

VAALCO ENERGY INC /DE/
Form DEFA14A
May 20, 2008

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

VAALCO ENERGY, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(4) Proposed maximum aggregate value of transaction:

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(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

VAALCO Energy, Inc.
May 2008

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Safe Harbor Statement
Important Information.

VAALCO filed with the SEC definitive proxy materials (the Proxy Materials). The Proxy Materials contain important information about VAALCO, the

2008

Annual
Stockholders
Meeting

and
our
nominees
and
other
directors
in the

solicitation. VAALCO's stockholders are urged to read the Proxy Materials carefully. Stockholders may obtain additional free

copies of
the

Proxy
Materials
and

other
relevant
documents

filed
with
the

SEC

by
VAALCO
through

the
website
maintained

by the

SEC at www.sec.gov. The Proxy Materials and other relevant documents may also be obtained free of charge from VAALCO

VAALCO Energy, Inc., 4600 Post Oak Place, Suite 309, Houston, Texas 77027; or by phone at (713) 623-0801. The Proxy

Materials are also available on VAALCO's website at www.vaalco.com. The contents of the websites referenced above are not

deemed to be incorporated by reference into the Proxy Materials.

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

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

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.
The Securities
and
Exchange
Commission
generally
permits
oil
and
gas
companies,
in
filings
with
the
SEC,
to
disclose only
proved reserves that a company has demonstrated by actual production or conclusive formation tests to be economically and
legally producible under existing economic and operating conditions. In this document, we describe volumes of oil that we believe
may be
discovered
in
the
future
through
our
existing
exploration
program.
These
amounts

are
not
proved
reserves
as
defined by
the SEC. These estimates are by their nature more speculative than estimates of proved reserves and accordingly are subject to
substantially greater risk of being actually realized by VAALCO.

This presentation is being made on the afternoon of May 20, 2008. The content of this presentation contains time-sensitive
information that

is
accurate
only
as
of
the
time
hereof.

VAALCO

will
not
be
reviewing
or
updating
the
material
contained herein.

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Agenda

I.

Introduction and VAALCO Overview

II.

Superior Returns and Financial Performance

III.

VAALCO's Board: Experienced, Proven and Committed

to Maximizing Stockholder Value

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Attendees

Robert H. Allen
Independent Director
Audit Committee

(Chairman)

Compensation Committee (Chairman)

Robert L. Gerry
Chairman and
Chief Executive Officer

W. Russell Scheirman
President, Chief Financial Officer
and Director

Audit Committee Financial Expert as determined by the Board under SEC regulations

I.
Introduction and VAALCO Overview

6
VAALCO's Nominees Are the Right
Choice

Independent and engaged Board made up of successful and experienced industry leaders

Responsible for successful implementation of corporate strategy and stock price appreciation

Broad and complementary expertise in areas critical to VAALCO's business

5 of 7 directors independent under NYSE listing requirements

All committees constituted solely of independent directors

Superior long-term value creation and financial performance

503% cumulative stockholder return over the last 5 years

Outperformed

peer
group
over
each
of
the
last
6-month,
1-year,
3-year
and
5-year
periods

31% 5-year average ROIC (among top 5% of the oil & gas industry)

66%
revenue
CAGR
over
the
last
5
years

81% EBITDA CAGR over the last 5 years

Track record of superior operating achievements

82%
success
rate
in
exploration
drilling
since
1998,
when
Etame

drilling
began

100% success rate in the drilling and completion of development wells since 1998

50% increase in production since 2002

Strong growth expected to continue

Drilling program underway exposes VAALCO stockholders to 8x current reserves

7 planned exploration wells, 2 development wells, arrangements in place to contract for rigs

Drilling to commence this summer

1. Unless
otherwise
indicated,
figures
in
this
presentation
are
as
of
the
market
close
on
May
16,
2008
2. The
peer
group
is
as
defined
by
RiskMetrics
(ISS);
details
slide
14
1
2

7

VAALCO Overview

Houston-based independent
exploration and production
company (E&P)

Exploration activities primarily in

West Africa
offshore Gabon,
onshore Gabon, offshore Angola

Opportunistic minority
participations in UK North Sea
exploration

Production (100% oil) located
offshore Gabon

26 full-time employees: Houston (9),
Gabon (10) and Angola (7)

20-30 contractors worldwide
depending on activity level
VAALCO is an Important Presence and a
Valued Long-Term Partner in Gabon and Angola
Gabon
Angola

8

Exceptional West African Opportunity

Africa holds a significant and growing portion of world oil reserves

By 2010, West Africa is expected to account for 1 of 3 new barrels pumped worldwide and by 2015, the U.S. is projected to import 25% of all its oil from Africa, up from 15% in 2007

8% of global proved reserves

High proportion of new field discoveries

Strong reserve growth of discovered fields

Gabon

Long history of energy production under stable contract terms

Former French colony independent since 1960 under French civil law

Population 1.3 MM (about size of Colorado)

Angola

Oil sales and related activities constitute approximately one-half of GDP and 90% of exports

Has emerged as a major African oil producer following the end of the country's civil war in 2002

One of the world's fastest growing economies because of strong production growth

Population 15.5 MM

West Central Africa Oil Endowment

Produced

13%

Reserves

18%

Mean

Undiscovered

69%

West Central Africa Reserves

Angola

61%

Congo

12%

Equatorial

Guinea

12%

Gabon

15%

9

Focused and Disciplined Business Strategy

Seek exploration opportunities in proven hydrocarbon basins where modern technology has the potential to unlock previously hidden reserves

In areas with acceptable political risk where positive

market conditions provide niche opportunities

Increase reserves primarily through the drill-bit while continually reviewing potential property and corporate acquisitions at reasonable prices

Focused primarily on West Africa asset base

Maintain financial discipline to support growth

Optimize cash flows from producing assets

Etame Marin Concession
Efficient, Low Cost Operator with Exceptional
Exploration and Production Track Record

10
Exceptional Track Record and Expertise

82%
success
rate
in
exploration

drilling
since
1998,
when
Etame
drilling
began

100% success rate in the drilling and completion of development wells

Industry-wide, success rates are approximately 1 in 3 for exploration drilling
VAALCO's Drilling Success Rates are

Among the Best in the Industry

1. Source: U.S. Energy Information Administration (EIA)

VAALCO Drilling History (1998 to date)

Exploration & Appraisal Wells

Development Wells

Well

Date

Field

Type

Result

Well

Date

Field

Type

Result

ET-1V

'98

Etame

Expl.

Success

ET-3H

'02

Etame

Devel.

Success

ET-2V

'99

Etame

App.

Success

ET-4H

'02

Etame

Devel.

Success

ET-3V

'01

Etame

App.
Success
ET-5H
'04
Etame
Devel.
Success
ET-4V
'01
Etame
App.
Success
ET-6H
'05
Etame
Devel.
Success
EBO-1
'03
Ebouri
Expl.
Success
ET-6HST
'05
Etame
Devel.
Success
ET-5HP
'04
Etame
Pilot
Success
ETBSM-1
'06
Etame
Devel.
Success
EAVOM-1
'04
Avouma
Expl.
Success
EAVOM-2H
'06
Avouma
Devel.
Success
EAVSM-1
'05
Avouma

Expl.

Dry Hole

(1)

EBO-1 ST1

Ebouri

App.

Success

EBO-1 ST2

Ebouri

App.

Success

UKCS 9/28b

'07

na

Expl.

Non-Commercial

(1) Although dry, effectively proved-up additional Avouma reserves

1

11

Current Exploration Program Represents the Highest Level
of Exploration and Development in the Company's History

Drilling 7 exploration and 2 development wells over the next 6 to 18 months

On
an

unrisked
basis,
this
drilling
program
exposes
VAALCO
stockholders
to
>
50
MM
net
barrels
(>
8x
VAALCO s
current
6.2
MMbbl
in
reserves)

Even at modest success rates, potential for dramatic increases in stockholder value

Arrangements
in
place
to
contract
for
2
offshore
jackup
drilling
rigs
for
Gabon

Anticipate drilling at least 3 exploration wells and 1-2 development wells

In addition to 2 development wells already underway

2 years of preparation and
planning with partners and
host governments
During this time VAALCO
acquired and interpreted
seismic, contracted for its
concession in Angola and

constructed 2, \$100 MM
 platforms for installation in
 Gabon
 2008 is Expected to Be a Break-Out Year for Value Creation
 VAALCO Properties -
 Reserves and Resources
 Property
 Etame
 Marin
 Mutamba
 Iroru
 Angola
 Block 5
 NW
 Vulcan
 Total
 Proved Reserves
 (net mmboe)
 6.2
 0.0
 0.0
 0.0
 6.2
 Potential of Leads in Drilling
 Program
 (unrisked
 mmboe)
 Gross
 71.5
 36.3
 42.3
 6.0
 156.1
 Net to VAALCO
 17.6
 15.7
 16.9
 1.5
 51.7
 Exploration Acreage
 (gross)
 Acres
 759,040
 270,333
 1,410,478
 12,000
 2,451,851
 GOM Blocks Equivalent
 152
 54

282
2
490

12
Focused, Stable and Professional Management
Over the Lengthy E&P Business Cycle
Stock Price
Surges
As
We
Move

to
the
Drilling
Phase

Precisely
Where
We
are Now
Relative Performance (%)

.
1Q 223% YOY

.
Plan
6H
after
Eb
seismic

.
Write off 2V
4Q affected by cost account,
development spend for 05
8

Eb/Av dev plans,
lower
sales
from
missed lifting
AMEX app

.
Angola PSA
2Q NI up
Eb
dev plan approved
Et extension, Eb
dev plan,
Angola operator

.
FPSO contract
Buyback & Pill
UKCS farm-in
Seismic
expenses
Cost acct benefit,
reserve upgrade
Av 1st oil
Et 2 dev and 3 expl
wells, Mut
2 wells 4Q, Angola seeking rig
for wells 9/28b non-comm

Av Eb
dev plans
complete,
expl
well
.
YE
UKCS farm-in
YE, reserve upgrade
6H 1st oil
5H 1st oil
AMEX listing
Eb
disc
Bl. 5 Award
.
Mut
PSA
IFC revolver
1818 Fund Exit
1.
Russell 3000/2000
Listed NYSE,
approved
UKCS
Fortune
Cramer
Business Week
-100
0
100
200
300
400
500
600
700
800
900
05/19/03
10/20/03
03/15/04
08/16/04
01/18/05
06/20/05
11/21/05
04/24/06
09/25/06
02/26/07
07/30/07

12/31/07

II.
Superior Returns and Financial
Performance

14
Superior Stock Price Performance and
Stockholder Returns

VAALCO's stock price
performance has exceed that of
its
peer

group

and

far

exceeded the broader market

over all meaningful periods

1.

The peer group is as defined by the independent

governance

and

proxy

advisory

firm

RiskMetrics

(ISS):

Brigham Exploration Co. (NasdaqNM:BEXP), Callon

Petroleum Co. (NYSE:CPE), Carrizo Oil & Gas Inc.

(NasdaqNM:CRZO), Delta Petroleum Corp.

(NasdaqNM:DPTR), Edge Petroleum Corp.

(NasdaqNM:EPEX),

TXCO

Resources,

Inc.

(NasdaqNM:TXCO), Goodrich Petroleum Corp.

(NYSE:GDP), Harvest Natural Resources Inc.

(NYSE:HNR), Pacific Ethanol, Inc. (NasdaqNM:PEIX),

PrimeEnergy

Corp. (NasdaqSC:PNRG), Quest Resource

Corp. (NasdaqNM:QRCP); peer group companies are

indexed on a market capitalization weighted basis; in this

presentation, over the 5-year measurement period, the

peer group index excludes Pacific Ethanol, Inc.

(NasdaqNM:PEIX), which entered trading on the Nasdaq

Global Market on March 24, 2005. 5-year and 3-year

relative performance charts use weekly average prices

Stockholder Returns

503%

143%

49%

61%

-100%

0%

100%

200%

300%

400%

500%

600%

VAALCO

Peer Group

S&P 500

Source: CapitalIQ

1

15
5-Year Average ROIC
31%
14%
10%
7%
7%
6%

5%
2%
-1%
-2%
-5%
0%
5%
10%
15%
20%
25%
30%
35%

#1 Among Peers on 5-Year Return on
Invested Capital (ROIC)

Using John S. Herold, Inc.'s methodology, 5-Year ROIC calculated as the 5-year weighted average of the sum of net income to common plus preferred dividends plus minority interest expense plus adj. net interest expense; over average capital employed (year-end + prior year-end / 2), calculated as the sum of: ST debt plus LT debt plus volumetric production payments plus book value of common plus book value of preferred plus minority Interest

5-Year ROIC

far in excess of peer
group and among the highest in
the industry

Peer Group
Average 5%

Note: figures for Quest Resource Corporation are not available because of change in reporting periods
Source: John S. Herold, Inc.

16
VAALCO 5-Year Revenue Growth
\$0
\$20
\$40
\$60
\$80
\$100

\$120

\$140

2003

2004

2005

2006

2007

#1 Among Peers on 5-Year Revenue Growth

5-Year Revenue Growth (CAGR)

66%

59%

52%

43%

38%

36%

34%

28%

23%

-38%

-60%

-40%

-20%

0%

20%

40%

60%

80%

Note: figures for Quest Resource Corporation are not available because of change in reporting periods

Source: John S. Herold, Inc.

Peer Group

Average 31%

17
5-Year EBITDA Growth
\$0
\$20
\$40
\$60
\$80
\$100

\$120
2003
2004
2005
2006
2007

#

2 Among Peers on 5-Year EBITDA

Growth

Note: in
order
to
adjust
for
differences
between
oil
and
gas
companies
that
use
successful
efforts
accounting
and
those
that full
cost

accounting (see next slide for details), EBITDA is calculated before exploration costs (commonly known as EBITDAX)

Note: figures for Quest Resource Corporation are not available because of change in reporting periods

Source: John S. Herold, Inc., CapitalIQ

Peer Group

Average 38%

5-Year EBITDA Growth (CAGR)

186%

81%

73%

69%

60%

40%

36%

34%

24%

-177%

-200%

-150%

-100%

-50%
0%
50%
100%
150%
200%
250%

18
Successful Efforts Accounting, Liftings
and the Cost Account
1.
Successful
efforts
1
accounting

is
the
SEC's
preferred
method
of
accounting
for
exploration

use
of the successful efforts convention results in unusually low net income in any period
where there are exceptional exploration expenses, such as an unsuccessful well or large
payments for the acquisition of seismic data

VAALCO uses the convention as we believe it is a more transparent way to report performance
2.

Irregularity
in
the
timing
of
crude
oil
sales
(so-called
liftings)
results
in
unusually
low
net
income in any period that a lifting is missed, and unusually high net income in periods where
there
are
extra
liftings
to
catch-up
with
inventory

VAALCO's
taxes
are
recognized
based
on
barrels
of

oil
produced
per
month
2
,
but
revenues
are
recognized
only
when
oil
is
sold
(lifted)

At any time VAALCO can have up to 1.1 MM gross barrels in inventory

3.
In
the
Etame
concession,
VAALCO
receives
a
form
of
tax
deduction
for
capital
spending
(costs)
and
can
carry-forward
amounts
not
yet
deducted
in
a
cost
account

VAALCO

experiences higher taxes, and lower net income, in any period where there is limited capital spending and no balance in the Cost Account

1. Under the successful efforts convention, all exploration costs except those related to successful drilling are expensed in the

incurred; under the full cost convention, the cost of both successful and unsuccessful exploration efforts are fully capitalized

2. Under U.S. and Gabonese law and VAALCO's production sharing agreement (PSA) with the government of Gabon

All 3

of These Transitory Factors Impacted VAALCO's Net

Income in the First Quarter of 2008

19
Nanes Delorme Partners
Arguments
Rest on Incorrect Assertions

Assertion: VAALCO's stock price has underperformed its peers

VAALCO's

stock
price
performance
exceeds
that
of
the
ISS
peer
group
over 6-month, 1-year, 3-year and 5-year lookbacks
5-Year Relative Performance

-100

0

100

200

300

400

500

600

700

800

3-Year Relative Performance

-50

0

50

100

150

200

250

1-Year Relative Performance

-40

-30

-20

-10

0

10

20

30

40

50

60

VAALCO

S&P 500 Index

Peer Group

20

Nanes Delorme Partners

Arguments

Rest on Incorrect Assertions

Assertion: VAALCO is undervalued on the basis of two ratios: (a) Enterprise Value (EV) / EBITDA and (b) Price / Earnings (P/E)

Nanes
states
these
ratios
to
be
virtually all relevant comparable valuation
metrics ;
however,
Nanes
knows

or
should
know
as
a
self-described
specialist
in
the
oil
and
gas
industry

that
EV/EBITDA
and
P/E
ratios mean
very little in the context of small-cap E&Ps

EV / EBITDA:

EBITDA multiples
are less useful for valuing oil and gas reserves, where
depletion factors and exploration and development expenditures are difficult
to
incorporate
in
a
single
EBITDA
multiple
factor

John
S.
Herold,

Inc.
Valuation Methodology

P/E Ratios:

oil
industry
earnings
are
frequently
impacted
by
fluctuations
in
commodity prices, the timing of exploration costs, income tax rates that vary
with
the
geographic
location
of
operations,
and
other
accounting
vagaries
associated with capital intensive businesses. As a consequence, reported
net income and, hence P/E ratios, are of limited utility in the valuation of an
oil company.

John S. Herold, Inc. Valuation Methodology
E&Ps, and Smaller E&P s
in Particular, Are Not
Valued on the Basis of Simplistic Multiples

III.
VAALCO's Board: Experienced, Proven
and Committed to Maximizing
Stockholder Value

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VAALCO's Board: Independent,
Engaged and Experienced

More than 100 years of
combined experience in the
E&P
industry, including

international development

4 of 7 directors current or former executive officers in the industry

5 of 7 directors have served as directors of other public companies

Balanced portfolio of complementary experience:

International government relations and diplomacy

Geology and geophysics

Finance and accounting

Investment banking

Tax law
In 2007:

8 full board meetings

Quarterly sessions with only independent directors

7 committee meetings

Audit (4)

Compensation (2)

Governance and Nominating (1)

Board closely monitors implementation of strategy and operational results

Board and all committee meetings conclude with an executive session of independent directors only

5 of 7 directors are independent under NYSE

listing requirements

The 2 others being the
Company's CEO and CFO

All committees are
comprised solely of
independent directors

Audit

Compensation

Governance and
Nominating
INDEPENDENT
ENGAGED
EXPERIENCED

23

Continuing Director Nominees Possess
Critical Skills and Experience

President since 1992; designed and implemented all of VAALCO's exploration, drilling
and development campaigns since joining the Company in 1991

30+ years experience in the petroleum industry

Former petroleum reservoir engineer with Exxon, management consultant with McKinsey & Company
and
investment
banker
with
Copeland,
Wickersham
and
Wiley, a leading
investment banking boutique specializing in the oil and gas industry

Member of the Audit Committee

Pioneer of Canadian oil and gas Industry; 50+ years of experience in the petroleum industry includes 10 years as President of Mobil Oil Canada Ltd.

Honors include: inductee into Petroleum Hall of Fame, Honorary Doctorate from the University
of
Alberta,
named
on
Albertans
who
had
an
impact
on
the
20
th
century

Current director of Softrock
Minerals and Carma.; former Chairman of Shiningbank
Energy Income Fund, Chairman of Serenpet, President, CEO and Chairman of Poco
Petroleum
Ltd.,
President
and
CEO
of
Bowtex
Energy
(Canada)
and
Chairman
and

CEO
of Mobil Oil Canada

Member of the Nominating and Corporate Governance and Compensation committees

35+ years of experience in the petroleum industry

Former Ambassador to Great Britain with long standing business connections in the oil and gas industry

Provides valuable perspectives on international relations in support of VAALCO's West African exploration efforts

Continuing

Directors

Have

Been

Central

To

Success

Over

The

Long-Term

E&P

Cycle

Their Experience And Leadership Are Central To Current Drilling Program

William S. Farish

Director since 2004

Arne R. Nielsen

Director since 1989

W. Russell Scheirman

President & CFO

Director since 1991

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VAALCO's Other Directors Are Also
Accomplished Leaders
Areas of Expertise

45+ years in petroleum industry

Chairman, CEO since 1997

Other Directorships

Current

Plains Exploration and Production

Integrity Bank

Former

Vice Chairman Nuevo Energy

Executive Experience

Founder, President, COO of

Nuevo Energy

SVP of Energy Assets

International

Other

Director, Texas Children's Hospital

Member, University of Texas

Advisory Council

Areas of Expertise

Tax law for international

corporations

Legislative/Regulatory affairs

Other Directorships

Former

American Exploration Company

Executive Experience

Member of the Executive

Committee, Breen Investors

Partner-in-Charge, Baker

Botts, LLP

Other

Former Assistant Secretary for

Tax Policy at the U.S. Treasury

Department

Nominated by President Reagan,

confirmed by U.S. Senate and

represented the Administration in

presenting tax policy to U.S.

Congress

Areas of Expertise

45+ years in petroleum industry

Geology and Geophysics

Operating and management
experience in VAALCO's core
asset locations

Other Directorships

Former

Pan-Ocean Energy

Executive Experience

MD, Chevron Africa & Mid-East

MD, Chevron Africa

Deputy MD Europe, Chevron

VP of Geoman, a Gulf affiliate

GM, Gulf Exploration of UKCS

Assistant to VP, Chevron

Overseas Exploration

Other

Ph.D. Geology and Geophysics

Areas of Expertise

50+ years in petroleum industry

Accounting (CPA)

Investment/Finance

Other Directorships

Current

First City Bancorporation

American Mining Congress

Former

Gulf Resources and Chemical
Corporation

Gulf Canada Resources

Gulf Indonesia Resources

Federal Express

University of Texas Investment
Management Company
Executive Experience

Chairman, CEO of Gulf
Resources

Chairman, CEO of Chemical
Corporation
Other

Managing Partner of Challenge
Investment Partners

Regent Emeritus of Texas A&M

Board of Trustees of Baylor
College of Medicine
Robert H. Allen
Luigi P. Caflisch
O. Donaldson Chapoton
Robert L. Gerry, III

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Committed to Maximizing Stockholder Value

VAALCO's Board is always open to considering bona fide offers that would provide stockholders

with

full

and

fair
value
for
their
shares

NO
such
offers
have
been
received

VAALCO's Board, with assistance of its financial and legal advisors, continuously reviews the Company's business plans and other value creating opportunities / strategic options

Retained
independent
financial
advisors
over
1
year
ago
and
have
been
evaluating:

Concessions, farm-ins and acquisitions

Acquisitions
of
additional
working
interests
in
the
Etame
concession

Growth capital
financing
structures
including
PIPEs
(private
investment
public
equity)

Other opportunities / strategic options

Now is not the right time to sell VAALCO

Stockholders are poised to benefit from the current drilling program

Selling
now
would
transfer
the
value
of
a
potential
discovery
to
the
acquiror

E&Ps do not receive full value on resources that have not been proved-out by drilling

Uncertain market conditions (including commodity price volatility and credit market instability)
are
likely
to
inhibit
a
robust
sale
process
and
the
ability
to
obtain
full
and
fair
value for stockholders

After
careful
analysis
and
consideration,
in
September

2007
VAALCO s
Board

with
the
assistance
of
the
Company s
financial
and
legal
advisors

adopted
a
stockholders
rights
plan (Poison Pill), as an appropriate defense to prevent an opportunistic acquisition at
prices below VAALCO s intrinsic value

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Why Even One Nanes Delorme / Pilatus Energy Nominee is
Bad
for
Stockholders

Who
Are

They?
Nanes Delorme

Proxy campaign led by Julien
Balkany, a 27-year
old French citizen

Formed 2000 by Daryl Nanes; based in New York

Suffered \$323,510 net loss in 2007

Broker and adviser on African oil & gas
transactions including:

Surestream
Petroleum s
exclusive advisor
in a
sale of up to 40% of its interests in the Ndunda
Block, Democratic Republic of Congo

Sole financial advisors
to **Afren**
in its acquisition
of oil & gas properties in Angola
2

all of Afren s
oil
& gas assets are located in West Africa

Advisor to **Maurel**
& Prom, a company with
extensive oil & gas operations in Gabon and
Congo (Brazzaville), West Africa

Self-proclaimed hedge fund formed January 2008

Affiliated with investment bank Bear Stearns
Pilatus Energy

Founded in 2006; based in Zug, Switzerland

Purportedly
led
by
Loik
Le
Floch-Prigent

The name of the former Elf CEO doesn't appear on their list of executives but it is he who makes all of their investment decisions.

Le Floch-Prigent
was convicted by a French court in
2003, sentenced to 5-years in prison and fined
375,000 for fraud, embezzlement, bribery and a
kickback scheme through his management of Elf
Aquataine
(known as the Elf Affair)
4,5

probably the biggest political and corporate sleaze
scandal to hit a western democracy since the
second
world
war
6

Used \$145 MM of public funds used to buy influence
and contacts in Africa
7

Accused of embezzling millions from Elf and using
company
funds
to
obtain
political
influence
8

Le Floch-Prigent
was convicted again 1 year ago for
misappropriating funds in connection with a bogus
jobs scheme, receiving a 15-month suspended
sentence and 60,000 fine
4

Reported to have acquired oil and gas properties in
Mali
and Congo
and to be pursuing assets in
Cameroon,
Guinea
and
the
Ivory
Coast

1.
Africa Energy Intelligence (AEI), The New African Oil Trail Blazers , 2/20/08
 2.
AEI, Abbas
I. Yousef
Al Yousef , 12/19/07
 3.
AEI, Le Floch-Prigent s
New Incarnation , 12/5/07
 4.
Reuters News, Curtain Comes Down on Final Elf Graft Trial , 5/25/07
 5.
Associated Press, Paris Court Orders Former Elf Chairman Freed From Prison
on Medical Grounds , 4/8/04
 6.
The Guardian, Gigantic Sleaze Scandal Winds Up as Former Elf Oil Chiefs are
Jailed , 11/13/03
 7.
Associated Press, Former French Oil Chief Testifies that Money Went to
African Leaders , 3/19/03
 8.
Reuters News, Former Elf Head Blames Unhappy Marriage for Graft , 4/14/03
- 3
3
2,3

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Why Even One Nanes Delorme / Pilatus Energy Nominee is
Bad for Stockholders
Significant
Conflicts of Interest

The
most

competitive
and
important
area
of
activity
for
E&P
companies
is
the
search for prospective drilling acreage and related information (such as
whether properties are available and seismic data)

Protecting
this
sensitive,
proprietary
information
is
crucial
to
an
E&P
company's success and a critical driver of value creation

We
believe
installing
any
competitor's
paid
representatives
onto
VAALCO's
Board
would
inhibit
discussion
and
create
an
untenable
situation
that
limits
meaningful
review
of
VAALCO's

opportunities
and
prospects

In
our
view,
this
would be detrimental to stockholder value and the future of VAALCO
Nanes Delorme Partners and Pilatus Energy Have Significant Conflicts
of Interest
They Do Not Belong on VAALCO's Board

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Why Even One Nanes Delorme / Pilatus Energy Nominee is
Bad
for
Stockholders

True
Intentions

Are
Unknown

Pilatus acquired ~4.5% of VAALCO (just shy of
SEC disclosure requirements) only recently,
between November 30, 2007 and January 30,
2008;

Nanes
Delorme
was
not
even
formed
until January 22, 2008

Nanes told VAALCO on at least 3 occasions
that
its
unnamed
limited
partner
was
not
a
competitor

Pilatus
was
only
identified
May
5,
almost
2 months
after the initial 13D, and an
amended proxy

Pilatus /Nanes
goals are unclear; objectives
do not seem aligned with other stockholders

Refused
on at least 2 occasions to enter into a
non-disclosure agreement

Refused
an
offer
by
VAALCO

made
prior
to
VAALCO
learning
of
Pilatus
involvement

of
1 Board
seat
and
membership
on
a
committee
to review alternatives

Demanded
(although a 7.9% holder): 3 Board
seats and formation of a special committee ,
controlled by Nanes, to review alternatives
including a corporate sale
Pilatus
Nanes
Delorme
Nov. 28, 2007
Jan. 16, 2008
Purchases 1.125 MM shares
Jan. 18 & Jan. 22, 2008 formed:
Nanes
Balkany
Partners I
Nanes
Balkany
Management
Nanes
Delorme Partners I
Jan. 30
Has 2.7 MM shares (~4.5%)
Feb. 14
Transfers all
to Nanes
Feb. 22
Mar. 3
Purchases 0.65 MM shares
requiring 13D filing (~5.6%)
Mar. 4

Mar. 11

Purchases 1.35 MM shares
for a total of 4.7 MM (~7.9%)

Mar. 11 & Mar. 12

Sends letter to Board, then
files 13D, 1 day before earn-
ings; no mention of Pilatus

Week

of

April

7

CEO & CFO agree to meet Nanes
on April 15; prior to meeting, on
April 11, Nanes
notifies VAALCO

it will seek its own directors

April 15 -

April 22

Balkany

refuses to identify

unnamed, secret limited partner;

tells VAALCO its partner is

not

in the oil & gas business

April 24

-

VAALCO

files

Proxy

April 25

-

Nanes

files

preliminary

proxy; does

not

identify Pilatus

May 5

-

Nanes

files

amended

preliminary proxy revealing
identity of limited partner as

Pilatus Energy

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Why Even One Nanes Delorme / Pilatus Energy Nominee is
Bad
for
Stockholders

No
Substantive

Ideas

Nanes other stated ideas for VAALCO make little sense:

Core
asset
divestitures

What
assets,
short
of
a
sale
of
the
entire
company,
does
Nanes
Delorme propose to divest?

Nanes Delorme itself states that VAALCO is a company which has first class oil and gas properties, with a balanced portfolio of assets and substantial exploration upside in Angola and Gabon, which generates significant cash flow

Alternative
listings

Nanes
Delorme
provides
no
support
whatsoever
for
its
assertion
that
share performance would be affected by an alternative listing

Clear
proof
to
the
contrary

superior
stockholder
returns

and
operating
performance

Flowback
likely to lead to stock price declines

Cease
North
Sea
activity

VAALCO's

North
Sea
activity

is

a

small

part

of

our

overall

business and is consistent with our strategy of obtaining new assets in politically stable regions where modern technology has the potential to unlock previously hidden reserves

70 discoveries currently in the appraisal or development stage representing ~ 3 billion barrels of oil equivalent

new entrants are involved in 46 of these projects¹

Well understood geology resulting in low exploration risk and high drilling success rates

Government policies encourage new entrants and accelerated E&P

Move

headquarters

to

London,

Paris

or

Geneva

and

close

office

in

Aberdeen

Houston

is

widely
known
as
the
oil
capital
of
the
world,
with
an
unsurpassed
pool
of
talent
and
a
low
cost
of
living
(the
same
cannot
be
said
for
London,
Paris
or
Geneva)

Aberdeen
is
where
all
of
the
drilling
professionals
for
VAALCO's
operations
are
based
and
is
an
established international center for drilling expertise
1. Hannon Westwood, May 2008

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Nanes

Nominees Add No

Significant

Skills or Experience

Leonard Toboroff

Current director of Engex, a closed-end investment

company focused on the biotechnology, technology, gaming and distribution industries (market capitalization of \$9 MM), NOVOT, a former developer of treatments for vascular diseases (no significant current operations) and SP Acquisition, a blank-check acquisition company (no significant operations)

Director and Vice-Chairman of Allis-Chalmers Energy, which provides drilling equipment to the onshore domestic energy industry
W. Russell Scheirman

Designed and implemented all of VAALCO's exploration, drilling and development campaigns since joining the Company in 1991

30+ years experience in the petroleum industry

Former petroleum reservoir engineer with Exxon, consultant with McKinsey & Company and investment banker
Clarence Cottaman
III

PetroFalcon
Board member since June 2003; since 2005, stock has fallen from a high of C\$5.90 to C\$1.50; operating at a loss for the last 2 years

Expertise already well represented on VAALCO's Board
Arne R. Nielsen

50+ years experience in the petroleum industry

Inductee into the Petroleum Hall of Fame

Extensive operating and Executive Management industry experience, including 10 years as President of Mobil Oil Canada
Julian Balkany

Age 27

Managing Director, Nanes Delorme, oil & gas M&A investment broker to VAALCO's competitors

No public company executive or Board experience
William S. Farish

Former Ambassador to Great Britain

Long standing industry business connections

35+ years experience in the petroleum industry

Valuable perspectives on international relations in support of VAALCO's West African efforts

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VAALCO's Nominees Are the Right
Choice

Independent and engaged Board made up of successful and experienced industry leaders

Responsible for successful implementation of corporate strategy and stock price appreciation

Broad and complementary expertise in areas critical to VAALCO's business

5 of 7 directors independent under NYSE listing requirements

All committees constituted solely of independent directors

Superior long-term value creation and financial performance

503% cumulative stockholder return over the last 5 years

Outperformed peer group over each of the last 6-month, 1-year, 3-year and 5-year periods

31% 5-year average ROIC (among top 5% of the oil & gas industry)

66% revenue CAGR over the last 5 years

81% EBITDA CAGR over the last 5 years

Track record of superior operating achievements

82% success rate in exploration drilling since 1998, when Etame drilling began

100% success rate in the drilling and completion of development wells since 1998

50% increase in production since 2002

Strong growth expected to continue

Drilling program underway exposes VAALCO stockholders to 8x current reserves

7 planned exploration wells, 2 development wells, arrangements in place to contract for rigs

Drilling to commence this summer

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VAALCO Energy, Inc.

Exceptional Exploration Track Record

Efficient, Low Cost Operator

Large, High Prospectivity

Exploration Portfolio

Strong Cash Flow for Exploration, Production and Acquisitions