November 10, 2014

VAALCO Energy Announces Third Quarter 2014 Results

HOUSTON, Nov. 10, 2014 /PRNewswire/ -- VAALCO Energy, Inc. (NYSE: EGY) today reported net income of $3.1 million or $0.05 per diluted share for the third quarter of 2014 compared to net income of $2.4 million or $0.04 per diluted share for the comparable period in 2013. Third quarter 2014 revenues were $24.5 million compared to $37.7 million in the third quarter of 2013, primarily due to the lower number of barrels lifted from the Company's offshore Gabon operations and a decrease in the realized sales price per barrel in the third quarter of 2014 compared to the same period in 2013.

Third quarter 2014 highlights include the following:

- Two new production platforms were successfully installed exactly on schedule in the shallow waters offshore Gabon on the Etame Marin block
- Drilling on the first of six development wells on the Etame Marin block offshore Gabon commenced in October 2014
- The Company entered into Subsequent Exploration Phase ("SEP") on Block 5 offshore Angola and drilling of the first well expected to begin in December 2014

Steve Guidry, CEO, commented: "During the third quarter, VAALCO made significant progress in pursuing near-term development and exploration opportunities. As we recently announced, VAALCO successfully completed the planned installation of two production platforms offshore Gabon and we have commenced drilling of the first of at least six new development wells. Additionally, entering into the SEP offshore Angola removes the uncertainty of an exploration license extension and allows us to focus on commencing our first exploration well in December. As we move towards the end of 2014, we remain excited by the initiatives we have underway to further grow our business and drive shareholder value."

Mr. Guidry continued, "Our results this quarter were impacted by lower prices and reduced liftings due to scheduled maintenance performed by the operator of our FPSO facility located offshore Gabon. More significantly, the operational progress we made during the quarter is expected to provide for increased production in future periods as our new development wells come on stream."

Exploration and Development Update

The Company provided the following update on its exploration and development programs:

Gabon

During the third quarter of 2014, VAALCO continued to execute its plans for the near- and long-term optimization of production offshore Gabon. In September 2014, the Company and its partners successfully completed the planned installation of the two new production platforms for the additional development of the Etame Marin block, with one platform located in the Etame field and the second platform located between the Southeast Etame and North Tchibala fields. The Transocean "Constellation II" jack-up rig, which has been contracted to drill the six development wells from the two new platforms, has moved onto location and began drilling the first well in October 2014. The total cost to build and install the platforms is expected to be $336.0 million, $102.0 million net to VAALCO. The cost of the wells is not included in the platform costs.

Through the third quarter of 2014, the Company continued to work on analysis and options for re-establishing production from the two wells in the Ebouri field, which, as previously announced, contain hydrogen sulfide ("H_2S") in the oil produced. The Company and its partners have entered the next phase that includes front-end engineering design and cost projections. The final investment decision is expected to be made in the first quarter of 2015 with the goal of re-establishing production from the area impacted by H_2S in the first half of 2017. Additionally, on November 4, 2014, the Company announced the temporary shut-in of the 2-H well in the Ebouri field due to a pressure communication issue.

In October 2014, the Company received a provisional audit report related to our Etame Marin block operations from the Gabon Taxation Department as part of a special industry-wide audit of business practices and financial transactions in the Republic of Gabon. With limited information pertaining to the report, the Company currently cannot reasonably estimate a range of potential loss, if any, as a result of the audits. While the ultimate outcome of the claim and impact on VAALCO cannot be predicted, we believe that the claims are unfounded. In November 2014, the Company responded to the Gabon Taxation Department requesting joint meetings to advance the resolution of this matter.

Onshore Gabon, VAALCO and its concession partner, Total Gabon, continue to work with the government of Gabon to obtain approval of a revised production sharing contract for the Mutamba Iroru block. All three parties reached agreement and signed a term sheet outlining the variable components that will feature in the new contract. Once the contract is approved, the plan of development will then be submitted.

Angola

As previously announced, in October 2014, the Company entered into the Subsequent Exploration Phase ("SEP") on Block 5 offshore Angola together with its working interest partner, Sonangol P&P, as provided for in the Production Sharing Agreement signed in 2006 with the Republic of Angola. The SEP extends the exploration license for an additional three year period such that the new expiration date for exploration activities is November 30, 2017.

By entering the SEP, the Company will drill a total of four exploration wells during the exploration extension period and acquire a 3D seismic program covering six hundred square kilometers. The four well obligation includes the two well commitment under the primary exploration period that carries over to the SEP period and the seismic obligation has been satisfied with a seismic program in the outboard segment of the block which is currently being processed and will continue to be processed into 2015.

The Transocean "Celtic Sea" semi-submersible drilling rig has been contracted to drill the first exploration well in the Kindele prospect, a post-salt objective, beginning in December 2014.

Offshore Equatorial Guinea

The Company continues to work with GEPetrol, the block operator, on a joint operatorship model, and with the Ministry of Mines, Industry and Energy regarding timing and budgeting for development and exploration activities.

Financial Results Discussion

During the third quarter of 2014, the Company sold, from its offshore Gabon operation, approximately 255,000 net barrels of oil from two liftings at an average price of $94.57 per barrel, compared to 337,000 net barrels of oil equivalent from three liftings at an average price of $110.54 per barrel in the third quarter of 2013. Quarterly oil sales are a function of the number and size of oil liftings that occur in a calendar quarter from the FPSO and thus do not always closely correlate with production. Produced volumes for the three months ended September 30, 2014 were approximately 411,000 net barrels as compared to approximately 437,000 net barrels produced in the three months ended September 30, 2013.

The Company reported operating income of $6.7 million in the third quarter of 2014 compared to operating income of $8.1 million in the third quarter of 2013.

Total production expenses were $7.1 million in the third quarter of 2014 compared to $12.6 million in the prior year quarter.

Exploration expense was $0.6 million in the third quarter of 2014 compared to $11.1 million of expense in the prior year quarter. Exploration expense in the third quarter of 2014 consists primarily of seismic processing in Angola.

In the third quarter of 2014, the Company recorded a bad debt allowance of $1.8 million related to the uncertainty of receiving reimbursement for value-added tax ("VAT") payments from the government of Gabon. Although the Company is exempt from VAT, the process is the tax is paid to suppliers of goods and services and then a claim is made to and reimbursement is subsequently received from the Gabon government. The Gabon government has been slow in repaying the claims in 2014, and an allowance was recorded to reflect the uncertainty of collection.

Income tax expenses were $3.8 million for the three months ended September 30, 2014 compared to $5.7 million in the third quarter of 2013, all of which was paid to the Republic of Gabon. The lower income tax is primarily attributable to lower sales volumes and a lower percentage of oil allocated as "profit oil" versus "cost oil."

Balance Sheet

At September 30, 2014, the Company had unrestricted cash of $133.5 million. This cash, combined with the cash flow from operations and the IFC loan facility will be sufficient to fund the Company's remaining 2014 capital expenditure budget, and additional working capital requirements resulting from potential growth.

As of September 30, 2014, the Company had borrowings under the IFC credit facility totaling $15.0 million, which are due in full upon maturity in January 2019 at which point it can be extended or converted to a term loan.

Conference Call

As previously announced, the Company will hold a conference call to discuss its third quarter results on Tuesday, November 11, 2014 at 10:00 a.m. Central Time (11:00 a.m. Eastern Time). Interested parties may participate by dialing 1 (800) 230-1059. International parties may dial 1 (612) 234-9959. The confirmation code is 340389. This call will also be webcast on VAALCO's website at www.vaalco.com.

An audio replay will be available beginning approximately one hour after the end of the conference call through December 11, 2014, on the Company's website and by dialing 1 (800) 475-6701. International parties may dial 1 (320) 365-3844. The confirmation code is 340389.

Summary of financial results for the quarter are tabulated below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Unaudited - in thousands of dollars)	2014	2013	2014	2013
Revenues	$24,486	$37,740	$104,659	$110,995
Operating costs and expenses	17,799	29,636	64,789	69,721
Operating (loss) income	6,687	8,104	39,870	41,274
Other expense, net	183	(56)	(185)	(111)
Income tax expense	(3,762)	(5,662)	(18,897)	(24,467)
Net (loss) income - VAALCO Energy, Inc.	3,109	2,386	20,788	16,696
Basic net (loss) income per share attributable to VAALCO Energy, Inc.	$ 0.05	$ 0.04	$ 0.36	$ 0.29
Diluted net (loss) income per share attributable to VAALCO Energy, Inc.	$ 0.05	$ 0.04	$ 0.36	$ 0.29

Other financial results:

(Unaudited)	Three months ended, September 30, 2014	September 30, 2013	Nine months ended September 30, 2014	September 30, 2013
Net oil sales (MBbls)	256	339	992	1,017
Net gas sales (MMCF)	55	74	181	257
Net oil and gas sales (MBOE)	265	351	1,022	1,060
Average oil price ($/bbl)	$94.67	$110.43	$104.68	$107.96
Average gas price ($/MCF)	$4.59	$4.57	$4.66	$4.50
Average price ($/BOE)	$92.36	$107.52	$102.42	$104.68
Production costs, excluding workover costs ($/BOE)	$26.95	$29.84	$19.05	$19.31
Depletion costs ($/BOE)	$16.18	$11.26	$15.11	$10.38
General and administrative costs ($/BOE)	$14.97	$5.39	$10.46	$7.54
Capital Expenditures ($thousands)	$26,370	$10,268	$65,921	$44,569

Basic and diluted share information:

	Three Months Ended September 30, 2014	2013	Nine Months Ended September 30, 2014	2013
Basic weighted average common stock issued and outstanding	57,304,763	56,600,866	57,040,166	57,464,763
Dilutive options	563,540	514,748	535,139	735,445
Total dilutive shares	57,868,303	57,115,614	57,575,305	58,200,208

Forward Looking Statements

This document includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. 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 expected capital expenditures, future drilling plans, prospect evaluations, negotiations with governments and third parties, and reserve and production growth. 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, general economic conditions, oil and gas price volatility, the Company's success in discovering, developing and producing reserves, lack of availability of goods, services and capital, environmental risks, drilling risks, foreign operational risks, and regulatory changes. These and other risks are further described in VAALCO's annual report on Form 10-K for the year ended December 31, 2012, its Form 10-Q for the third quarter filed on November 7, 2013, 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 300, Houston, Texas 77027, (713) 623-0801 . 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. VAALCO disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

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, Angola and Equatorial Guinea in West Africa.

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