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VISIBILITY

INITIAL REPORT

## RESEARCH ANALYST

Clay Mahaffey, CFA

## AT A GLANCE

TICKER	ERHE
FISCAL YEAR END	SEPTEMBER
SECTOR	Oil & Gas
RECENT PRICE	\$0.30
TARGET PRICE	\$0.32
MARKET CAP	\$216.7M
52-WEEK HIGH	\$0.61
52-WEEK LOW	\$0.12
PRICE/EARNINGS (TTM)	N/A
PRICE/BOOK (MRQ)	7.1x
PRICE/SALES (TTM)	N/A
SHARES OUTSTANDING	722.24M
FLOAT	352.45M
AVG DAILY VOLUME (3 MOS)	295,820
INSIDER OWNERSHIP	51.2%
COO & Acting CEO	Peter Ntephe

As of March 3, 2009



ERHC Energy, Inc.  
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Houston, TX 77056  
Phone: 713-626-4700  
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# ERHC Energy, Inc.

(OTCBB: ERHE)

MARCH 13, 2009 | TARGET PRICE: \$0.32 | RATING: NEUTRAL

## INVESTMENT THESIS

ERHC Energy is an emerging pre-revenue investment company with very significant working interests in the prolific Gulf of Guinea off the west coast of Africa. The Company pioneered the early organization and development of the oil and gas industry offshore of the twin island republic of São Tomé and Príncipe and, in 2005 and 2006, sold a portion of their initial working interests for \$45 million to operators which have commitments to "carry" ERHC's share of the capital costs. Two of the operators, Addax Petroleum and Sinopec, have contracted for a drill ship to drill several exploratory wells in late 2009.

## INVESTMENT HIGHLIGHTS

- **Proven prospective area.** West Africa has a long history of numerous major oil finds of high-quality oil (Bonny Light). Nigeria is one of the largest oil producers in the world and ERHC has interests in exploratory blocks immediately to the south of the Nigerian fields.
- **Experienced operators.** ERHC's partners have deepwater exploration and production experience:
  - Block 2 - Sinopec China Petroleum and Chemical Company (NYSE: SNP) is the largest integrated oil and gas company in China
  - Block 3 - Anadarko (NYSE: APC) is a major independent E&P operator
  - Block 4 - Addax Petroleum (LSE: AXC) is a Swiss-based, independent E&P operator focused on West Africa and Iraq
- **Minimal carrying costs.** ERHC has negotiated agreements with each operator to carry its portion of the capital costs until break even is reached.
- **Reserve report issued.** Netherland Sewell and Associates Inc. published a reserve report indicating that as of 12/31/2008 ERHC's interests in Blocks 2, 3 and 4 total 136 million barrels of oil on a prospective, risked basis.
- **Exploratory wells in 2nd half of 2009.** Addax recently secured a replacement drill ship, the Deepwater Pathfinder, for drilling in 2009 of the first well in the Kina Prospect in block 4 of the JDZ.

## Catalysts:

- Announcement by one of the Block operators of a specific drilling date
- Positive business development activity
- Economic and oil price recovery

## ABOUT SÃO TOMÉ AND PRÍNCIPE (STP)

São Tomé and Príncipe is a twin island republic located in the Gulf of Guinea off the coast of West Africa. The islands are approximately 150 miles northwest of Gabon and straddle the equator. The islands were originally uninhabited before being colonized by the Portuguese in the late 15th century to raise sugar cane. The republic achieved independence in 1975 and adopted a single-party, socialist government which later evolved into a multi-party democracy beginning in 1991. Two attempted military coups failed in 1995 and 2003. There is modest economic activity (GDP per capita of \$1,600 in 2007, per the CIA's World Factbook), and the economy is subsidized by IMF loans and grants. Many of the islands' 200,000 residents survive as subsistence farmers.

Speculation of oil reserves began in the early 20th century due to obvious oil seeps. Four test wells were drilled on the island of São Tomé between 1974 and late 1980s but were inconclusive due to the hard volcanic rock on the island.

## ABOUT NIGERIA AND GULF OF GUINEA

To the north of São Tomé and Príncipe is Africa's most populous country, Nigeria, with 148 million residents. Nigeria's current GDP is \$167 billion (\$1,160 per capita), and the country has experienced very high economic growth over the last decade. Oil was discovered in the southerly region of Nigeria in the mid 1970s; and, today, the country is a member of OPEC and one of the largest exporters of oil in the world. According to OPEC, Nigeria has proved reserves of 36 billion barrels of oil and 5.2 trillion cubic feet (TCF) of gas, which are 3.0% and 2.8% of world reserves as of 2007, respectively.

Nigerian oil production began onshore before moving to the Atlantic's shallow shelf. In recent years, production has moved further offshore to water of 2,000–5,000 feet deep. As exhibited on page 3, there have been numerous discoveries off the shore of Nigeria, and there is significant seismic evidence that the Joint Development Zone in which ERHC's blocks are located, will also be prospective.

Figure 1

Nigeria Oil Production History

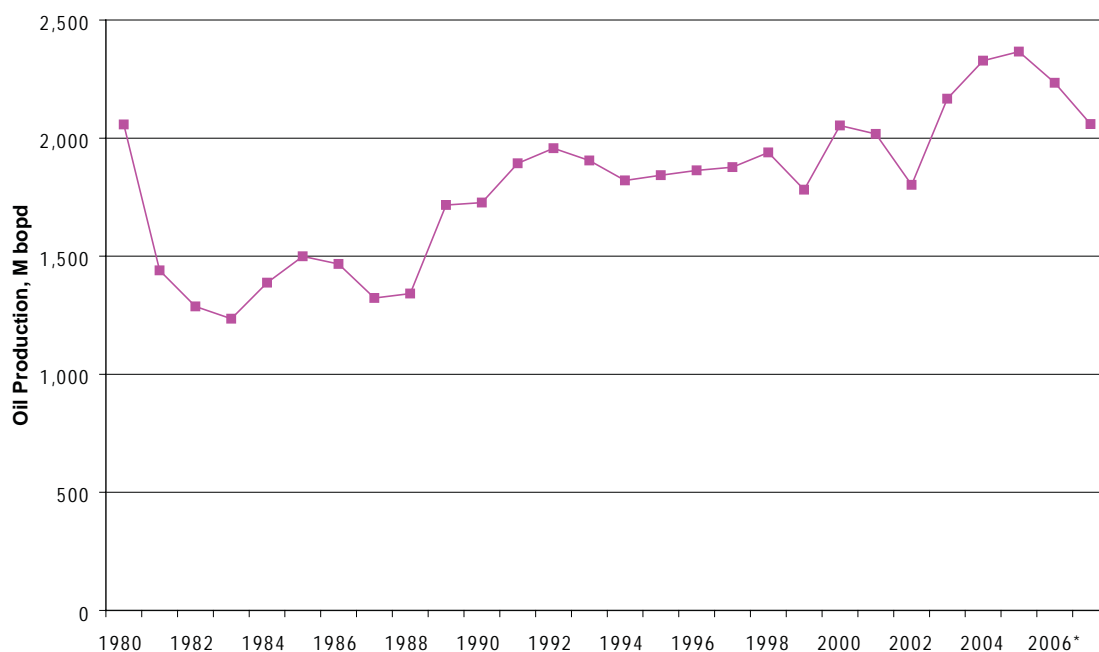
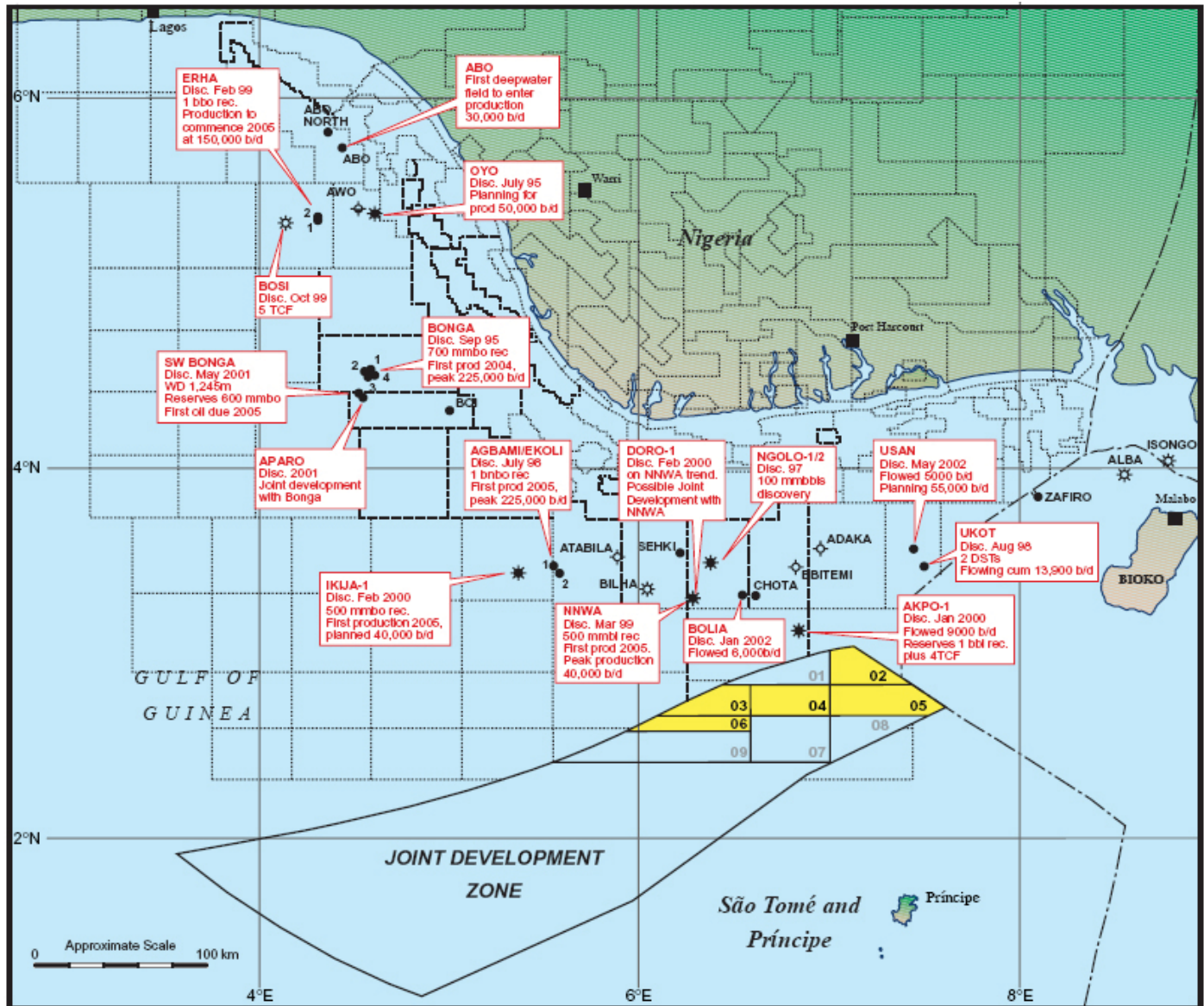


Figure 2

*Oil and gas discoveries in the Gulf of Guinea near the Joint Development Zone where ERHC's blocks are located*



Source: Nigeria-São Tomé and Príncipe Joint Development Authority 2004 JDZ Licensing Round

### THE JOINT DEVELOPMENT ZONE (JDZ)

The predecessor to ERHC was the Environmental Remediation Holding Company based in Louisiana who was in the business of oil production in the United States and post oil production engineering (“plug and abandon” work) in the Gulf of Mexico. By the mid 1990s, this company and a South African firm with strong local ties in São Tomé and Príncipe (STP) became interested in developing the potential resources off of STP’s shores. STP government officials had no experience in oil exploration and drilling; and, in 1997, they agreed to create a joint venture with ERHC (STPetro) giving ERHC and others significant rights to any reserves that may be developed on favorable terms and conditions.

STP created an Exclusive Economic Zone (EEZ) and filed their maritime boundary claims with the United Nations. Agreements recognizing the maritime boundaries were reached in 1999 with Equatorial Guinea and, in 2001 with Gabon. Negotiations with Nigeria were more difficult and being eager to proceed with the licensing, the STP Government agreed to a compromise treaty with Nigeria creating a Joint Development Authority (JDA). This JDA would administer a Joint Development Zone (JDZ) where revenues would be split 60/40 between Nigeria and STP. This was concluded in August 2000.

In April 2003 ERHC secured pre-emptive rights to six of the nine blocks in the JDZ. The JDZ conducted an auction in October 2003 resulting in numerous bids as shown below:

Table 1

Block	# Bids	# International E&P Companies	High Bid, \$mil/Company	ERHC Bid, \$mil
1	12	3	\$123/ChevronTexaco	60
2	5	1	\$113/Foby Engineering	60
3	1	0	\$35/Sahara Energy	-
4	7	1	\$100/ECL International	-
5	2	0	\$35/Sahara Energy	-
6	4	0	\$55/Burrel & Promo	-
7	1	0	\$10/Fusion Oil	-
8	0	0	-	-
9	1	0	\$45/Foby Engineering	-

In April 2004, after extended negotiations, the JDZ awarded only Block 1 to Chevron Texaco; and ExxonMobil exercised their option for 40% on this block only. Conclusion of the awards on the remaining five blocks was delayed until 2005 due to allegations that the 1997 contract was unfavorable to the STP Government.

Between November 2005 and March 2006, respectively, ERHC negotiated farmout/participation agreements with several international oil companies resulting in upfront cash proceeds to the Company totaling \$45.9 million and commitments from the other working-interest parties to carry ERHC's portion of the capital costs going forward.

Table 2

Block	ERHC Initial Interest, %	Additional Participating Interest, %	Participating Interest Sold, %	ERHC Proceeds, \$mil	ERHC Current working Interest, %	Operator	Status
2	30	35	43	20.4	22	Sinopec	Drill Site Approved
3	20	5	15	7.5	10	Anadarko	Drill Site Approved
4	25	35	40.5	18	19.5	Addax Petroleum	Drill Site Approved
5	15	-	-	-	-	-	-
6	15	-	-	-	-	-	-
9	20	-	-	-	-	-	-
Total	-	-	-	45.9	-	-	-

In January 2006, Chevron Texaco spudded the Obo-1 well in Block 1. A few months later they acknowledged the well had identified reserves of “only” 100 million barrels (MMbbl) but due to very high costs and other considerations the well was determined to be “non-commercial.” Later that year, ExxonMobil sold their 40% interest in Block 1 to Addax Petroleum for \$78 million providing a nice profit of \$29 million to the seller. The terms are representative of those obtained by Nigeria and agreed to by multinational oil companies.

### ***JDZ PRODUCTION SHARING CONTRACT TERMS***

The Joint Development Zone (JDZ) collects signature bonuses, lease payments, royalties, income taxes and a share of after-tax profit according to specified formulae. The royalties apply for production exceeding 20,000 barrels of oil per day (BOPD) and increase on a sliding scale to 5% for production of 70,000 BOPD or more. An income tax rate of 50% is applied to “Tax Oil” which is the gross revenue less royalties, less allowable costs (all exploration and development capital costs, intangible and operating costs, financing and interest costs). The after-tax “Profit Oil” is split between the contractor and Joint Development Authority (JDA) according to a formula (R-Factor) that starts at 80%/20% (contractor/Joint Development Authority) and declines to 25%/75% (contractor/Joint Development Authority) once capital costs have been recovered. The R-Factor formula is very significant to the contractor profits and is discussed in the Royalties section. Based on the assumptions, the Profit Oil split ends up at about 50/50 (Contractor/JDA) for most of the production forecast. The bottom line is that contractors invest 100% of the capital and receive about 15%–25% of the gross hydrocarbon revenue when you consider the total received by the Joint Development Authority (royalty plus income tax plus Profit Oil).

### ***STUDIES AND RESERVE ESTIMATES***

After the creation of the Exclusive Economic Zone (EEZ), STP signed an exclusive agreement with Mobil Oil which required them to conduct a seismic survey of all 22 deepwater blocks of the EEZ. This work was completed by their contractor, WesternGeco (now a subsidiary of Schlumberger), in 1999.

A second seismic study was performed by PGS Geophysical in 1998 and 1999. Another technical study, “Surface Geochemical Exploration and Heat Flow,” was conducted by TDI-Brooks International. This work collected core samples from the ocean floor at designated locations and conducted chemical analyses to assess the amount and type of hydrocarbons present. TDI-Brooks also conducted a heat flow analysis. For additional detail on these studies and an excellent technical discussion of the geology in the JDZ, please visit the Joint Development Authority web site at <http://www.nigeriaSaoToméjda.com>.

Netherland Sewell and Associates provided a reserve report evaluating the risked and unrisked oil and gas allocated to ERHC as of December 31, 2008. Addax Petroleum also reported information on these blocks. The bottom line is blocks 2, 3 and 4 have a total of 1.8 billion barrels of oil (BBO) on a most likely (P 50) geologically unrisked or 715 MMbbl on a geologically risked basis (See Appendix, Table 1). ERHC’s interests are 440 MMbbl and 135 MMbbl, unrisked and risked.

Due to the deepwater location (>1,500 m) one must use deepwater drilling ships rather than semi-submersible floating platforms anchored to the ocean floor. These drill ships are massive and require sophisticated thrust and propulsion gear to maintain a steady location so that the drilling operation can be completed safely. Ships typically have a “moon bay” in the center of the vessel through which drilling equipment is lowered. Due to recent discoveries in West Africa, the Gulf of Mexico and offshore Brazil the demand for such ships has surged and so have vessel operating day rates.

Addax and Sinopec originally negotiated a rate of \$410,000/day (\$150 million/yr) for the drill ship, Aban Abraham, which is a conversion of another vessel. However, on March 10, 2009 Addax announced that they secured a replacement drill ship for the Aban Abraham, named the Deepwater Pathfinder, at a day rate of \$600,000. Addax believes they can meet the 2009 schedule with the Deepwater Pathfinder and say the first well drilled will be the Kina Prospect in Block 4 of the JDZ.

Exploratory wells typically cost approximately \$40 million. As a result of these high costs, a discovery of less than 100 MMbbl is not deemed economic. In addition, because of the distance from shore, the oil cannot be piped to local refineries for processing. In these locations, a Floating Production and Storage (FPSO) vessel is required. This vessel collects produced oil and stores it until it is loaded into a transport vessel. The cost of FPSO vessels has also skyrocketed with the deepwater drilling activity. Typically the operator will “tie back” several producing wells to the centrally located FPSO to minimize capital costs.

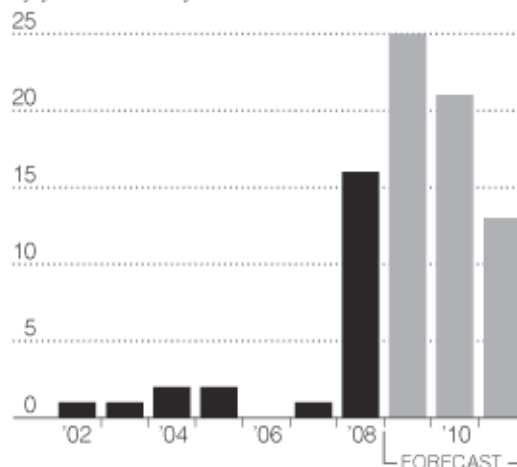
Figure 3

### Drill-Ship Bottleneck

In the last few years, only 1 or 2 deepwater drill-ships were delivered a year, leading to a global shortage that pushed the cost of using them sharply higher. But a surge in deliveries is expected starting this year that will eventually aid in expanding exploration.

#### DEEPWATER DRILL-SHIPS

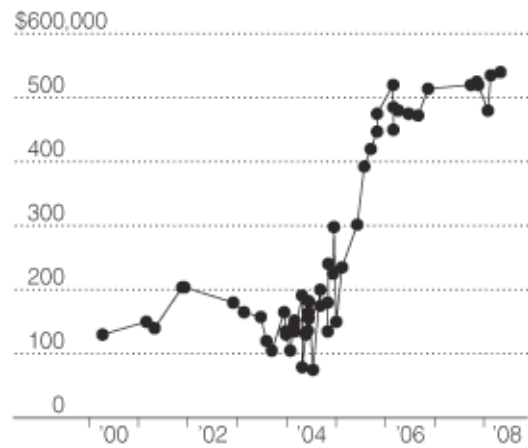
By year of delivery



Source: ODS-Petrodata

#### DAY RATES FOR DEEPWATER DRILL-SHIPS

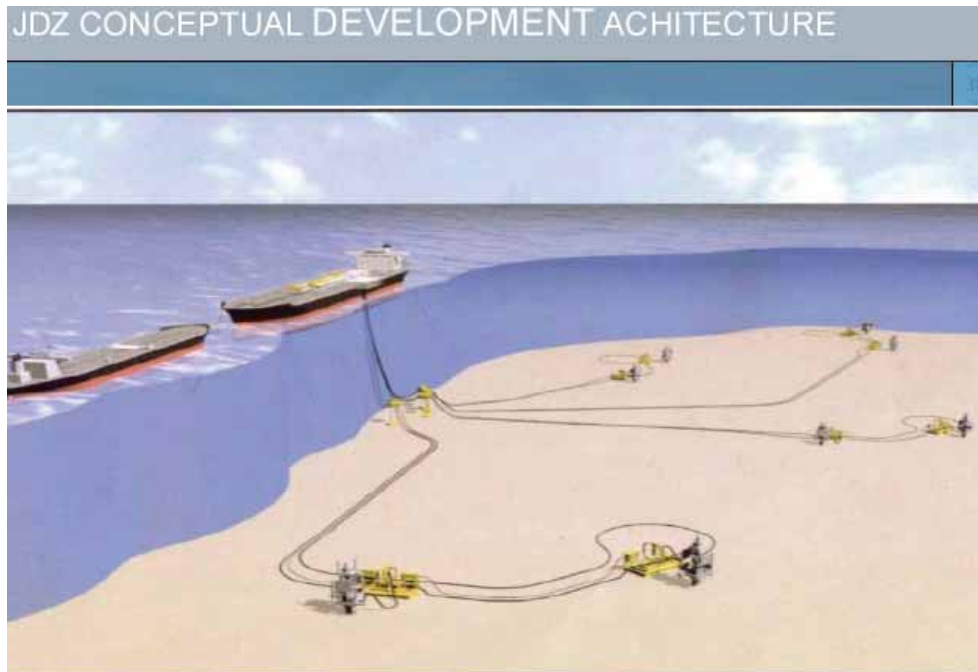
In the Gulf Of Mexico



THE NEW YORK TIMES



An FPSO vessel with processing facilities on deck and risers coming in on its left.

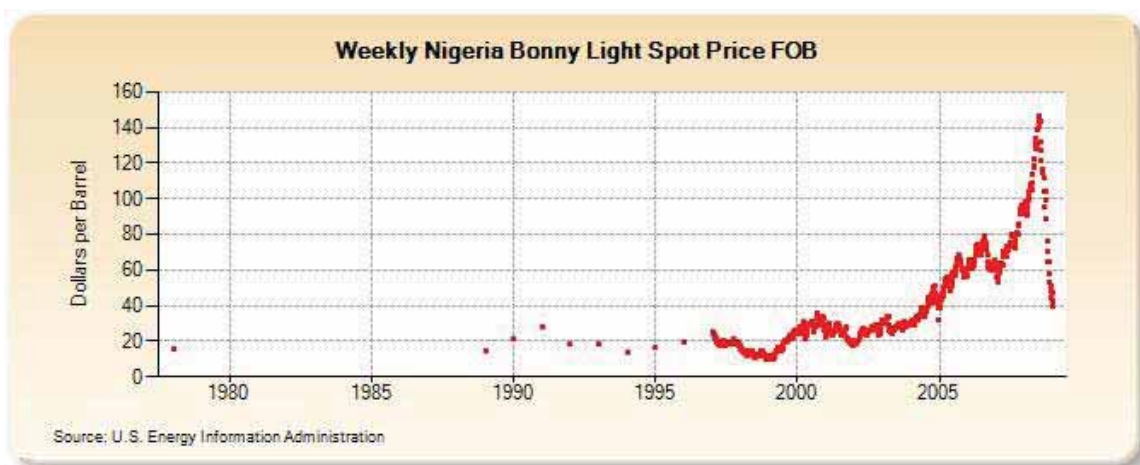


Source: KPMG International

**OIL PRICE AND FORECAST ASSUMPTIONS**

The price increase of oil from 2005 until June 2008 was explained as a combination of demand from the developing “BRIC” countries (Brazil, Russia, India, China) coupled with supply constraint from mature OPEC fields, and terrorism threats adding an additional premium.

Figure 4



Source: U.S. Energy Information Administration

It has been reported that hedge funds may have thrown massive sums at the oil futures market and contributed to the price bubble although even George Soros was caught by surprise with the now apparent price collapse.

A longer-term look at oil prices over the last 40 years gives additional evidence that there is little sustained growth but rather a boom-to-bust cycle. We may now be experiencing a bust cycle similar to what happened in the 1980s following the supply constrained OPEC embargoes of the 1970s.

Figure 5



On what basis can one say we have hit bottom on oil prices? The depth and duration of the current economic slump is hard to predict. To what extent are the “BRIC” economies, that had been the drivers of growth, affected? Can OPEC really reduce production sufficiently enough to stabilize, much less increase, prices? To what extent is the credit crunch going to cause E&P producers to defer capital expenditures? What actions will the new U.S. President and Congress take to encourage conventional oil and gas exploration?

The bullish scenario includes the “Peak Oil” view, which assumes that oil production worldwide has passed its peak level of production. The depletion rate of mature, non-OPEC fields is estimated at 5% per year, meaning we have to run faster and faster to maintain current production.

For current non-OPEC production of 49 million BPD (per U.S. DOE Energy Information Administration) and 5% per year decline, over the next five years these current fields will have declined to 38 million BPD, a decline of 11 million BPD. In order to maintain current non-OPEC production, we need an additional 11 million BPD of new production from somewhere. Renewable fuels like ethanol and biodiesel are niche products requiring government subsidies and mandates. The U.S. biofuel mandate is 36 billion gallons by 2022 which is 2 million BPD or 20% of the forecast shortfall. Coal to liquids, shale oil, Canadian oil sands and other technologies are not ready for commercial production, or are modest contributors, in this time frame. The deepwater Gulf of Guinea and offshore Brazil regions have massive reserves but will take 3-4 years to start, at best. The consequence of this reduced production is a supply/demand tightening resulting in huge future price increases, perhaps to \$200/B according to Matthew Simmons of Simmons International. He is also skeptical that Saudi Arabia and OPEC have the capability to increase production to meet expected deadlines. While this is certainly the case for the mature oil fields in the North Sea, Alaskan Slope, etc., there are many fields yet to be discovered. Goldman Sachs recently published similar forecasts for higher oil prices by late 2009.<sup>1</sup>

The West African and Brazilian fields are perfect examples of the latest technology being utilized to find potentially massive amounts of oil. The problem is the very high cost and time required to bring these fields onto production. The credit crunch has caused many large projects to be deferred since investors believe input costs such as steel and labor costs will be lower in the future than they are now. This is also bullish for oil prices. Conversely, the depth and duration of the global recession will continue to depress energy consumption, particularly for private and commercial transportation and current prices of \$40/bbl are the lowest in four years.

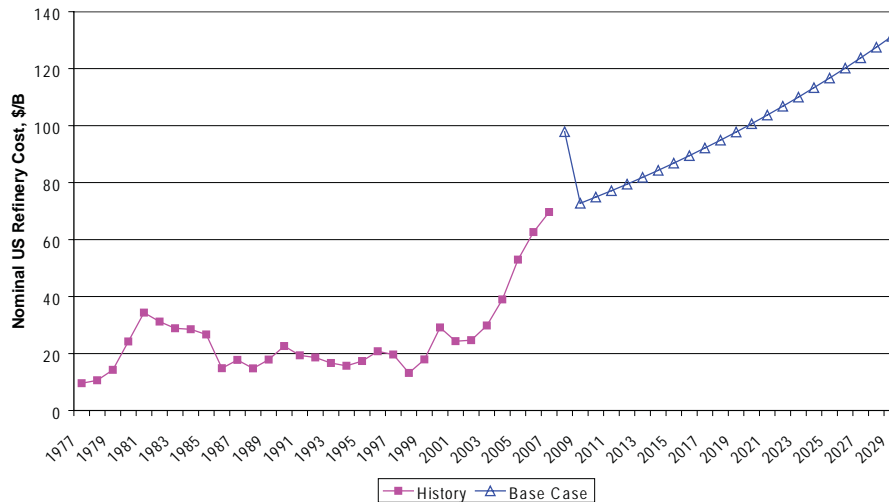
Given these uncertainties, we can evaluate ERHC’s prospects under alternative pricing scenarios: The optimistic case is that prices recover to a \$70/bbl level then increase 3% per year, which is the 1997–2007 historical trend, which gives a \$99/bbl average price for the period or the pessimistic case that oil quickly recovers to a \$70/bbl

<sup>1</sup>“Oil set for ‘Swift and Violent Rebound’ in Second-Half, 2009,” OilVoice, January 20, 2009, <[http://www.oilvoice.com/n/Oil\\_set\\_for\\_Swift\\_and\\_Violent\\_Rebound\\_in\\_SecondHalf\\_2009/3acd1069.aspx](http://www.oilvoice.com/n/Oil_set_for_Swift_and_Violent_Rebound_in_SecondHalf_2009/3acd1069.aspx)>, accessed February 6, 2009.

level but remains constant at that price. The scenario that prices remain below \$70/bbl is possible, but unlikely. However, between the 1982 peak and the 1999 trough there was a 17-year period of declining prices, as shown below.

Figure 6

Oil Price History and Alternative Future Scenario's  
1997-2007 Price Trend is 3.3%/year



## JDZ PRODUCTION SHARING CONTRACTS

The JDZ collects various payments from each block including signature signing bonus, rents, upfront royalties on a sliding scale, income tax of 50% on Profit Oil after allowable deductions, a Profit Share on after-tax profit (also on a sliding scale), a requirement to meet local content conditions on supply of goods and services and a contribution to local social services. The bottom line is that the oil companies contribute all of the capital and receive about 20% of the project cash excluding local content and social services that are also stipulated but not included in this analysis.

Where for each block:  $R = \frac{\text{Cumulative Cost Oil} + \text{Cumulative Corporation Share of Profit Oil}}{\text{Cumulative Capital and Non-Capital Costs}}$

Royalty Rates: 0% for production below 20,000 BPD; 5% for over 70,000 BPD

Profit Oil Rate is based on a calculated R Factor as follows:

<u>R Factor</u>	<u>Contractor's Share of Profit Oil</u>
$R < 1.2$	80%
$1.2 < R < 2.5$	$25\% + \left[ \frac{(2.5 - R)}{(2.5/1.2)} \times (80\% - 25\%) \right]$
$R > 2.5$	25%

### Miscellaneous Fees and Charges

Application for bid package per block	\$15,000
Processing fee per block	\$10,000
Application for entering into exploitation period or related PSC	\$1,000,000



Application to assign a stake during exploration period or related PSC	\$500,000
Application to assign a stake during exploitation period or related PSC	\$1,000,000
Application to terminate an exploration / exploitation period or related PSC	\$100,000
Application for a license to operate a drilling rig	\$100,000
License to operate a drilling rig (annually)	\$50,000
Permit to export samples for analysis (per well)	\$10,000

### ***SÃO TOMÉ AND PRÍNCIPE (STP) EXCLUSIVE ECONOMIC ZONE***

ERHC has options to acquire 15% of two blocks in the EEZ, which is to the south of the JDZ. This area does not have seismic data and no quantitative value is assigned until more information is available.

### ***BUSINESS DEVELOPMENT***

The Company recently hired an experienced executive, Mr. David Bovell, to lead efforts to diversify the Company and reduce the concentration of assets in the JDZ blocks. ERHC have \$31 million in cash as well. Presumably they will pursue some type of asset swap as well as look at working interest acquisitions. This could have a very favorable impact on valuation, especially the assigned company risk due to their current dependence on other operators. The risk assigned will be reconsidered when firm progress has been reported.

### ***ASSET VALUE OF RESERVES***

Using the operating assumptions identified in Appendix B, the Net Asset Value (NAV) of each block can be determined individually and for ERHC by block and in total. Oil and gas companies typically sell at a discount to NAV due to the cost and availability of capital, geologic risks, time value of money, geopolitical risk in the region and company-specific risks.

### ***VALUATION***

Each block is given an estimated oil in place amount and then the operating assumptions shown in Appendix B are applied to determine the oil production rate, capital expenditures and cash flow. A discount rate is applied to each Block to determine a Net Present Value (NPV) for the Block, and separately for ERHC according to their working interest. The carry provision for ERHC works like this: They pay no capital expenses, but these amounts “borrowed” are accumulated and then begin to be repaid once cash flow is positive. The effect is favorable to ERHC since they receive a greater portion of the NPV than their working interest (WI) would otherwise dictate due to the lack of negative outlays in the early years.

Blocks 2, 3 and 4 are assigned a 20% discount rate to determine the NAV of that block for the contractors. Blocks 5, 6 and 9 have much higher capital expenses due to the greater water depth and do not appear economic at this time. The original oil for these blocks is arbitrarily estimated at 200 MMbbl and can be revised when more information is available. These blocks did not receive any viable bids in the 2004 Licensing Round other than the 15% contracted to ERHC. A 50% discount rate is applied to this Block to cover these greater risks and uncertainties.

The net present value (NPV) of the block is calculated separately for the contractors and ERHC. If the Contractor NPV is positive i.e. economic, then they are likely to proceed and ERHC can recognize their NPV. Because of the favorable carry provisions ERHC enjoys they have NPV's that exceed their working interest times the contractor NPV. The ERHC NPV's are totaled for all blocks to arrive at a gross NPV. An additional discount is applied to account for company specific risk including lack of revenue, early stage operations, potential contractual issues,



and timing until operations proceed, lack of diversification and proved reserves and complete dependence on other parties to pursue the business. This accounts for the fact that very few small oil and gas companies sell at their calculated NAV per share of their resources. A discount of 20% is assumed appropriate at this point in time since ERHC is dependent on three oil companies who have other properties to operate and competing cash requirements plus other factors.

### ERHC NAV Calculation

	Est Geologic Risky Reserves, MMbbl	Total Capex, \$mil	ERHC PV10%, \$mil
Block 2	174	991	93
Block 3	87	861	20
Block 4	444	2,342	204
Total	705	4,194	317
Company/ Event Risk			25%
Net Risked Net Asset Value,\$ mil			238
ERHC Shares Out FD, mil			735.6
NAV, \$/share			\$ 0.32

NAV10% is the Company's cash flow (profit oil less capital expense plus

Base Case: The reserves per Block are calculated from the Netherland Sewell and Associates Reserve Report evaluating the resources as of 12/31/2008 as the amount recognized for ERHC divided by the ERHC working interest. The total of the three blocks is 715 MMbbl and ERHC's share is 135 MMbbl on a potential resource but geologically risky basis. No oil has been proved on any of these blocks. Although gas resources are about 18% of the oil on a BTU equivalent basis they have not been included in these calculations. No gas lines exist in the JDA nor or plans submitted to build any so this gas is stranded until such capital and marketing commitments are made. The capital expense to explore and develop the field range from \$500-600 million for Block 3 to \$1.7 billion in Block 5,6,9. The total is in the range of \$4 -5 billion. The IRR for each field is calculated separately as shown. The NPV for the Block and for ERHC are calculated separately using the discount rates shown. These are somewhat arbitrary assumptions but reasonable for the region.

The current calculated net asset value is \$0.32. This considers the uncertainty in the economy and oil prices, and relatively aggressive oil price outlook in the base case.

ERHC NAV Base Case and Sensitivity Analysis

	A	B	C
	25%	25%	50%
	Lower	Lower	Higher
	Oil price	Drill Ship	Reserves
	Base Case	Costs	Reserves
Risked PV10%/share (\$)	0.32	0.23	0.44
Reserves MMbbl	915	915	1373
Oil Price, \$/B	70	53	70
Oil Price Inflation (%)	0.03	0.03	0.03
CapEx (\$)	4504	4504	5601
Company/Event Risk (%)	0.25	0.25	0.25

Case A: 25% Lower Oil prices. NAV is reduced to \$0.23 or 17% if the 2009 average price is 25% lower than assumed, or \$53/barrel.

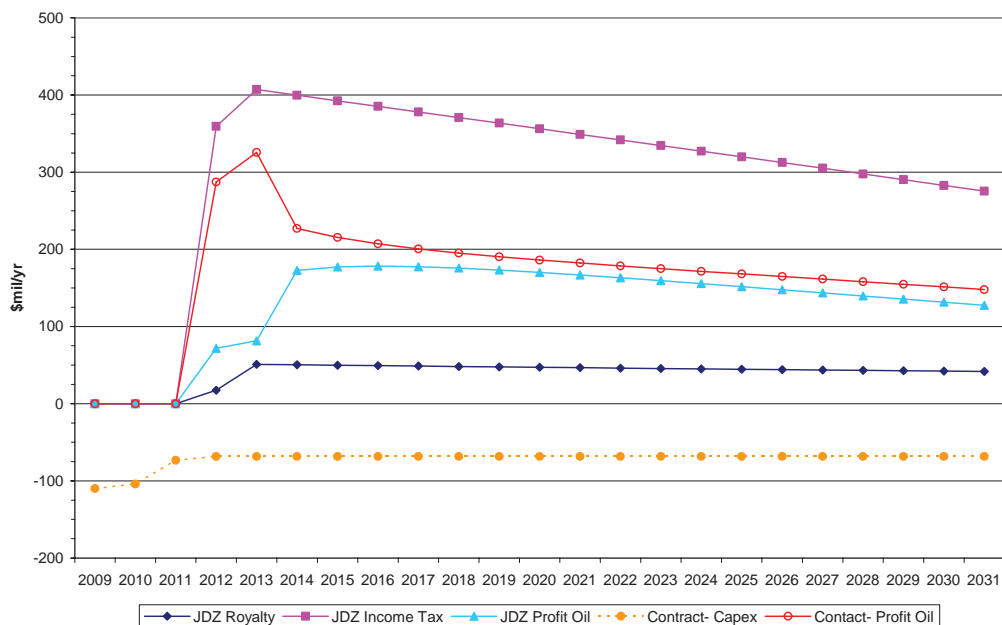
Case B: 25% Lower Drill Ship Costs. NAV is reduced slightly to \$0.30. The reason the reduction is not larger is due to the carry ERHC receives which has a major impact on investment returns.

Case C: 50% Higher Reserves. The NAV is increased 38% to \$0.44/share.

Although a profitable field, the returns are not exceptional. Contractors contribute 100% of the capital but receive only 15% of the total cash flow and the JDZ receives the remainder as royalties, income taxes and profit oil collected as a percentage of the after tax profit.

The contractors' financial returns in alternative assumptions are dampened due to the JDZ collecting royalty fees, income taxes and profit share.

Block 2 Economics: JDZ and Contractors





	Block 2 Total, \$mil
Cash Flow Analysis	
JDZ Royalty	289
JDZ Income Tax	2,222
JDZ Profit Oil	825
Contract- Capex	-810
Contact- Profit Oil	1,396
Contractor, Net	587
JDZ Total	3,335
Block Total	3,922
<b>Contractor, % Total</b>	<b>15%</b>
<b>JDZ, % Total</b>	<b>85%</b>

## INVESTMENT CONCLUSION

The market is currently in severe contango (future prices are much higher than current) indicating the optimistic outlook of professional traders and operators. While ERHC's share price has declined nearly 50% from its 2008 high, crude oil being is down 70% over the same period which is encouraging and the stock recovered briskly in recent trading. Oil pricing will be key in the development of the Company's large, deepwater reserves. An oil price recovery coupled with lower FPSO vessel operating rates and firm drilling dates for specific blocks may result in further appreciation for ERHC shares within 2-3 years. Additionally if the undisclosed operator contracting with the Aban Abraham for the first half of 2009 were to relinquish its position, it would be a very positive step for ERHC since the uncertainties of drilling commencement would be resolved to their favor. Another potential for upside is a total renegotiation of the JDA/contractor economic terms, which are favored to the benefit of the JDA at this point, although perhaps not out of line with other countries in the region. Although this might be good news for the contractors, the resulting delays would be a real test for ERHC shareholders. A positive business development initiative enabling ERHC to basically swap out its JDA assets for a position elsewhere that was less capital intensive or offered more immediate financial results is another possible positive outcome. Finally, ERHC is also pursuing new business opportunities and has a \$30 million bank roll which is a great help at this time.

On the other hand, if oil prices remain low operators may look to ERHC to make some concessions since their carried interest position reduces the operators ROI. In addition we deem ERHC's interest in the JDA blocks, 6,7,8 as very speculative and have not included them in our valuation since the blocks received no bidders in the first round, however that could change in a higher price oil market.

We initiate coverage of ERHC Energy Inc. with a neutral rating and a 12-month price target of \$0.32. With a market capitalization currently over \$200 million and \$30 million in cash the Company has great tools to pursue development opportunities. In today's market environment this is a good place to be. Announcement of a successful 'deal' would potentially be additive to the share price since this has not been factored into the current valuation. We will continue to monitor the global oil markets and the Company's progress in its current and future projects and update our assumptions as visibility improves.

**MANAGEMENT****Peter C. Ntephe, Chief Operating Officer and Acting Chief Executive Officer**

Peter C. Ntephe is the Acting Chief Executive Officer of ERHC Energy until the Company's Board of Directors appoints a permanent CEO. Mr. Ntephe was appointed to the position of Chief Operating Officer of ERHC Energy and its subsidiaries in 2008. He served as Corporate Secretary of ERHC Energy from February 2001 to April 2008. Mr. Ntephe has had a career spanning 20 years in corporate law and governance. He has also worked in the public sector, as Chief Legislative Aide to Chairman of the Senate Committee for Judiciary and Legal Matters, National Assembly of Nigeria from 1999–2001. Mr. Ntephe has a bachelor's and two master's degrees in law, the second being a specialization in regulation issues from the University of London. He also has a Master of Science from the University of Oxford. Mr. Ntephe teaches business law as part of adjunct faculty at the International Business Program of the Business School, American Intercontinental University, London.

**Daniel Gralla, Vice President Technical**

Daniel S. Gralla is the Vice President Technical of ERHC Energy Inc. and its subsidiaries. Mr. Gralla is in charge of Technical Matters for the Company and its subsidiaries with the primary responsibility of directing the day-to-day work activities of ERHC's technical functions. Mr. Gralla has 25 years of technical experience as a petroleum engineer working for both major and independent oil and gas exploration and production companies. He has worldwide experience, having lived and worked in North America, Europe, and Africa. He has extensive offshore experience that will provide value to ERHC's activities related to the Nigeria-São Tomé and Príncipe Joint Development Zone and the São Tomé and Príncipe Exclusive Economic Zone. Mr. Gralla has a Bachelor of Science in Petroleum Engineering from the Colorado School of Mines.

**David Bovell, Vice President, Corporate Development**

David A. Bovell is the Vice President of Corporate Development for ERHC Energy Inc. and its subsidiaries. Mr. Bovell's expertise is corporate finance for small- and medium-cap companies, with an emphasis in strategy formulation, business planning, fundraising, stock exchange listings, initial public offerings, and mergers and acquisitions. Prior to joining ERHC in 2008, Mr. Bovell served as Managing Director of Green Corporate Finance Ltd. and as Director of Equity Partners for Emerging Markets. He was previously Finance Director for Antonov PLC, where he initiated the company's listing on the Alternative Investments Market (AIM) of the London Stock Exchange. As Vice President, Corporate Development, he oversees planning and implementation of strategies for corporate growth. His responsibilities include the identification of appropriate opportunities for corporate mergers and acquisitions by ERHC. Mr. Bovell will also pursue future corporate finance options, including stock exchange listings. Mr. Bovell has a Bachelor of Commerce (Honors) in Economics & Financial Management from the University of Cape Town.

**Sylvan Odobulu, Controller**

Sylvan Odobulu has served as Controller of ERHC Energy since June 2006. In this capacity, Mr. Odobulu is the principal accounting officer, responsible for overseeing ERHC's day-to-day operations, preparing ERHC's financial statements and managing the activities of the Company's staff and service providers. Prior to joining ERHC, Mr. Odobulu held various positions with Ernst and Young LLP; Mitchell, Williams and Eds Partnership; United Parcel Services; and Kforce. Mr. Odobulu has a Bachelor of Science in Accounting from the University of North Texas.



## RISKS

### Violence and Pirating

Onshore violence and oil theft has been a problem for years. In June of 2008, Bloomberg reported that the Shell Bonga floating production, storage and offloading (FPSO) vessel, 75 miles offshore, was attacked by armed gunmen resulting in a loss of production. The gunmen were associated with the radical group “The Movement for the Emancipation of the Niger Delta (MEND),” which is a nebulous organization that says it is fighting for local communities to gain greater control of oil resources. They have periodically bombed pipelines and kidnapped expatriate workers since 2005. Shell says up to 400,000 barrels per day (20% of the country’s total) has been shut in due to violence. This was the first attack of an offshore facility, which had been considered safe as compared to the onshore sites. Underlying the violence is the belief that oil money received over the years has enriched the elite politicians and businessmen and little has been done by the Government to help the poor majority. The consequence of these attacks, if any, is in higher insurance and service costs, including vessel day rates.

### Political Corruption

According to the Integrity Research Center, Nigeria, has an integrity Index of 54 which is rated “very weak” in comparison to other countries. Despite these issues, the rule of law is sufficient enough that major oil companies such as Royal Dutch Shell, ExxonMobil, Chevron Corporation and Total continue to invest billions of dollars in the country.

### Dependence on Operating Partners

Each Block operator makes unilateral decisions to proceed with exploration, make capital commitments with other vendors and develop the Block. Each operator (Addax, Sinopec, Anadarko) have other investment options. Addax and Sinopec have secured a commitment for a drill ship for Blocks 2 and 4, but it is possible they could divert the ship to other prospects they control. Blocks 5, 6 and 9 do not have a designated operator. The working assumptions are that each operator of Blocks 2, 3 and 4 moves forward in 2009, and that an operator of Blocks 5, 6 and 9 is selected and exploration begins in 2012.

### Company-Specific Risk

ERHC was served with a subpoena by the U.S. Department of Justice in 2006 and the SEC in 2007 on allegations of illegal payments to foreign officials and violation of the Foreign Corrupt Practices Act. All management officers from that time period have been replaced and no charges have been brought against the Company. The U.S. Senate Committee on Homeland Security subpoenaed records in 2007. The U.S. Internal Revenue Service has begun an audit of the Company’s 2006 tax return and believes additional taxes of about \$1 million are due. The Company has sued the JDA regarding their claims to Blocks 5, 6 and 9.

Although the Company has signed cost-sharing contracts with the operators, there remains the possibility that they will be renegotiated. The capital cost carry provisions are quite favorable to ERHC and come at the expense of their partners.



12-MONTH PRICE CHART



Income Statement				
All Figures in US\$				
FY Ending September 30,	3QFY08	2QFY08	1QFY08	4QFY07
Operating costs and expenses:				
General and administrative expenses	820,462	1,163,172	1,011,447	1,370,721
Depreciation, depletion and amortization	8,330	7,068	6,720	6,651
Loss from operations	(828,792)	(1,170,240)	(1,018,167)	(1,377,372)
Other income and (expenses):				
Interest income	225,079	322,962	431,863	457,038
Interest expense	(460)	(461)	(461)	(461)
Total other income and expenses, net	224,619	322,501	431,402	456,577
Loss before benefit for income	(604,173)	(847,739)	(586,765)	(920,795)
Benefit for income taxes				
Current	-	-	480,000	237,759
Deferred	-	-	(480,000)	480,000
Total benefit for income taxes	-	-	-	717,759
Net loss	(604,173)	(847,739)	(586,765)	(203,036)
Net loss per common share - basic and diluted	(0.001)	(0.001)	(0.001)	(0.000)
Weighted average number of common shares outstanding - basic and diluted	722,238,569	722,238,569	722,016,830	720,966,165



Balance Sheet				
All Figures in US\$				
FY Ending September 30,	3QFY08	2QFY08	1QFY08	4QFY07
<b>Assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents	32,401,450	33,037,157	33,970,197	34,721,933
Prepaid expenses and other current assets	214,459	267,666	168,486	179,955
Deferred tax asset	-	-	-	480,000
Income tax refundable	2,048,758	2,048,758	2,048,758	1,568,758
<b>Total current assets</b>	<b>34,664,667</b>	<b>35,353,581</b>	<b>36,187,441</b>	<b>36,950,646</b>
DRSTP concession fee	2,839,500	2,839,500	2,839,500	2,839,500
Furniture and equipment, net	74,424	81,661	57,775	64,495
<b>Total assets</b>	<b>37,578,591</b>	<b>38,274,742</b>	<b>39,084,716</b>	<b>39,854,641</b>
<b>Liabilities and shareholders' equity</b>				
<b>Current liabilities:</b>				
Accounts payable and accrued liabilities	5,037,955	5,128,417	4,999,549	5,183,979
Accounts payable and accrued liabilities, related parties	8,275	10,900	102,464	238,614
Accrued interest	8,258	7,797	7,336	6,876
Asset retirement obligation	485,000	485,000	485,000	485,000
Current portion of convertible debt	33,513	33,513	33,513	33,513
<b>Total current liabilities</b>	<b>5,573,001</b>	<b>5,665,627</b>	<b>5,627,862</b>	<b>5,947,982</b>
<b>Commitments and contingencies:</b>				
<b>Shareholders' equity:</b>				
Common stock	72,224	72,224	72,224	72,193
Additional paid-in capital	91,964,474	91,964,474	91,964,474	91,827,545
Deficit accumulated in the development stage	(60,031,108)	(59,427,583)	(58,579,844)	(57,993,079)
<b>Total shareholders' equity</b>	<b>32,005,590</b>	<b>32,609,115</b>	<b>33,456,854</b>	<b>33,906,659</b>
<b>Total liabilities and shareholders' equity</b>	<b>37,578,591</b>	<b>38,274,742</b>	<b>39,084,716</b>	<b>39,854,641</b>



Statement of Cash Flows All Figures in US\$ FY Ending September 30,	3QFY08	2QFY08	1QFY08	4QFY07
<b>Cash flows from operating activities</b>				
Net loss	(603,525)	(847,738)	(586,766)	(203,036)
Adjustments to reconcile, net				
Depreciation, depletion and amortization expenses	8,330	7,067	6,721	6,651
Deferred income taxes	-	480,000	-	480,000
Compensatory stock options	-	-	48,460	56,435
Common stock issued for board compensation	88,500	-	-	-
Changes in operating assets and liabilities:				
Prepaid expenses and other current assets	53,207	(99,180)	11,469	20,308
Income tax refundable	-	(480,000)	-	(1,197,758)
Other assets	-	-	-	8,921
Accounts payable and other accrued liabilities	(91,383)	129,329	(183,970)	(301,708)
Accrued federal income taxes	-	-	-	(2)
Accounts payable, and accrued liabilities, related party	(91,125)	(91,564)	(47,650)	93,700
Accrued interest - related party	1,382	-	-	(1,392)
Net cash used by operating activities	(634,614)	(902,086)	(751,736)	(1,037,881)
<b>Cash flows from investing activities</b>				
Purchase of furniture and equipment	(1,093)	(30,954)	-	-
Net cash provided (used) by investing activities	(1,093)	(30,954)	-	-
Net increase (decrease) in cash and cash equivalents	(635,707)	(933,040)	(751,736)	(1,037,881)
Cash and cash equivalents, beginning of period	33,037,157	33,970,197	34,721,933	35,759,814
Cash and cash equivalents, end of period	32,401,450	33,037,157	33,970,197	34,721,933
<b>Supplemental disclosure of cash flow information</b>				
Cash paid for income taxes	-	-	-	(103,108)



Table 1

## ERHC Interest, Risked Prospective Hydrocarbon Resources

Block	Oil MMbbl	Gas, MMBEQ	Total, MMBEQ	ERHC Working Interest, %	Total OOIP, MMBEQ (1),(2)	Total OOIP, MMbbl (2)
2	38	8	46	22%	210	174
3	9	2	11	10%	106	88
4	88	14	103	19.5%	527	453
Total	136	24	160		843	715

## ERHC Interest, Unrisked Prospective Hydrocarbon Resources

Block	Oil MMbbl	Gas, MMBEQ	Total, MMBEQ	ERHC Working Interest, %	Total OOIP, MMBEQ (1),(2)	Total OOIP, MMbbl (2)
2	77	16	93	22%	421	350
3	27	6	33	10%	325	270
4	232	41	273	19.5%	1,399	1,190
Total	336	62	398		2,145	1,810

Most probable basis (P50)

(1) Original Oil in Place, for the entire Block, calculated per ERHC WI%, includes gas

(2) Gas resources are ignored in valuation calculations per discussion

Source: Netherland Sewell and Associates, Inc, 2/12/2009



Table 2

## ERHC Operating Assumptions

Block Operator		2 Sinopec	3 Anadarko	4 Addax	5, 6, 9 TBD
Resource Potential, MMbbl	Risked, 3P	174	87	444	200
Original Oil In Place Risked Reserves, MMbbl		174	87	444	200
% Recovery		35%	35%	35%	35%
Est initial production, M BOPD		11	6	28	14
Decline Rate		3%	3%	3%	4%
Total Production, MMbbl		61	31	155	70
# exploratory/stepout wells		1	1	2	2
# drilling days @ days/well	90	90	90	180	180
Drill ship day rate,000\$		600	600	600	600
Drill Ship, mil \$		54	54	108	108
Drill operator costs,\$/well		45	45	45	45
# development wells @ 10000 BOPD		1	1	2	2
Completion, subsea, @\$mil/well	30	30	30	60	60
Development Capital, \$mil		75	75	150	150
FPSO Capacity at initial prod rate		11	6	28	14
FPSO est Cost, \$ mil *		321	212	562	737
FPSO est rental @10%/yr, \$mil	1.5	48	32	84	111
Maintenance Capital,% Total		3%	3%	3%	3%
Operating Costs, \$/B		8	8	8	8
ERHC working interest		22%	10%	19.5%	15.0%
ERHC Carry Reduction, % cash flow		50%	50%	50%	50%
Depreciation rate, %/yr		5%	5%	5%	5%
Initial Oil Price, \$/B		70	70	70	70
Price Change, %/yr	Oil	3%	3%	3%	3%
Price Change, %/yr	Capex	0%	0%	0%	0%
JDZ Tax Rate, % Profit		50%	50%	50%	50%
Investment Tax Allowance		50%	50%	50%	50%
(*) Pro rate at 0.6 factor					
(*) Recent Vessel Factors; MBOPD		160	160	160	160
(*) Cost \$mil		1600	1600	1600	3200

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