Operator

Greetings and welcome to the Kosmos Energy First Quarter 2020 Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to Jamie Buckland, VP of Investor Relations. Thank you. Please begin.

Jamie Buckland

Thank you operator and thanks to everyone for joining us today. This morning, we issued our first quarter earnings release. This release and the slide presentation to accompany today's call are available on the Investors page of our website. Joining me on call today to go through that material are Andy Inglis, Chairman and CEO; and Neal Shah, CFO.

During today's presentation, we will make forward-looking statements that refer to our estimates, plans, and expectations. Actual results and outcomes could differ materially due to factors we noted in this presentation and in our U.K. and SEC filings. Please refer to our annual report stock, exchange announcements, and SEC filings for more details. These documents are available on our website.

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

Andy Inglis

Thanks Jamie and good morning and afternoon to everyone. As Jamie said, I'm joined on today's call by Neal, who officially steps into the role of CFO today. Given Neal's deep experience in Treasury, I could not have a better person by my side. I'd also like to thank Tom for his longstanding contribution to Kosmos as CFO.

I'll start today's presentation with the highlights for the quarter and cover some of the key items which impacted the numbers in 1Q. Then I'll discuss our response to COVID-19, the steps we've taken to protect the business in 2020, our differentiated portfolio, and end on the work we're doing to position the business for the future.

Turning to slide two, entitlement production of 66,300 barrels of oil a day equivalent in the first quarter was at the upper end of our expected range, driven by strong production in Ghana and the Gulf of Mexico.

Sales volumes were 43,700 barrels of oil a day equivalent impacted by cargo timing which resulted in Kosmos being in a material underlift position of 1.7 million barrels oil equivalent at the end of the quarter.

Overall, costs in the quarter were largely in line or below our original guidance. In response to the market volatility, we are lowering our total 2020 costs by around 30% or $250 million. However, those savings do not flow through into our 1Q results. OpEx, DD&A, and G&A were in line with our original guidance for the quarter and all three are expected to reduce over the year as our cost-cutting initiatives take effect.

Exploration expense was slightly below expectations and is expected to significantly decrease as we pause our 2020 exploration activity. We've lowered our base business CapEx program by 40% this year but most of that is backend loaded as we are -- as we reduce our ongoing activity set. There were several exceptional items which skewed the first quarter numbers which I wanted to give some color on.

We took a noncash impairment charge as a result of current oil prices which largely relates to two fields in the Gulf of Mexico. And we also had a restructuring charge in 1Q as a result of the 25% reduction in headcount in March. Together these charges total approximately $170 million. Partly offsetting that negative adjustment was a positive market-to-market gain on our hedges during the quarter.

We also had a $72 million non-cash deferred tax expense related to valuation allowances against our U.S. deferred tax assets and the market-to-market gains on our hedging portfolio.

So, in summary, a strong quarter operationally ending with a material underlift position and incorporating several exceptional non-cash items.

Turning to slide three, I now want to focus on the coronavirus pandemic and the decisive actions the company is taking in response. COVID-19 has created unprecedented disruption across the world which has resulted in historically low and volatile prices.

During this challenging period, the health and safety of our employees and contractors continues to be our primary concern, while ensuring the strength of our balance sheet is maintained. To-date none of our employees or production facilities have been directly affected and we continue to monitor the situation on a daily basis.

Despite the mitigation measures that have been imposed in large parts of the world, our employees remain committed to running the business safely and efficiently with the utmost professionalism in anticipation of the recovery ahead.

I'll talk in more detail about individual assets on the following slide, but our overall portfolio remains advantaged, characterized by conventional low-cost low-decline assets that are well-suited to withstand the current lower price environment. As a result 2020 production guidance remains within our previous guidance range.

Early in the year when faced with changing market conditions, we took decisive action to maintain the balance sheet and protect cash flow through cutting costs by around 30%, $250 million in total and by restructuring our hedging program.

During the quarter in accordance with our normal banking requirements and against a challenging backdrop, we successfully completed the redetermination of the reserve-based lending facility. We have no near-term debt maturities with the first RBL amortization payment not until the first half of 2022. With the liquidity available from our RBL, revolving credit facility and cash on hand, we are well positioned to withstand the current market volatility.

Lastly, we continue to position Kosmos for the future. It remains our intention to deliver self-funded gas business in Mauritania and Senegal and we continue to make progress towards that goal. We also have a portfolio of high-quality prospects that we are preparing for 2021 both low cost, low breakeven, infrastructure-led prospects as well as high-quality basin-opening targets that we anticipate will be largely carried.

Turning to Slide 4. Our assets have performed well so far this year as we continue to focus on safe and reliable operations. First quarter entitlement production was slightly ahead of forecast. For the full year we still expect production to be within our previous guidance range, despite the impacts of COVID-19 lower prices and a significant reduction in capital expenditure.

Prior guidance of 14.5 net cargoes in Ghana and Equatorial Guinea remains unchanged, although due to the timing of liftings we only had sales of 1.5 cargoes in 1Q. As discussed on the opening slide this impacted first quarter revenue and profit and resulted in a 1Q underlift of 1.7 million barrels.

In Ghana, the Jubilee and TEN fields are currently unaffected by COVID-19 and we have been encouraged by the operator's swift actions to protect our crew and facilities. These include amended crew scheduling, strict quarantine measures and testing for all workers going offshore.

Production at Jubilee and TEN was slightly ahead of expectations in the quarter with net production of around 26,000 barrels per day which includes the impact of the planned downtime at Jubilee for the gas handling upgrade. Following the successful completion of this work in February, we've seen consistent production over 90,000 barrels per day.

The operator has also recently successfully increased water injection capacity from two pumps to around 180,000 barrels per day which provides the necessary pressure support for the reservoir, while providing some redundancy with a third pump as needed.

In addition we've seen a consistent gas offtake in the range of 90 million to 100 million standard cubic feet per day at Jubilee which should help maintain higher oil production in the future.

On TEN, the field is currently producing over 50,000 barrels per day slightly ahead of the operator's guidance. The Ntomme-09 well has been drilled successfully and completion operations are now underway with the well scheduled to come online later this quarter. Full year net production for Ghana remains in the range of 27,000 to 29,000 barrels per day which equates to prior guidance of 10 cargoes for the year.

In Equatorial Guinea, first quarter production was around 12,000 barrels per day which was in line with our expectations. Operations at Ceiba and Okume are currently unaffected by COVID-19 and the operator has put in place strict operating procedures in line with those mentioned in Ghana.

That said, we are aware of the situation of the Exxon facility in Equatorial Guinea and the Ceiba/Okume operator has responded accordingly. There was a minor mechanical offloading issue late in the first quarter that affected one of the cargoes which was supposed to be loaded in late March. The issue was resolved within 48 hours and the lifting was completed in early April which resulted in 0.5 cargo moving from the first quarter to the second quarter.

Our full year production for EG remains unchanged at 11,000 to 13,000 barrels per day which equates to prior guidance of 4.5 cargoes for the year. In the Gulf of Mexico production in the first quarter was 28,000 barrels of oil equivalent per day at the top end of our guidance. We have seen no COVID-19 cases so far on the production facilities for our fields.

As you're all aware so far this year, we've seen an elevated level of price volatility which is causing a number of GoM producers to evaluate shutting in fields. Given our advantaged assets and low-cost model around 75% of our Gulf of Mexico production has a positive operating margin at $10 per barrel HLS.

Due to the expectation of lower realized prices in May, the operator of the Delta House host platform which processes about half of our GoM production has decided to shut in their operated wells and accelerate planned maintenance. This includes Kosmos' interest in Marmalard and Nearly headless Nick.

It also caused us to shut in the Odd Job field even though this field remains profitable at $10 per barrel HLS. We expect the Delta House shut-in to last the month of May. However, the timing will depend on future market conditions. As a result of the May shut-ins, we expect 2Q net production in the Gulf of Mexico to be around 7,000 barrels of oil equivalent per day lower.

Fortunately, our Gulf of Mexico production is well set up for shut-ins and restart activity given the natural aquifer drive. Shutting in production pressurizes the reservoir. When the wells are opened up, it's common to see flush production as is often the case after hurricane shut-ins.

Elsewhere in the GoM drilling the Tornado waterflood well continues with the completion expected late in the year. Assuming the second quarter shut-ins last through May full year production guidance for Gulf of Mexico is now expected to be the bottom end of our 24,000 to 28,000 barrels of oil equivalent per day guidance range.

Turning to slide 5. I've talked about the importance of having a portfolio that is able to withstand volatile commodity prices. On this side, I'd like to focus on the specific characteristics that make the Kosmos portfolio resilient in a lower price environment.

First, conventional deepwater assets typically have low decline rates and low maintenance CapEx to keep production planned. Over the last seven years, Kosmos has had over 100% reserve replacement ratio across the portfolio demonstrating the quality of the underlying reservoirs. 2020 production is expected to be broadly in line with 2019 with minimal decline in 2021 all with relatively modest maintenance CapEx.

Second the assets have low costs and therefore low breakevens. The top right chart on this slide from RSEG shows the half cycle breakeven costs for the most well-known shale basins versus the deepwater Gulf of Mexico and the Kosmos portfolio. The average half cycle breakeven for the shale basins is around $48 WTI compared to $25 for the deepwater GoM.

Modeling Kosmos' infill wells in Ghana EG and the GoM using the same methodology we get a comparative half cycle breakeven of less than $25 per barrel WTI. The low Kosmos breakevens are largely due to well productivity existing infrastructure and low incremental development costs.

Third with a diverse production base, we have exposure to advantaged pricing with our Ghana and EG production priced off Brent and our GoM barrels priced off HLS. The structural advantage of Brent, which has traded at an average premium of $6 per barrel to WTI over the last three years, is its access to global markets.

In the GoM HLS has traded at a $4 per barrel premium to WTI on average over the last three years, due to proximity to Gulf Coast refineries and not having the same infrastructure constraints as many onshore U.S. producers. There has been increased volatility in pricing here in 2Q. But on average HLS continues to trade at a healthy premium to WTI. We believe that these structural pricing advantages are unlikely to change in the foreseeable future.

And finally, while ESG is temporarily overshadowed by the oil price we still believe it is a fundamental importance for companies to have a portfolio, which is both low cost and low carbon. We talked about this at our 4Q results in February and believe those companies that are best suited for the energy transition will outperform over time.

Moving now to slide 6, the balance sheet. Shortly after the COVID-19 pandemic was announced Kosmos took decisive actions to protect the business. The financial actions can be split into two categories lowering our cash flow breakeven and maintaining liquidity. This slide focuses on cash flow. We took quick steps to reduce costs and ultimately protect the company's cash flow for the year.

As you can see from the chart on the right, we have reduced costs that is base business CapEx, OpEx and G&A by over 30% for the year or approximately $250 million. We also took the difficult decision to suspend the dividend a total cash saving around $57 million in 2020. Combined these changes have reduced our cash breakeven to the low 30s including our hedges – excluding our hedges and working capital. We believe it is a sustainable cost structure to cover all of our cash costs and maintain production. We do expect 2Q cash to be relatively weaker given the dramatic slowdown in activity across our portfolio and the resulting reduction in working capital.

We've also restructured our hedging portfolio to remove around 80% of price exposure across our three production hubs for the remainder of the year that is May to December. Given our current hedges were fully valued we converted them into fixed price swaps, which provided downside protection for the majority of our production all the way down to zero. At $25 Brent and $20 WTI, 2Q forward our hedges would generate over $200 million of proceeds this year, a $5 move in Brent results in only a $15 million change to free cash flow.

Turning to slide 7, which focuses on liquidity. As we announced in early April as part of our normal banking requirements, we successfully completed the redetermination of the reserve-based lending facility and have a borrowing capacity of around $1.5 billion with $100 million currently undrawn. We have no near-term maturities and the first RBL amortization payment is not until March 2022. Our total liquidity at the beginning of the quarter was around $580 million post the RBL redetermination.

Turning to slide 8, which gives an update on Mauritania and Senegal. Phase 1 of the Tortue project is now around one-third complete. As previously communicated, the LNG offtake SPA was signed in the first quarter, allowing Kosmos to book around 100 million barrels of 1P reserves.

Due to COVID-19, operations in Mauritania and Senegal have been impacted by mitigation measures including border closures travel bans and social distancing restrictions. As a result, the concrete breakwater installation will now miss the 2020 summer weather window with the work expected to take place during the same period in 2021. The Phase 1 project time line is, therefore, being delayed by approximately 12 months with first gas now expected in the first half of 2023. This delay has resulted in a significant reduction in activity and budgeted spend in 2020. The BP development carry is now expected to last through 2020 with remaining CapEx spread over 2021, 2022 and 2023.

On the sell down, our objective remains to deliver self-funded gas business in Mauritania and Senegal and we've been able to make progress with several interested parties despite the challenging working conditions we find ourselves in. The process remains ongoing and we're currently progressing remote management presentations supported by virtual data rooms.

Turning to slide 9, the future. It's important during these challenging times not to lose sight of the future. When global energy demand returns to more normalized levels, Kosmos will be ready. We have a deep hopper of high-quality opportunities spread across our ILX and basin-opening portfolios and we continue to progress these through 2020 to be ready to drill in 2021.

For our ILX portfolio, we maintain the option to drill two to three wells from the prospects listed on the slide. As a reminder, these wells have low-cost and attractive economics and we can be quick to react when market conditions improve. Our basin opening portfolio we have several attractive opportunities across some of the most prolific basins in the world.

As we prepare to drill these opportunities in 2021, we're working to finalize this year the partnerships and working interests to allow us to drill these opportunities on a carried basis. We have completed that process in São Tomé with Shell and plan to advance Suriname and Namibia this summer.

That concludes today's presentation. So to summarize, we've taken quick decisive actions to protect our people and our assets. We remain focused on cash flow and liquidity and are taking the necessary steps to maintain our balance sheet in anticipation oil price may continue to be volatile. And finally, we continue to progress the business to be ready when the sector does start to recover.

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

Question-and-Answer Session

Operator

Thank you. At this time, we will be conducting a question-and-answer session. [Operator Instructions] Our first questions come from the line of David Round of BMO Capital Markets. Please proceed with your questions.

David Round

Hi, Andy. Thanks for the presentation. The useful chart on decline rates and maintenance CapEx. So could you just elaborate as to the type of activity this would envisage for Ghana in 2021? And given the lower CapEx world we're now living in, how are you thinking about the medium-term production profile from both Jubilee and TEN in Ghana?

And second one just -- it's just a quick admin one actually. There was a stock exchange listing requirement announced a few weeks back. Are you still considering steps to move away from the $1 cutoff? Or are you comfortable with where you stand at the moment?

Andy Inglis

All right. Thanks David. Let me -- I'll talk about the portfolio first and then just come back to the admin question. Yes. I think, the chart on slide 5, I think demonstrates, I think an important characteristic of our portfolio. Jubilee TEN world-class reservoirs. As I said in my remarks, seven years 100% reserve replacement. We actually have significant well stock in Jubilee. And the operators made a lot of progress in the first quarter to optimize the production delivery from that well stock. And as you heard me describe in the past, it's all about ensuring that we're getting the right water injection. And an important step in the first quarter was to enable us to get 180,000 barrels of water a day away from just two pumps. We now have a third pump on standby which means that we have greater reliability.

And then, we're now working very closely with the Ghana government to ensure that we're getting the gas offtake. And again, as I said in my remarks, we're getting 90 million to 100 million standard cubic feet a day away, which again is helping the performance. So ultimately, they require a limited number of additional wells. And in 2021, we would envisage a continuing well program in Ghana. There could be an additional producer or an injector in Jubilee.

But actually, I think the greatest benefit we'll see will be from the optimization of the reservoir from an injection and gas offtake. And then, we will see continued drilling on Enyenra. We've got the Ntomme-09 well to complete. And again, Ntomme has produced actually very well through the first quarter, well ahead of the operator's initial guidance. And we would expect with Ntomme-09 coming on to see some additional improvement.

So, I think, it is a real characteristic of conventional assets that they require less maintenance CapEx. And ultimately, you're seeing that from the Kosmos portfolio whereby we're -- in 2020, we're going to be cash flow breakeven in the low 30s. And actually, we can sustain that sub-$35 into 2021. So, these aren't just one-off interventions that cause damage. They're actually sustainable interventions because of the nature of the reservoirs. So, I think that sort of covers your question around the portfolio.

Just on terms of admin, clearly, we're ahead of the $1 requirement over the last sort of 30 days, I think which ends at the end of May. So -- and then we'll take a decision. I think it is an administrative point, whether or not we do a reverse split, but clearly the stock price is making progress and we're ahead of the $1 criteria as we stand at the moment and we would continue that progress through May.

David Round

Okay. Thanks, Andy. That’s clear.

Andy Inglis

All right. Thanks

Operator

Our next questions come from the line of Richard Tullis of Capital One Securities. Please proceed with your questions.

Richard Tullis

Hey good morning Neal and Andy. Could you speak on current drilling cost trends with this downturn, Andy? Do you see costs to drill the deepwater exploration wells next year say in Suriname, could you compare that to say what it would cost in say the second half of 2019?

Andy Inglis

Yes. Great question Richard. I think, we are -- we clearly are seeing an industry today where they're probably as we look to 2021, there will be high availability of rigs. And I suspect, there will be the opportunity to probably do better than your benchmark at the second half of 2019. Just need to remember that 2019 wasn't all that high. So, now there comes a point when you're getting very close to the -- ultimately the sort of cash breakeven for the drilling contractors.

So, I think we'll see -- I'm sure there is a potential for some cost savings sort of year-on-year. But I'm not sure that it's going to be dramatic. Ultimately, the saving that we can make is by having the right well design and drilling efficiently. So, I think there will be some benefit Richard, but we know there comes a point where the industry cannot lower its cost base simply from the supply chain. It actually has to create lower cost either by advantaged assets and by more efficient development processes.

Richard Tullis

Thank you for that. And just as a follow-up, a bit on the housekeeping side. Were there any shut-ins in the Gulf of Mexico in April? And what the oil mix or the oil component of the 7,000 a day for the second quarter? What would that oil component be? And that's all for me. Thank you.

Andy Inglis

Yes. No, Richard. Yes, just as a housekeeping there were no shut-ins in April. And the oil mix is about 80%.

Richard Tullis

Okay. Thank you.

Andy Inglis

Thanks.

Operator

Our next questions come from the line of Neil Mehta of Goldman Sachs. Please proceed with your questions.

Neil Mehta

Thank you guys for the time this morning. The first question is around Tortue. Recognizing it must be very difficult to execute any process in the coronavirus world, but just any thoughts on your ability to ultimately monetize the asset, thoughts around time line and then the value of the resource?

Andy Inglis

Yes. No, interesting, Neil. We've continued to make really good progress. I think, in general, I've been surprised at how well the company has functioned with remote working and actually how well the connections have been with our partners. We have sort of consistent VC platforms now. And so, we're enabling to continue with virtual management presentations and virtual data rooms.

So, actually, the point that I made I think at our 1Q -- at our 4Q commentary was, we've obviously updated the virtual data room with all the new data on Orca, the appraisal on Tortue and the Yakaar-Teranga. And so, we now have a fully populated data room and we have the ability to continue to work with potential farminees.

All that said, is it more difficult? Is the business environment more difficult? Yes, it is. But the point I'd make about Tortue is that, it is a distinctive greenfield project in a world where companies are thinking long term. It has a breakeven FOB price of less than $5. Why? Because it has a very low cost of gas supply, very productive, wells over 200 million standard cubic feet a day and an innovative low-cost midstream solution.

So it is low cost gas and I think that's absolutely critical for us to gain interest. And it has to be coming on in a world where people perceive the demand is there. And with a start-up for the first phase in 2023 and then FID of Phases 2 and 3, not until sort of post 2023 with gas coming on in the back end of the decade I think it's perfectly timed.

So from a strategic perspective, I think, it remains relevant. And ultimately in terms of price expectations, our view is to ensure that we've got a self-funded business. And -- so that we protect the balance sheet and we can adjust the equity that we sell then to achieve that outcome. So, I think, with those variables in play, I think, we continue to make good progress.

Neil Mehta

Thank you. And the follow-up, I appreciate the slide six and seven. That's very helpful around maintaining the balance sheet. But Andy and Neal, just if you could flesh it out in more detail the way the equity has been trading and even the way that credit has traded until recently, would suggest that there's distress in the business.

Obviously, what you're describing today is a scenario where you can make your way through the down cycle to participate in the upside. So from where you guys sit, as the leadership of the firm, can you talk about what gives you confidence about your ability to navigate the down cycle with some more detail?

Andy Inglis

Yes. I'll make a couple of comments and pass it over to Neal. I think -- as you said, I think, slide six and seven are important. Yes? The first point, we entered the down cycle with significant liquidity $580 million. And I think a point that I'd like to add actually is that, we don't have any debt on our Gulf of Mexico assets. So that if required if necessary, we have an additional source of liquidity there. So liquidity is strong.

And the second characteristic is the low price for the cash flow breakeven. So sort of 2Q forward and actually into 2021, cash flow breakeven is in the low 30s. And that's without the hedges, without working capital. So it's a very conservative view of the world. And I think, that's the point that I wanted to communicate with those two slides is ultimately and the strength of the cash flow breakeven. And we're ultimately in a world where we're close to that world today. And ahead of this, we took steps to restructure the hedges which gives us in the event that the world turns against us we have protection on Brent from $43 down, HLS from $30 down. So those are the bits that actually make up the picture and that's the story that we're trying to tell on pages 6 and 7.

Neal Shah

Yes. I think -- the only thing I would add Neil is, we have good visibility on the production given our asset base. As Andy mentioned, we're well hedged for the remainder of this year with fixed protection all the way down. So we know what's coming into the business. We've taken the steps to reduce the cost, which will get us to a very low-cost basis in the last half of the year.

And then we have plenty of liquidity through the RBL and the RCF. And then obviously the access to our unlevered sources in terms of the GoM and Mauritania, Senegal as well as the asset sales that we're working through.

So I think -- so if you put that sort of picture together, we feel good about sort of the cash flow generation of the business. And ultimately, the levers we can pull around the liquidity side if we choose to. So -- we do have a lot of flexibility and that gives us ultimate comfort around pushing the business forward. Thanks, Neal.

Neil Mehta

Great. Thanks, Neal.

Operator

Our next questions come from the line of Pavel Molchanov of Raymond James. Please proceed with your question.

Pavel Molchanov

Thanks for taking the question. Back in February, happier times, I suppose you made the point that as part of the ESG strategy, you will not be doing oil-focused exploration going forward if I remember correctly. And I think for 2021 you have plans to explore in Namibia, São Tomé and Suriname all of which are oil basins. How should we kind of reconcile those two?

Andy Inglis

Yes. What I said Pavel was that we weren't going to access new frontier positions yes? And I did say actually in February that we were going to drill out our existing advantaged portfolios.

Why? The issue with taking on a new frontier basin today is the cycle time to get it to be drill ready. So you start accessing a new portfolio position at the beginning of this decade. You then have the time to conclude a deal. You then have the time to shoot seismic. You then have the time to get to drill-ready prospects it can be three, four, five years. Then you have the cycle time through appraisal to development, yes?

You start looking at that. And it's not only a draw on capital from the business, but you're entering a period where I believe you could see continuing demand destruction. So we were clear though Pavel where you've accessed the acreage, you've shot the seismic, you process the seismic, you've built the partnerships and you have drill-ready prospects to go we're absolutely going to drill them, because you can bring those online if you're successful within a much shorter time line.

So I see what we're doing in Suriname ,Namibia, São Tomé to be absolutely in line with that. And then we've got the ILX portfolio in the Gulf of Mexico, which has an even shorter sort of time to market. So that's the point that -- and that's how we're going to create value for shareholders is by ensuring that whatever we do we've got the ability to seek a payback from the project in a short time line.

Pavel Molchanov

Okay. Let me follow-up with a question about Ghana. Of all the kind of non-U.S. geographies you have assets in, I believe Ghana is the only one that had a full-fledged lockdown. And I'm curious if there was any impact on your workforce or just kind of the business in terms of people being able to physically get the work and do what they're supposed to?

Andy Inglis

No. You're right, Pavel. That was a full lockdown in Accra for I think three weeks. It's now been lifted but it was a full lockdown for three weeks. The answer was no. There wasn't any impact to the -- and it was in Accra itself. It wasn't actually outside of Accra.

So it didn't affect the operations base. It didn't affect the ability to get our crews in and out. So as I said in my remarks, the operator has done a really good job to ensure that we're not only managing to move people, but -- and there are some specially chartered flights to do that. But actually the quarantine as well sort of two weeks of quarantine before they go offshore means you're absolutely safe in terms of managing the potential of coronavirus getting offshore.

So now it's actually a positive constructive story of actually not only the country doing what it needed to do, but actually ensuring that there was no contamination as it were by foreign visitors coming into the country that weren't being properly quarantined.

Pavel Molchanov

Good to you hear. Thank you very much.

Andy Inglis

Sure. All right.

Operator

Our next questions come from the line of Bob Brackett of Bernstein Research. Please proceed with your question.

Bob Brackett

Hi. Thank you. I'd like to talk a little about the sell-down process for Mauritania and Senegal. What I'm trying to get at is I realize that the objective function is a self-funded development that is minimal capital out of Kosmos' pocket upfront. And the way the first phase transaction was handled it was a drilling carry, would you be amenable to a royalty structure something that guarantees a revenue stream in the out years but you're effectively just a royalty owner on the structure? And would the counterparties be amenable to a structure like that?

Andy Inglis

Yes. And see Bob. I think we are exploring all options. But I think that the problem with the royalty structure would be – is that you still got to actually put the capital in to deliver that outcome. So our preference is to ensure that we build it truly self-funded, which means that you wouldn't naturally gravitate to that as a singular mechanism.

It could be a mix but not as a singular mechanism. You could retain some upside from a royalty structure. But clearly it doesn't deliver the outcome that we're targeting which is self-funded.

Bob Brackett

The follow-up to that would be, can you talk about the timing how the conversations are evolving with the counterparties? And are there any clocks ticking in terms of relinquishing acreage under the PSA or having to move toward a final investment decision that keep you wanting to move this more quickly?

Andy Inglis

No. I think the good news is that we've sort of captured the acreage from a – through the development plans that have been submitted. So we're not under any clock from the government in terms of having to continue with activity to maintain the discovered resource.

So there are no clocks ticking from that perspective. So the answer is we continue to be in – when I genuinely in good conversations with prospective buyers. And ultimately it sort of comes down to, as I answered in the prior question, you have something which has scale, you have something that actually has low cost, you have something that actually has a production build which matches the market. So your second question about are you – are we under any threat from an FID for Phases two and three at the moment? No. They will come post 2023 when we've got Phase 1 onstream.

And what's interesting about Phase 1 is there's actually a significant investment in the infrastructure for Phases 2 and 3. To get the first gas on Phase 1 it's about $4 billion-ish. Of that, $2 billion is on the breakwater and the FPSO. So over 50% of the money that's going into the first phase is actually there as pre-investment of Phases 2 and 3. All of that means is that subsequent phases that follow are very economic. And the timing is not in front of the current buyer. So those are attributes which make this quite a distinctive project.

Bob Brackett

Okay. Thank you for that.

Andy Inglis

Great. Thanks, Bob

Operator

Our next question comes from the line of James Hosie of Barclays. Please proceed with your question.

James Hosie

Hi, Andy, Neal. Thanks for your time. Can I ask you about your final slide on preparing for the future? I mean at this stage how likely are you to resume exploration drilling in 2021 both in the Gulf and elsewhere? Are there any particular sort of conditions you need to attach to when you could start? And also when does restarting exploration, where does that rank, the capital allocation priority versus resuming the dividend?

Andy Inglis

Yes. No great questions James. So if you sort of circle back. As we look at 2021, you can maintain the business minimal decline in a sort of sub $35 Brent world, yes? So first priority is to ensure that we maintain the balance sheet. So as we start to think about expenditure beyond that maintenance CapEx, we have to I think to be confident that we can see a trajectory to gearing getting sort of comfortably below two. Yes?

So I think if you can see a world where the trajectory gets you to that place then I think you can legitimately get into a debate about incremental spend. Yes? And I think it's incremental spend in high-quality opportunities and I think it has to be a few.

I think our objective in the frontier program is to look to ways in which we can get that expenditure in 2021 carried. And we're going through actually a very good process at the moment in terms of getting to the right equities to enable us to do that.

And then it's a question of having the flexibility in the Gulf of Mexico depending on the equity level the timing you can slop the wells in. So that's really where we see the priority. So the big point and I think it's an important question you've asked is, first thing what's your objective is strengthen balance sheet.

Yes? When we believe we're in a place where we're comfortably below 2 and on a trajectory to do that, then you can start to think about alternative forms of capital allocation and where would you put your own dollar as opposed to somebody having an opportunity to get a carry. We've already got carry on the same at São Tomé well from Shell in -- for drilling in 2021. And the objective is to find equivalent mechanisms for Namibia and Suriname. Okay?

James Hosie

And versus dividend resumption?

Andy Inglis

I think it's -- again I think for the dividend resumption we've got to genuinely get the balance sheet back in the right place. So I think from a shareholder perspective, the first thing they want to see is dividend back in the right place. And then, I think you're in a debate of an incremental well in the GoM versus the dividend. Yes?

But we're not in that place today. And I do think you have to get back to a position where you know that that dividend is sustainable. Yes. So -- and we're not in that position today. So I think that that's a debate to come. And we are going to ensure though that we're -- we have the opportunity set ready to move forward. Yes? But it has to be with the balance sheet that's fit and healthy.

James Hosie

Okay. Thank you.

A – Andy Inglis

Great. Thanks.

Operator

Our next questions come from the line of Al Stanton of RBC. Please proceed with your question

Al Stanton

Yes, good evening guys. I had two questions if I may. I think you've covered most of the ground. First of all on Tortue Phases, that 2 and 3 you've left me with the impression that they are very much in series rather than in parallel and there'll be no spending on Phase 2 ahead of first gas in Phase 1. So we should time them that way?

And then the second question is on exploration. I'm curious whether you just want to reduce your expenditure or whether you would rather diversify a little bit and you would consider swapping out of acreage in Namibia with some of your neighbors and whether perhaps there's a clock ticking whether you have a view on whether you've got to do your farm-out before or after the Venus well in Namibia.

Andy Inglis

All right, Al. Yes. I think you answered the first question yourself, I think and your answer was very good. So I agree with everything you said on the phasing on Tortue which is ultimately that Phase 2 will follow Phase 1, when Phase 1 is up and running. Yes. So you're absolutely accurate. Yes.

On the exploration portfolio, I think Namibia is very interesting. That's what I would say and I think there's a lot of actual -- and there's a lot of industry interest in it. As you point out there is the Venus well. The Venus well is cretaceous, but it's outboard of where we are and we see it as an independent test.

And it's got a different charge. So fundamentally we don't -- we see it as something which is -- will be interesting, but is not a -- where there is an exploration dependency between the objectives we have for the cretaceous objectives in PEL 39 which are up-dip of the Venus well.

So there's no sort of clock ticking to get that done. I'm not -- given the current circumstances, I'm not absolutely sure what -- even what the timing is of the Venus well. But there's no linkage on that. And no, we don't sort of see it about being a swap. We actually like the acreage we have in Namibia and want to participate.

Al Stanton

Fair enough. Thank you.

Andy Inglis

Yes, all right. Thanks Al.

Operator

Our next questions come from the line of James Carmichael of Berenberg. Please proceed with your question.

James Carmichael

Hi. Just a quick one on the operating cost savings. Obviously not much of that came through during Q1. So just interested to understand, I think that implies a roughly sort of 20% cost reduction on a unit basis for the rest of the year. So just interested to get maybe a bit more color on where those savings are coming from. And also to understand how sustainable they are whether we should expect them to start creeping back up as activity comes back into the portfolio?

Andy Inglis

Yes. No I think -- good job absolutely. You're dead right on the phasing of it. And the issue is around -- I think there were two elements that are going on which -- there's a piece of it which is fundamentally sustainable. And so it is about restructuring contracts. It is about actually using the challenge that we have today to change the way we're doing business in both Ghana and Equatorial Guinea. So -- and they're in different places if you think about it. In Equatorial Guinea we've had the assets now...

Neal Shah

2.5 years.

Andrew Inglis

2.5 years yes. So the objective at the beginning takeover from Hess put in place the management systems start to unlock the resource that we have there through the ESPs et cetera. And so it's been a process of getting our arms around it. And actually as it were defining what the upside is. And the team with Trident as the operator there they've done a really good job in doing that. We're now into sort of the next phase, which is about the optimization of that. So we've got a much better understanding of which ESPs work. So actually, part of the -- the ESPs are actually our operating expense yes. So as you start to think about now sustaining that forward you do it by picking the best locations that you're now are going to work. And therefore you have higher success rate. So that is sustainable. Yes. And I think in Ghana, it's about changing the way that we work. Some of it is about high-grading activity, which is the impact in 2020. What will sustain this into 2020 and beyond will be a fundamental change in some of the work practices there.

So I think overall, I think it's a mix of both. There have been some things where yes you have deferred activity to create the cost savings in 2020. But they are going to be sustained in 2021 by items which will not appear in 2020 because they're longer term because they're required to change the way that you're doing business. So I don't think this is a fundamental sort of just a one-off. And if you look at our G&A, cash G&A of course we obtained 25% reduction in headcount. So you start to think of the G&A saving that that obviously rolls through 2020 and into 2021. And we are finding a lot more efficient ways to run the business today a lot more efficient.

So I'm -- it's a great question. It's one that we've been asking ourselves. As we look -- we'll be doing a lot of work on 2021 in terms of what we think the sustainable breakeven is. And we remain of a view that it is sub-$35 with a minimal reduction to the -- to production. So it is interesting I think that this is an opportunity I think for us to continue to drive efficiency into the business. And I think we're using it not as just as a one-off, but actually as a sustainable change. And the best evidence of that is how Kosmos is working today. It's working remotely a lot cheaper and actually with 25% less people and actually doing exactly the same activity set if not more.

James Carmichael

Okay. Thanks a lot.

Andrew Inglis

Okay. Thanks, James. Appreciate it.

Operator

Thank you. We have reached the end of the question-and-answer session. I will now turn the call back over to management for any closing remarks.

Jamie Buckland

Thanks everyone for joining us today. If you'd like to get hold of us for any follow-up questions then please do over e-mail or on call. Thank you. Thanks very much.