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VAALCO Energy Announces 2011 Fourth Quarter and Full-Year Results

HOUSTON, March 12, 2012 /PRNewswire/ -- VAALCO Energy, Inc. (NYSE: EGY) today reported results for the fourth quarter and full-year of 2011.

For the 2011 fourth quarter, VAALCO reported net income attributable to VAALCO of $8.7 million, or $0.15 per diluted share, compared to net income attributable to VAALCO of $8.9 million, or $0.15 per diluted share, for the comparable period in 2010. Fourth quarter 2011 revenues were $67.8 million compared to $38.2 million in the fourth quarter of 2010. Fourth quarter 2011 results reflect higher crude prices and higher sales volumes resulting from four crude liftings in Gabon in the fourth quarter 2011 versus three crude liftings in the fourth quarter 2010. The higher revenues were offset primarily by operating expenses associated with the increased sales volumes, substantially higher income taxes and a non-cash impairment charge on a domestic well in the Granite Wash formation.

For the year ended December 31, 2011, VAALCO reported net income attributable to VAALCO of $34.1 million, or $0.59 per diluted share, compared to $37.3 million, or $0.65 per diluted share, for the year ended December 31, 2010.

Operating income in 2011 was $132.6 million compared to $78.1 million for 2010. The significant increase in operating income in 2011 versus 2010 was attributable to both an 11% increase in sales volumes and higher average crude sales prices of $111.92 per barrel, an increase of $33.47 per barrel.

Robert Gerry, Chairman and CEO, commented: "2011 was an outstanding year for VAALCO with revenues up 56% and income from continuing operations up 73%. Due to the unavailability of drilling rigs towards the end of the year, however, we were forced to postpone our planned drilling until this year thereby paying approximately $93 million in income taxes to the Republic of Gabon, an increase of 165% from the previous year. Even so, we ended the year with cash of nearly $150 million which will support our 2012 drilling programs in Angola, Gabon and the Bakken Shale."

"One of the Company's focus areas in 2012 will be to successfully drill Block 5. We believe that our 1.4 million acres in the Kwanza basin is a very important asset for VAALCO and we expect this to be the year that we bring its potential to fruition."

Exploration and Development Activities

Gabon:

VAALCO produced approximately 7.3 million barrels of oil equivalent offshore Gabon during 2011, 1.9 million barrels net to the Company.

Preparations are continuing for the previously announced multi-well drilling program offshore Gabon, expected to begin in the third quarter of 2012. A jack-up drilling rig has been contracted to drill three new wells plus one workover. One well will be an exploratory effort to be drilled from the Ebouri platform. The well, if unsuccessful from an exploration aspect, can be completed as a development well in the core producing reservoir. At VAALCO's option, the Company can extend the contract to drill an additional two wells.

During 2011, the Company invested in platform modifications to both of the Company's offshore platforms to accommodate the planned 2012 drilling of the wells mentioned above. Additionally, electrical and power generation upgrades were begun on both platforms. The Company also has nearly completed the construction of water knock-out facilities for the Avouma platform. Installation of the facilities is expected in mid-2012.

VAALCO has contracted to have detailed engineering specifications drawn up for a third offshore platform expected to be built in 2013. VAALCO intends to install the platform in the Etame field and drilling is planned to follow in 2014. A possible fourth platform continues to be evaluated by the Company and its block partners to develop the 2010 discovery in the Southeast Etame area as part of future development plans for the Etame Marin block.

Onshore Gabon, seismic reprocessing on the Mutamba Iroru block continues and VAALCO expects to drill an exploration well on the block in the third quarter of 2012.

Angola:

Recent discoveries by other operators confirm the presence of hydrocarbons in high quality pre-salt reservoirs in the Kwanza basin offshore Angola. VAALCO currently holds a 40% interest in Block 5 containing approximately 1.4 million acres in the basin. Earlier exploration by previous operators confirmed the presence of post-salt structures containing hydrocarbons on Block 5, however, due to the low price of oil, none were developed. VAALCO has reprocessed existing 3-D seismic, shot additional 3-D seismic and believes it has drilling opportunities in both the pre-salt and post-salt reservoirs.

VAALCO believes it will have a new partner for Block 5 in 2012. Depending on timing and the availability of a drilling rig, VAALCO may consider the drilling of at least one well 100% for its own account. With post-salt accumulations already known and with the addition of pre-salt possibilities, VAALCO remains confident and committed to the upside potential of Block 5.

United States:

In September 2011, the Company acquired a 65% working interest in approximately 22,000 gross acres (14,300 net acres) covering the Middle Bakken and deeper formations in the East Poplar unit and the Northwest Poplar field in Roosevelt County, Montana. Pursuant to the terms of the acquisition agreement, VAALCO is required to drill three wells at its sole cost, one of which must be drilled by June 1, 2012 and the remaining two wells which must be drilled by the end of 2012. A vertical exploration well was spudded in December 2011 to evaluate the formations which meets the time requirement for drilling the first well. The well completed drilling in early March 2012 evaluating the Bakken and several deeper formations. VAALCO is currently in the process of analyzing the logs which are encouraging and the Company is awaiting lab results of the core sections to better understand the well results. Two additional wells are expected to be drilled on this property in 2012 in accordance with the terms of the agreement.

In May 2011, VAALCO acquired a 70% working interest in approximately 5,200 gross acres (3,640 net acres) in Sheridan County, Montana in the Middle Bakken formation. VAALCO expects to drill two wells on this property in 2012.

VAALCO acquired a 640 acre lease in the Granite Wash formation in north Texas in December 2010 and a 480 acre lease in the same formation in July 2011. The first well on the initial acreage began production in August 2011, and produced approximately 3,656 barrels of oil equivalent and 257 million cubic feet of gas net to VAALCO during 2011. However, VAALCO has determined the well has mechanical problems which have impacted both the production rates and reserve estimates. The Company recorded an impairment on the well in the fourth quarter of 2011. A second well on the initial Granite Wash formation lease began drilling in November 2011 and is expected to begin production in the first half of 2012. The drilling rig has been released after successfully landing the well in the objective reservoir and fracking is expected to begin in mid-March on the well.

2011 Fourth Quarter Financial Results Discussion

During the fourth quarter of 2011, VAALCO sold approximately 623,000 net barrels of oil equivalent at an average price of $111.00 per barrel compared to approximately 441,000 net barrels of oil equivalent at an average price of $87.02 per barrel in the fourth quarter of 2010. Operating income was $38.9 million in the fourth quarter of 2011 compared to operating income of $18.5 million in the fourth quarter of 2010.

Total production expenses for the 2011 fourth quarter were $11.2 million compared to $6.2 million in the prior year quarter. The increase is primarily attributable to expenses associated with having four crude liftings in the fourth quarter of 2011 versus three crude liftings in the same period in 2010.

Exploration expense was $2.1 million in the fourth quarter of 2011 compared to $4.7 million of costs in the comparable period in 2010. Exploration expense in the fourth quarter of 2011 includes $1.4 million in offshore Gabon seismic acquisition costs. Exploration expense in the fourth quarter of 2010 includes $2.6 million for the unsuccessful Omangou exploration well offshore Gabon.

Income tax expenses for the fourth quarter of 2011 were $28.4 million compared to $8.4 million in the 2010 fourth quarter. The higher taxes paid in Gabon resulted from higher sales volumes and higher oil prices which generated a higher volume of tax-bearing profit oil barrels.

2011 Full-Year Financial Results Discussion

Total oil and gas sales for 2011 were $210.4 million as compared to $134.5 million for 2010. In 2011 the Company sold approximately 1,864,000 barrels of oil equivalent at an average price of $111.98 per barrel from the Etame Marin block in Gabon, and approximately 4,000 barrels of oil equivalent and 255 million cubic feet of gas in the United States at an average price of $79.71 per barrel and $5.23 per million cubic feet of gas. In 2010, the Company sold approximately 1,714,000 barrels of oil equivalent at an average price of $78.38 per barrel from the Etame Marin block with revenues from the United States of $0.1 million.

Operating income in 2011 was $132.6 million compared to $78.1 million for 2010. The significant increase in operating income in 2011 versus 2010 was attributable to both the higher sales volumes and higher average crude sales prices mentioned above.

Production expenses for 2011 were $26.7 million as compared to $22.1 million for 2010. The higher production expense in 2011 is the result of higher sales volumes and higher

Domestic Market Obligation payments to the Republic of Gabon. The Company matches production expenses with crude oil sales. Any production expenses associated with unsold crude oil inventory are capitalized.

Exploration cost for 2011 was $5.7 million as compared to $6.8 million in 2010. In 2011, exploration costs were primarily comprised of $2.0 million spent in the United States and Canada (primarily exploration well costs), $1.9 million offshore Gabon (primarily seismic acquisition costs), $0.8 million onshore Gabon (seismic reprocessing costs), $0.4 million in the United Kingdom (residual exploration well costs), and $0.6 million in Angola (exploration well preparation costs).

In 2011, the Company incurred $93.5 million of income taxes as compared to $35.3 million incurred in 2010. All income tax expenses were associated with the Etame Marin block production, and were incurred in Gabon. The higher income tax expense in Gabon in 2011 is the result of higher sales volumes and average oil prices, as well as higher profit barrels subject to taxes.

Balance Sheet

On December 31, 2011, VAALCO had unrestricted cash balances of $137.1 million and $12.2 million of restricted cash primarily reserved to fund Angolan opportunities. VAALCO expects its cash balances plus cash from operations will be sufficient to fund VAALCO's 2012 capital expenditure budget, which is expected to total approximately $75.0 million to further develop the Etame Marin block offshore Gabon with a four well drilling program, an exploration well in the Mutamba Iroru onshore Gabon block, completion of the development well in the Granite Wash formation in Texas and four wells on the Middle Bakken leases in Montana.

Conference Call

As previously announced, VAALCO will hold a conference call to discuss its fourth quarter and full-year results on Tuesday, March 13, 2012, at 10:00 a.m. Central Time (11:00 a.m. Eastern Time). Interested parties may participate by dialing 1 (800) 230-1096. International parties may dial 1 (612) 234-9959. The confirmation code is 237362. 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 13, 2012 on the Company's website and by dialing 1 (800) 475-6701. International parties may dial 1 (320) 365-3844. The confirmation code is 237362.

Summary financial results for the quarter are tabulated below.

Abbreviated Financial Results:

(Unaudited - in thousands of dollars)	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010	Year Ended December 31, 2011	Year Ended December 31, 2010
Revenues	$67,767	$38,187	$210,436	$134,472
Operating costs and expenses	28,879	19,639	77,875	56,349
Operating Income	38,888	18,548	132,561	78,123
Other expense, net	235	(11)	1,469	(476)
Income tax expense	(28,422)	(8,421)	(93,468)	(35,260)
Net Income	10,701	10,116	40,562	42,387
Less net income - noncontrolling interest	(1,981)	(1,231)	(6,417)	(5,047)
Net income (Loss) - VAALCO Energy, Inc.	8,720	8,885	34,145	37,340
Basic net income per share attributable to VAALCO Energy, Inc.	$ 0.15	$ 0.16	$ 0.60	$ 0.66
Diluted net income per share attributable to VAALCO Energy, Inc.	$ 0.15	$ 0.15	$ 0.59	$ 0.65

Other financial results:

(Unaudited)	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010	Year Ended December 31, 2011	Year Ended December 31, 2010
Net oil sales (MBbls)	606	439	1,868	1,714
Net gas sales (MMcf)	100	11	255	19
Net sales (MBOE)	623	441	1,911	1,717
Average oil price ($/Bbl)	$111.00	$87.02	$111.92	$78.45
Average gas price ($/Mcf)	$5.09	$3.74	$5.23	$3.07
Production costs ($/BOE)	$18.02	$14.20	$13.99	$12.90
Depletion costs ($/BOE)	$12.62	$16.32	$13.39	$11.68
General and administrative costs ($/BOE)	$3.79	$3.51	$5.45	$4.32
Capital Expenditures ($thousands)	$8,740	$16,970	$32,966	$40,451

	As of September 30, 2011	As of December 31, 2010
Cash and cash equivalents ($thousands)	$137,139	$81,234
Working capital ($thousands)	$137,833	$112,655

Basic and diluted share information:

	Year Ended December 31, 2011	Year Ended December 31, 2010
Basic weighted average common stock issued and outstanding		
Dilutive options	57,047,531	56,465,800
Total dilutive shares	925,050	572,253
	57,972,581	57,038,053

Reserve Information:

	Oil (MBbls)	Gas (MMcf)
BALANCE AT DECEMBER 31, 2010	6,922	23
Production	(1,868)	(255)
Revision of previous estimates	959	31
Extension and discoveries	35	2,126
BALANCE AT DECEMBER 31, 2011	6,048	1,925

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, prospect evaluations, negotiations with governments and third parties, and reserve 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, 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, 2011 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. 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 and Angola, West Africa and the United States.

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