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VAALCO Energy Announces 2009 Fourth Quarter and Full-Year Results

HOUSTON, March 16 /PRNewswire/ -- VAALCO Energy, Inc. (NYSE: EGY) today reported results for the fourth quarter and full-year of 2009.

(Logo: http://www.newscom.com/cgi-bin/prnh/20100316/NY71495LOGO)

For the 2009 fourth quarter, VAALCO reported net income attributable to VAALCO of $2.2 million, or $0.04 per diluted share, compared to net loss attributable to VAALCO of $7.5 million, or ($0.13) per diluted share, for the comparable period in 2008. Fourth quarter 2009 revenues were $32.6 million compared to $16.5 million in the fourth quarter of 2008. Fourth quarter 2009 results reflect increased sales volumes and significantly higher crude prices when compared to the fourth quarter of 2008.

For the year ended December 31, 2009, VAALCO reported a net loss attributable to VAALCO of $7.9 million, or ($0.14) per diluted share, compared to a net income attributable to VAALCO of $29.7 million, or $0.50 per diluted share, for the year ended December 31, 2008. 2009 income was negatively impacted by previously reported dry hole exploration costs of $33.4 million and a 36% decline in the average crude oil sales price.

"We delivered a year-over-year 5% increase in production volumes during 2009 despite the operating challenges we faced last year," said Robert Gerry, Chairman and CEO of VAALCO. "The start of our 2010 drilling program, together with VAALCO's strong balance sheet and cash flow, reinforce our confidence that we can capitalize on our opportunities to further grow VAALCO's reserves and enhanced value for shareholders."

2009 operating highlights include:

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--  Replaced nearly 100% of production and maintained a proved reserve base
    of 7.4 million barrels oil equivalent;
--  Produced a record annual amount of crude at 8.3 million gross barrels
    (1.9 million net to VAALCO);
--  Achieved a record number of wells on production, with eight wells on
    production offshore Gabon – four in the Etame field, two in the Ebouri
    field, and one each in the Avouma and South Tchibala fields;
--  Successfully negotiated exploration period extensions for VAALCO's
    blocks both offshore and onshore Gabon, affording VAALCO time to fully
    evaluate leads and prospects; and
--  Maintained a strong balance sheet with cash balances of $97 million,
    including funds in escrow, and no debt as of December 31, 2009.
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Exploration and Development Activities

The Company's cash balances combined with cash flow from operations will be more than sufficient to fund the Company's 2010 expected capital expenditure budget projection of

$25.0 million to $40.0 million for its exploration and development programs in Gabon and Angola.

Gabon:

As previously announced, the contracted rig, the "Sapphire Driller", is on location at the Ebouri Platform offshore Gabon and commenced drilling the first of four wells on March 10, 2010.

The following four wells, in order, are scheduled to be drilled:

- Ebouri 4H Horizontal development well in the Ebouri field to establish additional production while testing a deeper horizon and potential future development locations. Estimated drilling time of six weeks at a gross cost of approximately $25.4 million ($7.7 million net to VAALCO). Initial production estimated at 4,000 barrels per day gross.

- Ebouri 3HHorizontal workover to replace two electrical submersible pumps and return well to optimal production of approximately 3,000 gross barrels per day. Three weeks drill time at a gross cost of approximately $5.4 million ($1.5 million net to VAALCO).

- SE EtameMove rig approximately 14 kms to drill an exploration well to evaluate the Gamba and the deeper Dentale sandstones. Estimated drilling time of five weeks with a gross cost of $13.8 million ($4.2 million net to VAALCO). Potential gross reserves of 27 million barrels.

- Etame 7HHorizontal development well in known separate fault block in the Etame field to add additional production of approximately 4,000 gross barrels per day. Estimated drilling time including installation of sub-sea tree is approximately eight weeks at a gross cost of $44.0 million ($13.4 million net to VAALCO).

VAALCO is continuing discussions with its partners regarding further wells offshore Gabon. As previously announced, for 2010, VAALCO has budgeted for two additional exploration wells in the Etame Marin concession. Depending on agreements with the Company's partners and the continued availability of the Sapphire Driller jack-up rig, one of these wells may be drilled following completion of the drilling program described above.

Angola:

VAALCO has a production sharing contract for a 40% working interest in Block 5 offshore Angola. The Company has acquired approximately 1,700 square kilometers of seismic data over a portion of the Block 5 and has been interpreting the seismic data to assist in determining the location for two wells. Plans to drill two explorations wells have been delayed due to a non-performing partner. In early 2010, the Company began the process of acquiring the interest of the non-performing partner and is working with the government of Angola regarding a time extension for the drilling of the commitment wells. If the Company is successful in obtaining the extension, VAALCO expects the drilling to take place in the first half of 2011.

2009 Fourth Quarter Financial Results Discussion

During the fourth quarter of 2009, VAALCO sold 452,000 net barrels of crude oil equivalent at an average price of $72.19 per barrel compared to 399,000 net barrels of crude oil equivalent at an average price of $41.29 per barrel in the fourth quarter of 2008. Operating income was $17.3 million in the fourth quarter of 2009 compared to an operating loss of $89,000 in the fourth quarter of 2008.

Total production expenses of $6.1 million for the 2009 fourth quarter compared to $3.6 million in the prior year quarter. The increase in year-over-year expenses was partly due to a crude oil inventory buildup in the fourth quarter of 2008, which reduced production expenses by $1.2 million. Any production expenses associated with unsold crude oil inventory are capitalized. Other increases in production expense in the fourth quarter of 2009 were primarily attributable to increased FPSO fuel and volume-related processing costs.

Exploration expense was $1.6 million in the fourth quarter of 2009 compared to $6.6 million of costs in the comparable period in 2008. The change was primarily due to unsuccessful exploration well costs incurred in the fourth quarter of 2008.

Income tax expenses for the fourth quarter of 2009 were $13.9 million compared to $7.8 million in the 2008 fourth quarter. The increase in income taxes reflects higher oil prices and crude oil sales volumes, which increased taxable revenues.

2009 Full-Year Financial Results Discussion

Total oil and gas sales for 2009 were $115.3 million as compared to $169.5 million for 2008. In 2009, the Company sold approximately 1,936,000 net barrels at an average price of $59.54 per barrel from the Etame Marin block. In 2008, the Company sold approximately 1,822,000 net barrels at an average price of $92.87 per barrel from the Etame Marin block. The 5% increase in sales volume for full-year 2009 was more than offset by a 36% decline in prices, which resulted in the lower year-over-year revenues. Operating income in 2009 was $33.0 million compared to $106.5 million for 2008.

Additions to property and equipment for the year ended December 31, 2009 were $22.3 million consisting primarily of the two development wells on the Ebouri platform.

Production expenses for 2009 were $22.0 million, as compared to $18.5 million for 2008. Production expenses were higher in 2009 primarily due to higher sales volumes and higher FPSO costs. The Company matches production expenses with crude oil sales. Any production expenses associated with unsold crude oil inventory are capitalized.

Exploration cost for 2009 was $36.5 million as compared to $14.9 million for 2008 and primarily reflects the previously announced unsuccessful exploration wells as well as seismic processing costs in Block 5 Angola and the Mutamba Iroru block in Gabon.

In 2009, the Company incurred $36.9 million of income taxes compared to $73.0 million paid in 2008, which were paid in Gabon. The decreased tax in Gabon in 2009 versus 2008 was due to the lower crude oil sales prices.

Balance Sheet

On December 31, 2009, the Company had cash balances of $80.6 million and funds in escrow of $16.4 million, compared to cash balances of $125.4 million and funds in escrow of $23.1 million on December 31, 2008.

Share Repurchase Activity

On June 24, 2009, the Company announced that its Board of Directors had authorized the repurchase of up to $10 million of the Company's common stock. During the quarter ended December 31, 2009, the Company repurchased 624,661 shares at an average price of $4.48 per share totaling $2.8 million. Total repurchases under this program as of December 31, 2009 are 2,327,779 shares at an average price of $4.30 totaling $10.0 million.

Discretionary Cash Flow

Discretionary cash flow measures the amount of cash generated by the Company that can be used as working capital, to reduce debt, or for future investment activities. Discretionary cash flow is presented because management believes it is a useful adjunct to net cash flow provided by operating activities under accounting principles generally accepted in the United States (GAAP). The measure is widely used by investors and professional research analysts in the valuation, comparison, rating and investment recommendations of companies within the oil and gas exploration and production industry. Discretionary cash flow can be reconciled to net cash provided by operating activities in the Statement of Consolidated Cash Flows filed with the SEC as follows:

Unaudited - (thousands of dollars)	Three Months Ended December 31,		Year Ended December 31,	
	2009	2008	2009	2008
Discretionary Cash Flow	9,166	416	51,514	66,578
Working Capital Changes, net of non-cash	(5,407)	40,635	(28,021)	40,000
Net cash provided by operating activities	3,759	41,051	23,493	106,578

Conference Call

As previously announced, the Company will hold a conference call to discuss its fourth quarter and full-year 2009 results on Wednesday, March 17, 2010 at 10:00 a.m. Central Time (11:00 a.m. Eastern Time). Interested parties may participate by dialing 1 (800) 288-8967. International parties may dial 1 (612) 332-0228. The confirmation code is 148791. This call will also be webcast on VAALCO's web site at www.vaalco.com.

An audio replay will be available beginning approximately one hour after the end of the conference call through April 17, 2010 on the Company's website and by dialing 1 (800) 475-6701. International parties may dial 1 (320) 365-3844. The confirmation code is 148791.

Summary financial results for the quarter and full year are tabulated below.

Abbreviated Financial Results:

(Unaudited - in thousands of dollars)	Three Months Ended Dec. 31,		Year Ended Dec. 31,	
	2009	2008	2009	2008
Revenues	$32,630	$16,470	$115,298	$169,525
Operating costs and expenses	15,297	16,559	82,279	63,053
Operating Income (Loss)	17,333	(89)	33,019	106,472
Other Income (Expense)	(612)	706	(261)	2,275
Income tax expense	(13,899)	(7,771)	(36,902)	(73,014)
Income attributable to noncontrolling interest	(598)	(297)	(3,745)	(6,011)
Net Income attributable to VAALCO	$2,224	$(7,452)	$(7,889)	$29,722
Basic Income per Common Share	$0.04	($0.13)	($0.14)	$0.51
Diluted Income per Common Share	$0.04	($0.13)	($0.14)	$0.50

Summary Statistics:

	Three Months Ended December 31,		Year Ended December 31,	
(Unaudited)	2009	2008	2009	2008
Net oil and gas sales (MBOE)	452	399	1,936	1,826
Average price ($/bbl)	$72.19	$41.29	$59.54	$92.81
Production costs ($/bbl)	$13.56	$8.99	$11.35	$10.11
Depletion costs ($/bbl)	$11.23	$6.84	$10.72	$10.37
General and administrative costs ($/bbl)	$5.45	$9.23	$4.95	$5.90
Debt/Proved reserves ($/BOE)	-	-	$0.00	$0.67
Capital Expenditures ($thousands)	-	-	22,300	25,700
Debt/Capitalization ($/$)	-	-	$0.00	$0.03
Cash and cash equivalents ($thousands)	-	-	80,570	125,425
Working capital ($thousands)	-	-	81,021	89,243
Total long term debt ($thousands)	-	-	0	5,000

Basic and diluted share information:

Item	Year Ended December 31, 2009	December 31, 2008
Basic weighted average common stock issued and outstanding	57,408,223	58,675,789
Dilutive options	0	611,081
Total diluted shares	57,408,223	59,286,871

Reserve Information

	Oil (MBbls)	Gas (MMcf)
BALANCE AT DECEMBER 31, 2008	7,422	30
Production	(1,936)	(6)
Revisions of previous estimates	783	(1)
Extensions and discoveries	1,094	--
BALANCE AT DECEMBER 31, 2009	7,363	23

Forward-Looking Statements

This document includes "forward-looking statements" as defined by the U.S. securities laws. Forward-looking statements are those concerning VAALCO's plans, expectations, and objectives for future drilling, completion and other operations and activities. All statements included in this document that address activities, events or developments that VAALCO expects, believes or anticipates will or may occur in the future are forward-looking statements. These statements include future production rates, expected capital expenditures, prospect evaluations, drilling timing, completion and production timetables, and costs to complete wells. These statements are based on assumptions made by VAALCO based on its experience perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate in the circumstances. Such statements are subject to a number of assumptions, risks and uncertainties, many of which are beyond VAALCO's control. These risks include, but are not limited to, inflation, lack of availability of goods, services and capital, environmental risks, drilling risks, foreign operational risks and regulatory changes. Investors are cautioned that forward-looking statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements. These risks are further described in VAALCO's annual report on Form 10-K for the year ended December 31, 2009 and other reports filed with the SEC which can be reviewed at http://www.sec.gov, or which can be received by contacting VAALCO at 4600 Post Oak Place, Suite 309, Houston, Texas 77027, (713) 623-0801.

About VAALCO

VAALCO Energy, Inc. is a Houston based independent energy company principally engaged in the acquisition, exploration, development and production of crude oil. VAALCO's strategy is to increase reserves and production through the exploration and exploitation of oil and natural gas properties with high emphasis on international opportunities. The Company's properties and exploration acreage are located primarily in Gabon and Angola, West Africa.

Investor Contact	Media Contact
Greg Hullinger	Barrett Golden / Tim Lynch
Chief Financial Officer	Joele Frank, Wilkinson Brimmer Katcher
713-623-0801	212-355-4449

SOURCE VAALCO Energy, Inc.