OIL AND GAS INDUSTRY OPERATION AND MARKETS: FINAL PROJECT

COMPANY AND BUSINESS EVALUATION

STERLING OIL EXPLORATION AND PRODUCTION NIGERIA: Oil Exploration and Production

COMPANY FOCUS/BUSINESS UNIT

Sterling oil Exploration and Evaluation is an indigenous company that ventured into Exploration and Production (E&P) business in the year 2005. SEEPCO participated in the 2005 bid round held by Department of Petroleum Resources (DPR) and was successful with license OML 143 (formerly OPL 280).

The company employs innovative, efficient sustainable exploration and production technology solutions that respond to future energy challenges.

SECTOR: Oil and Gas Exploration

OWNERSHIP: Private Limited Liability Company

COMPANY DEPENDENT: Oil

GEOGRAPHICAL LOCATION: Lagos, Nigeria

Domestically sterling oil is one of the biggest oil exploration companies in Nigeria. It is among the top ten oil companies in the country. One of the biggest oil exploration plants in Nigeria is operated by Sterling Exploration and Energy Production Co Ltd. The project started its operations in 2019.Upstream Field profile includes core details such as name, resource type, asset status, stage, owner and equity stakes, operator, product specs (gravity, CO2, Sulphur), location, as well as key operational data including production, start and end years, reserves and capital and operating costs. We also provide proprietary forecasts of production, capital and operating costs, and other key economic parameters, along-with relevant news, deals and contracts details.

This is an on-demand report that will be delivered upon request. The report will be delivered within 1 business day of the purchase, excluding weekends and holidays. Certain sections of the report may be removed or altered based on data availability and relevance.

GOAL 2

Sterling oil and gas exploration for the past five years has increased its production capacity and this value has also improved the oi; exploration sector in Nigeria. The output Sterling oil is currently operating under a Production Sharing Contract license for OML 143. They were able to put OML 143 into commercial production within two years of signing the PSC
Currently we are producing Okwuibome Blend of crude oil which is popular amongst North America,

France, Italy, United Kingdom, Australia, South Africa and parts of Asia owing to its lower-carbon sources, driven by advancement in technology and growing concerns about climate change.

The price of crude oil plumbed a depth hitherto thought unimaginable on 20 April 2020. Within a few hours that day, the price of the futures contract for the West Texas Intermediate crude for May 2020 plunged from $18 a barrel to minus $37 a barrel. It was deemed a point of no return. Many close and distant watchers of the petroleum sector pronounced the end of the oil age.

Their call was not just based on the shocking plunge or on the state of the global economy at that time. They reckoned with the rising political and commercial commitments to climate change and energy transition. And who would not when even some leading oil companies had started pivoting away from fossil fuel to renewables? Based on reduced investments, and the expected interaction of the forces of demand and supply, the days of oil as the king of the global energy mix was deemed dated. Some feeble twitch was expected to follow, then the certain end.

However, it seems that projected death of oil that looked so credible at the time was a bit, and crudely, exaggerated.

From April 2020 when it took a historic beating that left it for the dead, oil has regained both life and bounce. The easing of COVID-19 lockdowns around the globe has shoved oil demand ahead of supply, resulting in increasingly high oil prices. This recovery started in that same 2020, and even with the volatility native to the oil market, continued the following year. In 2021, the average price of crude oil increased by 55%. The oil rally seems eager not to be a flash in the pan. Buoyed by increasing demand, lagging and managed supply, and mostly now by the threat of war and disrupted supply posed by Russia's massing of more than 100, 000 troops around Ukraine, oil prices zapped above $90 a barrel early this month.

Yesterday, Brent crude soared to $95 a barrel shortly after the United States warned that Russia is likely to attack Ukraine in a matter of days.

The last time the world witnessed a $95 oil was in October 2014. That seemed like a century ago, as oil prices averaged about $50 a barrel for almost a decade. Now that this psychological barrier has been broken, and with the factors driving the latest round of high oil prices likely to stick around a bit, most analysts have jacked up their projection of oil prices for this year and beyond. The $100 mark is just a matter of when not if. Already, JP Morgan has projected that oil may hit $125 a barrel if Russia invades Ukraine, and the US and others impose sanctions on Russia. Both conditions are now a saliva spit away from the realm of possibility.

To be sure, there is an incentive for the US and others to dip into their strategic reserves, to encourage fracking, to press allies with spare capacities to increase production and to even ease sanctions against Iran. But it takes time to crank up production. And the major driver of this surge is not just a supply crunch but fear and perception. If the tension around Russia, Ukraine and NATO persists, oil may even aim for the $150 per barrel barrier that was almost breached in 2008.

Winners and losers of the oil price surge are emerging. Major oil companies are reaping bumper harvests. BP, ExxonMobil, Chevron, Total Energies and Shell have declared record profits for 2021. These were companies that muddled through 2020 and were even deemed destined for life support. They will do even better if oil prices stay as predicted in 2022.

On the balance, however, consumers and countries that rely heavily on fossil fuel for energy will bear the immediate brunt, but the discomfort will eventually be evenly distributed. Most countries are already dealing with record-level inflation, driven by high energy and food costs. The US January inflation rate, at 7.5%, is the highest annual rate since 1982. Fuel-induced higher transportation costs will likely worsen the current global supply chain challenge. This is likely to negatively impact the costs of fuel, transportation, food, and medicine across the globe.

While this suggests that many countries have reasons to ensure that the oil surge is contained, oil-producing countries have reasons to expect that the surge is sustained. For one, they stand to earn more or at least have more resources than others to cope with what will be the distributed downsides of high oil prices.

For Nigeria and for this current administration, high oil prices should be a godsent relief. For the past seven years, Brent crude has sold for an average of $56.92 per barrel as opposed to an average of $95.48 a barrel for the previous seven years, a 40% difference. At $95 a barrel, Brent is currently selling at 53% above the $62 per barrel benchmark for the 2022 budget. This should be good news on all score, akin to a ladder miraculously descending to take us out of the present fiscal hole. Ideally, more revenues and reliefs should accrue, with potentials for reduction of deficits and borrowing, increase in savings and foreign reserves, and improvement in balance of trade.

But challenges abound, including avoidable and self-inflicted ones. Nigeria is currently not primed to take full advantage of high oil prices and may reap more of the downsides than the upsides. For one, we can't max out by raising production. We are not one of the countries with spare capacities. For a country that used to conveniently pump between 2.2m and 2.5m barrels per day, it is quite a slide. Currently, Nigeria is struggling to even meet its OPEC quota of 1.7m barrels per day. According to OPEC figures, our daily production for January 2022 was 1.4m barrels per day, up from 1.2m barrels per day in December 2021. This struggle is due to a combination of factors such as the impact of underinvestment overtime, fiscal uncertainties, high production costs, high cost of restarting shut production, and increasing spate of vandalism and theft.

Second, high oil prices will also mean high petrol prices or higher subsidy on petrol. According to the Ministry of Finance, Budget and Planning, the total revenue that the Federal Government made from the oil and gas sector in eleven months in 2021 was N1.468 trillion (made up of N970.33 billion from crude oil, N117.31 billion from FG's share of NLNG dividends, and N381.27 billion from signature bonus and early renewals). Sum of N1.43 trillion was spent on petrol subsidy last year, which is almost all of FG's total earnings from oil (though the subsidy was borne by the Federation, not just the Federal Government). The national oil company has submitted a N3 trillion bill as estimate for subsidy in 2022. That's more than double the total subsidy payment for last year. If crude oil soars to $150: you can fill in the blanks.

Third, and most disturbing, is that high oil prices may not necessarily translate to corresponding increase in foreign exchange earnings, or bigger foreign reserves or less pressure on the Naira. This is because almost all the oil that accrues to the Federation goes to domestic crude allocation, which the national oil company uses for a form of exchange for fuel through the direct sale, direct purchase scheme. With reduced quota and reduced production, and with most of the production coming from offshore, the oil companies get most of the oil produced in Nigeria.

According to data from NNPC's monthly financial and operations report for August 2021, the Federation lifted 13.82 million barrels or just 29% of the total liftings of 46.97 million barrels in July 2021. The 13.82 million Federation lifting is broken down as follows: 2.9 million barrels for tax paid in oil for the production sharing contracts (PSCs), 2.1 million barrels for royalty paid in oil for the PSCs, 0.15 million barrels as Federation Export, and 8.56 million barrels for domestic. This means that allocation for domestic consumption was 62% of total of 13.82 million barrels of Federation liftings and 98% of NNPC's total lifting of 8.71 million barrels.

Incidentally, Federation Export used to be about 50% of Federation Lifting and used to be paid in full and in dollars to the Federation Account. Federation export has now been comprehensively eclipsed by Domestic Crude Allocation, which is treated like a first line charge. This is inevitable: as the supply/availability of refined product has been reduced to government's responsibility, domestic crude allocation not only takes the lion share of reduced liftings but has of necessity been prioritised ahead of export.

This quaint prioritisation wouldn't have been a problem if the crude is paid for in dollars and in full. It is not. NNPC exchanges domestic crude allocation and some payments made in oil for fuel through the DSDP, makes deductions for subsidy and sundry expenses upfront, pays whatever is left to the Federation Account in Naira (not in dollar). The net effect of this is not only that there is less oil money to share at FAAC but also that there is less and less dollars from oil due to the Federation to build our reserves, even with record-level oil prices and even when oil still accounts for about 80% of our exports.

The current oil price surge is a rare opportunity. It may linger; it may not. No matter the duration, Nigeria ordinarily should capture more of the benefits than the burdens. But that is looking less likely, based not just on historical choices but also sadly on current ones. If the first Gulf War yielded Nigeria a $12.8 billion windfall that ended up in smoke, the possible Russian/Ukraine/NATO faceoff may yield, all things considered, only more of a shortfall to Nigeria.

GOAL 3

Some of the challenges faced by oil and gas exploration in Nigeria includes; oil spillage, pipeline vandalism, crude oil theft, pollution, fuel pricing.

Sterling oil and gas exploration is currently involved in the use of advanced technology in their operation and this has helped significantly the area of exploration and security with the use of drones.