



## VAALCO ENERGY ANNOUNCES OPERATING HIGHLIGHTS AND 2008 FINANCIAL RESULTS

HOUSTON – March 16, 2009 – VAALCO Energy, Inc. (NYSE: EGY) today reported results for the full-year and fourth quarter of 2008. 2008 operating and financial highlights include:

- Replaced 166% of production;
- Increased proved reserves by 19% to 7.4 million barrels oil equivalent;
- Increased discretionary cash flow by 27% to \$66.6 million;
- Increased net income by 56%;
- Maintained strong balance sheet with \$125.4 million of cash and \$5 million of debt as of December 31, 2008.

The Company anticipates continuing its growth in 2009. Highlights include:

- Commenced drilling a second horizontal development well in North Ebouri (EEBOM-3H), with completion and first oil production expected in March 2009;
- Commenced drilling on a gas prospect in the British North Sea in which VAALCO has a 25% working interest;
- Commenced moving the Nabors 864 rig for an exploratory well (N’Gongui-1) onshore Gabon in the Mutamba concession, with drilling expected to commence in late March or early April 2009;
- Plan to drill Southeast Etame prospect offshore Gabon during the 2<sup>nd</sup> or 3<sup>rd</sup> quarter of 2009.

For the twelve months ended December 31, 2008, VAALCO reported net income of \$29.7 million or \$0.50 per diluted share compared to net income of \$19.1 million or \$0.32 per diluted share in the twelve months ended December 31, 2007. Full year 2008 revenues were \$169.5 million compared to \$125.0 million in 2007. Discretionary cash flow (a non-GAAP financial measure) for full year 2008 was up 27% to \$66.6 million compared to \$41.4 million in 2007.

“We are pleased with our 2008 performance as we successfully increased production, proved up further reserves and generated strong cash flow,” said Robert Gerry, Chairman and CEO of VAALCO. “We replaced 166% of our production and increased our reserve base by 19%. With our new development wells in Ebouri coming on line, we will increase production year over year and expect a continued positive performance in 2009. VAALCO’s strong balance sheet and multiple drilling prospects position us well to further grow our reserves and drive enhanced value for VAALCO shareholders in the coming year and beyond.”

As previously announced, VAALCO has expanded its development program with two new development wells (EEBOM-2H and EEBOM-3H) in North Ebouri. With these two new wells, the Company expects total production from the Etame block to be approximately 25,000 barrels of oil per day (bopd), which would maximize the current throughput oil capacity of the Floating Production, Storage and Offloading (FPSO) facility serving the Etame, Avouma / Tchibala and Ebouri fields. In addition, VAALCO plans to drill exploratory wells onshore Gabon in the Mutamba concession and offshore Southeast Etame and Angola. The Company also has a 25% interest in a gas prospect in the British North Sea on which it is currently drilling.

## **2008 Financial Results Discussion**

For the year ended December 31, 2008, VAALCO sold 1,827,000 net barrels of crude oil equivalent at an average price of \$92.81 per barrel compared to 1,759,000 net barrels of crude oil equivalent at an average of \$71.10 per barrel for the twelve months ended December 31, 2007. 2008 operating income was \$106.5 million compared to \$68.7 million for 2007.

Capital expenditures for the year ended December 31, 2008 were \$25.7 million consisting primarily of costs to install the Ebouri platform, drill the appraisal and development well in Ebouri, perform FPSO facility upgrades, and for onshore drilling activities.

Production expenses for 2008 were \$18.5 million as compared to \$15.1 million for 2007. Production expenses were higher in 2008 due to increased volumes sold (17 liftings in 2008 versus 14 liftings in 2007) as well as higher costs for boat rentals, FPSO tariffs, helicopter charges and fuel costs.

Exploration costs for 2008 were \$14.9 million as compared to \$15.3 million for 2007. In 2008, the Company incurred \$9.2 million of expenses for unsuccessful exploration wells, including \$6.4 million in remaining costs for a well in the British North Sea in the first quarter of 2008. In early 2009, the Company drilled two unsuccessful wells, one in the Mutamba Iroru block, onshore Gabon and one offshore in the North Etame area of the Etame Marin block. Costs incurred and charged to expense in the 2008 fourth quarter were \$2.5 million for the onshore Gabon well and \$0.3 million for the North Etame well. The Company's share of the additional estimated costs to be charged to expense in the first quarter of 2009 are \$5.5 million and \$3.8 million for the Gabon and North Etame wells, respectively. 2008 exploration costs also include \$3.0 million in the fourth quarter to acquire and process seismic data in Angola, \$1.1 million for aeromagnetic gravity data acquired over the Mutamba Iroru block onshore Gabon and seismic acquisition and processing costs associated with the Etame Marin block of \$0.7 million.

In 2008, the Company incurred \$73.0 million of income taxes compared to \$48.1 million paid in 2007, which were paid in Gabon. The increased tax in Gabon 2008 versus 2007 was due to higher production rates and oil prices.

On December 31, 2008, the Company had cash balances of \$125.4 million and funds in escrow of \$23.1 million. The Company believes that these cash balances combined with cash flow from operations will be sufficient to fund the Company's 2009 non-discretionary capital expenditure budget of approximately \$56.7 million to further develop the Ebouri field, for exploration programs in Gabon, Angola and the British North Sea and for additional investments in working capital resulting from potential growth.

## Fourth Quarter 2008 Results

VAALCO reported a net loss of \$7.5 million or \$0.13 per diluted share for the fourth quarter of 2008 compared to net income of \$2.0 million or \$0.03 per diluted share for the comparable period in 2007. Fourth quarter 2008 revenues were \$16.5 million compared to \$37.0 million in the fourth quarter of 2007. The 2008 fourth quarter results reflect the overall decline in crude oil prices from the year-ago quarter, which resulted in lower average selling prices for the Company's product, as well as an increase in production and exploration costs as VAALCO ramped up its drilling program.

During the fourth quarter of 2008, VAALCO sold 399,000 net barrels of crude oil equivalent at an average price of \$41.29 per barrel compared to 425,000 net barrels of crude oil equivalent at an average price of \$86.92 per barrel in the fourth quarter of 2007. Operating loss was \$0.1 million in the fourth quarter of 2008 compared to operating income of \$17.4 million in the fourth quarter of 2007.

## Discretionary Cash Flow

Discretionary cash flow (a non-GAAP financial measure) shows 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		Twelve Months Ended	
	December 31,		December 31,	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Discretionary Cash Flow	416	16,490	66,578	52,220
Working Capital Changes, net of non-cash	<u>40,635</u>	<u>5,076</u>	<u>40,000</u>	<u>(8,988)</u>
Net cash provided by operating activities	41,051	21,566	106,578	43,232

## Conference Call

As previously announced, the Company will hold a conference call to discuss its fourth quarter and full-year 2008 results on Tuesday, March 17, 2009 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 990472. This call will also be webcast on VAALCO's web site at [www.vaalco.com](http://www.vaalco.com).

An audio replay will be available beginning approximately one hour after the end of the conference call through April 17, 2009 on the Company's website and by dialing 1 (800) 475-6701. International parties may dial 1 (320) 365-3844. The confirmation code is 990472.

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

**Abbreviated Financial Results:**

Unaudited - (thousands of dollars)	<u>Three Months Ended Dec. 31,</u>		<u>Year Ended Dec. 31,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenues	16,470	36,957	169,525	125,044
Operating costs and expenses	<u>16,559</u>	<u>19,529</u>	<u>63,053</u>	<u>56,371</u>
Operating Income (Loss)	(89)	17,428	106,472	68,673
Other Income (Expense)	706	808	2,275	2,940
Income tax expense	(7,771)	(14,813)	(73,014)	(48,081)
Gain (loss) from discontinued operations	--	--	--	(51)
Minority Interest in earnings of subsidiaries	<u>(297)</u>	<u>(1,438)</u>	<u>(6,011)</u>	<u>(4,429)</u>
Net Income	(7,451)	1,985	29,722	19,052
Basic Income per Common Share	(\$0.13)	\$0.03	\$0.51	\$0.32
Diluted Income per Common Share	(\$0.13)	\$0.03	\$0.50	\$0.32

**Summary Statistics:**

(Unaudited)	<u>Three Months Ended December 31,</u>		<u>Year Ended December 31,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Net oil and gas sales (MBOE)	399	425	1,827	1,759
Average price (\$/BOE)	\$41.29	\$86.92	\$92.81	\$71.10
Production costs (\$/bbl)	\$8.99	\$9.49	\$10.11	\$8.57
Depletion costs (\$/bbl)	\$6.84	\$10.41	\$10.37	\$10.21
General and administrative costs (\$/bbl)	\$9.23	\$4.45	\$5.90	\$4.55
Debt/Proved reserves (\$/BOE)	-	-	\$0.67	\$0.80
Capital Expenditures (\$thousands)	-	-	25,700	14,520
Debt/Capitalization (\$/\$)	-	-	\$0.03	\$0.04
Cash and cash equivalents (\$thousands)	-	-	125,425	76,450
Working capital (\$thousands)	-	-	89,243	85,779
Total long term debt (\$thousands)	-	-	5,000	5,000

**Basic and diluted share information:**

<u>Item</u>	<u>Year Ended</u>	
	<u>December 31, 2008</u>	<u>December 31, 2007</u>
Basic weighted average common stock issued and outstanding	58,675,789	59,133,888
Dilutive options	<u>611,081</u>	<u>957,034</u>
Total diluted shares	<u>59,286,871</u>	<u>60,090,922</u>

## Reserve Information

	Oil (MBbls)	Gas (MMcf)
BALANCE AT DECEMBER 31, 2007	6,214	61
Production	(1,824)	(15)
Revisions of previous estimates	1,242	(16)
Extensions and discoveries	1,790	--
BALANCE AT DECEMBER 31, 2008	7,422	30

## 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, completion and production timetables and costs to complete well. 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, 2007 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.

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