
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2005

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-20928

VAALCO Energy, Inc.

(Exact name of small business issuer as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

**4600 Post Oak Place
Suite 309
Houston, Texas**
(Address of principal executive offices)

76-0274813
(I.R.S. Employer
Identification No.)

77027
(Zip code)

(713) 623-0801
(Issuer's telephone number, including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No .

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No .

As of March 31, 2005, there were outstanding 56,217,284 shares of common stock, \$0.10 par value per share, of the registrant.

[Table of Contents](#)

VAALCO ENERGY, INC. AND SUBSIDIARIES

Table of Contents

PART I. FINANCIAL INFORMATION

CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

[Consolidated Balance Sheet March 31, 2005 and December 31, 2004](#)

3

[Statements of Consolidated Operations Three months ended March 31, 2005 and 2004](#)

4

[Statements of Consolidated Cash Flows Three months ended March 31, 2005 and 2004](#)

5

[Notes to Unaudited Consolidated Financial Statements](#)

6

[MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS](#)

12

[CONTROLS AND PROCEDURES](#)

17

[PART II. OTHER INFORMATION](#)

19

[Table of Contents](#)

VAALCO ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(Unaudited)

(in thousands of dollars, except number of shares and par value amounts)

	March 31, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 32,001	\$ 27,574
Funds in escrow	1,156	1,152
Receivables:		
Trade	9,299	5,258
Accounts with partners	2,757	3,138
Other	551	209
Crude oil inventory	113	724
Materials and supplies	271	314
Prepayments and other	1,167	1,160
Current assets of discontinued operations	78	78
Total current assets	47,393	39,607
Property and equipment – successful efforts method:		
Wells, platforms and other production facilities	33,775	32,960
Work in progress	6,611	6,508
Equipment and other	917	847
	41,303	40,315
Accumulated depreciation, depletion and amortization	(15,533)	(13,966)
Net property and equipment	25,770	26,349
Other assets:		
Deferred tax asset	1,290	1,290
Funds in escrow	809	807
Other long-term assets	379	319
TOTAL	\$ 75,641	\$ 68,372
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 9,274	\$ 9,280
Current portion of long term debt	2,000	2,250
Current liabilities of discontinued operations	1,787	1,927
Income taxes payable	—	140
Total current liabilities	13,061	13,597
Long term debt	1,000	1,500
Asset retirement obligations	1,350	1,330
Total liabilities	15,411	16,427
Commitments and contingencies:		
Minority interest in consolidated subsidiaries	5,015	4,137
Stockholders' equity:		
Convertible preferred stock, \$25 par value, 500,000 shares authorized; 0 and 6,667 shares issued and outstanding at March 31, 2005 and December 31, 2004, respectively	—	167
Common stock, \$0.10 par value, 100,000,000 authorized shares 57,277,626 and 33,244,244 shares issued with 1,060,342 and 418,294 in treasury at March 31, 2005 and December 31, 2004, respectively	5,728	3,324
Additional paid-in capital	43,585	45,612
Retained earnings/(accumulated deficit)	6,168	(1,094)
Less treasury stock, at cost	(266)	(201)
Total stockholders' equity	55,215	47,808
TOTAL	\$ 75,641	\$ 68,372

See notes to consolidated financial statements.

[Table of Contents](#)

VAALCO ENERGY, INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED OPERATIONS
(unaudited)
(in thousands of dollars, except per share amounts)

	Three months ended March 31, 2005	
	2005	2004
Revenues:		
Oil and gas sales	\$23,144	\$ 8,160
Operating costs and expenses:		
Production expenses	3,070	1,947
Exploration expense	149	116
Depreciation, depletion and amortization	1,587	813
General and administrative expenses	451	(13)
Total operating costs and expenses	5,257	2,863
Operating income	17,887	5,297
Other income (expense):		
Interest income	160	48
Interest expense	(101)	(135)
Other, net	62	27
Total other income (expense)	121	(60)
Income from continuing operations before income taxes, minority interest and discontinued operations	18,008	5,237
Income tax expense	9,876	1,344
Income from continuing operations before minority interest and discontinued operations	8,132	3,893
Minority interest in earnings of subsidiaries	(878)	(434)
Discontinued operations: (Note 6)		
Income/(loss) from discontinued operations net of tax	8	(206)
Net income	\$ 7,262	\$ 3,253
Basic income per share from continuing operations	\$ 0.20	\$ 0.16
Loss from discontinued operations	—	(0.01)
Basic income per share	\$ 0.20	\$ 0.15
Diluted income per share from continuing operations	\$ 0.12	\$ 0.06
Loss from discontinued operations	—	(0.01)
Diluted income per share	\$ 0.12	\$ 0.05
Basic weighted shares outstanding	36,911	21,438
Diluted weighted average shares outstanding	58,388	56,608

See notes to consolidated financial statements.

[Table of Contents](#)

VAALCO ENERGY, INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS
(Unaudited)
(in thousands of dollars)

	Three months Ended March 31,	
	2005	2004
Operating activities:		
Net income	\$ 7,262	\$ 3,253
Depreciation, depletion and amortization	1,588	813
Exploration expense	149	116
Minority interest in earnings of subsidiary	878	434
Change in operating assets and liabilities:		
Funds in escrow	(2)	(1)
Trade receivables	(4,041)	43
Accounts with partners	381	(1,289)
Other receivables	(342)	342
Crude oil inventory	611	(441)
Materials and supplies	43	80
Prepayments and other	(7)	(462)
Accounts payable and accrued liabilities	(651)	578
Income taxes payable	(140)	47
Deferred taxes	—	(95)
Net cash provided by operating activities	<u>5,729</u>	<u>3,418</u>
Investing activities:		
Exploration expense	(149)	(116)
Additions to property and equipment	(483)	(4,245)
Other	(61)	55
Net cash used in investing activities	<u>(693)</u>	<u>(4,306)</u>
Financing activities:		
Proceeds from the issuance of common stock	145	23
Funds in escrow, net	(4)	998
Debt repayment	(750)	(1,000)
Net cash used in financing activities	<u>(609)</u>	<u>21</u>
Net change in cash and cash equivalents	4,427	(867)
Cash and cash equivalents at beginning of period	27,574	22,995
Cash and cash equivalents at end of period	<u>\$32,001</u>	<u>\$22,128</u>
Supplemental disclosure of cash flow information:		
Income taxes paid	<u>\$10,016</u>	<u>\$ 1,389</u>
Interest paid	<u>\$ 63</u>	<u>\$ 96</u>

See notes to consolidated financial statements.

VAALCO ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2005
(Unaudited)

1. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS AND ACCOUNTING POLICIES

The consolidated financial statements of VAALCO Energy, Inc. and subsidiaries (collectively, "VAALCO" or the "Company") included herein are unaudited, but include all adjustments consisting of normal recurring accruals which the Company deems necessary for a fair presentation of its financial position, results of operations and cash flows for the interim period. Such results are not necessarily indicative of results to be expected for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Form 10-KSB for the year ended December 31, 2004, which also contains a summary of the significant accounting policies followed by the Company in the preparation of its consolidated financial statements. These policies were also followed in preparing the quarterly report included herein. The Company follows the successful efforts method of accounting for exploration expense.

VAALCO Energy, Inc., a Delaware corporation, is a Houston-based independent energy company principally engaged in the acquisition, exploration, development and production of crude oil and natural gas. VAALCO owns producing properties and conducts exploration activities as operator of an international consortium in Gabon, West Africa. Domestically, the Company has interests in the Texas Gulf Coast area.

VAALCO's subsidiaries holding interests in Gabon are VAALCO Energy (International), Inc., VAALCO Gabon (Etame), Inc. and VAALCO Production (Gabon), Inc. VAALCO Energy (USA), Inc. holds interests in certain properties in the United States.

2. EARNINGS PER SHARE

The Company accounts for earnings per share in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128 – "Earnings per Share," which establishes the requirements for presenting earnings per share ("EPS"). SFAS No. 128 requires the presentation of "basic" and "diluted" EPS on the face of the income statement. Basic EPS is calculated using the average number of shares of common stock outstanding during each period. Diluted EPS assumes the conversion of preferred stock to common stock and the exercise of all stock options and warrants having exercise prices less than the average market price of the common stock using the treasury stock method.

Diluted Shares consist of the following:

<u>Item</u>	<u>Three months ended March 31, 2005</u>	<u>Three months ended March 31, 2004</u>
Basic weighted average common stock issued and outstanding	36,910,855	21,437,752
Preferred stock convertible to common stock	15,482,256	27,500,000
Dilutive warrants	4,012,656	5,585,159
Dilutive options	1,981,758	2,084,685
Total diluted shares	58,387,525	56,607,596

VAALCO ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2005
(Unaudited)

3. ASSET RETIREMENT OBLIGATION

The Company records the fair value of a liability for an asset retirement obligation (“ARO”) in the period in which it is incurred by capitalizing it as part of the carrying amount of the long-lived asset. The Company records the systematic accretion and depreciation of future abandonment costs of tangible assets such as platforms, wells, service assets, pipelines, and other facilities. The fair value of the liability for an asset’s retirement obligation is recorded in the period in which it is incurred if a reasonable estimate of the fair value can be made and the corresponding cost is capitalized as part of the carrying amount of the related long-lived asset. The liability is accreted to its then present value each period, and the capitalized cost is depreciated over the useful life of the related asset. If the liability is settled for an amount other than the recorded amount, a gain or loss is recognized. During the three months ending March 31, 2005 and 2004, the Company recognized accretion expense of \$20,000 and \$17,000 respectively, associated with continuing operations to reflect the fair value of the ARO.

4. RECENT ACCOUNTING PRONOUNCEMENTS

Share based payment - In December 2004, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 123(R), *Share-Based Payment*, which establishes accounting standards for all transactions in which an entity exchanges its equity instruments for goods and services. SFAS No. 123(R) focuses primarily on accounting for transactions with employees, and carries forward without change to prior guidance for share-based payments for transactions with non employees.

SFAS No. 123(R) eliminates the intrinsic value measurement objective in APB Opinion 25 and generally requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the date of the grant. The standard requires grant date fair value to be estimated using either an option-pricing model which is consistent with the terms of the award or a market observed price, if such a price exists. Such cost must be recognized over the period during which an employee is required to provide service in exchange for the award (which is usually the vesting period). The standard also requires the Company to estimate the number of instruments that will ultimately be issued, rather than accounting for forfeitures as they occur.

The Company is required to apply SFAS No. 123(R) to all awards granted, modified or settled in our first annual reporting period under U.S. GAAP beginning after June 15, 2005. The Company is also required to use either the “modified prospective method” or the “modified retrospective method.” Under the modified prospective method, the Company must recognize compensation cost for all awards granted after the Company adopts the standard and for the unvested portion of previously granted awards that are outstanding on that date.

Under the modified retrospective method, the Company must restate our previously issued financial statements to recognize the amounts the Company previously calculated and reported on a pro forma basis, as if the prior standard had been adopted.

[Table of Contents](#)

VAALCO ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2005
(Unaudited)

Under both methods, the Company is permitted to use either a straight line or an accelerated method to amortize the cost as an expense for awards with graded vesting. The standard permits and encourages early adoption.

The Company has commenced the analysis of the impact of SFAS 123(R). Because of the inexact and subjective nature of deriving non-freely traded employee stock option values, the Company has adopted the disclosure-only provisions of SFAS No. 123 and continues to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation cost has been recognized for the Company's stock-based plans. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the optional method prescribed by SFAS No. 123, the Company's net income and net income per share would have been adjusted to the pro forma amounts indicated below (in thousands, except per share data):

	Three months ended March 31,	
	2005	2004
Net income as reported	\$7,262	\$3,253
Deduct: Total stock based employee Compensation expense	1,675	172
Pro forma net income	\$5,587	\$3,081
Basic earnings per share		
As reported	\$ 0.20	\$ 0.15
Pro forma	\$ 0.15	\$ 0.14
Diluted earnings per share		
As reported	\$ 0.12	\$ 0.06
Pro forma	\$ 0.10	\$ 0.05

The total stock based employee compensation expense was determined under the fair value based method for all awards, net of related tax effects.

The effects of applying SFAS No. 123 in the disclosure may not be indicative of future amounts as additional awards in future years are anticipated.

The valuation of the options awarded in 2003 is based upon a Black-Scholes model assuming expected volatility of 38%, risk-free interest rate of 5.5%, expected life of options of 3 to 5 years, depending upon the award and an expected dividend yield of 0%. The valuation of options awarded in 2004 and January 2005 is based on a Black-Scholes model assuming expected volatility of 62%, risk free interest rate of 5.5%, expected life of options of five years and expected dividend yield of 0%.

SFAS 151, Inventory Costs - In November 2004, the FASB issued SFAS No. 151, *Inventory Costs* an amendment of ARB No. 43, Chapter 4, which amends Chapter 4 of ARB No. 43

VAALCO ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2005
(Unaudited)

that deals with inventory pricing. The statement clarifies the accounting for abnormal amounts of idle facility expenses, freight, handling costs, and spoilage. Under previous guidance, paragraph 5 of ARB No. 43, chapter 4, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs might be considered to be so abnormal, under certain circumstances, as to require treatment as current period charges. This statement eliminates the criterion of "so abnormal!" and requires that those items be recognized as current period charges. This statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005, although earlier application is permitted for fiscal years beginning after the date of issuance of this statement. Retroactive application is not permitted. Management is analyzing the requirements of this new statement and believes that its adoption will not have any significant impact on the Company's financial position, results of operations or cash flows.

SFAS 153, Exchange of Non-Monetary Assets - In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets* an amendment of APB No. 29. This statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. The statement specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date this statement is issued. Retroactive application is not permitted. Management is analyzing the requirements of this new statement and believes that its adoption will not have any significant impact on the Company's financial position, results of operations or cash flows.

FASB Statement No. 19 - On April 4, 2005, the FASB issued FASB Staff Position No. FAS 19-1 ("FSP FAS 19-1"), which addressed a discussion that was ongoing within the oil industry regarding capitalization of costs of drilling exploratory wells. Paragraph 19 of FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies* ("FASB No. 19"), requires costs of drilling exploratory wells to be capitalized pending determination of whether the well has found proved reserves. If the well has found proved reserves, the capitalized costs become part of the entity's wells, equipment, and facilities; if, however, the well has not found proved reserves, the capitalized costs of drilling the well are expensed. Questions arose in practice about the application of this guidance due to changes in oil- and gas-exploration processes and lifecycles. The issue was whether there are circumstances that would permit the continued capitalization of exploratory well costs if reserves cannot be classified as proved within one year following the completion of drilling other than when additional exploration wells are necessary to justify major capital expenditures and those wells are underway or firmly planned for the near future. FSP FAS 19-1 amends FASB No. 19 to allow for the continued capitalization of suspended well costs when the well has found a sufficient quantity of reserves to justify its completion as a producing well and the enterprise is making sufficient progress assessing the reserves and the economic and operating viability of the plan. The issuance of this amendment did not result in an adjustment to the Company suspended well costs.

VAALCO ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2005
(Unaudited)

5. GUARANTEES

In November 2002, FASB issued Interpretation (“FIN”) No. 45, *Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, which elaborates on the disclosure to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. As set forth in the interpretation, the disclosures required are designed to improve the transparency of the financial statement information about the guarantor’s obligations and liquidity risks related to guarantees issued. The fair values of guarantees entered into after December 31, 2002, must be recorded as a liability in the financial statements of the guarantor. Existing guarantees as of December 31, 2002 are grandfathered from the recognition provisions, unless they are later modified. However, such guarantees are still required to be disclosed.

The Company charters a floating production, storage and offloading system (“FPSO”) for use in the Etame field, and as operator of the Etame field, guaranteed the charter payments through September 2010. The charter of the FPSO continues beyond September 2010 for a period of two more years, unless one year’s prior notice is given to the owner of the FPSO. The Company obtained guarantees from its partners for each of their shares of the charter payment. The Company’s share of the charter payment is 28.1%.

The estimated obligations for the full charter payment and the Company’s share of the charter payments are as follows (in thousands of dollars):

<u>Year</u>	<u>Full Charter Payment</u>	<u>Company Share</u>
2005	\$ 12,730	\$ 3,574
2006	\$ 16,501	\$ 4,633
2007	\$ 16,106	\$ 4,522
2008	\$ 15,332	\$ 4,304
2009	\$ 15,092	\$ 4,237
2010	\$ 14,894	\$ 4,181

The Company recorded a liability of \$0.6 million as the guarantee’s fair value at inception.

6. DISCONTINUED OPERATIONS

On April 30, 2004, the Company closed the sale of all of its assets associated with Service Contract 6 and Service Contract 14 in the Philippines. Terms of the sale included the assumption by the partners of the Company’s entire share of any abandonment, environmental or other liabilities associated with the Service Contracts. The Company has reclassified earnings to break out the results of discontinued operations for prior periods in its financial statements. The Company realized a loss on the sale of the assets of \$125,000 after paying transaction costs of \$1,253,000.

[Table of Contents](#)

VAALCO ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2005
(Unaudited)

	Three months ended	
	March 31,	
Income/(loss) from discontinued operations	2004	2003
Revenues from oil sales	\$ —	\$ —
Operating costs and expenses:		
Production expenses	—	39
Exploration expenses	—	—
Depreciation, depletion and amortization	—	1
General and administrative expenses	5	163
Total operating costs and expenses	5	203
Other revenues (expenses):		
Interest income	—	4
Interest expense	—	—
Other income (expenses) – net	13	(10)
Income/(loss) from discontinued operations before income taxes	13	(209)
Income tax expense (credit)	—	(3)
Income/(loss) from discontinued operations	\$ 8	\$ (206)

7. EQUITY TRANSACTIONS

On March 17, 2005, the holder of the remaining 18,334,250 shares of preferred stock converted the preferred stock to common stock at the rate of 2,750 shares of common stock per share of preferred stock. In connection with the transaction, the holder exercised warrants to purchase 5,250,000 shares of common stock under a cashless exercise procedure and was issued 4,635,244 shares of common stock. The 614,756 shares which were used to pay the purchase price under the cashless exercise were placed in the treasury. The stock acquired by the conversion of preferred stock and exercise of the warrants was subsequently sold in block sales over the American Stock Exchange.

On February 7, 2005, the holder of warrants to purchase 250,000 shares of common stock exercised the warrants under a cashless exercise procedure and was issued 222,707 shares of common stock. The 27,293 which were used to pay the purchase price under the cashless exercise shares were placed in the treasury.

Upon completion of the conversion of preferred stock and exercises of warrants the Company has no preferred stock or warrants outstanding.

During the quarter ended March 31, 2005, employees and contractors exercised options to receive 199,133 shares of common stock resulting in net proceeds to the Company of \$145,000. During the quarter ended March 31, 2004, employees and contractors exercised options to receive 75,000 shares of common stock resulting in net proceeds to the Company of \$22,500.

VAALCO ENERGY, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report 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 ("Exchange Act"). All statements other than statements of historical fact included in this report (and the exhibits hereto), including without limitation, statements regarding the Company's financial position and estimated quantities and net present values of reserves, and statements preceded by, followed by or that otherwise include the word "believe," "expects," "anticipates," "intends," "projects," "target," "goal," "objective," "should," or similar expressions or variations of such expressions are forward looking statements. The Company can give no assurances that the assumptions upon which such statements are based will prove to have been correct. Important factors that could cause actual results to differ materially from the Company's expectations ("Cautionary Statements") include volatility of oil and gas prices, future production costs, future production quantities, operating hazards, weather, and statements set forth in the "Risk Factors" section included in the Company's Forms 10-KSB, which are herein incorporated by reference. All subsequent written and oral forward looking statements attributable to the Company or persons acting on its behalf are expressly qualified by the Cautionary Statements.

INTRODUCTION

The Company operates the Etame field on behalf of a consortium of five companies offshore of the Republic of Gabon. The Phase 1 development of the field occurred in 2002 and consisted of completing three wells producing into a 1.1 million barrel FPSO. The Phase 2 development commenced in 2004 and consists two wells planned, one of which has already been drilled and completed (the Etame-5H well). The second well of the Phase 2 development (the Etame-6H well) is expected to be drilled during the middle of 2005. The Company also plans to drill an exploration well south of the recently discovered Avouma accumulation. The well is expected to reach total depth during the second quarter of 2005.

During the three months ended March 31, 2005, the Etame field produced 1.7 million barrels (0.5 million net to the Company). The Etame field currently produces at approximately 19,000 BOPD (6100 BOPD net to the Company).

The Company's results of operations are affected by currency exchange rates. While oil sales are denominated in U.S. dollars, portions of operating costs in Gabon are denominated in local currency. An increase in the exchange rate of the local currency to the dollar will have the effect of increasing operating costs, while a decrease in the exchange rate will reduce operating costs. The Gabon local currency is tied to the Euro, which appreciated substantially against the dollar in 2003 and 2004. In the past the Company has not entered into any currency hedges to fix or reduce volatility of changes in the exchange rate between the dollar and the Euro, and currently has no plans to do so in the future.

The Company sells its Gabon production to Shell Western Supply and Trading, Limited at spot market prices.

VAALCO ENERGY, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAPITAL RESOURCES AND LIQUIDITY

Cash Flows

Net cash provided by operating activities for the three months ended March 31, 2005 was \$5.7 million, as compared to \$3.3 million provided by operations for the three months ended March 31, 2004. Net funds provided by operations in 2005 included net income of \$7.3 million, non-cash depreciation, depletion and amortization of \$1.6 million, minority interest add back of \$0.9 million and cash used for working capital of \$4.1 million. In 2004, net cash provided by operating activities included net income of \$3.2 million, non-cash depreciation, depletion and amortization of \$0.8 million, add back of minority interest of \$0.4 million and cash used for working capital of \$1.2 million.

Net cash used in investing activities for the three months ended March 31, 2005 was \$0.7 million net of \$0.5 million of accounts payable, as compared to net cash used in investing activities of \$4.3 million for the three months ended March 31, 2004. In the three months ended March 31, 2005, the Company invested funds to upgrade the gas lift compressor on the FPSO and to purchase casing for the Etame-6H development well. In the three months ended March 31, 2004, the Company added to its investment in Gabon by participating in the Ebouri well, which resulted in an oil discovery.

In the three months ended March 31, 2005, net cash used in financing activities was \$0.6 million consisting of \$0.8 million of debt reduction, offset by \$0.1 million of proceeds from the issuance of common stock. Net cash used in financing activities in the three months ended March 31, 2004 was \$21 thousand consisting of proceeds from the issuance of common stock.

Capital Expenditures

During the three months ended March 31, 2005, the Company incurred \$0.7 million on activities to upgrade the gas lift compressor on the FPSO and for the Etame-6H well. During the remainder of 2005, the Company anticipates participating in two wells and commencing the development of the Avouma discovery. Total capital expenditures for the remainder of 2005 are anticipated to be \$14.3 million.

Historically, the Company's primary sources of capital have been cash flows from operations, private sales of equity, borrowings and purchase money debt. At March 31, 2005, the Company had cash of \$32.0 million. The Company believes that this cash combined with cash flow from operations will be sufficient to fund the Company's remaining 2005 capital expenditure budget, required debt repayments of \$1.5 million and additional investments in working capital resulting from potential growth. As operator of the Etame field, the Company enters into project related activities on behalf of its working interest partners. The Company generally obtains advances from its partners prior to significant funding commitments.

The Company has a credit facility with the International Finance Corporation ("IFC"), a subsidiary of the World Bank. A total of \$3.0 million remains outstanding on the facility.

Table of Contents

VAALCO ENERGY, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

On September 8, 2002, the Company commenced production from the Etame field offshore Gabon. Through March 31, 2005, total field production sold was 14.6 million barrels (3.5 million barrels net to the Company).

Substantially all of the Company's crude oil and natural gas is sold at the well head at posted or index prices under short-term contracts. In Gabon, the Company markets its crude oil under an agreement with Shell Western Trading and Supply, Limited. While the loss of Shell as a buyer might have a material adverse effect on the Company in the near term, management believes that the Company would be able to obtain other customers for its crude oil.

Domestically, the Company produces from wells in Brazos County, Frio County and Dimmit County, Texas. Domestic production is sold via separate contracts for oil and gas. The Company has access to several alternative buyers for oil and gas sales domestically.

Oil and Gas Exploration Costs

The Company uses the "successful efforts" method of accounting for its oil and gas exploration and development costs. All expenditures related to exploration, with the exception of costs of drilling exploratory wells are charged to expense as incurred. The costs of exploratory wells are capitalized on the balance sheet pending determination of whether commercially producible oil and gas reserves have been discovered. If the determination is made that a well did not encounter potentially economic oil and gas quantities, the well costs are charged to expense.

At March 31, 2005, the Company had \$6.6 million being carried on the balance sheet as work in progress associated with exploratory wells for the Company's share of the costs of the Ebouri No. 1 well and the Avouma No. 1 well and the South Avouma well to be drilling in the second quarter of 2005. The Ebouri and Avouma wells resulted in discoveries of oil and gas.

For offshore exploratory discoveries, it is not unusual to have exploratory well costs remain suspended while additional appraisal and engineering work on the potential oil and gas field is performed and regulatory and government approvals are sought. In Gabon, the government must approve the commerciality of the reserves, assign a development area and approve a formal development plan prior to a field being developed. In February 2005, the Company received approval to declare the reserves commercial from the Gabon government and in April 2005 the government approved the assignment of a development area. The Company subsequently filed a development plan and is awaiting government approval. For the Ebouri discovery the Company acquired new seismic over the discovery in January 2005 and intends to file for a development area and submit a development plan after the seismic is processed later in 2005.

Contractual Obligations

The Company has completed the commitments to the Gabon government under the third exploration period of the Etame contract. The Company entered into the two year fourth exploration period, beginning in October 2004, which requires a gross expenditure for exploration activities of \$5.0 million (\$1.5 million net to the Company).

[Table of Contents](#)

VAALCO ENERGY, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In addition to its lending relationships and obligations, the Company has contractual obligations under operating leases. The table below summarizes these obligations and commitments at March 31, 2005 (in thousands):

<u>Payment Period</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Thereafter</u>
Long Term Debt	\$ 1,500	\$ 1,250	\$ 250	\$ —
Operating Leases ⁽¹⁾	14,861	18,465	16,297	45,330

1. The Company is guarantor of a lease for an FPSO utilized in Gabon (see "Footnote 5 Guarantees"). Approximately 72% of the payment is co-guaranteed by the Company's partners in Gabon.

VAALCO ENERGY, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Three months ended March 31, 2005 compared to three months ended March 31, 2004

Revenues

Total revenues were \$23.1 million for the three months ended March 31, 2005 compared to \$8.2 million for the comparable period in 2004. The Company sold approximately 519,000 net barrels of oil equivalent at an average price of \$44.58 in three months ended March 31, 2005. In the three months ended March 31, 2004, the Company sold approximately 265,000 barrels of oil equivalent at an average price of \$30.83 per barrel. The higher oil sales volumes in the three months ended March 31, 2005 are due to higher production rates from the Etame field resulting from the addition of the Etame-5H well in August 2004, and due to timing differences associated with liftings from the Etame field.

Operating Costs and Expenses

Total production expenses for the three months ended March 31, 2005 were \$3.1 million compared to \$1.9 million in the three months ended March 31, 2004. The Company matches production expenses with crude oil sales. Any production expenses associated with unsold crude oil inventory are capitalized. Thus, the higher oil sales in the three months ended March 31, 2005 resulted in higher production expenses, although production expense in the three months ended March 31, 2005 were lower on a per barrel basis than for the comparable period in 2004..

Exploration expense was \$0.1 million for the three months ended March 31, 2005 compared to \$0.1 million in the comparable period in 2004. Exploration expense in both periods was associated with seismic interpretation activity on the Etame block.

Depreciation, depletion and amortization expenses were \$1.6 million in the three months ended March 31, 2005 compared to \$0.8 million in the three months ended March 31, 2004. The deprecation, depletion and amortization expenses during the three months ended March 31, 2005 reflect the effects of the increase in amortizable costs due to the addition of the Etame 5H well, as well as the higher volume of crude oil sold. General and administrative expenses for the three months ended March 31, 2005 and 2004 were \$0.5 million and \$0 for each period, respectively. In the three months ended March 31, 2004, the Company benefited from overhead reimbursement associated with production and operations on the Etame block.

Other Income (Expense)

Interest income received on amounts on deposit was \$0.2 million in the three months ended March 31, 2005 compared to \$48 thousand in the three months ended March 31, 2004. Interest expense and financing charges for the IFC loan was \$0.1 million for both the three months ended March 31, 2005 and the three months ended March 31, 2004.

[Table of Contents](#)

VAALCO ENERGY, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Income Taxes

Income taxes amounted to \$9.9 million and \$1.3 million for the three months ended March 31, 2005 and 2004, respectively. In both periods, the income tax was paid in Gabon. The higher income tax paid in 2005 was due in part to higher volumes of production and higher oil prices. In addition, the Company paid a higher tax rate as a result of the cost account on the Etame field being fully recovered. The cost account deduction from income taxes was not fully available in the three months ended March 31, 2005 as compared to the three months ended March 31, 2004 when the full deduction was available.

Discontinued Operations

Income from discontinued operations in the Philippines in the three months ended March 31, 2004 was \$8 thousand compared to a \$0.2 million loss in the three months ended March 31, 2004. In the three months ended March 31, 2004, the loss was due to severance costs associated with the sale of the Philippines assets.

Minority Interest

The Company incurred \$0.9 million in minority interest charges in the three months ended March 31, 2005. These minority interest charges were associated with VAALCO Energy (International), Inc., a subsidiary that is 90.01% owned by the Company. In the three months ended March 31, 2004, minority interest charges of \$0.4 million were incurred.

Net Income

Net income for the three months ended March 31, 2005 was \$7.3 million, compared to net income of \$3.3 million for the same period in 2004. In the three months ended March 31, 2004, the Company experienced lower crude oil sales volumes and lower oil prices.

ITEM 3. QUANTATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's results of operations are dependent upon the difference between prices received for its oil and gas production and the costs to find and produce such oil and gas. Oil and gas prices have been and are expected in the future to be volatile and subject to fluctuations based on a number of factors beyond the control of the Company. The Company does not presently engage in any hedging activities and has no plans to do so in the near future.

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, including the Company's principal executive officer and principal financial officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that

[Table of Contents](#)

VAALCO ENERGY, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

evaluation, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q. There were no changes in the Company's internal controls over financial reporting that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS

(a) **Exhibits**

3. Articles of Incorporation and Bylaws

- 3.1 Restated Certificate of Incorporation (incorporated by reference to exhibit 4.1 to the Company's Registration Statement on Form S-3 filed with the Commission on July 15, 1998, Reg. No. 333-59095).
- 3.2 Certificate of Amendment to Restated Certificate of Incorporation (incorporated by reference to exhibit 4.2 to the Company's Registration Statement on Form S-3 filed with the Commission on July 15, 1998, Reg. No. 333-59095).
- 3.3 Amended and Restated Bylaws dated March 24, 2005

31. Rule 13a-14(a)/15d-14(a) Certifications

- 31.1 Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002

Section 1350 Certificates

- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002.
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VAALCO ENERGY, INC.
(Registrant)

By /s/W. RUSSELL SCHEIRMAN

**W. Russell Scheirman, President,
Chief Financial Officer and Director**
(on behalf of the Registrant and as the
principal financial officer)

Dated: April 29, 2005

EXHIBIT INDEX

Exhibits

3. Articles of Incorporation and Bylaws

- 3.1 Restated Certificate of Incorporation (incorporated by reference to exhibit 4.1 to the Company's Registration Statement on Form S-3 filed with the Commission on July 15, 1998, Reg. No. 333-59095).
- 3.2 Certificate of Amendment to Restated Certificate of Incorporation (incorporated by reference to exhibit 4.2 to the Company's Registration Statement on Form S-3 filed with the Commission on July 15, 1998, Reg. No. 333-59095).
- 3.3 Amended and Restated Bylaws dated March 24, 2005

Additional exhibits

- 31.1 Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002.
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002.

**VAALCO ENERGY INC.
AMENDED AND RESTATED BYLAWS
(March 24, 2005)**

**ARTICLE I
OFFICES**

Section 1. The registered office shall be in the City of Wilmington, County of Newcastle, State of Delaware.

Section 2. The corporation may also have offices at such other places both within and without the State of Delaware as the board of directors may from time to time determine or the business of the corporation may require.

ARTICLE II

MEETINGS OF STOCKHOLDERS

Section 1. All meetings of the stockholders shall be held at such place either within or without the State of Delaware as shall be designated from time to time by the board of directors and stated in the notice of the meeting.

Section 2. The annual meeting of the shareholders of the corporation, for the election of directors and the transaction of such other business as may properly come before the meeting, shall be held at such time and date as shall be designated by the board of directors from time to time and stated in the notice of the meeting. Such annual meeting shall be called in the same manner as provided in these bylaws for special meetings of the shareholders, except that for the purposes of such meeting need be enumerated in the notice and proxies of such meeting only to the extent required by law in the case of annual meetings.

Section 3. Written notice of the annual meeting stating the place, date and hour of the meeting shall be given to each stockholder entitled to vote at such meeting not less than 10 nor more than 60 days before the date of the meeting.

Section 4. The officer who has charge of the stock ledger of the corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of

shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

Section 5. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute or by the certificate of incorporation, may be called by the president and shall be called by the president or secretary at the request of a majority of the board of directors, or at the request in writing of stockholders owning a majority in amount of the entire capital stock of the corporation issued and outstanding and entitled to vote. Such request shall state the purpose or purposes of the proposed meeting.

Section 6. Written notice of a special meeting stating the place, date and hour of the meeting and the purpose or purposes for which the meeting is called, shall be given not less than ten nor more than 60 days before the date of the meeting, to each stockholder entitled to vote at such meeting.

Section 7. Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice.

Section 8. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the certificate of incorporation. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented any business may be transacted which might have been transacted at the meeting as originally notified. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 9. When a quorum is present at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which by express provision of the statutes of Delaware or of the certificate of incorporation a different vote is required, in which case such express provision shall govern and control the decision of such question.

Section 10. Unless otherwise provided in the certificate of incorporation each stockholder shall at every meeting of the stockholders be entitled to one vote in person or by proxy for each share of the capital stock having voting power held by such stockholder, but no proxy shall be voted after three years from its date unless the proxy provides for a longer period.

Section 11. Unless otherwise provided in the certificate of incorporation any action required to be taken at any annual or special meeting of stockholders of the corporation, or any action which may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

ARTICLE III

DIRECTORS

Section 1. Except as otherwise fixed pursuant to the provisions of Article Four of the certificate of incorporation relating to the rights of the holders of any class or series of stock having a preference over the common stock as to dividends or upon liquidation to elect additional directors under specified circumstances, the number of directors of the corporation shall be fixed from time to time by the directors and shall be set forth in the notice of any meeting of stockholders held for the purpose of electing directors; provided that such number shall not be less than three nor more than fifteen.

Section 2. Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, though less than a quorum, or by a sole remaining director. Any directors so chosen shall hold office for a term expiring at the annual meeting of stockholders at which the term of the class to which they have been elected expires and until their successors are duly elected and shall qualify, unless sooner displaced. If there are no directors in office, then an election of directors may be held in the manner provided by statute. Subject to the rights of any class or series of stock having preference over the common stock as to dividends or upon liquidation to elect additional directors under specified circumstances, any director may be removed from office only for cause. Except as may otherwise be provided by law, cause for removal

shall be construed to exist only if: (a) the director whose removal is proposed has been convicted of a felony by a court of competent jurisdiction and such conviction is no longer subject to direct appeal; (b) such director has been adjudicated by a court of competent jurisdiction to be liable for gross negligence, recklessness or misconduct in the performance of his or her duty to the corporation in a manner of substantial importance to the corporation and such adjudication is no longer subject to direct appeal; or (c) such director has been adjudicated by a court of competent jurisdiction to be mentally incompetent, which mental incompetency directly affects his or her ability as a director of the corporation, and such adjudication is no longer subject to direct appeal. Any action for removal must be brought within three months of the date on which such conviction or adjudication is no longer subject to direct appeal.

Section 3. The business of the corporation shall be managed by its board of directors which may exercise all such powers of the corporation and do all such lawful acts and things as are not by statute or by the certificate of incorporation or by these bylaws directed or required to be exercised or done by the stockholders.

Section 4. The board of directors of the corporation may hold meetings, both regular and special, either within or without the State of Delaware.

Section 5. A meeting of the board of directors shall be held at the place of, and immediately following, the annual meeting of stockholders and no notice of such meeting shall be necessary to any newly elected directors to legally constitute the meeting, provided a quorum shall be present. In the event such meeting is not held at such time and place, the meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the board of directors, or as shall be specified in a written waiver signed by all of the directors.

Section 6. Regular meetings of the board of directors may be held without notice at such time and at such place as shall from time to time be determined by the board.

Section 7. Special meetings of the board may be called by the chairman or vice chairman on 48 hours' notice to each director, either personally or by mail or by telegram. Special meetings shall be called by the president or secretary in like manner and on like notice on the written request of two directors. The attendance of a director at any meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the sole purpose of objecting to the transaction of any business because the meeting is not lawfully called convened. Neither the business to be transacted at, nor the purpose of, any special meeting of the board of directors need be specified in the notice or waiver of notice of such meeting, except that notice shall be given of any proposed amendment to these bylaws if it is to be adopted at any special meeting or with respect to any other matter where notice is required by statute.

Section 8. At all meetings of the board a majority of the directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors, except as may be otherwise specifically provided by statute or by the certificate of incorporation. If a quorum shall not be present at any meeting of the board of directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 9. Any action required or permitted to be taken at any meeting of the board of directors or of any committee thereof may be taken without a meeting, if all members of the board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the board or committee.

Section 10. Members of the board of directors, or any committee designated by the board of directors, may participate in a meeting of the board of directors, or any committee, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

Section 11. The board of directors may, by resolution passed by a majority of the whole board, designate one or more committees, each committee to consist of one or more of the directors of the corporation. The board may designate one or more directors as alternate members of any committee, who may replace any absent or qualified member at any meeting of the committee. Any such committee, to the extent provided in the resolution of the board of directors, shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to amending the certificate of incorporation, adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all property and assets of the corporation, recommending to the stockholders a dissolution of the corporation or a revocation of a dissolution, or amending the bylaws of the corporation; and, unless the resolution or the certificate of incorporation expressly so provide, no committee shall have the power or authority to declare a dividend or to authorize the issuance of stock. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the board of directors.

Section 12. Each committee shall keep regular minutes of its meetings and report the same to the board of directors when required.

Section 13. The board of directors shall have the authority to fix the compensation of directors. The directors may be paid their expenses, if any, of attendance at each meeting of the board of directors and may be paid a fixed sum for attendance at each meeting of the board of directors or a stated salary as director. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

Section 14. The board of director's may appoint such advisory directors as if may deem appropriate, each of whom will hold office until the next annual meeting of the directors following their election. The advisory directors shall have the right to attend meetings of the board of directors and to advise the board concerning the affairs of the corporation, but shall not have the right to vote.

ARTICLE IV

NOTICES

Section 1. Whenever, under the provisions of the statutes of Delaware or of the certificate of incorporation or of these bylaws, or otherwise, notice is required to be given to any director or stockholder, it shall not be construed to mean personal notice, but such notice may be given in writing, by mail, addressed to such director or stockholder, at his address as it appears on the records of the corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Notice to directors may also be given personally or by telegram.

Section 2. Whenever any notice is required to be given under the provisions of the statutes or of the certificate of incorporation or of these bylaws, or otherwise, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

ARTICLE V

OFFICERS

Section 1. The officers of the corporation shall be chose by the board of directors and shall be a chairman and chief executive officer, a vice chairman and chief operating officer, president, one or more vice presidents (an one or more of whom may be designated executive vice president or senior vice president), a chief financial officer and a secretary. Any number of offices may be held by the same person. Such officers shall be chosen by the board of directors at its first meeting after each annual meeting of stockholders.

Section 2. The board of directors may from time to time appoint such other officers and agents as it shall deem necessary, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the board.

Section 3. The salaries of all officers and agents of the corporation shall be fixed by the board of directors or pursuant to its direction.

Section 4. The officers of the corporation shall hold office until their successors are chosen and qualify. Any officer elected or appointed by the board of directors may be removed at any time by the affirmative vote of a majority of the board of directors. Any vacancy occurring in any office of the corporation shall be filled by the board of directors.

Section 5. Any officer may resign at any time by giving written notice to the board of directors or to the vice chairman and chief operating officer, president or secretary. Such resignation shall take effect at the time specified in the notice, and, unless otherwise specified in the notice, the acceptance of such resignation shall not be necessary to make it effective.

Section 6. The chairman and chief executive officer shall preside at all meetings of the board of directors and he shall have and perform such other duties as from time to time may be assigned to him by the board of directors. He shall be the chief executive officer of the corporation.

Section 7. The vice chairman and chief operating officer shall perform the duties of the chairman and chief executive officer in his absence or during any disability or refusal to act, shall be the chief operating officer of the corporation, shall preside at all meetings of the stockholders, shall have general powers and duties of supervision and active management of the business of the corporation and shall see that all orders and resolutions of the board of directors are carried into effect. He shall execute bonds, mortgages and other contracts requiring a seal, under the seal of the corporation, except where required or permitted by law to be otherwise signed and executed and

except where the signing and execution thereof shall be expressly delegated by the board of directors to some other officer or agent of the corporation. He shall have and perform such other duties and powers as may from time to time be assigned to him by the board of directors.

Section 8. The president shall perform the duties of vice chairman and chief operating officer in the event of his absence, disability or refusal to act and shall perform such other duties as may be assigned to him by the board of directors.

Section 9. In the absence of the president or in the event of his inability or refusal to act, any vice president may perform the duties of the president, and when so acting, shall have all the powers of and be subject to all the restrictions upon the president. A vice president shall perform such other duties and have such other powers as the board of directors may from time to time prescribe.

Section 10. The secretary shall attend all meetings of the board of directors and all meetings of the stockholders and record all the proceedings of the meetings of the corporation and of the board of directors in a book to be kept for that purpose and shall perform like duties for the standing committees when required. He shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the board of directors, and shall perform such other duties as may be prescribed by the board of directors, chief executive officer or chief operating officer. He shall have custody of the corporate seal of the corporation and he, or an assistant secretary, shall have authority to affix the same to any instrument requiring it and when so affixed, it may be attested by his signature or by the signature of such assistant secretary. The board of directors may give general authority to any other officer to affix the seal of the corporation and to attest the affixing by his signature.

Section 11. Any assistant secretary may, in the absence of the secretary or in the event of his inability or refusal to act, perform the duties and exercise the powers of the secretary and shall perform such other duties and have such other powers as the board of directors may from time to time prescribe.

Section 12. The chief financial officer shall have the broadest possible powers with respect to the borrowing, investing and disbursing of corporate funds, the retention of accountants and auditors, and the giving of security for corporate debt; he shall have the custody of and responsibility for the corporate funds and securities; shall keep full and accurate accounts of receipts and disbursements in books belonging to the corporation; shall deposit all moneys and other valuable effects in the name and to the credit of the corporation in such depositories as he may prudently select; and, in general, shall perform all of the financial, insurance, data processing and other related

work of the corporation. He shall disburse the funds of the corporation as may be ordered by the board of directors, or the chief operating officer, taking proper vouchers for such disbursements, and shall render to the chief operating officer and the board of directors, at its regular meetings, or when the board of directors so requires, an account of all his transactions as treasurer and of the financial condition of the corporation. He may on behalf of the corporation sign notes, bonds, credit agreements, mortgages, security agreements, assignments and other security devices and may in general exercise broad powers over the property of the corporation in connection with any borrowing. If required by the board of directors, he shall give the corporation a bond in such sum and with such sureties as shall be satisfactory to the board of directors for the faithful performance of the duties of his office and for the restoration to the corporation, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the corporation.

Section 13. Any assistant treasurer may, in the absence of the treasurer or in the event of his inability or refusal to act, perform the duties and exercise the powers of the treasurer and shall perform such other duties and have such other powers as the board of directors may from time to time prescribe.

ARTICLE VI

CERTIFICATES OF STOCK

Section 1. Every holder of stock in the corporation shall be entitled to have a certificate, signed by the president or a vice president, and the secretary or an assistant secretary, of the corporation, certifying the number of shares owned by him in the corporation. If the corporation shall be authorized to issue more than one class of stock or more than one series of any class, the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualification, limitations or restrictions of such preferences or rights shall be set forth in full or summarized on the face or back of the certificate which the corporation shall issue to represent such class or series of stock; provided that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the corporation shall issue to represent such class or series of stock, a statement that the corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences or rights.

Section 2. Any of or all the signatures on any stock certificate issued by the corporation may be facsimile. In case any officer, transfer agent or registrar who has

signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he or it were such officer, transfer agent or registrar at the date of issue.

Section 3. The board of directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the board of directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require and/or to give the corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

Section 4. Upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

Section 5. In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution of allotment of any rights, or entitled to exercise any rights in respect of any changes, conversion or exchange of stock or for the purpose of any other lawful action, the board of directors may fix, in advance, a record date, which shall not be more than 60 nor less than ten days before the date of such meeting, nor more than 60 days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided however, that the board of directors may fix a new record date for the adjourned meeting.

Section 6. The corporation shall be entitled to treat the registered owner of any share or shares of stock as the absolute owner thereof for all purposes and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE VII

INDEMNIFICATION AND INSURANCE

Section 1. The corporation shall indemnify any person who was or is a party or who was or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation), by reason of the fact that he is or was a director, advisory director, officer, employee or agent of the corporation or of any entity a majority of the voting stock of which is owned by the corporation, or is or was serving at the request of the corporation as a director, advisory director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

Section 2. The corporation shall indemnify any person who was or is a party or who was or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he is or was a director, advisory director, officer, employee or agent of the corporation or of any entity a majority of the voting stock of which is owned by the corporation, or is or was serving at the request of the corporation as a director, advisory director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery of the State of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all of the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery of the State of Delaware or such other court shall deem proper.

Section 3. To the extent that any person who is or was a director, advisory director, officer, employee or agent of the corporation or of any entity a majority of the voting stock of which is owned by the corporation, or who is or was serving at the request of the corporation as a director, advisory director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Sections 1 and 2 of this Article VII, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith. Any other indemnification under Sections 1 and 2 of this Article VII shall be made by the corporation only as authorized in the specific case upon a determination that indemnification is proper in the circumstances because the applicable standard of conduct set forth therein has been met. Such determination shall be made (a) by the board of directors of the corporation by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (b) if such quorum is not obtainable, or, even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (c) by the stockholders of the corporation.

Section 4. Expenses, including attorneys' fees, incurred by a director, advisory director, officer, employee or agent in defending any civil, criminal, administrative or investigative action, suit or proceeding shall be paid by the corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the director, advisory director, officer, employee or agent to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by the corporation pursuant to this Article VII.

Section 5. The indemnification and advancement of expenses provided by, or granted pursuant to, the other Sections of this Article VII shall not be deemed exclusive of any other right to which those seeking indemnification or advancement of expenses may be entitled to from the corporation or any other entity under any statute, other bylaw, agreement, provision of the corporation's certificate of incorporation, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article VII shall continue as to a person who has ceased to be a director, advisory director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person. However, any amount actually received as the proceeds of any such other indemnification shall be deducted from the amount, if any, which he may be entitled to receive pursuant to this Article VII.

Section 6. By action of its board of directors, notwithstanding any interest of the directors in the action, to the full extent permitted by the General Corporation Law of the State of Delaware, the corporation may purchase and maintain insurance, in such amounts and against such risks as the board of directors deems appropriate, on behalf of any person who is or was a director, advisory director, officer, employee or agent of the corporation, or of any entity a majority of the voting stock of which is owned by the corporation, or who is or was serving at the request of the corporation as a director, advisory director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power or would be required to indemnify him against such liability under the provisions of this Article VII, or of the corporation's certificate of incorporation or of the General Corporation Law of the State of Delaware.

ARTICLE VIII

GENERAL PROVISIONS

Section 1. Dividends upon the capital stock of the corporation, subject to the provisions of the certificate of incorporation, if any, may be declared by the board of directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property or in shares of the capital stock, subject to the provisions of the certificate of incorporation.

Section 2. Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purpose as the directors shall think conducive to the interest of the corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

Section 3. All checks, notes and contracts of the corporation shall be signed by such officer or officers or such other person or persons as the board of directors may from time to time designate.

Section 4. The fiscal year of the corporation shall be fixed by resolution of the board of directors.

Section 5. The corporate seal shall have inscribed thereon the name of the corporation, the year of its organization and the words "Corporate Seal, Delaware". The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

Section 6. Any payments made to an officer of the corporation such as a salary, commission, bonus, interest, or rent, or entertainment expenses incurred by him, which shall be disallowed in whole or in part as a deductible expense by the Internal Revenue Service, shall be reimbursed by such officer to the corporation to the full extent of such disallowance. It shall be the duty of the directors, as a board, to enforce payment of each such amount disallowed.

ARTICLE IX

AMENDMENTS

Section 1. The board of directors shall have power to make, alter, amend and repeal the bylaws (except so far as the bylaws adopted by the stockholders shall otherwise provide). Any bylaws made by the board of directors under the powers conferred hereby may be altered, amended or repealed by the directors or by the stockholder. Notwithstanding the foregoing and anything contained in the certificate of incorporation to the contrary, the bylaws shall not be altered, amended or repealed by action of the stockholders and no provision inconsistent therewith shall be adopted by the stockholders without the affirmative vote of the holders of at least 66 2/3% of the voting power of all the shares of the corporation entitled to vote generally in the election of directors, voting together as a single class.

I, Robert L. Gerry, certify that:

- (1) I have reviewed this annual report on Form 10-Q of VAALCO Energy, Inc.;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial

reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date April 29, 2005

/s/Robert L. Gerry

Robert L. Gerry
Chief Executive Officer

I, W. Russell Scheirman, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of VAALCO Energy, Inc.;*
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;*
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;*
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:*
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;*
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and*
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and*
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial*

reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date April 29, 2005

/s/W. Russell Scheirman

W. Russell Scheirman
Chief Financial Officer
and President

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of VAALCO Energy, Inc. (the "**Company**") on Form 10-Q for the quarterly period ended March 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "**Report**"), I, Robert L. Gerry, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 29, 2005

/s/ Robert L. Gerry

Robert L. Gerry, Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of VAALCO Energy, Inc. (the "**Company**") on Form 10-Q for the quarterly period ended March 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "**Report**"), I, W. Russell Scheirman, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 29, 2005

/s/W. Russell Scheirman

W. Russell Scheirman, Chief Financial Officer