Operator

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

I would now like to turn the conference over to Jamie Buckland. Please go ahead.

Jamie Buckland

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

This morning, we issued a press release regarding our second quarter earnings, and an additional release on the acquisition of Deep Gulf Energy, both releases are available on the Investors page of the kosmosenergy.com website. We have also included a slide presentation on the acquisition to accompany today's call, which is also available on the Investors page of the Kosmos website. We anticipate filing our 10-Q for the second 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.

Today, we announced the acquisition of Deep Gulf Energy, and I'd like to focus most of today's call on that transaction and what it means to Kosmos. Ahead of that, I'd like to give a brief summary of our performance for the quarter, starting with production.

Our high-margin assets in Ghana and Equatorial Guinea performed well in the second quarter, delivering four cargos net to Kosmos as expected.

In Ghana, gross production at Jubilee averaged approximately 68,000 barrels of oil per day for the quarter. The turret remediation of the FPSO was completed successfully during a planned two-week shutdown. We still expect the rotation of the vessel to occur around the end of the year with minimal impact to production in 2018. With remediation work complete, Jubilee is now producing consistently over a 100,000 barrels of oil per day.

With drilling resumed in Ghana, we expect to bring two new producer wells on line in Jubilee later this year, one in the third quarter and one in the fourth quarter. We expect these additional wells to deliver around 20,000 to 25,000 barrels of oil per day, helping to arrest any declines in existing well stock and increase production towards the FPSO nameplate capacity of 120,000 barrels of oil per day. In total, we still expect 7 cargos in Jubilee in the year with 2 cargos in each of the next two quarters.

At TEN, production average approximately 61,500 barrels of oil per day for the quarter. Two wells are to be drilled and completed by year-end at TEN. The first Ntomme well has been drilled and came on line today. A second well is expected to start production around the end of the year. Combined we expect the additional TEN wells to deliver around 15,000 to 20,000 barrels of oil per day, resulting in production rising towards the FPSO nameplate capacity of 80,000 around the end of the year. The FPSO was previously being tested at rates above the 80,000-barrel of oil per day capacity. We will test it in 2019 as additional wells come on stream.

The partnership has now approved the second rig in Ghana, and we expect the rig to arrive early in the fourth quarter. The second rate will be used for completions with the current run rate set up for drilling more wells in 2019. Taking advantage of low rig rates in the current environment enables the partnership to accelerate the addition of new wells in Ghana, increasing production towards FPSO capacity sooner and allowing the capacity of the FPSOs to be tested.

Finally, Kosmos was successful in its arbitration against Tullow concerning a dispute related to the West Leo rig contract. As a result start, Kosmos is not liable to any amounts related to Tullow's labiality to Seadrill. Furthermore, the ruling stipulated the Kosmos will receive around $14 million for reimbursement costs and legal fees.

In Equatorial Guinea, gross field production averaged over 46,000 barrels of oil per day during the quarter, exceeding our 43,000-barrel per day 2018 forecast and 37,000-barrel per day acquisition assumption. We have owned the assets now for just over a half a year and still deriving a track record, so have left our full guidance the same.

The strong production at Equatorial Guinea resulted in cash distributions of $55 million in the quarter. Year-to-date through cash distributions totaled $148 million or approximately 64% of the purchase price. At oil prices, the payback on the asset is expected to be around one year. Looking forward, well stock to install electric submersible pumps or ESPs in Equatorial Guinea should begin in the fourth quarter. These are expected to support current production rates ahead of near-field and infill drilling in 2019.

Next, I would like to move to development and Tortue in particular. The Tortue project continues to make good progress. And BP mentioned on their earnings call last week, we expect FID around the end of the year. FEED is ongoing and we've begun gas marketing process with bid received from several parties including two supermajors and an international commodity trading house. Importantly, the bids include financial offers for the NOC, which means the financing for partners should not impact the timing of FID. A remaining item ahead of FID is the harmonization of any non-PSA fiscal terms. With the ICA signed earlier this year, these discussions are taking place and progressing well. We'll continue to update the market on these discussions through the rest of the year.

I will now turn to exploration in Suriname in particular. We have one remaining test in 2018, drilling the Pontoenoe prospect in Block 42 with partners Hess and Chevron. Pontoenoe is the first of upto three independent prospects in Block 42 and is a similar play time to the Turbot and Longtail discoveries located approximately 70 kilometers to the west in Guyana. The well is expected to spud around mid-August and drilling should take around 60 days. So, in summary, the business continued to perform well during the second quarter, and we remain on track to deliver $100 million to $200 million of net cash flow this year.

I'd now like to turn your attention to today's announcement of Kosmos' acquisition Deep Gulf Energy. This morning, we're pleased to announce the next step in the evolution of Kosmos to becoming a full-cycle of E&P with the acquisition of Deep Gulf Energy or DGE from First Reserve for $1.225 billion. DGE is a leading deep water company in the Gulf of Mexico with attractive assets and a strong track record of success. The purchase price is comprised of $925 million in cash, funded by existing credit facility and $300 million in Kosmos equity issued to First Reserve. Closing is expected by the end of the third quarter.

The acquisition creates a platform for growth in the Gulf of Mexico adding approximately 25,000 barrels of oil equivalent per day of production, an 80 million barrels of oil equivalent estimated 2P reserves, with an estimated reserves to production ratio of 8.8. The reserves have a low retirement obligation of approximately $100 million undiscounted.

If you now turn to slide one of the pack posted on the website, I'll take you through the transaction. Kosmos began life as a pure play explorer, achieving major success in Ghana, with a discovery of the Jubilee and TEN fields. In 2011, via IPOed the Company as the exploration-led E&P with cash flow from Jubilee and TEN fields. Our resource base was expanded by exploration success in Mauritania and Senegal, where we discovered 40 Tcf of gas gross which has been partially monetized through the BP farm-out.

As I mentioned earlier, the first phase of development of this gas Tortue is headed to FID around year end 2018. Over the last four years, our production has doubled with the developments at TEN fields, which started production in 2016, and the late 2017 acquisition of Ceiba and Okume field in Equatorial Guinea.

Combined production across Ghana and Equatorial Guinea is approximately 45,000 barrels of oil per day net to Kosmos. The acquisition of DGE, creates a larger company with greater scale and substantial free cash flow. The highly complementary nature of the DGE assets provides Kosmos with a balance of short-cycle growth opportunities, alongside our existing medium and longer term projects.

The enhanced production and cash flow profile of combined Company enables us to pay a dividend starting in first quarter of 2019. Most importantly, the transaction is consistent with the strategy we've had from the day Kosmos started business, an Atlantic Margin focus that leverages our differentiated deepwater skill set, reducing high margin resources from low cost efficient exploration and development. Since inception, we have executed this strategy with a consistent focus on disciplined capital allocation and a strong balance sheet.

Turning to slide two. This is a highly attractive, immediately accretive entry point in the Gulf of Mexico. 2018 estimated cash flow per share is expected to increase approximately 30% on a pro forma basis. The assets are being acquired at a 2018 EV to EBITDAX multiple of 3.4 times compared to Kosmos at a consensus multiple of 6.4 times. On an EV to 2P reserves basis, the assets have been acquired for approximately $15 per barrel, while Kosmos' reserves currently traded approximately $21 per barrel.

The acquisition has very strong economics, with an unlevered NPV-10 breakeven price of $48 per barrel, based on WTI. Strong cash flow from the combined business allows us to pay dividend beginning in the first quarter of 2019. I'll talk more about that in more detail later in the presentation.

Turning to slide three. Many of you are familiar with DGE. A leading deepwater Gulf of Mexico Company with a material oil weighted reserves and production base focused on tying back to existing infrastructure. They are proven operator with an excellent safety record. Their highly experienced management team, brings over 20 years of Deepwater Gulf of Mexico experience on average and a record of value creation in the basin. The DGE's portfolio of high margin production assets provides strong free cash flow. There is also attractive organic growth potential from infill drilling of existing fields on production to utilize spare facilities capacity and from an inventory of over 50 million barrels of oil equivalent for the next five prospects.

Most importantly, DGE has a low-risk, short-cycle exploration strategy with success coming from 15 of 19 wells drilled since 2012, delivering first production from these discoveries in just 18 months on average.

With Kosmos' balance sheet and entrepreneurial management team, there are lot of attractive opportunities that can be pursued from this new platform. DGE's track record of delivering repeatable production and reserves growth is illustrated on slide four. Between 2013 and 2017, they grew production from our 5,000 barrels of oil equivalent per day to over 18,000 barrels of oil equivalent per day at a compound annual growth rate of over 40%. Over the same time period, the team grew 2P reserves from just under 40 to around 85 million barrels equivalent at over a 20% compound annual growth rate.

As we saw when we bought the assets in Equatorial Guinea, there's been under investment in DGE. We believe in the right hands with this management team and growth capital available for the right opportunities, the DGE assets will be a major growth driver for Kosmos over many years to come, just like we're seeing already for DGE.

Now, turning to slide five, which summarizes this highly complementary transaction. DGE's short-cycle assets with low cost, driving attractive returns complement the current Kosmos portfolio. The acquisition creates a new growth platform for the Company in the world-class Gulf of Mexico basin, which is significant potential, and diversifies our current production base and bolsters our existing expertise. The enhanced production and free cash flow generation allows Kosmos to pay a dividend commencing in the first quarter of 2019. This combination accelerates Kosmos' evolution to become a full-cycle deepwater E&P and the premier Atlantic Margin deepwater company.

Turning to slide six, I'd now like to drill down to why we think DGE is such an attractive deal for Kosmos, starting with the Gulf of Mexico. So, why invest in the Gulf of Mexico now? The Gulf of Mexico is world class basin with a huge amount of discovered and yet to be discovered resources across a number of play times. There are two fundamental reasons why now is the right time for Kosmos to enter the Gulf of Mexico, attractive economics and lack of competition.

On the economics, the Gulf of Mexico provides a highly competitive source of supply. The chart on the left shows a full-cycle NPV-10 WTI breakevens of DGE's assets and compares them to the leading shale basins in North America. As you can see, DGE's assets at the low end of the cost curve drive in the very best onshore shale plays.

In terms of competition, the basin has become more accessible as many companies have exited to focus onshore. The chart on the right shows the changing landscape and historic activity levels in the Gulf of Mexico over the last ten years. During that period, the composition has changed dramatically. The lease sale participant pool has shrunk by more than 60% and lease sale bidding is down by more than 85%. This sharp decrease has lead to large and mid caps who have left the basin to chase the shale plays.

At the same time, Gulf of Mexico production has grown steadily as majors remained consistently active and continued to sanction cost competitive projects helped by a sustained deflation and supply cost in contrast to shale. The attrition of independents created an opportunity for private equity who made a number of investments in Gulf of Mexico that are now nearing the end of their fun ten-years, as such do not have access to the necessary funding for further growth opportunities. The growth opportunities from lease sales and acreage relinquishments is more attractive now than it's been for many years. A large number of leases grounded 10 years ago, coming up for relinquishment creating tremendous opportunities. Given the changing industry structure, we believe there are also significant inorganic opportunities for Kosmos to pursue, serving as a consolidator of choice to the high-quality, capital starved assets. The attractive economics and changing competitive dynamic mean that now is a right time to enter this prolific basin, which is rich in opportunity and ripe for the consolidation.

Turning to slide seven, which along with slide eight, shows the strength of the combination. With the addition of Gulf of Mexico, we remain focused on the deepwater conjugate margins of the Atlantic. The DGE assets help to diversify production and create a new platform for growth that will leverage Kosmos' core exploration expertise.

When I joined Kosmos in 2014, year-end production from our single producing asset in Ghana was around $23,000 barrels of oils per day. Over the last four years, that production has doubled with the addition of TEN and Equatorial Guinea. Through the acquisition of DGE and the ongoing performance of our existing portfolio, we expect to double production and EBITDAX again over the next four years.

As shown on slide eight, this deal substantially increases our scale and diversifies our reserves and production base. The chart on the left shows our 2P reserves increase by around 40% from around 200 to 280 million barrels of oil equivalent. Chart on the right shows production increasing by around 50% to 70,000 barrels of oil pro forma with around a third of that production coming from the Gulf of Mexico.

Turning to slide nine and most importantly, this transaction is immediately accretive to shareholders with minimum dilution. The assets are being acquired at a 2018, EV to EBITDAX multiple of 3.4 times compared to Kosmos at a consensus multiple of 6.4 times. On an EV to 2P reserve basis, the assets have been acquired for approximately $15 per barrel while Kosmos' reserves currently trade at approximately $21 per barrel.

2018 estimated cash flow per share is expected to increase by approximately 35% on a pro forma basis. Strong cash flow generation underpinned by growing and balanced production supports capital return to shareholders in the form of dividend.

Turning to slide nine. Kosmos has already managed its balance sheet conservatively with disciplined capital allocation, the critical part of executing our strategy. As many of you are aware, Kosmos has only drilled 11 frontier wells, in its 14-year history, with a 30% commercial success rate, discovering around 1.5 billion barrels of oil gross and around 42 TCF of gas gross. This is in contrast to many of our peers.

With the addition of the DGE assets, our approach to capital allocation will not change. At the end of 2Q, our net debt-to-EBITDAX was around 1.6 times, which increased around 2.2 times, taking account the transaction. As a result of this deal, we expect our combined assets to generate substantial free cash flow, allowing us to begin to rapidly delever, by the end of this year, to around 1.7 times and through 2019 closing at around 1.2 times at year-end 2019, well below where we were before this transaction.

slide 11. We talked a lot about Kosmos' journey to become a full-cycle E&P, a company with a portfolio rich in opportunity, covering short, medium and longer cycle projects. 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 rates of return, well work projects and infill drilling.

In the Gulf of Mexico and Equatorial Guinea, existing infrastructure and strong exploration portfolios offer 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 out of Tortue, with the potential to add others that will underpin study, cash generation for decades to come.

Our portfolio of exploration acreage in the world’s most attractive basins includes Suriname, Sao Tome and Principe and Cote d’Ivoire, provide further potential for longer cycle, world-class upscale discovery. And lastly, through maintaining a solid financial foundation, we are well-positioned for deepwater consolidation, particularly in the Gulf of Mexico.

So, turning to slide 12. This deal is all about sustainable production and free cash flow growth, which underpins shareholder returns. Our strong high-margin production growth, diversified cash flow and disciplined focus on capital allocation enables us to commence a dividend. We intend to pay an annual dividend of $0.17 per share, paid quarterly starting in the first quarter of 2019. The dividend payment is expect to increase over time, in line with Company’s performance.

So, turning to the last slide. In summary, we believe this highly attractive transaction positions Kosmos as a premier, Atlantic Margin, deepwater E&P. The acquisition creates greater scale and provides growth in production and sustainable cash flow. DGE enhances our world-class asset base, by adding high-margin production and short-cycle infrastructure-led exploration to our portfolio of world scale developments and frontier exploration. The acquisition creates a new platform for growth by enhancing our skill set and our balance sheet provides the financial liquidity for future growth opportunities. And finally, we have the financial strength to execute through the cycle, ensuring our ability to fund growth, delever and return capital to shareholders.

Thank you. And I now 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 the line David Round with BMO Capital Markets.

David Round

Good morning, guys. I've got a couple of questions. So, the first one. It looks like a good deal. So, perhaps you could just address some of the pushback guys had around how you are actually able to get the deal done and agreed on these terms. And then, just the second one, probably looking at slide seven here, you put some production growth targets out there. Can I just understand where the majority of the growth is coming from? Is it legacy Kosmos or is it new assets? And follow-on is, how material could the Gulf of Mexico be?

Andy Inglis

Yes, getting the deal done. I think, we were very credible counterparty for First Reserve. And as you see from the announcement, they turned around, $300 million of Kosmos stock as part of the deal. And I think, our ability to put a cash and stock offer on the table, and actually for them to believe in the combination going forward was an important part of this. So, it was a competitive process. But, we were able to position ourselves, I think, as a company that they believed in, and actually the management team believed in. Key part of this transaction is not only assets but there is a great track record of execution within the DGE management team. And they are excited to get back to business. And they've been through a sales process. They've been capital-starved while they've been through that. And therefore the opportunity now to take this up is very similar to where we were with the Hess deal. You could ask the same question on Hess deal. How we were able to forget that at that price? It's been a credible buyer, credible counterparty and actually being something that particularly the DGE example of the management team wants to be part of.

So, I think turning to your second question really around where is production growth is going come in the short term. It's really around the three things we talked about, which is in an asset sense, I talked today about growth I Ghana from the infill drilling, filling the facilities. That program is well underway. And we have the ability I think to go beyond that. And EG we've got a great start to obviously produce at a higher level than we'd anticipated. We're into the well work program in the fourth quarter, the ESPs, that has the opportunity to sustain that base. And then, it's infill drilling in 2019 that will provide growth over that time period, plus we will start the infrastructure led exploration program in '19 to tie back new resource. So, there is growth in Ghana, there is growth in EARNINGS, and then there is growth in the Gulf of Mexico across exactly the dimensions.

There is additional infill wells in the existing assets that will increase production. There is a strong portfolio of prospects to drill and with success tie back.

So, as you sort of look at that 2018 to 2021 time period, it's a balance of growth across those three areas. And therefore how large could the Gulf of Mexico become, I think that is -- I'm not going to give specific guidance around the GoM, but embedded in those numbers where we say, we have the ability, you can do the math, it's 45 gross to '19, the Gulf of Mexico is a piece of that, just as EG and just as Ghana. And actually, we have the ability win because we have a strong set of opportunities. And I think the announcement of dividends should give you confidence that's going to be done in a really disciplined way. So, this is about taking the best of what we have there and ensuring that we allocate capital accordingly. And it's interesting, when you look at DGE's record, their track record is an NPV-10 WTI, full-cycle breakeven of $35. And some of that capital went in hat much higher oil price than where we are today. So, the ability to replicate that model is going to provide some really strong returns in the business, and actually the high margin barrels, lifting costing to $10. So, absolutely consistent with the assets in the Ghana and EG have a lifting of cost around $50. They tried off Brent; obviously, DGE trades off WTI, $10 in cost, same cash margins.

Operator

The next question is from the line of Charles Meade with Johnson Rice. Please proceed with your question.

Charles Meade

I wanted to ask if you could give you us little bit of the narrative from your side about how much this deal was opportunity-driven, or alternatively how much of this was driven by your decision to consciously alter the asset portfolio?

Andy Inglis

Great question actually and very much to lot of challenge. I think that -- fundamentally what's Kosmos is about. We're a deep water player and we're good at deep water and actually we have a track record of exploration success. And we've been good at staying focused. We're into Atlantic Margin and we play the conjugate margins of sort of West Africa and North East, South America. We understand those basins really well. The one basin we weren't, if you like, is the Gulf of Mexico. And when you look at it, world-class basin, over 20 billion barrels I think discovered and another 10 to go, a lot of infrastructure in place, the ability to leverage that sort of shorter cycle exploration opportunity. It was a natural fit for our portfolio. And so, we've been examining for some time, quote, how do we get into the basin. And I think, we just felt it was the right time, which is the second sort of the part of the story. There has been a big industrial shift there. The mid caps have essentially gone now and sort of diverting their investment strategies to shale. The PE companies, as I said in my remarks, some of the funds are getting long-dated. First Reserves with DGE in 2005, 13 years ago. And so, the combination, I think of the ability to access that, shift in the industrial landscape provided us with -- we wanted to go and it provided us with that entry mechanism.

And the third point really is, we believe it's a great time to complete that. As we showed in the deck, the competition levels are lower. We believe we can differentiate ourselves through our exploration expertise. And actually being able to leverage that now in the combination with DGE's expertise and its development capabilities is a strong combination.

So, that's a narrative. But you could say where else could you have looked, we didn't want to play elsewhere in West Africa; Brazil has we come really expensive. And I personally regard the other side of the Gulf of Mexico and Mexico as a tough place to play where there is the same fungibility on assets. So, this is a very much a though through process, Charles. And we're very excited now to turn that thinking into action.

Charles Meade

Got it. That makes sense. Andy, thanks for that. We've certainly seen those dynamics at work. And one quick follow-up, which I think is -- it dovetails well with that question. On the face of it, it seems like these assets are shift from the focus and also the expertise of a lot of your people there in Kosmos, and that this is most of the Gulf of Mexico production is from younger intervals, a lot of sub-salt, versus you guys who really -- a cretaceous focus before. Is that a fair characterization? And to what extent are you really going to rely on the DGE people and expertise going forward to prosecute the Gulf of Mexico assets?

Andy Inglis

Yes. I think fundamentally, the issue is ultimately about the ability to sort of almost change the target, which is -- these are smaller things we're targeting. Some of them are super-salt, Miocene where they've a lot of experience, some of it's sub-salt Miocene, you're correct. But actually, our team has a lot of history of that. They've all played at Gulf of Mexico. And actually after Hess acquired -- Trident has good success in the Gulf of Mexico. So, yes, we have done it.

Our ability is to add the rigor and discipline of our regional knowledge and actually to leverage some of the relationships we have with the majors, we're clearly with BP and with Chevron. So, I think, you're right, initially, we're going to continue to prosecute the DGE strategy where we think there's a lot of meat left on bone in terms of the ability to target more opportunities that can be tied back to existing infrastructure. You clearly can't do that when you are opening up frontier license, absolutely. But that's actually the strength of this combination is you've got both. And the fundamental geologic and geophysical skills are the same. Yes, we will be drawing on DGEs expertise and they're going to be drawing on our expertise. I think, this is one where -- and having seen the interaction pre-deal between the teams one and one absolutely makes three here.

Operator

The next question is from the line of Rafal Gutaj with Bank of America of Merrill Lynch.

Rafal Gutaj

Two questions, please. First one, slide seven where you have the new production guidance. I wondered if you could help me to better understand how much the new DGE assets contribute to that guidance on a standalone basis. And then, just in terms of the incremental CapEx step-up associated with that. I know you've got 50 to $100 million guided in terms of CapEx for the next two years but you mentioned these assets have been stocked as capital. Should we expect that number to be front-end loaded and at the upper end of that range of the results? And then, secondly, and if I toss my mind back to the first quarter results talking about shareholders returns and dividends, I think, Andy, at that point you were suggesting that that would be a focus if the exploration campaign perhaps didn't deliver on your desire. So, I just wondered if the new distribution policy was a way of hitting the brakes on exploration ideas or should we expect that status quo to continue in 2019 and 2020 on exploration at the same rate?

Andy Inglis

Good questions, Rafal. I will go from the back and reverse forward. Look, this is about stepping forward to getting into a more balanced growth platform. And I think I talked at length in the presentation about getting the balance right. I think that we are evolving to a company that has a strong set of well work infill drilling opportunities, very high rates of return, very accretive high-margin production. And we've got opportunities in Ghana that can compete with opportunities in EG -- in EG that can compete with opportunities in the Gulf of Mexico. So, I feel good about that. I feel good about the ability to leverage our exploration skills on infrastructure-led exploration. And Ceiba and Okume, which is very much about that. And I think as we continue to educate the market about the deal, the ability now to explore around that is a fantastic opportunity. Gulf of Mexico is no different today, great sort of opportunities around infrastructure.

And then you've got the development Tortue, world calls field that you want to get up and running 20 years of cash flow. It's a great asset to have at the bottom of the company in terms of its cash flow generation. And then, nothing has changed on exploration. And I really want to emphasize that. We've got world class portfolio. We've spent a lot of time over the last four years getting into the right basins. We are very anxious to drill the first well in Block 42, which we're going to spud middle of August. That will be followed by an incredible acreage position in Sao Tome. We captured the whole play. And we will high grade the opportunities in that to drill the best wells first. And we've got access to CDI with again with BP at both the Sao Tome and CDI. So, yes, I couldn't be happier about the exploration program. We're just going to drill it down when we know we've got the right prospect in each basin. And it is going to be a continuation of rifle shot explorations, as I said in my remarks, 11 frontier opening wells, and that will continue.

So, I think, this is really about getting to the point where you have those balance of opportunities, you can allocate capital well, and you can grow, and that's absolutely part of the message -- and pay a dividend, which I think is what the market wants to see is the discipline around that. But went off to the races on the frontier exploration, with the great portfolio, high quality, and we've got to execute against it. So, there are multiple sources of value upside for the investor in Kosmos. And I think this acquisition just sort of acquisition makes it actually a larger pool.

And then, just to come to your final question is, yes. As you look at the growth -- from around pro forma of 70,000, up to say 90,000, the growth is going to come from three resources. It's going to come from Ghana, it's going to come from Equatorial Guinea and it's going to come from the Gulf of Mexico. So, the capital allocation we feel comfortable with the guidance. But, the maintenance CapEx actually has growth CapEx in it and it won't be front end loaded, it'll will simply just be methodical about. We've got plenty of opportunity now to deliver that outcome. We'll allocate it across the assets to ensure that we are pursuing the best infill opportunities first. So, we're not short of opportunity. We're clear that we can both, grow the Company and pay the dividend.

Rafal Gutaj

Okay, great. Thanks, Andy. So, it's just -- that's 50 to 100 million buys how much production CAGR over the next three years is just I guess kind...

Andy Inglis

That CapEx that ensures that we're holding it flat. So, flat to slightly growing is the way to think about it.

Operator

The next question is from the line of Bob Brackett with Alliance Bernstein. Please proceed with your question.

Bob Brackett

I have a question on the use of hedges. If your goal post of deal is to delever, is there a desire to use hedges to lock in cash flow to sort of avoid any risk from the commodity prices cycle?

Andy Inglis

Yes. Thanks, Bob. I will ask -- Tom is with me. Tom can pick that up.

Tom Chambers

Yes, Bob. We will continue to -- right now in 2019, there is -- about 20% of the production is currently hedged. We will take that up to more of our typical around two-thirds and use our typical three-way color type strategy to lock in some of that price as well as the cash flow. So, it is very consistent with the way we've done our own production.

Andy Inglis

Essentially, Bob, same philosophies we've used in the past, no change.

Bob Brackett

And then, if I think on the strategy, what I hear from you is you saw an opportunity with a long dated PE fund that wanted to exit. You took advantage of that. And you look for similar opportunities as well. In terms of what inbound, are things outside the Atlantic Margin or even things outside deepwater, are they in play if there was a distressed seller? Let's say the North Sea for example.

Andy Inglis

No, they are not inbound. We are very clearly what we are good at. We're good at the Atlantic Margin, we're good at the geology of the Atlantic

Margin, that super-salt, sub-salt in that, that younger Miocene [ph] cretaceous, but actually that's kind what we do. And we got a deep water development expertise, production expertise around that. So, that's what we do. And I think, we've demonstrated that we're sticking to that. And this is a very complementary set of assets, both in the financial attributes of it, but also fundamentally in the nature and scale of the opportunity set.

Bob Brackett

And in terms of the near-term, I should probably think about deleveraging being a primary use of cash flow, as opposed to the next deal. As you go further out, how would you prioritize capital around doing deals, or sustaining that dividend or reducing debt on the balance sheet?

Andy Inglis

Well, again, I would say the first thing is the dividend. As we think -- before we do any capital allocation, the first thing is the dividend. The same thing is to bring the leverage sort of obviously down within a sensible operating level and we sort of -- below 2 is a good number. And then, I think, we will then allocate capital efficiently across the business, in terms of the organic opportunity. And then it's about the right strategic opportunities. We have to find things that we can truly add value to. We believe there are some assets in the Gulf of Mexico we can add value too, but it's going to be driven by strategy, not necessary by opportunity.

Operator

The next question is from the line of Richard Tullis, with Capital One Securities. Please go ahead, with your question.

Richard Tullis

Thanks. Good morning, Andy. Congratulations on the transaction. Pleased to see Kosmos into the Gulf. Going to the deep Gulf assets, what's the rough yearly base production decline currently?

Andy Inglis

Actually -- it's a good question, Richard. It's actually -- and I want to avoid the question, but it's actually hard to give a good question, because they are actually sort of adding wells as we speak. So, what you've got is, you're building well stock and then you've got decline of existing assets. So, they don't have significant decline in their current wells today. But, as you start to think about the exploitation program we have coming up with infill wells, there is sort of maintenance CapEx we've got of 50 to a 100 will certainly maintain capital -- maintain production that level, maybe slightly increase it.

Richard Tullis

Good. And maybe a question for Tom there. What's the average royalty on these properties in the Gulf of Mexico?

Tom Chambers

That's a good question, Richard. I believe it's around 18%, on average. There is some I think that are little less, there is some maybe just slightly higher. We haven't got -- haven't done total hours [ph] but that's probably a good number.

Richard Tullis

Okay. And then, just lastly, I know a lot of questions have been asked already that ahead of my list. But, as far as the P&A liability goes, it looks like a fairly low number, relatively speaking. How is that kind of sketched out over the next several years? How much we have to address near term and how much could be more looked at is long term?

Andy Inglis

It's longer term, Richard. So, to give you a sense of it, I think, 75% is 20, 21 plus. So, this is a longer term, and actually as we start to sort of add additional wells in some of the properties, that will move back even further.

Richard Tullis

Okay. Just circling back to the acquisition landscape, in the Gulf of Mexico, I noticed it's been asked in certain ways already. But, how aggressive can we look for Kosmos to be on potential acquisitions in the Gulf over the next one to two years?

Andy Inglis

Look, we've built great platform, it's got organic growth opportunities. We need to look for things where we can find the right combination of what I recall hit strategic, it's something that we are doing that's adding value to those assets. And we can actually put together a deal where there is a willing seller and a willing buyer, i.e. we're doing it at accretive metrics. And we've demonstrated, I think the financial fondness of what we've done. But we need to be ensure that we're working within that frame. And again, I'm going t come back to capital discipline. The dividend is a big signal but we're going to be absolutely at edge about growing cash flow but at the same time the first protocol is returning to shareholders. I think within that frame, there is opportunity for us to do both, the organic growth profile we've laid out and inorganic opportunities. But, we've got to demonstrate to you as investors they may have found financial strength and they are additive to the strategic position that we've built in the ground. So, I think the great news for me is a point that I see the competition being low at the moment actually because the mid-caps who were really kind of a big player in this world is kind of retreating. And the smaller players if you like PE ph] backed sort of not investing a lot of them in it. So, we have that dynamic where I think, do we take advantage of that competitive landscape through conventional access, lease sales et cetera or do we do it by acquisition, it could be either.

Operator

Next question is from the line of Mark Wilson with Jefferies.

Mark Wilson

A lot of talk here about future deals, but I would like ask about the DGE assets. It looks like, it's been across five main assets. Which ones drove the production growth in 2016-2017? Are there any 2C resources to speak of, and which of the prospects you show are worth discussing?

Andy Inglis

Across the five main assets, we've actually seen growth across all of them. There have been wells added in '16 and '17. So, there is a solid I'd well-distributed production across those assets as we show on page three. In terms of the 2C, yes, there is. I think that there is additional resource. I think, it's early days for us yet to properly describe that to you. I think it's something that we need to come back to you. We need to sort of agree the capital allocation and then what's the right way to actually access that. But, we believe there is growth within the current production base from additional infill wells. And that's I think an important statement. So, there are two sources of growth, that infill drilling and the access to shorter cycle exploration.

In terms of prospects, it's a -- we've got a good set of prospects today where we are drilling one of those prospects now actually. And then the drilling program for 2019 clearly not been finalized; it isn't done that way in the Gulf of Mexico. You work partnerships, you high grade the prospects, but I feel confident that we got a good portfolio to be able to continue DGE's track record. So, we will come back with the individual prospects. We haven't identified and agreed the 2019 program yet.

Operator

The next question is from the line of Pavel Molchanov with Raymond James. Please proceed with your question.

Pavel Molchanov

You've been asked about M&A in the Gulf. I guess I would follow up on that by saying you've also alluded to lack of interest in -- or industry-wide lack of interesting in lease sales. Does that imply that you're going to be using the new Gulf assets as a foundation to pick up additional acreage in lease sales?

Andy Inglis

Yes, absolutely, Pavel. And I think that's very important dynamic. I know you're familiar with the fact, 10-year leases. As we showed on slide six, there was a huge amount of leases taken out in the '08, '09, '010 period, which obviously start to become available in the next three years. The combination of that with a lack of capital to go in, there are prospects that are not getting drilling today, even they are close to infrastructure, because of that dynamic of time and capital. So, A, that in itself is an opportunity, which is the farm-in. And then of course some of those won't get drilled and they will simply become available for re-leasing. And there is sort of really -- I believe there is a really strong set of prospects that will come forward from that. So, I'd like, -- it's back to timing, is this the right time to have done this deal. It's the right time from I believe the lack of competition there today and the dynamic of quality acreage becoming available because of that shift in the 10-year cycle. So, those are the things that we've considered hard.

And as we were asked the question really at the beginning by Charles, we thought about it long and hard about which basin and when, and how do we build the scale of the Company by adding access to a quality basin. And I briefly when through our high grade in the Gulf of Mexico. And then actually one of the strong drivers of that is -- and I think now is the time to do the Gulf of Mexico. Now is not the time for us to try and do Brazil, which is price down. We can't possibly compete there with the crazy deals. We could do very good land deals in Gulf of Mexico today that I think is significantly better than other basins that are out there.

Pavel Molchanov

And in that context as you are well aware, the Interior Department is looking to open acreage along the U.S. East Coast, West Coast and offshore Alaska that has not been opened before. Would that be kind of consistent with your historical exploration appetite, or would you not have interest in that?

Andy Inglis

It’s very early days to talk about. And I think that -- I sort of want to bring the conversation back to what DGEs has been really good at. It’s been -- and what complements our portfolio? It is the infrastructure-led exploration, it’s doing with high success rates, it’s doing it with the ability to deliver NPV-10 breakevens at $35 a barrel WTI. There is more of that to do. So, I think that is going to be our primary focus.

If new frontier plays would mature, emerge, they we would have compete very strongly with what we have today, which I still firmly believe is a world class frontier basin. So, I think, this is about capital discipline and it’s about continuing to leverage what is a great position in the Gulf, and we’re going to be very, very focused on the allocation of capital to that in a discipline way.

Operator

Our next question comes from the line of Bob Morris with Citi. Please proceed with your question.

Bob Morris

Thank you. Good morning, Andy and team. I just want to get a little bit further thoughts here on your need or your desire to pay a dividend. And I appreciate you said you think that’s what the market needs or wants. But, you’re an exploration company, and I think there is a large segment of investors that own you for that very strong track record of exploration, and the upside optionality and the prospects that you have ahead of yourself. And there is an argument to be made that why not preserve that capital for development of future exploration success or for consolidation, if you can do more deals on the attractive terms that you announced today with DGE?

And so, I am just trying to understand a little bit -- there’s different ways to express capital discipline, but why you feel the strong desire or need to pay a dividend, given the nature of your Company and the strong -- the unique nature being very successful and strong exploration company.

Andy Inglis

Yes. I think, Bob, it’s about the evolution of the Company. We are growing from purely having one source of value growth for shareholders which was drilling out the next frontier play, to one where we’ve got I think the real balance between sources of growth, as I described from the upside in Ghana, EG and now Gulf of Mexico from high quality infill well work, the shorter cycle, the great development opportunities that we have in Tortue, and then frontier exploration. So, I think we have built a company now that has greater scale, that has the ability to sustain cash flow growth across those opportunities. And as part of that, I believe it is a great signal to the market to demonstrate that actually a cash return from that cash flow growth is important. And it will set a dynamic within the Company where we will allocate capital with great discipline as a result. So, I think this is sort of a double whammy. It benefits shareholders, because they are getting a return; it benefits us to demonstrate that we can grow the Company, we can do it in a disciplined way, and we can do it sustainably for the long-term. And I think we have built the portfolio to do that.

I think, the reverse question would come, actually Bob in parallel. If we'd done the deal and not announced the dividend, every single one of you would have asked the question about when you are going to pay a dividend. So, I actually genuinely believe that this is the right time. And as we've talked about that evolution, we are at that point of time where this is something that I think is a very sound thing to do strategically.

Bob Morris

I appreciate that. And I have no doubt in your ability to be disciplined. In that regard, is there a yield level that you are targeting in the dividend that you expect to pay?

Andy Inglis

No, we haven't. And I think what we've said and I think it's important, it's tied up, obviously at $0.17 per share and able to grow in line with Company performance. So, we are not going to forecast any yield predictions.

Operator

The next question is from the line of Al Stanton with RBC.

Al Stanton

Yes. I've got two questions, if I may. The first one is just development capabilities. I mean, you brought Trident in to do the Equatorial Guinea acquisition and development. What additional development capacity does this deal now give you?

Andy Inglis

Yes. I think Trident was -- good question, Al. I think we've been very careful about sort of how you build the capability that we don't have. So, as you know, in the frontier basin's open play, we lead as operator in the exploration phase, bringing supermajor at a beginning and then leverage their skills as it were for doing multibillion projects, example being Tortue works really well. EG was actually about the ability to enhance production and Trident and Perenco [ph] team super job on some of the ESP world, the world work world, and actually we're going to be the guys that are going to be sort of the leading the exploration side of it which is the exploration side of it, which is the ILX side of it and then, the infill drilling side of it.

In the Gulf of Mexico what we have in DGE is that combination of exploration, which I think we will through our expertise and solid system's knowledge, we've got a lot of knowledge, our team around the Gulf of Mexico, so one on one will equal three. What we don't have today is the development capabilities to do the tie backs. So, it's a very specific skill. And DGE has executed really well on that. So, that's the development capability that we've added to the Company that we didn't have before. And actually we can take that capability and with the success exploration, ILX exploration, in Equatorial Guinea, we can leverage those skills in EG. So, there is a lot more synergy in the skill sets than you might imagine.

Al Stanton

And the second question is on exploration. I think this is a good deal. I think having more reserve structure, cash flow, debt capacity all that sort of thing is a good thing. But, I do feel fact here today that you are talking down to wildcat exploration, the fact that you are now a company doing 70,000 barrels a day and you are doing no more drilling than you were when you were at 25,000 barrels a company, I think some of the other people have asked that question slightly more polite way. But, I do get this feeling that you are deemphasizing some of your wildcat exploration. Would you try and talk me out for that?

Andy Inglis

Yes. I would, Al, because -- and I think you've asked -- you always ask great questions. Look, I think the question is well said. Let's just sort of go back to something that you and I fundamentally agree on, which is it's about rifle shot, right, it's about drilling the very best, high-grading the portfolio. And we I think from day one in Kosmos, we differentiated ourselves in that. And none of that is going to change. And we believe we will continue to create world class opportunities in frontier basins that will command capital. None of that has changed. And just in my mind for the shareholders, they're getting all of that. They're getting a dividend and they are getting growth and the cash flow. If we were successful with one of those frontier wells, we got to scale to pursue it. And that's been the problem, if you look, with I call emerging companies that have gone from exploration into the development world. And great one an example that's no longer with us, is you build the resources but if you don't have the cash flow, you can't then continue with the development phase. And we were very good in getting the right support for the development of Tortue from the BP farm-in. But, I think I'm much more positive out about our ability to execute a front tier program, because we're building scale and quality of cash flow and that's absolutely part of the story. So, it's not deemphasized, it's rifle shot and with success, you got a bigger asset base, stronger cash flow to be able to pursue development. To me it's absolutely synergistic of that.

Operator

Our final question is coming from the line of John Herrlin with Societe Generale.

John Herrlin

Just a quick one for me. Was this a data room situation? How this deal evolved or maybe sort of I missed it?

Andy Inglis

Yes. That was explained John here. But yes, there was a competitive process, data rooms, and technical exchanges. Yes. So, it's been a quite a long journey, a lot of technical work's been done.

Operator

I will turn the floor back to management for closing remarks.

Jamie Buckland

Thanks, operator. We appreciate all of you joining us on the call today and your interest in Kosmos. If you have any further questions, please don't hesitate to contact me. Thanks very much.