our next question is from Al Stanton with RBC Capital Markets. Please proceed.

Al Stanton

Yes. I've got two questions, one about Mauritania and the other about Namibia. But first of all, on Mauritania, can we just look at whose is paying for what? You've got three appraisal wells or exploration appraisal wells and the Tortue Phase 1 development. I am assuming that Tortue Phase 1, development if you get to FID that's what carried by BP. I was wondering, how much of the other three wells are being carried by BP. And also, as a follow-on, whether they're intended to add resources or whether they're really for the reservoir engineers and then more about deliverability?

Andy Inglis

So, just going through the development carried by BP, in terms of the appraisal wells on Tortue East and the Yakaar. It's paid for by BP; it's a mix of both. We're clearly going to get reservoir information from both. It'll support -- it's really the optimization of the drilling program on Tortue, so how do you get to the right levels of deliverability with the optimum well pattern and therefore very efficient with the capital. So, the benefits are I think that it'll add resource but it'll also enable us to fully optimize the well program. And as you know, we're not short of resource on Tortue. So, adding the resource doesn't actually in that sense make a difference. What it does do is to make sure that you're ultimately optimizing the development program to get the best wells into the front end of the development. On Yakaar, it's a similar story where we're starting to do the concept work on Yakaar now. And then this will add resource and also give us better information on the overall well program that would support Yakaar.

Al Stanton

And then, my second question, if I may, on Namibia. I shouldn't have gotten next door that Impact and Total have got a giant sandstone DHI-backed prospect and you're talking about carbonate. So, I'm wondering what you've committed to in terms of drilling with your farm-in with Shell and whether you'll be able to go to school on Total as well.

Andy Inglis

Yes. I was careful I think that I said we were both doing Cretaceous and carbonate. We've clearly got a real interest in the Cretaceous there. So, we're doing both is the answer. And actually we're excited by it because it's got actually a lot of independent tests, and we're also going to -- working with Shell to optimize the first well, but your intuition is good.

Operator

[Operator Instructions] Our next question is from Mark Wilson with Jefferies. Please proceed.

Mark Wilson

I would like to ask about Ghana, if we can. You've written down Wawa and Akasa. I'd like to check if there are any future tieback opportunities still there in Ghana, thinking particularly of Teak, and whether that is in the plan over the next few years.

Andy Inglis

Yes. Mahogany and Teak are in the plans, Mark. I think we've talked about that in the past. Yes. We've incorporated them in the full field development plan which was approved end of last year. So, yes, Teak and Akasa -- Teak and Mahogany are in. We've -- I think we clear in the remarks, as we look to -- while on Akasa, we -- it is just really about high-grading the capital now. And we got a bigger set of opportunities. So, for us, it's simply an outcome of that.

Mark Wilson

And then, just to check the dividend expectations for next year, is still the $75 million across the full quarters?

Andy Inglis

Yes.

Mark Wilson

Okay, excellent. And then, one final point, the resources to be targeted across the Gulf of Mexico drilling in '19, is that something you're willing to talk about, maybe in aggregate.

Andy Inglis

What we’re going to do Mark is, we’re clearly -- we’re pretty hard actually to build the drilling program. We got a lot of opportunity actually in the Gulf, and we haven’t finally selected which ones we’re going to target in ‘19, which ones would be in later years. So, I think we can come back and give you the resources -- in aggregate the resources behind those. But, we’re -- rest assured that these are very economic projects. And I think that’s the big learning for the business models within -- the DGE has been successful with over the -- over a decade. And the ability for this to make a significant contribution to production growth and reserves growth in that period of 2020 and ‘21. So, we will come and help you with the math. But I’m quite excited by the quality of the prospects. And actually, it’s fundamentally in line with everything that we talked about in Kosmos, which is -- it’s high-margin, high-return. And the great thing about the Gulf of Mexico when you are drilling adjacent to infrastructure is you can get it into production quickly.

Operator

Ladies and gentlemen, we have reached the end of the question-and-answer session. I would like to turn the call back over to management for closing comments.

Jamie Buckland

Thank you, operator. So, we appreciate all of you joining the call today and your interest in Kosmos. If you have any further questions, please don’t hesitate to get in touch. Thanks very much.