

VAALCO ENERGY INC /DE/
Form 10-K
March 13, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 1-32167

VAALCO Energy, Inc.

(Exact name of registrant as specified on its charter)

Delaware 76-0274813
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

4600 Post Oak Place

Suite 300

Houston, Texas 77027

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(Address of principal executive offices) (Zip Code)

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

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Name of exchange on which registered
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Common Stock, \$.10 par value	New York Stock Exchange
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Securities registered under Section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15d of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity of the registrant held by non-affiliates, as of June 30, 2013 was \$329,908,008 based on a closing price of \$5.72 on June 28, 2013.

As of February 28, 2014, there were outstanding 56,850,341 shares of common stock, \$0.10 par value per share, of the registrant.

Documents incorporated by reference: Definitive proxy statement of VAALCO Energy, Inc. relating to the Annual Meeting of Stockholders to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, which

is incorporated into Part III of this Form 10-K.

VAALCO ENERGY, INC.

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Glossary of Oil and Gas Terms

Terms used to describe quantities of oil and natural gas

Bbl — One stock tank barrel, or 42 US gallons liquid volume, of crude oil or other liquid hydrocarbons.

BOE — One barrel of oil equivalent, converting gas to oil at the ratio of 6 Mcf of gas to 1 Bbl of oil. The ratio of six Mcf of natural gas to one Bbl of oil or natural gas liquids is commonly used in the oil and gas business and represents the approximate energy equivalency of six Mcf of natural gas to one Bbl of oil or liquids, and does not represent the sales price equivalency of natural gas to oil or liquids. Currently, the sales price of Bbl of oil or natural gas liquids is significantly higher than the sales price of six Mcf of natural gas.

BOPD — One barrel of oil per day.

MBbl — One thousand

Bbls.

Mcf — One thousand cubic feet of natural gas.

MMcf — One million cubic feet of natural gas.

Terms used to describe the Company's interests in wells and acreage

Gross oil and gas wells or acres — The Company's gross wells or gross acres represent the total number of wells or acres in which the Company owns a working interest.

Net oil and gas wells or acres — Determined by multiplying "gross" oil and natural gas wells or acres by the working interest that the Company owns in such wells or acres represented by the underlying properties.

Terms used to assign a present value to the Company's reserves

Standard measure of proved reserves — The present value, discounted at 10%, of the future net cash flows attributable to estimated net proved reserves. The Company calculates this amount by assuming that it will sell the oil and gas production attributable to the proved reserves estimated in its independent engineer's reserve report for the prices used in the report, unless it had a contract to sell the production for a different price. The Company also assumes that the cost to produce the reserves will remain constant at the costs prevailing on the date of the report. The assumed costs are subtracted from the assumed revenues resulting in a stream of future net cash flows. Estimated future income taxes using rates in effect on the date of the report are deducted from the net cash flow stream. The after-tax cash flows are discounted at 10% to result in the standardized measure of the Company's proved reserves.

Terms used to classify the Company's reserve quantities

Developed oil and gas reserves. Developed oil and gas reserves are reserves of any category that can be expected to be recovered:

(i) Through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and

(ii) Through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

Proved oil and gas reserves. Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

(i) The area of the reservoir considered as proved includes:

- (A) The area identified by drilling and limited by fluid contacts, if any, and
- (B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.

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(ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons (LKH) as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.

(iii) Where direct observation from well penetrations has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.

(iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when:

(A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and

(B) The project has been approved for development by all necessary parties and entities, including governmental entities.

(v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

Reserves. Reserves are estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and gas or related substances to market, and all permits and financing required to implement the project.

Standardized measure. Standardized measure is the present value of estimated future net revenues to be generated from the production of proved reserves, determined in accordance with the rules and regulations of the Securities and Exchange Commission, using prices and costs in effect as of the date of estimation, without giving effect to non-property related expenses such as certain general and administrative expenses, debt service and future federal income tax expenses or to depreciation, depletion and amortization and discounted using an annual discount rate of 10%.

Undeveloped oil and gas reserves. Undeveloped oil and gas reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

(i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.

(ii) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances, justify a longer time.

(iii) Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, or by other evidence using reliable

technology establishing reasonable certainty.

·Unproved properties. Properties with no proved reserves.

Terms which describe the productive life of a property or group of properties

·Reserve life. A measure of the productive life of an oil and gas property or a group of oil and gas properties, expressed in years. Reserve life for the years ended December 31, 2013, 2012 or 2011 equal the estimated net proved reserves attributable to a property or group of properties divided by production from the property or group of properties for the four fiscal quarters preceding the date as of which the proved reserves were estimated.

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Terms used to describe the legal ownership of the Company's oil and gas properties

- Royalty interest. A real property interest entitling the owner to receive a specified portion of the gross proceeds of the sale of oil and natural gas production or, if the conveyance creating the interest provides, a specific portion of oil and natural gas produced, without any deduction for the costs to explore for, develop or produce the oil and natural gas. A royalty interest owner has no right to consent to or approve the operation and development of the property, while the owners of the working interests have the exclusive right to exploit the minerals on the land.
- Working interest. A real property interest entitling the owner to receive a specified percentage of the proceeds of the sale of oil and natural gas production or a percentage of the production, but requiring the owner of the working interest to bear the cost to explore for, develop and produce such oil and natural gas. A working interest owner who owns a portion of the working interest may participate either as operator or by voting his percentage interest to approve or disapprove the appointment of an operator and drilling and other major activities in connection with the development and operation of a property.

Terms used to describe seismic operations

- Seismic data. Oil and gas companies use seismic data as their principal source of information to locate oil and gas deposits, both to aid in exploration for new deposits and to manage or enhance production from known reservoirs. To gather seismic data, an energy source is used to send sound waves into the subsurface strata. These waves are reflected back to the surface by underground formations, where they are detected by geophones which digitize and record the reflected waves. Computers are then used to process the raw data to develop an image of underground formations.
- 2-D seismic data. 2-D seismic survey data has been the standard acquisition technique used to image geologic formations over a broad area. 2-D seismic data is collected by a single line of energy sources which reflect seismic waves to a single line of geophones. When processed, 2-D seismic data produces an image of a single vertical plane of sub-surface data.
- 3-D seismic data. 3-D seismic data is collected using a grid of energy sources, which are generally spread over several miles. A 3-D survey produces a three dimensional image of the subsurface geology by collecting seismic data along parallel lines and creating a cube of information that can be divided into various planes, thus improving visualization. Consequently, 3-D seismic data is a more reliable indicator of potential oil and natural gas reservoirs in the area evaluated.

PART I

Item 1. Business BACKGROUND

VAALCO Energy, Inc., a Delaware corporation incorporated in 1985, 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 an operator in Gabon, West Africa, conducts exploration activities as an operator in Angola, West Africa, and conducts exploration activities as a non-operator in Equatorial Guinea, West Africa. VAALCO is the operator of unconventional and conventional resource properties in the United States primarily in North Texas. The Company also owns minor interests in conventional production activities as a non-operator in the United States. As used in this report, the terms “Company”, “we”, “us”, “our”, and “VAALCO” mean VAALCO Energy, Inc. and its subsidiaries, unless the context otherwise requires. The Company’s corporate headquarters are located at 4600 Post Oak Place, Suite 300, Houston, Texas 77027 where the telephone number is (713) 623-0801.

VAALCO’s international subsidiaries are VAALCO Gabon (Etame), Inc., VAALCO Production (Gabon), Inc., VAALCO Angola (Kwanza), Inc., VAALCO UK (North Sea), Ltd., VAALCO International, Inc., VAALCO Energy (EG), Inc. and VAALCO Energy Mauritius (EG) Limited. VAALCO Energy (USA), Inc. holds interests in properties located in the United States.

STRATEGY

International

The Company’s international strategy is to pursue selective opportunities with a focus on West Africa that are characterized by reasonable entry costs, favorable economic terms, high reserve potential relative to capital expenditures and the availability of existing technical data. The Company believes that it has strong management and technical expertise with proven abilities in identifying international opportunities and establishing favorable operating relationships with host governments and local partners familiar with the local practices and infrastructure. The Company owns producing properties and conducts exploration activities as operator under an offshore license in Gabon, an exploration license onshore Gabon (subject to approval of a new production sharing agreement), an exploration license in Angola, and as non-operator of an exploration license in Equatorial Guinea.

In addition, the Company’s production strategy is to maximize the value of the reserves discovered in Gabon through exploitation of the offshore Etame Marin block (comprised of the Etame, Avouma, South Tchibala, and Ebouri producing fields, the Southeast Etame and North Tchibala fields currently being developed), and the onshore Mutamba Iruru block where the N’Gongui field is expected to be developed following the approval of a new production sharing contract with the Republic of Gabon.

Domestic

The Company’s domestic strategy has been to selectively acquire resource based properties, including liquids-rich shale properties. In 2010 and 2011, the Company acquired two small leases in the Granite Wash formation in Texas, followed by two larger properties acquired in 2011 in Montana, and one property acquired in 2012 in South Dakota. Considering both the lack of drilling success experienced in 2012 and 2013 in Montana and South Dakota and the projected surplus of domestically produced light, sweet crude oil by the industry, the Company does not

expect to focus on domestic property acquisitions in its short-term business plans.

The Company's domestic production strategy is to continue to produce the two Granite Wash wells with minimal additional capital investment.

RECENT DEVELOPMENTS

Offshore Gabon

The Company's primary source of revenue is from the Etame Production Sharing Contract related to the Etame Marin block located offshore the Republic of Gabon. VAALCO operates the Etame Marin block on behalf of a consortium of companies. At December 31, 2013, VAALCO owned a 30.35% interest in the exploration acreage within the Etame Marin block. The Company owns a 28.1% interest in the development areas in and surrounding the Etame, Avouma, South Tchibala, and Ebouri fields, each of which is located on the Etame Marin block. The development areas are subject to a 7.5% back-in by the Government of Gabon, which occurred for these fields after their successful development. The Southeast Etame and North Tchibala fields, each of which is also located on the Etame Marine block are in the process of being developed and will also be subject to a 7.5% back-in by the Government of Gabon.

The Company produces from the Etame, Avouma, South Tchibala and Ebouri fields on the block. During 2013, these fields produced approximately 6.2 million Bbls (1.8 million Bbls net to the Company). The Company's share of barrels sold reflects an allocation of cost oil and profit oil, and a reduction for royalty (13%).

In July 2012, the Company discovered the presence of hydrogen sulfide ("H₂S") from two of the three producing wells in the Ebouri field. The wells were shut-in for safety reasons resulting in a decrease of approximately 2,000 BOPD or approximately 10% of the gross daily production from the Etame Marin block. In the second quarter of 2013, the Company spent \$0.5 million (\$0.2 million net to the Company) to temporarily suspend the two affected wells. Analysis of options for re-establishing production from the impacted area began in the second half of 2012 and is expected to continue through the first half of 2014. Additional capital investment will be required, which is likely to include a new platform-type structure with H₂S processing capability, recompletion of the temporarily abandoned wells, and potentially additional new wells to re-establish and maximize production from the impacted area. Preliminary economics support the estimated additional capital investment. The design, cost projections and final investment decisions by the Company and its partners are expected to be made in the second half of 2014. Re-establishing production from the area impacted by H₂S is expected in the first half of 2017.

The Company and its partners approved the construction of two additional production platforms in late 2012. One platform will be located in the Etame field and the second platform will be located between the Southeast Etame and North Tchibala fields. Initial plans are to drill three wells from each of the platforms as part of the future development plans for the Etame Marin block. The Company drilled a successful exploration well in the Southeast Etame area in 2010, which will be developed from the second platform. The expected cost to build and install the platforms during the 2013/2014 time period is \$325.0 million (\$91.0 million net to the Company). The cost of the wells is not included in the platform costs. Construction of the two new platforms began in the first quarter of 2013 and they are scheduled for installation in 2014.

Late in 2012, a drilling and workover campaign began with the arrival of a drilling rig to conduct a six well program that was ultimately increased to an eight well program extending into 2014. In 2013, the drilling and workover campaign included the drilling of a successful development well in the Avouma field, three well workovers to replace electric submersible pumps ("ESPs") and two unsuccessful exploration wells. The 2014 program includes an exploration well, a replacement development well and one workover to replace ESPs. The Company drilled the exploration well in the first quarter of 2014, an unsuccessful effort due to non-commercial quantities of hydrocarbons being found. Additionally, a water knock-out facility became operational on the Avouma platform during 2013.

Onshore Gabon

The Company executed a farm-out agreement in August 2010 with Total Gabon on the Mutamba Iroru block located onshore near the coast in central Gabon. The Mutamba Iroru block contains an exploration area of approximately 270,000 acres. The Company has a 50% working interest on the block (41% net working interest assuming the Republic of Gabon exercises its back-in rights).

Under the terms of the agreement, the Company and Total Gabon committed to reprocess 400 kilometers of 2-D seismic data and drill one exploration well. The seismic reprocessing work was completed in 2012. The exploration well was drilled in 2012 resulting in a discovery at a cost of \$17.1 million (\$5.3 million net to the Company).

A revised production sharing contract ("PSC") including exploration rights is in the approval process by the Republic of Gabon. Once the PSC is approved, the application for a development area is expected to be approved without further delay. After both approvals are obtained, a plan of development, which will include the drilling of wells and the installation of pipelines, will be submitted to the Republic of Gabon for approval. However, the Company can provide no assurances that such a request will be granted.

Offshore Angola

In November 2006, the Company signed a production sharing contract for Block 5 offshore Angola. The four year primary term with an optional three year extension awards the Company exploration rights to 1.4 million acres offshore central Angola. The Company's working interest is 40%, and its paying interest is 50% including the government's carried working interest during the exploration phase.

By a governmental decree dated December 1, 2010, the government-assigned working interest partner was removed from the production sharing contract for cause, and a one year time extension was granted for drilling the two exploration commitment wells. In early 2012, the Angolan government granted a further one year extension to November 30, 2012 for drilling the two exploration commitment wells. In July 2012, the Angolan government granted an additional two year extension until November 30, 2014 to drill the two exploration commitment wells.

In the fourth quarter of 2013, the Company received written confirmation from The Ministry of Petroleum of Angola that the available 40% working interest in Block 5, offshore Angola, has been assigned to Sonangol E.P., the National Concessionaire. The Ministry of Petroleum also confirmed that Sonangol E.P. will assign the aforementioned participating interest to its exploration and production affiliate, Sonangol P&P. Late in 2013, the Company proceeded to obtain additional seismic data covering the deeper segment of the block. The seismic data will be subject to reprocessing during 2014. Together with Sonangol P&P, a further time extension has been requested to allow for a proper assessment on the recently acquired seismic data and for drilling the two exploration commitment wells. However, the Company can provide no assurances that such a request will be granted.

Offshore Equatorial Guinea

In July 2012, the Company signed a definitive agreement with PETRONAS CARIGALI OVERSEAS SDN BHD for the purchase of a 31% working interest in Block P, located offshore Equatorial Guinea at a cost of \$10.0 million. The acquisition was completed on November 1, 2012. The Company expects two exploration wells will be drilled on this block in the 2014/2015 timeframe. GEPetrol, the national oil company of Equatorial Guinea, is the operator of the block. During 2013, the Company and GEPetrol worked on a joint operatorship model whereby the Company would have a significant role in future operatorship activities on the block. The model is expected to be finalized and implemented in the first half of 2014 allowing for the planning of the expected exploration drilling program.

Onshore Domestic-Texas

The Company acquired a 640 acre lease in the Hefley field (Granite Wash formation) in North Texas in December 2010 and a 480 acre lease in the same formation in July 2011. Two wells were successfully drilled on the lease. During 2013, the two wells produced approximately 5,000 Bbls of oil and 300 million cubic feet of gas net to the Company after deduction of royalty and severance taxes. Financial impairments totaling \$12.6 million were recorded for the Hefley field in 2011 and 2012 on the basis of production performance, projected hydrocarbon price curves, operating expenses and estimated reserves. In the second half of 2013, the Company expensed the remaining unevaluated leasehold costs of the two leases totaling \$2.6 million. No capital expenditures are anticipated in 2014 for this property.

Onshore Domestic - Montana

In May 2011, the Company acquired a 70% working interest in approximately 5,200 acres (3,640 net acres) in Sheridan County, Montana in the Middle Bakken formation. The Company drilled two unsuccessful exploration wells on this acreage in 2012. Dry-hole cost and leasehold impairment totaling \$14.2 million was recognized in the fourth quarter of 2012 related to these two wells. In 2013, the Company impaired the remaining portion of the leasehold cost in the amount of \$1.4 million. No capital expenditures are anticipated in 2014 for this property.

In September 2011, the Company initially acquired a 65% working interest in approximately 22,000 gross acres (14,300 net acres) covering the Middle Bakken and deeper formations in the East Poplar unit and the Northwest Poplar field in Roosevelt County, Montana. The working interest was subsequently reduced to 50% and 11,000 net acres in December 2012. A total of three unsuccessful exploration wells were drilled on this acreage. Dry-hole costs and leasehold impairment totaling \$18.4 million was recorded in the fourth quarter of 2012 for the first two wells. The third well which was drilled in the fourth quarter of 2012 at a cost of \$3.0 million was charged to dry-hole expense in the third quarter of 2013. The remaining carrying value of the undeveloped acreage of this property is \$1.3 million and is held by production.

Onshore Domestic – South Dakota

In September 2012, the Company acquired a 100% working interest in approximately 10,000 acres in Harding County, South Dakota, for \$1.5 million. The primary objective for this property was the Red River formation. The Company drilled a well on the property in the first quarter of 2013, an unsuccessful effort at a cost of approximately \$2.9 million. The Company recorded \$0.1 million in dry hole cost and \$1.5 million of leasehold impairment costs in the fourth quarter of 2012, and the remaining \$2.8 million was recorded as dry hole cost in the first quarter of 2013. The Company does not have plans to proceed with additional investments on this property.

Credit Facility

In January 2014, the Company executed a loan agreement with the International Finance Corporation (IFC) for a \$65.0 million reserve based loan facility ("RBL") secured by the assets of the Company's Gabon subsidiary. The RBL provides for an availability period that expires on December 31, 2019. Borrowings under the loan agreement are limited to a borrowing base, initially established as \$65.0 million (\$50.0 million senior loan and a \$15.0 million subordinate tranche) and scheduled to be re-determined every six

months starting June 30, 2014. RBL will bear interest at LIBOR plus 3.75% for the senior loan and LIBOR plus 5.75% for the subordinate tranche and is to be paid quarterly. The Company is also required to pay a commitment fee in respect of unutilized commitments, which is equal to 1.5% per annum on the senior loan and 2.3% per annum on the subordinate tranche. In addition, upon the signing of the RBL, the Company paid 2.5% in closing fees to the IFC. As of the date of this report, the Company has no outstanding borrowings under the RBL.

AVAILABLE INFORMATION

The Company files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). You may read and copy any document the Company files at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the SEC's Public Reference Room. The Company's SEC filings are also available to the public at the SEC's website at www.sec.gov.

You may also obtain copies of the Company's annual, quarterly and current reports, proxy statements and certain other information filed with the SEC, as well as amendments thereto, free of charge from the Company's website at www.vaalco.com. No information from the SEC's or the Company's website is incorporated by reference herein. The Company has placed on its website copies of its Audit Committee Charter, Code of Business Conduct and Ethics, and Code of Ethics for the Chief Executive Officer and Chief Financial Officer. Stockholders may request a printed copy of these governance materials by writing to the Corporate Secretary, VAALCO Energy, Inc., 4600 Post Oak Place, Suite 300, Houston, Texas 77027.

CUSTOMERS

Substantially all of the Company's oil and gas is sold at posted or indexed prices under short-term contracts, as is customary in the industry. In Gabon, the Company sold oil under annual contracts with Mercuria Trading NV ("Mercuria") in 2013, 2012 and 2011. For the first quarter of 2014, the Company will also sell its oil under a contract with Mercuria. The Company is analyzing bids from prospective customers in the first quarter of 2014 to award the next annual contract for the period beginning April 1, 2014.

Domestic operated production in Texas is sold via two contracts, one for oil and one for gas and natural gas liquids. The Company has access to several alternative buyers for oil, gas, and natural gas liquids domestically.

EMPLOYEES

As of December 31, 2013, the Company had 111 full-time employees and consultant contractors, 59 of whom were located in Gabon, 9 of whom were located in Angola and 1 employee located in Equatorial Guinea. The Company is not subject to any collective bargaining agreements, although most of the national employees in Gabon are members of the NEOP (National Organization of Petroleum Workers) union. The Company believes its relations with its employees are satisfactory.

COMPETITION

The oil and gas industry is highly competitive. Competition is particularly intense from other independent operators and from major oil and natural gas companies with respect to acquisitions of desirable oil and gas properties and contracting for drilling equipment. There is also competition for the hiring of experienced personnel. In addition, the drilling, producing, processing and marketing of oil and gas is affected by a number of factors beyond the control of the Company, including but not limited to shortages of drilling rigs, pipe and personnel, which may delay drilling, increase prices and have other adverse effects which cannot be accurately predicted.

The Company's competition for acquisitions, exploration, development and production includes the major oil and gas companies in addition to numerous independent oil companies, individual proprietors, investors and others. Many of these competitors possess financial, technical and personnel resources substantially in excess of those available to the Company, giving those competitors an enhanced ability to evaluate and acquire desirable leases properties or prospects. The ability of the Company to generate reserves in the future will depend on its ability to select and acquire suitable producing properties and prospects for future drilling and exploration.

INSURANCE

In accordance with industry practice, the Company maintains insurance against some, but not all, of the operating risks to which its business is exposed. The Company currently has insurance policies that include coverage for general liability (includes sudden and accidental pollution), physical damage to its oil and gas properties, operational control of offshore wells, aviation, auto liability, marine liability, worker's compensation and employer's liability, among other things. At the depths and in the areas in which the

Company operates, and in light of the vertical and horizontal drilling that it undertakes, the Company typically does not encounter high pressures or extreme drilling conditions.

Currently, the Company has Operator's Extra Expense insurance coverage up to \$100.0 million per occurrence. This includes coverage for redrill and restoration of wells, as well as coverage for resultant environmental damage, including voluntary clean-up. The Company also carries Physical Damage coverage on offshore assets that is subject to full replacement cost limits. Both of these coverages, Operator's Extra Expense and Physical Damage, are subject to certain customary exclusions and limitations and to deductibles (generally ranging from \$100,000 to \$1,000,000 per occurrence) that must be met prior to recovery. In addition, the Company carries General Liability and Excess Liability Insurance, subject to customary exclusions and limitations, with limits of \$75.0 million. This program includes coverage for bodily injury and property damage to third parties, including sudden and accidental pollution liability coverage.

The Company requires all of its third-party contractors to sign master service agreements in which they agree to indemnify the Company for injuries and deaths of the service provider's employees as well as contractors and subcontractors hired by the service provider. Similarly, the Company generally agrees to indemnify each third-party contractor against claims made by the Company's employees and other contractors. Additionally, each party generally is responsible for damage to its own property.

The third-party contractors that perform hydraulic fracturing operations for the Company sign the master service agreements containing the indemnification provisions noted above. The Company does not currently have any insurance policies in effect that are intended to provide coverage for losses solely related to hydraulic fracturing operations. However, the Company believes its general liability and excess liability insurance policies would cover third party claims related to hydraulic fracturing operations and associated legal expenses, in accordance with, and subject to, the terms of such policies.

The Company re-evaluates the purchase of insurance, coverage limits and deductibles annually. Future insurance coverage for the oil and gas industry could increase in cost and may include higher deductibles or retentions. In addition, some forms of insurance may become unavailable in the future or unavailable on terms that are economically acceptable. No assurance can be given that the Company will be able to maintain insurance in the future at rates that we consider reasonable and it may elect to self-insure or maintain only catastrophic coverage for certain risks in the future.

ENVIRONMENTAL REGULATIONS

General

The Company's activities are subject to federal, state and local laws and regulations governing environmental quality and pollution control in the United States and Gabon and will be subject to the laws and regulations of Angola and Equatorial Guinea when exploration drilling begins in those countries. Although no assurances can be made, the Company believes that, absent the occurrence of an extraordinary event, compliance with existing laws, rules and regulations regulating the release of materials into the environment or otherwise relating to the protection of the environment will not have a material effect upon the Company's capital expenditures, earnings or competitive position with respect to its existing assets and operations. The Company cannot predict what effect future regulation or legislation, enforcement policies, and claims for damages to property, employees, other persons and the environment resulting from the Company's operations could have on its activities. In part because they are developing countries, it is unclear how quickly and to what extent Gabon, Angola or Equatorial Guinea will increase their regulation of environmental issues in the future; any significant increase in the regulation or enforcement of environmental issues by Gabon, Angola or Equatorial Guinea could have a material effect on the Company. Developing countries, in

certain instances, have patterned environmental laws after those in the United States which are discussed below. However, the extent to which any environmental laws are enforced in developing countries varies significantly.

In the United States, environmental laws and regulations may require the acquisition of permits before drilling commences, the installation of pollution control equipment for our operations, special handling or disposal of materials used in our operations, or remedial measures to mitigate pollution from our operations or on the properties on which we operate. These laws and regulations may also restrict the types of substances used in our drilling operations which can be used or released into the environment or limit or prohibit drilling activities on certain lands such as wetlands or sensitive protected areas.

As a general matter, the oil and gas exploration and production industry has been the subject of increasing scrutiny and regulation by environmental authorities. The Environmental Protection Agency ("EPA") has identified environmental compliance by the energy extraction sector as one of its enforcement initiatives for 2014-2016. The trend has been the enactment of new or more stringent requirements on the oil and gas industry. These changes result in increased operating costs, and additional changes could result in further increases in our costs for environmental compliance.

Environmental Regulations in the United States

Superfund

The Company currently owns or leases, and in the past has owned or leased, properties that have been used for the exploration and production of oil and gas for many years. Although the Company has utilized operating and disposal practices that were standard in the industry at the time, hydrocarbons or other solid wastes may have been disposed or released on or under the properties owned or leased by the Company or on or under locations where such wastes have been taken for disposal. In addition, some of these properties are or have been operated by third parties. The Company has no control over such entities' treatment of hydrocarbons or other solid wastes and the manner in which such substances may have been disposed or released. State and federal laws applicable to oil and gas wastes and properties have gradually become stricter over time. The Company could, in the future, be required to remediate property, including groundwater, containing or impacted by previously disposed wastes (including wastes disposed or released by prior owners or operators, or property contamination, including groundwater contamination by prior owners or operators) or to perform remedial plugging operations to prevent future or mitigate existing contamination.

The federal Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), also known as the "Superfund" law, generally imposes joint and several liability for costs of investigation and remediation and for natural resource damages, without regard to fault or the legality of the original conduct, on certain classes of persons with respect to the release into the environment of substances designated under CERCLA as hazardous substances ("Hazardous Substances"). These classes of persons, or so-called potentially responsible parties ("PRPs"), include the current and certain past owners and operators of a facility where there has been a release or threat of release of a Hazardous Substance and persons who disposed of or arranged for the disposal of Hazardous Substances found at a facility. CERCLA also authorizes the (EPA) and, in some cases, third parties to take actions in response to threats to the public health or the environment and to seek to recover from the PRPs the costs of such action.

Although CERCLA generally exempts "petroleum" from the definition of Hazardous Substance, in the course of its operations, the Company has generated and will generate substances that may fall within CERCLA's definition of Hazardous Substance and may have disposed of these substances at disposal sites owned and operated by others. The Company may also be the owner or operator of sites on which Hazardous Substances have been released. To its knowledge, neither the Company nor its predecessors have been designated as a PRP by the EPA under CERCLA; the Company also does not know of any prior owners or operators of its properties that are named as PRPs related to their ownership or operation of such properties. States such as Texas have comparable statutes which may cover substances (including petroleum) in addition to those covered under CERCLA. In the event contamination is discovered at a site on which the Company is or has been an owner or operator or to which the Company sent regulated substances, the Company could be liable for costs of investigation and remediation and natural resources damages.

The Company generates wastes, including hazardous wastes that are subject to the federal Resource Conservation and Recovery Act ("RCRA") and comparable state statutes. The EPA and various state agencies have limited the disposal options for certain wastes, including wastes designated as hazardous under RCRA and state analogs ("Hazardous Wastes"). Furthermore, although oil and gas wastes generally are exempt from regulation as hazardous waste, not all current comparable state statutes may provide this exemption, and certain wastes generated by the Company may be subject to RCRA or comparable state statutes. It is possible that certain wastes generated by the Company's oil and gas operations that are currently exempt may in the future be designated as Hazardous Wastes under RCRA or other applicable statutes and, therefore, may be subject to more rigorous and costly disposal requirements.

Clean Water Act

The Clean Water Act (“CWA”) and analogous state laws impose restrictions and strict controls regarding the discharge (including spills and leaks) of pollutants, including produced waters and other oil and natural gas wastes, into state waters and waters of the United States, a term broadly defined. These controls have become more stringent over the years, and it is probable that additional restrictions will be imposed in the future. Generally, permits must be obtained to discharge pollutants. The CWA provides for civil, criminal and administrative penalties for unauthorized discharges of oil and hazardous substances and of other pollutants. It imposes substantial potential liability for the costs of removal or remediation associated with discharges of oil or other pollutants. The CWA also prohibits the discharge of fill materials to regulated waters, including wetlands, without a permit. State laws governing discharges to water also provide varying civil, criminal and administrative penalties and impose liabilities in the case of a discharge of petroleum or its derivatives, or other pollutants, into state waters. In addition, the EPA has promulgated regulations that may require the Company to obtain permits to discharge storm water runoff, including discharges associated with construction activities. In the event of an unauthorized discharge of wastes, the Company may be liable for penalties and cleanup and response costs.

Oil Pollution Act

The Oil Pollution Act of 1990 (“OPA”), which amends and augments oil spill provisions of the CWA, imposes certain duties and liabilities on certain “responsible parties” related to the prevention of oil spills and damages resulting from such spills in or threatening United States waters or adjoining shorelines. A liable “responsible party” includes the owner or operator of a facility, vessel or pipeline that is a source of an oil discharge or that poses the substantial threat of discharge, or in the case of offshore facilities, the lessee or permittee of the area in which a discharging facility is located. OPA assigns joint and several liability, without regard to fault, to each liable party for oil removal costs and a variety of public and private damages. Although defenses exist to the liability imposed by OPA, they are limited. In the event of an oil discharge or substantial threat of discharge, the Company may be liable for costs and damages.

The OPA also imposes ongoing requirements on a responsible party, including proof of financial responsibility to cover at least some costs in a potential spill. Certain amendments to the OPA that were enacted in 1996 require owners and operators of offshore facilities that have a worst case oil spill potential of more than 1,000 Bbls to demonstrate financial responsibility in amounts ranging from \$10.0 million in specified state waters and \$35.0 million in federal outer continental shelf (“OCS”) waters, with higher amounts, up to \$150.0 million based upon worst case oil-spill discharge volume calculations. In light of recent events, it is possible that these requirements may become more stringent. The Company believes that currently it has established adequate proof of financial responsibility for its offshore facilities.

Hydraulic Fracturing

Hydraulic fracturing involves the injection of water, sand and chemicals under pressure into formations to fracture the surrounding rock and stimulate production. Hydraulic fracturing activities are typically regulated by state oil and gas commissions but not at the federal level, as the federal Safe Drinking Water Act (“SDWA”) expressly excludes regulation of these fracturing activities (except where diesel is a component of the fracturing fluid). Due to public concerns raised regarding potential impacts of hydraulic fracturing on groundwater quality, there have been recent developments at the federal and state levels that could result in regulation of hydraulic fracturing becoming more stringent and costly. The EPA has commenced a study of the potential environmental impacts of hydraulic fracturing activities and released a progress report in December 2012, with final results anticipated in 2014. Additionally, in February 2014, the EPA issued guidance regarding federal regulatory authority under the SDWA over hydraulic fracturing using diesel.

In addition, a committee of the U.S. House of Representatives conducted an investigation of hydraulic fracturing practices. Moreover, in past sessions legislation was introduced before Congress to provide for federal regulation of hydraulic fracturing by eliminating the current exemption in the Safe Drinking Water Act, and, further, to require disclosure of the chemicals used in the fracturing process. Also, some states have adopted, and other states are considering adopting, regulations that restrict hydraulic fracturing in certain circumstances or that require disclosure of the chemicals in the fracturing fluids. Additionally some states, localities and river basin conservancy districts have exercised or considered exercising their regulatory powers to limit, and in some cases place a moratorium on hydraulic fracturing. The Bureau of Land Management has proposed regulations on hydraulic fracturing activities on federal lands.

Further, the EPA has announced an initiative under the Toxic Substances Control Act (“TSCA”) to develop regulations governing the disclosure and evaluation of hydraulic fracturing chemicals and is working on regulations governing wastewater generated by hydraulic fracturing.

If new laws or regulations imposing significant restrictions or conditions on hydraulic fracturing activities are adopted in areas where the Company conducts business, the Company could incur substantial compliance costs and such

requirements could adversely delay or restrict its ability to conduct fracturing activities on its assets.

Hydraulic Fracturing – Texas

All of the acreage and undeveloped reserves within the Granite Wash formation are subject to hydraulic fracturing. The hydraulic fracturing process is integral to our overall drilling and completion costs in the Granite Wash formation and represents approximately 40% of the total drilling/completion costs per well. The Company may conduct hydraulic fracturing activities from time to time, but did not conduct such activities in 2013, nor does it currently plan to do so in 2014.

The Company diligently reviews best practices and industry standards, and complies with all regulatory requirements in the protection of these potable water sources. Protective practices include, but are not limited to, setting multiple strings of protection pipe across the potable water sources and cementing these pipes from setting depth to surface, continuously monitoring the hydraulic fracturing process in real time, and disposing of all non-commercially produced fluids in certified disposal wells at depths below the potable water sources.

Based on current drilling techniques, a typical fracturing procedure for a well in the Granite Wash formation uses approximately 5.0 million gallons of fluid, 4.9 million gallons of which is fresh water, and approximately 0.1 million gallons-equivalent of sand. By volume, fresh water makes up nearly 98% of the total fracturing fluid. Less than 1% of the remaining fluid is comprised of chemicals that are found in household or consumer products.

In compliance with the law enacted in Texas in June 2011 and regulations adopted in December 2011, the Company will, for any wells permitted after February 1, 2012, disclose hydraulic fracturing data to the Ground Water Protection Council and the Interstate Oil and Gas Compact Commission chemical registry. This disclosure is required for each chemical ingredient that is subject to OSHA's hazard communication standard regarding Material Safety Data Sheets, as well as the total volume of water used in the hydraulic fracturing treatment. A copy of the completed form is required to be submitted to the Railroad Commission of Texas with the completion report for the well. Additionally, a list of all other chemical ingredients not required by the registry is to be provided to the Railroad Commission for disclosure on a publicly accessible website. The Company has not permitted any wells after the February 1, 2012 compliance date and thus has not submitted any disclosures pertaining to the 2011 law and regulations.

There have not been any incidents, citations or suits related to the Company's hydraulic fracturing activities involving environmental concerns.

Hydraulic Fracturing – Montana

All of our leased acreage in Montana is potentially a candidate for hydraulic fracturing. The hydraulic fracturing process is integral to our overall drilling and completion costs in the Bakken - Three Forks formations and represents approximately 40% of the total drilling and completion cost per well. The Company may conduct hydraulic fracturing activities from time to time, but did not conduct such activities in 2013, nor does it currently plan to do so in 2014.

The Company diligently reviews best practices and industry standards, and complies with all regulatory requirements in the protection of potable water sources. Protective practices include, but are not limited to, setting multiple strings of protection pipe across the potable water sources and cementing these pipes from setting depth to surface. Prior to each hydraulic fracturing job, the pipe that conveys the fracturing fluids downhole is pressure tested to above the highest anticipated pump pressure, safety valves are installed and set to automatically relieve any over pressure, and the fracturing process is continuously real-time monitored to identify any anomaly. All non-commercial produced fluids are collected for disposal in certified injection wells at depths below the potable water sources.

Based on current drilling techniques, a typical fracturing procedure for a well in the Bakken – Three Forks formation uses approximately 5.0 million gallons of fluid, 4.9 million gallons of which is fresh water, and approximately 0.1 million gallons-equivalent of sand. Fresh water makes up nearly 98% by volume of the total fracturing fluid. Less than 1% of the remaining fluid is comprised of chemicals that are found in household or consumer products.

In compliance with the Montana Dept. of Natural Resources and Conservation rules that went into effect on August 26, 2011, the Company has and will disclose hydraulic fracturing data to the Montana Board of Oil & Gas and on FracFocus, a voluntary, publicly accessible, disclosure web site maintained by the Ground Water Protection Council and the Interstate Oil and Gas Conservation Commission. This disclosure is required for each chemical ingredient that is subject to OSHA's hazard communication standard regarding Material Safety Data Sheets. Each component is listed along with the supplier, its trade name, purpose, ingredients, and maximum ingredient concentration. Details of each fracturing operation, including volumes, rates, and pressures, are provided to the Montana Board of Oil & Gas.

There have been no incidents, citations or suits related to the Company's hydraulic fracturing activities involving environmental concerns.

National Environmental Policy Act

Oil and natural gas exploration and production activities on federal lands may be subject to the National Environmental Policy Act, or NEPA, which requires federal agencies, including the Department of Interior, to evaluate major agency actions having the potential to significantly impact the environment. In the course of such evaluations, an agency will prepare an Environmental Assessment that assesses the potential direct, indirect and cumulative impacts of a proposed project and, if necessary, will prepare a more detailed Environmental Impact Statement that may be made available for public review and comment. To the extent that our current exploration and production activities, as well as proposed exploration and development plans, on federal lands require governmental permits that are subject to the requirements of NEPA, this process has the potential to delay or impose additional conditions upon the development of oil and natural gas projects.

Endangered Species Act

The Endangered Species Act (“ESA”) was established to protect endangered and threatened species. Pursuant to that act, if a species is listed as threatened or endangered, restrictions may be imposed on activities adversely affecting that species’ habitat. Similar protections are offered to migratory birds under the Migratory Bird Treaty Act. The U.S. Fish and Wildlife Service must also designate the species’ critical habitat and suitable habitat as part of the effort to ensure survival of the species. A critical habitat or suitable habitat designation could result in further material restrictions to land use and may materially delay or prohibit land access for oil and natural gas development. If the Company were to have a portion of its leases designated as critical or suitable habitat, it may adversely impact the value of the affected leases.

Climate Change Legislation

More stringent laws and regulations relating to climate change and greenhouse gases (“GHGs”) may be adopted in the future and could cause us to incur material expenses in complying with them. The EPA has adopted rules under the Clean Air Act (“CAA”) for the permitting of GHG emissions from stationary sources under the Prevention of Significant Deterioration (“PSD”) and Title V permitting programs. The EPA has adopted a multi-tiered approach to this permitting, with the largest sources first subject to permitting. In addition, both houses of the United States Congress have considered legislation to reduce emissions of greenhouse gases without any ultimate resolution and many states have taken or considered legal measures to reduce GHG emissions, including, in a few locations, the consideration of a cap and trade program. Most cap and trade programs work by requiring major sources of emissions or major producers of fuels to acquire and surrender emission allowances. Depending on the regulatory reach of the EPA’s rules or new CAA legislation or implementing regulations restricting the emission of GHGs or state programs, the Company could incur significant costs to control its emissions and comply with regulatory requirements. In addition, in October 2009, the EPA adopted a mandatory GHG emissions reporting program which imposes reporting and monitoring requirements on various industries and in November 2010, expanded this GHG reporting rule to include onshore and offshore oil and natural gas production facilities and onshore oil and natural gas processing, transmission, storage and distribution facilities. The Company will incur costs to monitor, keep records of, and report emissions of GHGs. We do not believe that our compliance with applicable monitoring, recordkeeping and reporting requirements under the reporting rule as recently amended will have a material adverse effect on our results of operations or financial position.

Because of the lack of any comprehensive legislative program addressing GHGs, there is a great deal of uncertainty as to how federal and state regulation of GHGs will unfold and how it may impact our industry. Moreover, the federal, regional, state and local regulatory initiatives could adversely affect the marketability of the oil and natural gas that the Company produces. The impact of such future programs cannot be predicted, but the Company does not expect its operations to be affected any differently than other similarly situated domestic competitors.

Air Emissions

The Company’s operations are subject to local, state and federal regulations for the control of emissions from sources of air pollution. At the Federal level, the Clean Air Act is the primary statute governing air pollution. Federal and state laws require new and modified sources of air pollutants to obtain permits prior to commencing construction. Major sources of air pollutants are subject to more stringent, federally imposed requirements including additional permits. Federal and state laws designed to control hazardous (or toxic) air pollutants might require installation of additional controls. Administrative enforcement actions for failure to comply with air pollution regulations or permits are generally resolved by payment of monetary fines and correction of any identified deficiencies. Alternatively, regulatory agencies could bring lawsuits for civil penalties or require the Company to forego construction, modification or operation of certain air emission sources.

On April 17, 2012, the EPA issued final rules to subject oil and gas operations to regulation under the New Source Performance Standards, or NSPS, and National Emission Standards for Hazardous Air Pollutants, or NESHAPS, programs under the CAA, and to impose new and amended requirements under both programs. The EPA rules include NSPS standards for completions of hydraulically fractured natural gas wells. Before January 1, 2015, these standards require owners/operators to reduce VOC emissions from natural gas not sent to the gathering line during well completion either by flaring using a completion combustion device or by capturing the natural gas using green completions with a completion combustion device. Beginning January 1, 2015, operators must capture the natural gas and make it available for use or sale, which can be done through the use of green completions. The standards are applicable to new hydraulically fractured wells and also existing wells that are refractured. Further, the finalized regulations also establish specific new requirements, effective in 2012, for emissions from compressors, controllers, dehydrators, storage tanks, natural gas processing plants and certain other equipment. These rules may require changes to our operations, including the installation of new equipment to control emissions. We are currently evaluating the effect these rules will have on our business.

Coastal Coordination

There are various federal and state programs that regulate the conservation and development of coastal resources. The federal Coastal Zone Management Act (“CZMA”) was passed in 1972 to preserve and, where possible, restore the natural resources of the Nation’s coastal zone. The CZMA provides for federal grants for state management programs that regulate land use, water use and coastal development.

In Texas, the Legislature enacted the Coastal Coordination Act (“CCA”), which provides for the coordination among local and state authorities to protect coastal resources through regulating land use, water, and coastal development. The act establishes the Texas Coastal Management Program (“CMP”). The CMP is limited to the nineteen counties that border the Gulf of Mexico and its tidal bays. The CCA provides for the review of state and federal agency rules and agency actions for consistency with the goals and policies of the Coastal Management Plan. This review may impact agency permitting and review activities and add an additional layer of review to certain activities undertaken by the Company.

OSHA and Other Regulations

To the extent not preempted by other applicable laws, the Company is subject to the requirements of the federal Occupational Safety and Health Act (“OSHA”) and comparable state statutes, where applicable. The OSHA hazard communication standard, the EPA community right-to-know regulations under Title III of CERCLA and similar state statutes, where applicable, require the Company to organize, maintain and/or disclose information about hazardous materials used or produced in its operations.

FORWARD-LOOKING STATEMENTS

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, which are intended to be covered by the safe harbors created by those laws. The Company has based these forward-looking statements on its current expectations and projections about future events. These forward-looking statements include information about possible or assumed future results of the Company’s operations. All statements, other than statements of historical facts, included in this report that address activities, events or developments that the Company expects or anticipates may occur in the future, including without limitation, statements regarding the Company’s financial position, operating performance and results, reserve quantities and net present values, market prices, business strategy, derivative activities, the amount and nature of capital expenditures, plans and objectives of the Company’s management for future operations are forward-looking statements. When the Company uses words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “forecast,” “outlook,” “aim,” “will,” “could,” “should,” “may,” “likely,” “plan,” “probably” or similar expressions, the Company is making forward-looking statements. Many risks and uncertainties that could affect the Company’s future results and could cause results to differ materially from those expressed in the Company’s forward-looking statements include, but are not limited to:

- the volatility of oil and natural gas prices;
- the uncertainty of estimates of oil and natural gas reserves;
- the impact of competition;
- the availability and cost of seismic, drilling and other equipment;
- operating hazards inherent in the exploration for and production of oil and natural gas;
- difficulties encountered during the exploration for and production of oil and natural gas;
- difficulties encountered in measuring and delivering oil to commercial markets;
- discovery, acquisition, development and replacement of oil and gas reserves;
- timing and amount of future production of oil and gas;

hedging decisions, including whether or not to enter into derivative financial instruments;
our ability to effectively integrate companies and properties that we acquire;
general economic conditions, including any future economic downturn, disruption in financial markets and the availability of credit;
changes in customer demand and producers' supply;
future capital requirements and the Company's ability to attract capital;
currency exchange rates;

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actions by the governments and events occurring in the countries in which we operate;
actions by our venture partners;
compliance with, or the effect of changes in, governmental regulations regarding the Company's exploration and production, including those related to climate change;
actions of operators of the Company's oil and gas properties; and
weather conditions.

The information contained in this report, including the information set forth under the heading "Risk Factors," identifies additional factors that could cause the Company's results or performance to differ materially from those the Company expresses in its forward-looking statements. Although the Company believes that the assumptions underlying its forward-looking statements are reasonable, any of these assumptions and therefore also the forward-looking statements based on these assumptions, could themselves prove to be inaccurate. In light of the significant uncertainties inherent in the forward-looking statements which are included in this report, the Company's inclusion of this information is not a representation by the Company or any other person that the Company's objectives and plans will be achieved. When you consider the Company's forward-looking statements, you should keep in mind these risk factors and the other cautionary statements in this report.

The Company's forward-looking statements speak only as of the date made and the Company will not update these forward-looking statements unless the securities laws require the Company to do so. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement. In light of these risks, uncertainties and assumptions, any forward-looking events discussed in this report may not occur.

Item 1A. Risk Factors

You should carefully consider the following risk factors in addition to the other information included in this report. If any of these risks or uncertainties actually occurs, our business, financial condition and results of operations could be materially adversely affected. Additional risks not presently known to us or which we consider immaterial based on information currently available to us may also materially adversely affect us.

Almost all of the value of our production and reserves is concentrated in a single block offshore Gabon, and any production problems or reductions in reserve estimates related to this property would adversely impact our business.

The Etame field consisting of three producing wells, the Avouma and South Tchibala fields consisting of two wells and one well, respectively, and the Ebouri field with one producing well constituted approximately 96% of our total production for the year ended December 31, 2013. In addition, at December 31, 2013, 97% of our total net proved reserves were attributable to these fields. If mechanical problems, storms or other events curtailed a substantial portion of this production, or if the actual reserves associated with this producing property are less than our estimated reserves, our results of operations, financial condition, and cash flows could be materially adversely affected.

Our results of operations, financial condition, cash flows and compliance with debt covenants could be adversely affected by changes in currency exchange rates.

We are exposed to foreign currency risk from our foreign operations. While oil sales are denominated in U.S. dollars, portions of our operating costs in Gabon are denominated in the local currency. A weakening U.S. dollar will have the effect of increasing operating costs while a strengthening U.S. dollar will have the effect of reducing operating costs. The Gabon local currency is tied to the Euro. The exchange rate between the Euro and the U.S. dollar has fluctuated widely in recent years in response to international political conditions, general economic conditions, the European sovereign debt crisis and other factors beyond our control. Our results of operations, financial condition, cash flows and compliance with debt covenants could be adversely affected by such fluctuations in currency exchange rates.

In addition, we entered into a credit facility in the first quarter of 2014 that includes financial covenants which could be affected by foreign currency exchange rates. Failure to maintain these covenants could preclude us from borrowing under our revolving credit facility and require us to immediately pay down any outstanding drawn amounts under the credit agreement, which could affect cash flows or restrict business.

Natural gas and oil prices are highly volatile, and lower prices will negatively affect our financial results.

Our revenues, cash flow, profitability, oil and natural gas reserves value and future rate of growth are substantially dependent upon prevailing prices for oil and gas. Our ability to borrow funds and to obtain additional capital on attractive terms is also substantially dependent on oil and gas prices. Historically, world-wide oil and gas prices and markets have been volatile, and may continue to be volatile in the future. The average price at which we sold in 2013 was \$108.35 per barrel compared to \$111.06 per barrel in 2012, and \$111.92 per barrel in 2011.

Prices for oil and gas are subject to wide fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of additional factors that are beyond our control. These factors include, but are not limited to, international political conditions, including recent uprisings and political unrest in the Middle East and Africa, the European sovereign debt crisis, the domestic and foreign supply of oil and gas, the level of consumer demand, weather conditions, domestic and foreign governmental regulations and taxes, the price and availability of alternative fuels, the health of international economic and credit markets, the ability of the members of the Organization of Petroleum Exporting Countries and other state-controlled oil companies to agree upon and maintain oil price and production controls and general economic conditions. In addition, various factors, including the effect of federal, state and foreign regulation of production and transportation, general economic conditions, changes

in supply due to drilling by other producers and changes in demand may adversely affect our ability to market our oil and gas production. Any significant decline in the price of oil or gas would adversely affect our revenues, operating income, cash flows and borrowing capacity and may require a reduction in the carrying value of our oil and gas properties and our planned level of capital expenditures.

If there is a sustained economic downturn or recession in the United States or globally, oil and gas prices may fall and may become and remain depressed for a long period of time, which may adversely affect our results of operations.

In recent years, we experienced an economic downturn or a recession in the United States and globally. The reduced economic activity associated with the economic downturn or recession may reduce the demand for, and the prices we receive for, our oil and gas production. A sustained reduction in the prices we receive for our oil and gas production will have a material adverse effect on our results of operations and the borrowing base under our credit facility.

Unless we are able to replace reserves which we have produced, our cash flows and production will decrease over time.

Our future success depends upon our ability to find, develop or acquire additional oil and gas reserves that are economically recoverable. Except to the extent that we conduct successful exploration or development activities or acquire properties containing proved reserves, our estimated net proved reserves will generally decline as reserves are produced. There can be no assurance that our planned development and exploration projects and acquisition activities will result in significant additional reserves or that we will have continuing success drilling productive wells at economic finding costs. The drilling of oil and gas wells involves a high degree of risk, especially the risk of dry holes or of wells that are not sufficiently productive to provide an economic return on the capital expended to drill the wells. In addition, our drilling operations may be curtailed, delayed or canceled as a result of numerous factors, including title problems, weather conditions, political instability, availability of capital, economic/currency imbalances, compliance with governmental requirements, receipt of additional seismic data or the reprocessing of existing data, material changes in oil or gas prices, prolonged periods of historically low oil and gas prices, failure of wells drilled in similar formations or delays in the delivery of equipment and availability of drilling rigs. Certain domestic oil and gas producing properties are operated by third parties and, as a result, we have limited control over the nature and timing of exploration and development of such properties or the manner in which operations are conducted on such properties.

Substantial capital, which may not be available to us in the future, is required to replace and grow reserves.

We make, and will continue to make, substantial capital expenditures for the acquisition, exploitation, development, exploration and production of oil and gas reserves. Historically, we have financed these expenditures primarily with cash flow from operations, debt, asset sales, and private sales of equity. During 2013, we participated, and in 2014 we expect to continue to participate, in the further exploration and development projects on our international properties. In Gabon and Angola, we are the operator of the blocks and are thus responsible for contracting on behalf of all the remaining parties participating in the project. We rely on the timely payment of cash call by our partners to pay for 69.95% of the offshore Gabon block budget, 50% of the onshore Gabon block budget and 50% of the offshore Angola block budget. Beginning in late 2014, we expect to incur substantial capital expenditures as a non-operator with a 31% working interest in Block P, Equatorial Guinea.

However, if lower oil and gas prices, operating difficulties or declines in reserves result in our revenues being less than expected or limit our ability to borrow funds, or our partners fail to pay their share of project costs, we may have a limited ability to expend the capital necessary to undertake or complete future drilling programs. We cannot assure you that the financing under our credit facility will be available in the future or that additional debt or equity financing or cash generated by operations will be available to meet these requirements.

Our drilling activities require us to risk significant amounts of capital that may not be recovered.

Drilling activities are subject to many risks, including the risk that no commercially productive reservoirs will be encountered. There can be no assurance that new wells drilled by us will be productive or that we will recover all or any portion of our investment. Drilling for oil and gas may involve unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. The cost of drilling, completing and operating wells is often uncertain and cost overruns are common. Our drilling operations may be curtailed, delayed or canceled as a result of numerous factors, many of which are beyond our control, including title problems, weather conditions, equipment failures or accidents, elevated pressure or irregularities in geologic formations, compliance with governmental requirements and shortages or delays in the delivery of equipment and services.

Cyber-attacks targeting systems and infrastructure used by the oil and gas industry may adversely impact our operations.

Our business has become increasingly dependent on digital technologies to conduct certain exploration, development, production and financial activities. We depend on digital technology to estimate quantities of oil and gas reserves, process and record financial and operating data, analyze seismic and drilling information, and communicate with our employees and third party partners. Unauthorized access to our seismic data, reserves information or other proprietary information could lead to data corruption, communication interruption, or other operational disruptions in our exploration or production operations. Also, computers control nearly all of the oil and gas distribution systems in the United States and abroad, which are necessary to transport our production to market. A cyber-attack directed at oil and gas distribution systems could damage critical distribution and storage assets or the environment, delay or prevent delivery of production to markets and make it difficult or impossible to accurately account for production and settle transactions. While we have not experienced cyber-attacks, there is no assurance that we will not suffer such attacks and resulting losses in the future. Further, as cyber-attacks continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any vulnerability to cyber-attacks.

The credit agreement we entered into during the first quarter of 2014 imposes significant operating and financial restrictions on us that may prevent us from pursuing certain business opportunities and restrict our ability to operate our business.

Our credit agreement contains certain covenants that restrict our ability to take various actions, such as:

- requiring certain ratios with respect to debt service, field life and loan life coverage and liquidity;
- incur additional debt;
- make distributions or other restricted payments;
- make investments;
- enter into leases;
- use the proceeds of loans other than as permitted by the credit agreement;
- merge or consolidate or sell, transfer, ease or otherwise dispose of its assets;
- sell properties;
- agree to limit its ability to grant liens or pay dividends;
- enter into hedge agreements in excess of agreed limits;
- reduce certain working interests; and
- modify its organizational documents.

The restrictions contained in the credit agreement could:

- limit our ability to plan for or react to market conditions or meet capital needs or otherwise restrict our activities or business plans; and
- adversely affect our ability to finance our operations, strategic acquisitions, investments or alliances or other capital needs or to engage in other business activities that would be in our interest.