

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

FORM 10-KSB

(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, 1996

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

COMMISSION FILE NUMBER 0-20928

VAALCO ENERGY, INC.
(Name of small business issuer in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

4600 Post Oak Place
Suite 309
Houston, Texas 77027
(Address of principal executive offices) (Zip Code)

Issuer's telephone number: (713) 623-0801

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

Title of each class Name of each exchange on which registered

None

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

Common Stock, \$.10 par value
(Title of class)

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

Check if there is no disclosure of delinquent filers in response to Item
405 of Regulation S-B contained in this form, and no disclosure will 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-KSB
or any amendment to this Form 10-KSB.

The registrant's revenues for the fiscal year ended December 31, 1996
were \$2,732,128.

The aggregate market value of the voting stock of the registrant held by
non-affiliates as of April 1, 1997 was \$1,684,632 based upon the closing price
as of such date.

As of March 25, 1997, there were outstanding 8,865,469 shares of Common
Stock, \$.10 par value per share, of the registrant.
VAALCO ENERGY, INC.

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PART I

ITEM 1. BUSINESS

BACKGROUND

VAALCO Energy, Inc., a Delaware corporation, is a Houston-based independent energy company principally engaged in the exploration, development and production of crude oil and natural gas. As used herein, the terms "Company" and "VAALCO" mean VAALCO Energy, Inc. and its subsidiaries, unless the context otherwise requires. Until recently, all of the Company's interests were located overseas in certain offshore areas of the Philippines, India, and Gabon. In December 1996, the Company acquired its first domestic producing properties consisting of interests in eight platforms in the federal waters of the offshore Gulf of Mexico. Four of the platforms are being operated by VAALCO.

VAALCO's Philippine subsidiaries include Alcorn (Philippines) Inc., Alcorn (Palawan) Inc., Alcorn (Production) Philippines Inc. and Alcorn (Production) Palawan Inc. VAALCO Energy (India), Inc. was the subsidiary engaged in business in India which was sold in 1996. VAALCO's Gabon subsidiaries are VAALCO Gabon (Equata), Inc., VAALCO Gabon (Etame), Inc., VAALCO Production (Gabon), Inc. and VAALCO Energy (Gabon), Inc. VAALCO (USA), Inc. holds interests in certain properties in the United States.

GENERAL

Since its inception, the Company has employed a strategy of acquiring interests in areas with existing production or undeveloped oil and gas discoveries. An additional criteria is that the areas have upside potential in the form of additional drilling locations or low risk exploration prospects in order to maximize returns. The Company's current business strategy incorporates building near-term cash flow by acquiring similar properties in the United States both as a means of developing a new segment of the Company and as a bridge to the realization of returns from its longer term international projects.

The Company has interests in eight platforms in seven fields (covering ten lease blocks) in the federal waters of the offshore Gulf of Mexico. Four of the platforms in three of the fields, High Island blocks A-313, A-314, and A-280, are being operated by VAALCO. The Company has also accumulated approximately 1,600 acres in the Wilcox trend of Goliad, Texas.

In the international arena, the Company's business strategy is to pursue opportunities characterized by low initial costs, favorable production sharing contracts, reasonable work commitments, existing undeveloped discoveries, moderate to high reserve potential and the availability of existing technical data that may be further developed and integrated using current technology.

The Company also has an interest in two service contracts in the Philippines, where the Company produces the Nido and Matinloc fields; with total production for 1996 of approximately

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870 barrels of oil per day ("BOPD"). During 1995 and 1996, the Company also acquired interests in India (subsequently sold), and Gabon.

CUSTOMERS

Substantially all of the Company's crude oil and natural gas is sold at the well head at posted prices under short term contracts, as is customary in the industry. During the year ended December 31, 1996, one purchaser of the Company's crude oil accounted for all of the Company's total crude oil sales. The Company markets its crude oil share under an agreement with Sea Oil, a local Philippines refiner. While the loss of this buyer might have a material effect on the Company in the near term, management believes that the Company would be able to obtain other customers for its crude oil.

EMPLOYEES

As of December 31, 1996, the Company had 25 full time employees, 17 of which were located in the Philippines. The Company is not subject to any collective bargaining agreements and believes its relations with its employees are satisfactory. During 1995 and 1996, approximately 75% of the Company's employees were retired from the Philippines operations office under a severance program. The cost of the severance package was pre-accrued under the pension fund for the Philippine employees.

COMPETITION

The oil and gas industry is highly competitive. Competition is particularly intense with respect to acquisitions and sales of oil and gas producing properties. There is also competition for the acquisition of oil and gas leases suitable for exploration and the hiring of experienced personnel. Competition also exists with other industries in supplying the energy needs of consumers.

The Company's competition for acquisitions, exploration, development and production include the major oil and gas companies in addition to numerous independent oil and gas companies, individual proprietors, drilling and acquisition programs and others. Many of these competitors possess financial and personnel resources substantially in excess of those available to the Company giving those competitors an enhanced ability to pay for desirable leases and to evaluate, bid for and purchase 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.

BUSINESS RISK, LEGISLATION AND REGULATION

BUSINESS RISKS

The Company must continually acquire, explore and develop new hydrocarbon reserves to replace those produced or sold. Without successful drilling, acquisition or exploration operations, the Company's hydrocarbon reserves and revenues will decline. Drilling activities are subject to numerous risks, including the risk that no commercially viable oil or natural gas production will be

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obtained. The decision to purchase, explore, exploit or develop an interest or property will depend in part on the evaluation of data obtained through geophysical and geological analyses and engineering studies, the results of which are often inconclusive or subject to revisions or varying interpretations. The cost of drilling, completing and operating wells is often uncertain. Drilling may be curtailed, delayed or canceled as a result of many factors, including title problems, weather conditions, compliance with government permitting requirements, shortages of or delays in obtaining equipment, reductions in product prices or limitations in the market for products. The availability of a ready market for the Company's oil and gas production also depends on a number of factors, including the demand for and supply of oil and natural gas and the proximity of reserves to pipelines and the proximity of the Company's properties to other producing properties. Wells may be shut in for lack of a market or due to inadequacy or unavailability of pipeline or tanker storage capacity or by the cessation of production operations at a nearby oil and gas reservoir.

MARKET CONDITIONS AND CHANGING OIL AND GAS PRICES

The revenues generated by the Company's operations are highly dependent upon the prices of, and demand for, crude oil and gas. The price received by the Company for its oil and gas production and the level of such production depend on numerous factors beyond the Company's control, including the condition of the world economy, political and regulatory conditions in the Philippines and other oil and gas-producing countries and the actions of the Organization of Petroleum Exporting Countries. Decreases in the prices of oil and gas have had, and could have in the future, a significant effect on the carrying value of the Company's proved reserves and the Company's revenues, profitability and cash flow.

OPERATING HAZARDS AND UNINSURED RISKS

The Company's operations are subject to all of the risks normally incident to the exploration for and the production of oil and natural gas, including blowouts, cratering, oil spills and fires, each of which could result in damage to or destruction of oil and gas wells, production facilities or other property, or injury to persons. The Company's offshore drilling equipment is also subject to hazards inherent in marine operations, such as capsizing, sinking, grounding, collision and damage from severe weather conditions. The relatively deep offshore drilling conducted by the Company involves increased drilling risks of high pressures and mechanical difficulties, including stuck pipe, collapsed casing and separated cable. The impact that any of these risks may have upon the Company is increased due to the low number of producing properties owned by the Company.

Although the Company maintains insurance coverage, it is not fully insured against certain of these risks, either because such insurance is not available or because of high premium costs. The Company does not carry any political risk insurance for its foreign operations. The occurrence of a significant event that is not fully insured against could have a material effect on the Company's financial position.

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GOVERNMENT REGULATION

The Company's business is regulated by the laws and regulations of the United States, the Republic of the Philippines, India and Gabon relating to the development, production, marketing, pricing, transportation and storage of natural gas and crude oil, as well as environmental and safety matters. The Company does not believe that environmental regulations have had any material adverse effect on its capital expenditures, results of operations or competitive position, and does not anticipate any significant expenditures will be required to enable it to comply with existing laws and regulations. However, the modification of existing laws or regulations or the adoption of new laws or regulations curtailing exploratory or developmental drilling for oil and gas for economic, environmental or other reasons could have a material effect on the Company's operations.

The Company's international assets and operations are subject to various political, economic and other uncertainties, including, among other things, the risks of war, expropriation, nationalization, renegotiation or nullification of existing contracts, taxation policies, foreign exchange restrictions, changing political conditions, international monetary fluctuations, currency controls and foreign governmental regulations that favor or require the awarding of drilling contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

A portion of the Company's producing properties are located offshore Palawan Island in the Republic of the Philippines. Consequently, a substantial portion of the Company's assets are subject to regulation by the government of the Republic of the Philippines and Philippines political risk. The Company has operated in the Philippines since 1985 and believes it has good relations with the current Philippine government. However, there can be no assurance that present or future government regulation in the Philippines will not materially adversely affect the operations of the Company.

The Company's producing properties in the Philippines are located in fields covered under Service Contract No. 14. To obtain favorable tax treatment, at least 15% of Service Contract No. 14 must be owned by Philippine nationals. Residents of the Philippines currently own in excess of 15% of Service Contract No. 14. The Company's ability to export oil produced in the Philippines is restricted by the terms of Service Contract No. 14. The Company currently sells its crude oil production within the Philippines and therefore may be exposed to foreign currency risk.

ITEM 2. PROPERTIES

PHILIPPINES

The Company has an interest in two service contracts in the Philippines. Service Contract No. 14 covers 158,000 offshore acres and Service Contract No. 6 covers 131,000 offshore acres. The Company's 1995 production was from three fields on Service Contract No. 14, the West Linapacan "A" Field, the Nido Field and the Matinloc Field. In January 1996, the Company suspended production operations in the West Linapacan "A" Field due to a significant decline in oil production caused by increasing water intrusion. However, the Company continues to

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produce the Nido and Matinloc fields; with a total production for 1996 of approximately 870 BOPD.

PRODUCING FIELDS

Nido Field

This field is located within the contract area covered by Service Contract No. 14 and has four producing wells. These wells have been producing since 1979, and through the year ended December 31, 1996 had produced an aggregate of approximately 16.8 million barrels ("MMBbls") of crude oil. The field is produced under the cyclic method under which the field is shut in for a period of time (generally 60 to 120 days) and then opened up to produce (generally four to five days). Under this cyclical method, the four wells in the field produced at an equivalent rate of 585 BOPD during 1996. The Company has an approximate 34.11% working interest and an approximate 26.40% net revenue interest in the field. Production has been from a Lower Miocene carbonate reservoir within a reefal structure.

Matinloc Field

In the second quarter of 1995, the Matinloc field was reactivated. This field is located within the contract area covered by Service Contract No. 14 and has three producing wells. Prior to 1995, the field had produced an aggregate production of approximately 10.3 MMBbls from 1982 through 1991. At December 31, 1996 the field had produced 10.5 million barrels. During 1996, the field produced approximately 105,000 barrels or 285 BOPD. The Company has an approximate 58.66% working interest and an approximate 56.83% net revenue interest in the field.

NON-PRODUCING FIELDS

West Linapacan "A" Field

In December 1990, the Company made an offshore oil discovery in the West Linapacan area located within the contract area covered by Service Contract No. 14, approximately 40 miles northwest of the northern tip of Palawan Island. The field is a fractured carbonate reservoir located in approximately 1,150 feet of water. The Company owns a 29% working interest and an approximate 32% net revenue interest in the West Linapacan "A" Field.

The field experienced early water breakthrough in 1993 which eventually led to a downgrade, by Netherland, Sewell and Associates ("NSA"), independent petroleum engineers, at December 31, 1994, of a portion of the Company's proven reserves to the non-proven category. Despite a major work program in 1994 to sidetrack two wells and workover two wells, the Company continued to experience significant declines in oil production from the West Linapacan "A" field. An additional development well was unsuccessfully drilled in June 1995. As a result of the lack of success of the sidetrack wells and workovers, the financial condition and operating cash flows of the Company were materially and adversely affected. In January 1996, the Company suspended production operations in the field after total production of 8.8 million barrels.

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Galoc Field

This field is located within the contract area covered by Service Contract No. 14. Four wells have been drilled in this field, of which one well in 1,150 feet of water has undergone a long-term testing program. The Galoc reservoir is made up of a sandstone turbidite fan sequence that was deposited on top of the Lower Miocene limestone in a deep-water environment.

An extended production test at the Galoc 1 well in 1988 produced approximately 400,000 Bbls of crude oil at rates up to 5,200 BOPD. As a result of this test, the Company decided to proceed to the second phase of its testing program. In early 1989, the Galoc 1 vertical well was reentered as a high-angle lateral well. This well was drilled through the 9 5/8" casing of the Galoc 1 well to a sub-horizontal length of 2,000 feet in the reservoir. This well proved the lateral extension of the Galoc oil accumulation but failed to produce, on the initial test, multiples of the rates achieved in vertical production. However, combined flow rates of 7,399 BOPD were achieved from the 2,000 foot horizontal section. Despite the test rates achieved, the Company determined not to develop this field at that time.

Subsequent analysis and research has determined that the Galoc turbidites have poor vertical permeability as displayed during the various drillstem tests. Consequently, development plans under consideration are all based upon production from vertical wells that will maximize the horizontal permeability. Costs in connection with the Galoc field are recoverable under the cost recovery procedures of Service Contract No. 14.

RECENT DEVELOPMENTS

In October 1996, VAALCO and the other Service Contract No. 14 and Service Contract No. 6 consortium members entered into a farm-out agreement wherein the farmee, an Australian company, is required to shoot a \$7 million 3-D seismic program over the service contract areas during early 1997. The Australian farmee company will earn a 35% interest in the blocks for performing the work. In addition, the Australian company has the option to drill two wells, one on each Service Contract, to earn up to an additional 25% interest in each Service Contract. Seismic acquisition under the farm out agreement commenced in February 1997.

GABON

VAALCO has an interest in two offshore blocks in Gabon, the Etame Block and the Equata Block. These blocks were taken for a three-year term in July 1995. VAALCO initially held a 51% interest in each block and is designated the operator of the blocks.

Etame Block

The Etame block is a 3,073 square kilometer block containing two former discoveries, the North and South Tchibala fields. These fields are subsalt reservoirs that lie in approximately 250 feet of water depth, 20 miles offshore. In November 1996, the Company entered into a letter of intent with a

multi-national seismic company which will acquire 15,000 line kilometers of seismic data (consisting of a 385 square kilometer 3-D seismic survey and a 300 line kilometer 2-D

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survey) and pay a disproportionate 80% of the cost, up to \$4.7 million, of the estimated \$5.8 million (dry hole cost) commitment well to earn a 65% interest in the concession. The Company and its partners will be responsible for 20% of the cost (35% over \$4.7 million) of the commitment well which will test a third "exploration" structure in the vicinity of the two Tchibala discoveries. VAALCO's share of the dry hole cost of the commitment well is estimated to be \$675,000. VAALCO and its partners will retain a 35% working interest in the block (17.9% net to VAALCO).

The 3-D seismic survey will commence in the second quarter of 1997, with the exploration well scheduled for late 1997, or early 1998. In connection with the seismic survey, several additional prospects which VAALCO has identified in the deeper water further offshore will be evaluated for future drilling.

Equata Block

The Equata Block is a 50 square kilometer development block over a discovery made in 1974. The field lies in 160 feet of water approximately 10 miles offshore at a subsurface depth of 3000 feet. A 3-D seismic survey was shot over the field in 1987. VAALCO and its partners are seeking a third party to drill two appraisal wells to prove the field's upside potential prior to committing to develop the field. If the field can be successfully farmed out under the requested terms, VAALCO would retain approximately a 20-25% interest in the development project.

INDIA

VAALCO was the first foreign company to be awarded a development block under the oil and gas field privatization policy undertaken by the Indian government in 1992. VAALCO, along with its partners TATA Petrodyne ("TATA") and Hindustan Oil Exploration Company ("HOEC"), were awarded three blocks, the PY-3 Field which is a development block, the CY-OS/2 Block in close proximity to the PY-3 Block and the CB-OS/1 Block.

VAALCO originally was awarded the block containing the PY-3 Field in 1992 and signed the production sharing agreement with the Indian government in December 1994. The field, in 150 to 400 feet of water depth, is a development project to which NSA reserve engineers assigned 26 million barrels of proved undeveloped reserves plus 11 million barrels of probable reserves. VAALCO originally had an 18 percent interest in the field and the Company's 1995 proved undeveloped reserves were associated with this interest. In April 1996, VAALCO sold its interest in the field to Hardy and retained a 4 percent carried net profits interest in the property. The carried interest was terminated in March 1997 in connection with the sale of the CB-OS/1, Gulf of Cambay Block.

The CB-OS/1 Block is located within the Gulf of Cambay, which is situated on the Western Coast of India to the north of the Bombay High area. The Production Sharing Agreement for the block was signed in November 1996. The block is a 3,590 square kilometer shallow water block containing two undeveloped discoveries drilled by the Indian National Oil Company ("ONGC") in 1992. At December 31, 1996, the Company and its partners, TATA, HOEC, Hardy Oil & Gas (U.K.) ("Hardy") and ONGC, had interests of 20%, 31.5%, 13.5%, 25% and 10%, respectively, in the block. In March 1997, the Company sold its interest in this

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block to the other members of the consortium for a combination of cash and assumption of debt associated with prepaid drilling costs.

The Company had a 25% interest in the CY-OS/2 Block and had as its partners TATA, HOEC and Mosbacher Energy, Co. In April 1996, the Company sold its interest in this property along with its interest in the PY-3 Field.

UNITED STATES

Gulf of Mexico

In October 1996, VAALCO entered into an agreement with Northstar Interests, LLC. ("Northstar") to jointly acquire from Apache Corporation ("Apache") certain properties in the Gulf of Mexico. The properties consist of interests in seven offshore fields in ten lease blocks. Closing occurred on December 13, 1996, and at that time half of the interest acquired from Apache was conveyed from Northstar directly into a newly-formed domestic subsidiary, VAALCO Energy (USA), Inc. Three of the fields, High Island blocks A-313, A-314 and A-280, are being operated by VAALCO. The Company also obtained non-operating interests in the West Cameron 538, Ship Shoal 149, Ship Shoal 105 and Vermilion 162 fields.

The High Island A-313 and A-314 fields consist of three unmanned platforms located approximately 150 miles south of Galveston, Texas in water depths of 210 feet. The platforms currently combine to produce over 4,500 MCF of

gross gas per day. VAALCO operates the blocks and holds a 25% working interest in both.

The High Island A-280 Field consists of an unmanned tripod platform located approximately 140 miles south of Galveston, Texas in water depths of approximately 195 feet. The platform currently produces 2,800 MCF of gross gas per day. VAALCO operates the block and holds a 37.5% working interest.

Goliad County, Texas

The Company owns 100% working interest in approximately 1,603 acres in two blocks, one located immediately east of the Goliad townsite in Goliad County, Texas, and the other located immediately west of the townsite. The acreage consists of approximately 70 leases and is located within an area of the Wilcox trend that has recently seen a considerable amount of leasing, 3-D seismic and drilling activity. In October 1994, the Company acquired a working interest in approximately 1,200 acres in Goliad County, Texas. A working interest in an additional 403 acres was acquired during 1996. VAALCO has acquired 2-D seismic over the two areas and is in the process of evaluating the data for the purpose of either developing or farming out its acreage position. The Company has an average 76% net revenue interest in the acreage.

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AGGREGATE PRODUCTION

Additional production data (net to the Company) for all of the Company's operations for the years 1996 and 1995 are as follows:

	COMPANY OWNED PRODUCTION	
	Year Ended December 31,	
	1996	1995
Average Daily Production (Bbls)	347	868
Average Sales Price (\$/Bbl)	\$ 8.83	\$ 15.59
Average Production Cost (\$/Bbl)	\$ 7.81	\$ 14.76

RESERVE INFORMATION

Reserve reports as of December 31, 1996 and 1995 have been opined on by Netherland Sewell and Associates and by Ryder Scott Company, independent petroleum engineers.

	As of December 31,	
	1996	1995
CRUDE OIL		
Proved Developed Reserves (MBbls)	215	201
Proved Undeveloped Reserves (MBbls)	--	4,647
Total Proved Reserves (MBbls)	215	4,848
GAS		
Proved Developed Reserves (MMcf)	1,094	--
Standardized measure of discounted future net cash flows (in thousands)	\$2,838	\$8,447

For 1995, the proved developed reserves relate to the Company's Philippine properties, while the proved undeveloped reserves relate to the India operations which were sold in early 1996. The 1996 data relates to the Philippine properties and to the newly acquired Gulf of Mexico properties. The standardized measure of discounted cash flows does not include the costs of abandoning the Company's non-producing properties.

There are numerous uncertainties inherent in estimating quantities of proved reserves and in projecting future rates of production and timing of development expenditures, including many factors beyond the control of the Company. Reserve engineering is a subjective process of estimating underground accumulations of crude oil and natural gas that cannot be measured in an exact manner, and the accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. The quantities of oil and

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natural gas that are ultimately recovered, production and operating costs, the amount and timing of future development expenditures and future oil and natural gas sales prices may all differ from those assumed in these estimates. The standardized measure of discounted future net cash flow should not be construed as the current market value of the estimated oil and natural gas reserves attributable to the Company's properties. The information set forth in the foregoing tables includes revisions for certain reserve estimates attributable to proved properties included in the preceding year's estimates. Such revisions

are the result of additional information from subsequent completions and production history from the properties involved or the result of a decrease (or increase) in the projected economic life of such properties resulting from changes in product prices. Moreover, crude oil amounts shown are recoverable under the service contracts and the reserves in place remain the property of the Philippine government.

In accordance with the guidelines of the U.S. Securities and Exchange Commission, the Company's estimates of future net cash flow from the Company's properties and the present value thereof are made using oil and natural gas contract prices in effect as of year end and are held constant throughout the life of the properties except where such guidelines permit alternate treatment, including the use of fixed and determinable contractual price escalations. The contract price as of December 31, 1996 was \$11.00 per Bbl for oil and \$3.89 per Mcf for gas. The contract price as of December 31, 1995 was \$8.00 and \$20.59 per Bbl of crude oil for the Philippine reserves and Indian reserves, which have subsequently been sold, respectively. See "Financial Statements and Supplementary Data" for certain additional information concerning the proved reserves of the Company.

DRILLING HISTORY

The Company drilled or participated in the drilling of the following wells in the periods indicated:

	Year Ended December 31,			
	1996		1995	
	Gross	Net	Gross	Net
Exploratory Wells:				
Productive	0	0	0	0
Dry	0	0	0	0
Total	0	0	0	0
Development Wells:				
Productive	0	0	1	0.29
Dry	0	0	0	0
Total	0	0	1	0.29
Total Wells	0	0	1	0.29

The Company had no wells in progress at December 31, 1996.

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ACREAGE AND PRODUCTIVE WELLS

Below is the total acreage (in thousands) leased by the Company at December 31, 1996:

	U.S.		Foreign	
	Gross	Net(1)	Gross	Net(1)
Developed Acreage	32.9	5.1	16	4.6
Undeveloped Acreage	1.6	1.6	1,765	533.3
Productive Gas Wells	15	3.7	0	0
Productive Oil Wells	5	0.3	7	2.6

(1) Net acreage and net productive wells are based upon the Company's working interest in the properties.

OFFICE SPACE

The Company leases its offices in Houston, Texas (approximately 8,000 square feet) and in Manila, The Republic of the Philippines (approximately 2,000 square feet), which management believes are suitable and adequate for the Company's operations.

ITEM 3. LEGAL PROCEEDINGS

In December 1996, a member of the Service Contract No. 14 consortium in the Philippines, Oriental Petroleum & Minerals, Inc. ("Oriental"), filed an arbitration case against the other nine members of the consortium. Oriental alleges it is not responsible for certain amounts expended on the West Linapacan "A" Field for which it was placed in default by the consortium in 1995 due to non-payment. Oriental also questions certain provisions of the Joint Operating Agreement. Oriental is seeking \$1.0 million from the consortium and to be reinstated into the Service Contract.

The members of the consortium believe that Oriental's claims are without merit and intend to vigorously defend this action. The consortium has filed a

reply to the claim seeking, among other things, \$1.5 million in unpaid cash calls plus interest from Oriental and certain damages to be determined by the arbitration panel. Management believes the consortium will prevail in its defenses and has not made any provisions for amounts claimed by Oriental.

As of December 31, 1996 and 1995, there were no other material pending legal proceedings to which the Company is a party or to which any of its property is subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

GENERAL

Until September 1995, the Common Stock of the Company was traded on the National Association of Securities Dealers Automated Quotation System (the "NASDAQ System") under the symbol "VEIX." In September 1995, the Company's shares of Common Stock were delisted from the Nasdaq SmallCap Market. Since that time, the shares have been listed on the OTC Bulletin Board. As of December 31, 1996, there were approximately 58 holders of record of the Common Stock.

ADJUSTED HISTORICAL PRICES

The following table sets forth the range of high and low sale prices of a share of Common Stock for the periods indicated. The first three quarters of 1995 prices were furnished by National Association of Securities Dealers, Inc. (the "NASD"). The fourth quarter of 1995 and all of the 1996 prices were furnished by Raucher Pierce Refsnes, Inc. and Jefferies and Company, Inc. The prices represent adjusted prices between dealers, do not include retail markups, markdowns or commissions and do not necessarily represent actual transactions.

	High -----	Low -----
	(\$ US)	
FISCAL 1995		
First Quarter	0.88	0.50
Second Quarter	1.13	0.38
Third Quarter	0.75	0.19
Fourth Quarter	0.63	0.25
FISCAL 1996		
First Quarter	1.31	0.13
Second Quarter	1.00	0.31
Third Quarter	0.44	0.25
Fourth Quarter	0.44	0.16

The closing bid as of April 1, 1997 for the Common Stock was \$0.625 per share.

DIVIDENDS

The Company has not declared or paid any dividends on the Common Stock since its inception and does not anticipate paying cash dividends in the foreseeable future. The Company may not declare or pay any cash dividend on the Common Stock or otherwise make a distribution in cash or redeem any shares of Common Stock if all or any portion of the dividends paid to the

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holders of shares of Preferred Stock on the dividend payment date next preceding the date of such dividend payment, distribution date or redemption date, as applicable, was paid in shares of Common Stock (as described below).

The Preferred Stock accrues a cumulative dividend of 10% per annum (an aggregate of \$225,000 per year), payable prior to any dividends on the Common Stock. The Company declared and paid dividends of \$71,837 on the Preferred Stock for 1995. No dividends were paid in 1996. Dividends on the Preferred Stock are payable quarterly on the first day of February, May, August and November and are payable in cash, or, at the Company's option, in shares of Common Stock equal to the market price of the Common Stock on the dividend payment date. The holders of preferred stock deferred their right to receive dividend payments in 1995 and 1996. During 1995, a portion of the accrued dividend (\$71,837) was used to pay down related party receivables.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

CAPITAL RESOURCES AND LIQUIDITY

Historically, the Company's primary source of capital resources has been from its production operations in the Philippines, assets sales and the issuance

of debt. Throughout 1994 and 1995, however the Company experienced significant declines in oil production from its primary source of revenue, the West Linapacan "A" Field, in the Philippines. In January 1996, the Company suspended operations in the field. The Company continues to produce the Nido and Matinloc fields in the Philippines at approximately 870 BOPD.

The Company is actively seeking projects to replace its West Linapacan operations. Through a diversification program undertaken by management, the Company acquired producing assets in the Gulf of Mexico of the United States and interests in five international blocks outside of the Philippines, three in India (all subsequently sold) and two in Gabon. Four of the five blocks contained existing undeveloped discoveries. The Company has also accumulated approximately 1,603 acres in the Wilcox trend of Goliad County, Texas.

In order to execute the diversification program, the Company has, among other activities, been actively seeking farmout partners to progress the development of its prospects. In this regard, the Company has successfully entered into farmout agreements in one of its Gabon blocks and in its Philippines blocks in exchange for partially carried work programs. For the domestic acquisition program, the Company will, in the near-term, rely on the private placement of equity and issuance of debt to raise capital for these acquisitions. A more detailed description of the Company's activities is described below.

United States

In December 1996, the Company issued \$618,000 in debt associated with the acquisition of certain properties in the Gulf of Mexico. The loan is secured by an assignment of revenue interests in certain of the properties. The loan is recourse only to the assigned revenue interests, and is not guaranteed by the Company. The Gulf of Mexico properties consist of interests in seven offshore fields in ten lease blocks. Four of the platforms in three of the fields, High Island

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blocks A-313, A-314 and A-280, are being operated by VAALCO. The balance of the package consists of non-operated interests in the West Cameron, Vermilion and Ship Shoal areas of the Gulf of Mexico. No significant capital expenditures are anticipated in 1997 for these properties.

In October 1994, the Company acquired a working interest in approximately 1,200 acres in Goliad County, Texas, in exchange for cash and warrants to purchase shares of the Company's Common Stock, \$.10 par value per share (the "Common Stock"). The warrants have a term of three years and will consist of the right to purchase 200,000 shares of Common Stock at an exercise price of \$2.50 per share and 200,000 shares of Common Stock at an exercise price of \$5.00 per share, subject to the terms and conditions of the acquisition agreement. A working interest in an additional 403 acres was acquired during 1996. The Company has an average 76% net revenue interest in the acreage and plans to analyze this property in 1997 for viability. The three year lease has no drilling obligation requirements. Capital expenditures for 1997 will depend upon the outcome of analysis currently being done on the area.

Gabon

In July 1995, the Company acquired two blocks offshore Gabon, the Equata block and the Etame block. Both blocks contain previous discoveries that the Company is currently evaluating to determine their commercial viability. The Company and its partners have an obligation to the Government of Gabon to obtain approximately 1,500 line kilometers of seismic data and to drill one well on the Etame block during the three-year term of the license. In November 1996, the Company entered into a letter of intent with a multi-national seismic company which will perform the required seismic surveys and pay a disproportionate 80% of the cost, up to \$4.7 million, of the estimated \$5.8 million (dry hole cost) commitment well to earn a 65% interest in the concession. The Company and its partners will be responsible for 20% of the cost (35% over \$4.7 million) of the commitment well. VAALCO's share of the dry hole cost of the commitment well is estimated to be \$0.7 million.

Philippines

In October, 1996, VAALCO and the other Service Contract No. 14 and Service Contract No. 6 consortium members entered into a farm-out agreement wherein the farmee, an Australian company, is required to shoot a \$7 million 3-D seismic program over the service contracts during early 1997. The Australian farmee company will earn a 35% interest in the blocks for performing the work. In addition, the Australian company has the option to drill two wells, one on each Service Contract, to earn up to an additional 25% interest in each Service Contract. Seismic acquisition under the farm out agreement commenced in February 1997. No significant capital expenditures are anticipated in 1997 for the Philippines operations.

India

In April 1996, the Company completed the sale of all of the outstanding capital stock of VAALCO Energy (India), Inc., the Company's wholly owned subsidiary, to Hardy Oil & Gas (UK) Limited ("Hardy"). Such sale included the Company's interest in two blocks on the East Coast of India, the PY-3 field and the CY-OS/2 concession, and a portion of a third block, the

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Gulf of Cambay Block, on the West Coast of India. The Company retained a 4% net profits interest in the CY-OS/2 concession and a portion of the Gulf of Cambay Block. A gain resulting from the sale of \$1.1 million was recognized in 1996, with a \$0.13 effect on earnings per common share. There was no other material impact on the Company's results of operations as the subsidiary had no income and the majority of the expenses recorded by the subsidiary were overhead expenses allocated by the parent. With the completion of the sale, the Company sold substantially all of its international proved undeveloped reserves, other than the retained net profits interest therein. In conjunction with the sale, Hardy loaned the Company \$1 million on a non-recourse basis. Such loan was initially repayable only upon the payment by Hardy, for the account of VAALCO, of certain drilling costs associated with the Gulf of Cambay concession.

In November 1996, the Company signed the production sharing agreement with the Indian government on the Gulf of Cambay Block. In March 1997, the Company sold its Gulf of Cambay concession and its 4% net profits interest in the CY-OS/2 concession to Hardy for \$2.5 million. The Company applied \$1 million of the proceeds from the sale to complete repayment of the non-recourse loan made to the Company by Hardy in 1996. With the completion of this sale, the Company sold all remaining interest that it had in India.

Issuance of Recourse Debt

The Company entered into a Credit Agreement (the "Credit Agreement") on June 23, 1993 to borrow \$6 million, at an interest rate of LIBOR plus 2%, from a European institutional lender. The Company drew down \$6 million against the facility in the third quarter of 1993. Proceeds were utilized for further development of the West Linapacan "A" Field. The Company had repaid \$2.0 million of the note, plus interest, as of the second quarter of 1995. In August 1995, the Company and the note holder reached an agreement to defer the entire balance of the note, at an interest rate of 7.6875% per annum, until January 31, 1997, in return for the pledge of marketable securities held by the Company. The Company sold a portion of these marketable securities and reduced the balance of the note by \$0.7 million in April 1996. Also in connection with the sale, the Company prepaid the interest on the note through January 1997. In February 1997, the Company sold additional pledged securities for \$3.44 million and paid all accrued interest and \$3.2 million of the \$3.3 million principal balance due on the note. The balance of \$0.1 million is due January 1998. The Company anticipates the recognition of a \$0.7 million gain on the sale of the marketable securities in the first quarter of 1997.

Cash Flows

Net cash used in operating activities for 1996 was \$1.8 million, as compared to net cash provided by operating activities of \$0.5 million in 1995. The change was primarily due to declining cash flows from production from the Company's Philippine operations.

Net cash provided by investing activities for 1996 was \$1.1 million, as compared to net cash used in investing activities of \$1.4 million in 1995. The 1996 amount reflects cash received from the sale of marketable securities and the sale of VAALCO Energy (India), Inc. in 1996. The 1995 amount reflects capital expenditures for the West Linapacan "A" Field, offset by proceeds from the sale of a 49% working interest in the Gabon prospect.

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Net cash provided by financing activities for 1996 was \$0.9 million, as compared to net cash used in financing activities of \$0.4 million in 1995. The 1996 amount reflects proceeds from the non-recourse loan received in conjunction with the sale of VAALCO Energy (India), Inc. The variance is offset by the payment of a portion of the Company's debt obligations. The 1995 amount resulted primarily from advances to related parties and payment of debt obligations.

The Company continues to seek financing to fund the development of existing properties and to acquire additional assets. The Company will rely on the issuance of equity and debt securities, assets sales and cash flow from operations to provide the required capital for funding future operations. While there can be no assurance the Company will be successful in raising new financing, management believes the prospects the Company has in hand will enable it to attract sufficient capital to fund required oil and gas activities.

Items 1, 2, 3 and 7 of document includes forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Although the Company believes the expectations reflected in such forward looking statements are based upon reasonable assumptions, the Company can give no assurance these expectations will be achieved. Important factors which could cause actual results to differ materially from the Company's expectations include general

economic, business and market conditions, the volatility of the price of oil and gas, competition, development and operating costs and the factors that are disclosed in conjunction with the forward looking statements included herein.

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RESULTS OF OPERATIONS

Amounts stated hereunder have been rounded to the nearest \$100,000, however, percentage changes have been calculated using the accompanying consolidated financial statement amounts.

YEAR ENDED DECEMBER 31, 1996 COMPARED TO YEAR ENDED DECEMBER 31, 1995

REVENUES

Total crude oil sales for 1996 were \$2.7 million, a decrease of \$ 1.0 million, or 26%, as compared to \$3.7 million for 1995. In January 1996, production operations in the West Linapacan "A" Field were suspended resulting in the decline in revenues in 1996. The Company continues to produce the Nido and Matinloc fields at approximately 870 BOPD.

The gain on sale of assets of \$1.1 million, recognized in 1996, was associated with the sale of the Company's interest in the PY-3 field in India. A \$0.5 million gain was recognized in 1995 resulting from the sale of a 49% working interest in the Gabon prospect.

OPERATING COSTS AND EXPENSES

Production expenses for 1996 were \$1.7 million, a decrease of \$2.7 million, or 61%, as compared to \$4.4 million for 1995. The decrease is primarily due to declining operating costs in 1996 as a result of the suspension of production at the West Linapacan "A" Field.

Exploration costs for 1996 were \$0.3 million, a decrease of \$0.2 million as compared to \$0.5 million for the same period in 1995. The decrease is primarily due to costs incurred in 1995 associated with the Company's Gabon project.

Depreciation, depletion and amortization of properties for 1996 was \$0.6 million, a decrease of \$3.8 million, or 86%, as compared to \$4.4 million in 1995. The 1996 amount includes an adjustment for depletion costs that were capitalized in crude oil inventory at December 31, 1995. Nominal depletion expense was recorded in 1996, as the Company's fields have been fully depleted.

General and administrative expenses for 1996 were \$2.3 million, an increase of \$0.6 million, or 32%, as compared to \$1.7 million for 1995. The increase is primarily due to costs associated with asset sales, pension termination costs and lower overhead reimbursements in the Philippines.

OPERATING LOSS

Operating loss for 1996 was \$1.1 million, a reduction of loss of \$5.8 million, or 84%, as compared to a \$6.9 million operating loss for 1995. The above mentioned decreases in operating expenses and depreciation, depletion and amortization of properties, coupled with the gain on sales of certain assets by the Company were the primary reason for this reduction in operating loss.

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OTHER INCOME (EXPENSES)

Interest expense and financing charges for 1996 were \$0.3 million, a decrease of \$0.1 million, or 19%, as compared to \$0.4 million in 1995. This was primarily due to the partial extinguishment of debt in 1996.

Other, net increased \$0.9 million in 1996 as compared to 1995. This was primarily due to the gain on the sale of certain securities in 1996.

NET LOSS

Net loss attributable to common stockholders for 1996 was \$0.6 million, a reduction of loss of \$6.6 million or 92%, as compared to net loss of \$7.2 million in 1995. The reduction in net loss was the result of lower operating costs, coupled with the gain on sales of certain assets by the Company.

ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF VAALCO ENERGY, INC. AND SUBSIDIARIES

We have audited the consolidated balance sheets of VAALCO Energy, Inc. and its subsidiaries ("VAALCO") as of December 31, 1996 and 1995, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the years then ended. These financial statements are the

responsibility of VAALCO's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of VAALCO at December 31, 1996 and 1995, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1, the Company's ability to continue as a going concern is dependent upon its ability to successfully select and acquire suitable producing properties and to obtain the necessary financing for future drilling and exploration activities. Management's plans concerning these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

/s/ DELOITTE & TOUCHE LLP
 Deloitte & Touche LLP
 Houston, Texas
 April 2, 1997

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 VAALCO ENERGY, INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 (IN THOUSANDS OF DOLLARS, EXCEPT PAR VALUE AMOUNTS)

	December 31,	
	1996	1995
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	\$ 1,055	\$ 701
Advances-related party	1,916	--
Marketable securities-related party	777	--
Receivables:		
Trade	103	--
Accounts with partners	190	1,998
Other	1,177	950
Crude oil inventory	--	1,511
Materials and supplies, net of allowance for inventory obsolescence of \$9 and \$497 at 1996 and 1995, respectively	387	802
Prepaid expenses and other	9	210
	-----	-----
Total current assets	5,614	6,172
	-----	-----
PROPERTY AND EQUIPMENT-SUCCESSFUL EFFORTS METHOD		
Wells, platforms and other production facilities	46,866	46,122
Undeveloped acreage	808	647
Equipment and other	342	644
	-----	-----
	48,016	47,413
Accumulated depreciation, depletion and amortization	(46,383)	(46,615)
	-----	-----
Net property and equipment	1,633	798
	-----	-----
OTHER ASSETS:		
Marketable securities	--	901
Other long-term assets	119	230
Advances-related party	--	1,921
Marketable securities-related party	--	565
Funds in Escrow	370	--
	-----	-----
TOTAL	\$ 7,736	\$ 10,587
	=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,862	\$ 6,067
Accrued liabilities	1,280	1,224
Current portion of debt obligations	3,918	4,000

Total current liabilities	7,060	11,291
FUTURE ABANDONMENT COSTS	4,942	4,172
OTHER LONG TERM LIABILITIES	1,000	--
Total liabilities	13,002	15,463
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIT:		
Preferred stock, \$25 par value, 10% cumulative dividend 500,000 authorized shares; 90,000 shares issued and outstanding	2,250	2,250
Common stock, \$.10 par value, 15,000,000 authorized shares; 8,870,864 shares issued of which 5395 are in the treasury in 1996 and 1995	887	887
Additional paid-in capital	11,401	11,401
Accumulated deficit	(19,707)	(19,123)
Net unrealized loss on noncurrent marketable securities	(84)	(278)
Less treasury stock, at cost	(13)	(13)
Total stockholders' deficit	(5,266)	(4,876)
TOTAL	\$ 7,736	\$ 10,587

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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VAALCO ENERGY, INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED OPERATIONS
(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

	Year Ended December 31,	
	1996	1995
REVENUES:		
Crude oil sales	\$ 2,732	\$ 3,671
Gain on sale of assets	1,030	510
Total revenues	3,762	4,181
OPERATING COSTS AND EXPENSES:		
Production expenses	1,735	4,434
Exploration costs	268	489
Depreciation, depletion and amortization	614	4,403
General and administrative expenses	2,276	1,719
Total operating costs	4,893	11,045
OPERATING LOSS	(1,131)	(6,864)
OTHER INCOME (EXPENSES):		
Interest income	132	269
Interest expense and financing charges .	(285)	(352)
Other, net	925	(8)
Total other income (expense)	772	(91)
NET LOSS	(359)	(6,955)
Preferred dividends	(225)	(225)
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ (584)	\$ (7,180)
LOSS PER COMMON SHARE	\$ (0.07)	\$ (0.81)
WEIGHTED AVERAGE COMMON SHARES		
OUTSTANDING	8,865,469	8,865,469

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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VAALCO ENERGY, INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995
(IN THOUSANDS OF DOLLARS, EXCEPT SHARE DATA)

<TABLE>
<CAPTION>

Total Stockholders' Treasury Equity (Deficit)	Preferred Stock		Common Stock		Additional		Unrealized Loss on Noncurrent Marketable Securities		Stock
	Shares	Amount	Shares	Amount	Paid-in Capital	Accumulated Deficit	Securities	Stock	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1994 .. \$ 2,372	90,000	\$2,250	8,865,469	\$887	\$11,401	(\$11,943)	(210)	(13)	
Preferred Dividends	--	--	--	--	--	(225)	--	--	
(225)									
Net Loss	--	--	--	--	--	(6,955)	--	--	
(6,955)									
Unrealized loss on noncurrent marketable securities	--	--	--	--	--	--	(68)	--	
(68)									
Balance at December 31, 1995 .. (4,876)	90,000	2,250	8,865,469	887	11,401	(19,123)	(278)	(13)	
Preferred Dividends	--	--	--	--	--	(225)	--	--	
(225)									
Net Loss	--	--	--	--	--	(359)	--	--	
(359)									
Unrealized loss on noncurrent marketable securities	--	--	--	--	--	--	194	--	
194									
Balance at December 31, 1996 .. \$(5,266)	90,000	\$2,250	8,865,469	\$887	\$11,401	\$(19,707)	\$ (84)	\$(13)	
	=====	=====	=====	=====	=====	=====	=====	=====	

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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VAALCO ENERGY, INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS
(IN THOUSANDS OF DOLLARS)

	Twelve Months Ended December 31,	
	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (359)	\$ (6,955)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	614	4,403
Provision for losses on note receivable	--	878
Exploration costs	268	488
Gain on sale of assets	(1,030)	(510)
Change in assets and liabilities that provided (used) cash:		
Funds in escrow	(370)	67
Accounts with partners	(1,442)	241
Trade receivables	(103)	1,534
Other receivables	(227)	206
Crude oil inventory	980	(1,297)
Materials and supplies	194	110
Prepaid expenses and other	201	14
Accounts payable	(365)	816
Accrued liabilities	(69)	383
Other (net)	--	180
Net cash provided by (used in) operating activities	(1,708)	530
CASH FLOWS FROM INVESTING ACTIVITIES:		
Exploration costs	(268)	(467)
Additions to property and equipment	(588)	(1,854)
Proceeds from sale of assets	1,825	1,000
Decrease in notes receivable	--	85
Other (net)	169	(130)

Net cash provided by (used in)		
investing activities	1,138	(1,366)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	1,618	--
Repayments of debt obligations	(700)	(200)
Advances to related parties (net)	6	(165)
Preferred stock dividends paid	--	(72)
Net cash provided by (used in)		
financing activities	924	(437)
NET CHANGE IN CASH AND EQUIVALENTS	354	(1,273)
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	701	1,974
CASH AND EQUIVALENTS AT END OF PERIOD	\$ 1,055	\$ 701
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS		
INFORMATION:		
Net cash paid for interest	\$ 184	\$ 351
Depletion costs capitalized in		
crude oil inventory	\$ 531	\$ --

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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VAALCO ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995
(in thousands of dollars, unless otherwise indicated)

1. COMPANY DEVELOPMENTS

VAALCO Energy, Inc. ("VAALCO" or the "Company") explores for, develops and produces crude oil and natural gas through certain subsidiaries. Historically, the Company's primary source of capital resources has been from its production operations in the Philippines, assets sales and the issuance of debt. Throughout 1994 and 1995, however the Company experienced significant declines in oil production from its primary source of revenue, the West Linapacan "A" Field, in the Philippines. In January 1996, the Company suspended operations in the field. The Company continues to produce the Nido and Matinloc fields in the Philippines at approximately 870 BOPD.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The decline in oil production from the West Linapacan "A" field, resultant from severe water encroachment, materially and adversely affected the Company's financial condition and operating cash flows in 1995 and led to management's decision to suspend operations from the field in early 1996.

The Company is actively seeking projects to replace its West Linapacan operations. Through a diversification program undertaken by management, the Company acquired producing assets in the Gulf of Mexico of the United States and interests in five international blocks outside of the Philippines, three in India (all subsequently sold) and two in Gabon. Four of the five blocks contained existing undeveloped discoveries. The Company has also accumulated approximately 1,603 acres in the Wilcox trend of Goliad County, Texas.

In order to execute the diversification program, the Company has, among other activities, been actively seeking farmout partners to progress the development of its prospects. In this regard, the Company has successfully entered into farmout agreements in one of its Gabon blocks and in its Philippines blocks in exchange for partially carried work programs. For the domestic acquisition program, the Company will, in the near-term, rely on the private placement of equity and issuance of debt to raise capital for these acquisitions.

In 1995, in an effort to increase cash flows, management reactivated production from a previously suspended field, the Matinloc field, and began negotiations to sell certain newly acquired properties. In April 1996, the Company completed the sale of all of the outstanding capital stock of VAALCO Energy (India), Inc., the Company's wholly owned subsidiary, to Hardy Oil & Gas (UK) Limited ("Hardy"). Such sale included the Company's interest in two blocks on the East Coast of India, the PY-3 field and the CY-OS/2 concession, and a portion of a third block, the Gulf of Cambay Block, on the West Coast of India. The Company retained a 4% net profits interest in the CY-OS/2 concession and

a portion of the Gulf of Cambay Block. A gain resulting from the sale of \$1.1 million was recognized in 1996, with a \$0.13 effect on earnings per common share. There was no other material impact on the Company's results of operations as the subsidiary had no income and the majority of the expenses recorded by the subsidiary were

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VAALCO ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995
(in thousands of dollars, unless otherwise indicated)

overhead expenses allocated by the parent. With the completion of the sale, the Company sold substantially all of its international proved undeveloped reserves, other than the retained net profits interest therein. In conjunction with the sale, Hardy loaned the Company \$1 million on a non-recourse basis. Such loan was initially repayable only upon the payment by Hardy, for the account of VAALCO, of certain drilling costs associated with the Gulf of Cambay concession. In March 1997, the Company sold its Gulf of Cambay concession and its 4% net profits interest in the CY-OS/2 concession to Hardy for \$2.5 million. The Company applied \$1 million of the proceeds from the sale to complete repayment of the non-recourse loan made to the Company by Hardy in 1996. With the completion of this sale, the Company sold all remaining interest that it had in India.

In October 1996, VAALCO entered into an agreement to acquire certain properties in the Gulf Of Mexico. The properties consist of interests in seven offshore fields in ten lease blocks. Three of the fields, High Island blocks A-313, A-314 and A-280, are being operated by VAALCO. The balance of the package consists of non-operated interests in the West Cameron, Vermilion and Ship Shoal areas of the Gulf of Mexico. The Company's entry into the domestic market in the Gulf of Mexico is in an effort to build near-term cash flow to support opportunities that the Company has developed for the longer term in the international arena.

2. ORGANIZATION

VAALCO, a Delaware corporation (formerly Gladstone Resources, Ltd. ("Gladstone"), a British Columbia corporation), was formed in March 1984 in British Columbia, Canada and domesticated in Delaware in February 1989. In March 1989, Gladstone issued 37.5 million shares of common stock to each of Charles W. Alcorn, Jr. and Virgil A. Walston, Jr., both of whom are officers and directors of VAALCO, representing approximately 97% of outstanding shares after issuance. Such shares were issued in exchange for approximately 51% of outstanding common stock of Alcorn International, Inc. ("Alcorn"), a Texas corporation. Concurrently, Gladstone's name was changed to VAALCO Energy, Inc. At the date of the exchange, Gladstone had been fully liquidated and had no assets or liabilities. In December 1992, Alcorn was merged with and into VAALCO.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION - The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, as well as the subsidiaries' share in the assets, liabilities, income and expenses of joint operations. All significant transactions within the consolidated group have been eliminated in consolidation.

CASH AND EQUIVALENTS - For purposes of the consolidated statement of cash flows, the Company and its subsidiaries consider all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. For the years ended

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VAALCO ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995
(in thousands of dollars, unless otherwise indicated)

December 31, 1996 and 1995, no payments were made for income taxes, and cash paid for interest was \$184 and \$351, respectively.

FUNDS IN ESCROW - Amounts represent restricted funds for abandonment costs relating to the Gulf of Mexico properties.

INVENTORY VALUATION - Crude oil inventory is valued at the lower of cost, using the average cost method, or market. Materials and supplies are valued at the lower of cost, determined by the weighted-average method, or market.

INCOME TAXES - The Company records taxes on income in accordance with Statement of Financial Accounting Standards "SFAS" No. 109, "Accounting for Income Taxes". Under SFAS No. 109, deferred income taxes reflect the

net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (b) operating loss and tax credit carryforwards.

PROPERTY AND EQUIPMENT - The subsidiaries follow the successful efforts method of accounting for exploration and development costs. Under this method, exploration costs, other than the cost of exploratory wells, are charged to expense as incurred. Exploratory well costs are initially capitalized until a determination as to whether proved reserves have been discovered. If an exploratory well is deemed to not have found proved reserves, the associated costs are expensed at that time. All development costs, including development of dry hole costs, are capitalized. Provisions for impairment of undeveloped oil and gas leases are based on periodic evaluations and other factors. The Company recognizes gains for the sale of developed properties based upon an allocation of property costs between the interest sold and the interest retained based on the fair value of those interests.

In 1996, the Company adopted statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 121 requires that long-lived assets and certain identifiable intangibles to be held and used be reported at the lower of carrying amounts or fair values. Assets to be disposed of and assets not expected to provide any future service potential to the Company are recorded at the lower of carrying amount or fair value less cost to sell. The adoption of SFAS No. 121 did not have a material effect on the Company's financial position or results of operations.

Depletion of wells, platforms and other production facilities are provided on a field basis under the unit-of-production method based upon estimates of proved developed reserves. Provision for estimated abandonment costs, including platform dismantlement and site restoration, is included in depreciation, depletion and amortization expense on a unit-of-production basis. Provision for depreciation of other property is made primarily on a straight line basis over the estimated useful life of the property. The annual rates of depreciation are as follows:

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VAALCO ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995
(in thousands of dollars, unless otherwise indicated)

Office and miscellaneous equipment.....	3 - 5 years
Leasehold improvements.....	8 - 12 years

In connection with the annual estimate of the Company's oil and gas reserves for the fiscal years ended December 31, 1996 and 1995, the Company's independent petroleum engineers estimated proved oil reserves at December 31, 1996 and 1995 to be 0.2 million and 4.8 million barrels, of which 215,000 and 201,000 are classified as proved developed, net to the Company, respectively. Proved gas reserves were estimated to be 1,094 MMcf at December 1996. The Company had no gas reserves at December 31, 1995. The proved developed reserves for 1996 relate to the Company's Philippine operations and to the newly acquired interest in the Gulf of Mexico. The 1995 proved developed reserves relate to the Company's Philippine operations, while the proved undeveloped portion relates to the India operations. During 1996, the Company sold its India properties.

MARKETABLE SECURITIES - In 1994, the Company adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". All of the Company's marketable securities are classified as "available for sale" and accordingly, are reflected in the Consolidated Balance Sheets at fair market value, with the aggregate unrealized loss included in shareholders' equity. Adoption of SFAS No. 115 had no effect on reported earnings. Cost for determining gains and losses on sales of marketable securities is determined on the FIFO method. Marketable securities consisted of the following:

		December 31, 1996			

				Gross	
		Fair	Unrealized Holding		
		Market	-----		
		Value	Gains	Losses	
		-----	-----	-----	
Shares	Cost	-----	-----	-----	
		-----	-----	-----	
Common stocks:					
APMC	2,377,460,000	\$ 861	\$ 777	\$ --	\$ 84

December 31, 1995

	Shares	Cost	Fair Market Value	Gross	
				Unrealized Gains	Unrealized Holding Losses
Common stocks:					
APMC	2,377,460,000	\$ 861	\$ 565	\$--	\$296
Unioil Corporation	2,000,000,000	883	901	18	
Total	4,377,460,000	\$1,744	\$1,466	\$18	\$296

In April 1996, the Company sold all of its Unioil stock and in February 1997, the Company sold all of its APMC stock.

FOREIGN EXCHANGE TRANSACTIONS - For financial reporting purposes, the subsidiaries use the United States dollar as their functional currency. Monetary assets and liabilities

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denominated in foreign currency are translated to U.S. dollars at the rate of exchange in effect at the balance sheet date, and items of income and expense are translated at average monthly rates. Nonmonetary assets and liabilities are translated at the exchange rate in effect at the time such assets were acquired and such liabilities were incurred. Gains and losses on foreign currency transactions are included in income currently and were insignificant during each of the periods.

ACCOUNTS WITH PARTNERS - Accounts with partners represent cash calls due or excess cash calls paid by the partners for exploration, development and production expenditures made by APPI-14, APPI-6, VAALCO Energy (India), Inc., VAALCO Gabon (Equata), Inc. and VAALCO Gabon (Etame), Inc.

REVENUE RECOGNITION - The Company recognizes revenues from crude oil and natural gas sales upon delivery to the buyer.

NET LOSS PER SHARE - Net loss per common share amounts are based on the weighted average number of common shares outstanding during each period.

FAIR VALUE OF FINANCIAL INSTRUMENTS - The Company's financial instruments consist primarily of cash, trade accounts and note receivables, trade payables and debt instruments. The book values of cash, trade receivables, and trade payables are representative of their respective fair values due to the short term maturity of these instruments. The book value of the Company's debt and note receivable instruments are considered to approximate the fair value, as the interest rates are adjusted based on rates currently in effect. However, the Company is uncertain if it could replace its debt with terms commensurate with those currently in effect. The fair value of related party receivables and payables have not been estimated.

CONCENTRATIONS OF CREDIT RISK - Until recently, all of the Company's interests were located overseas in certain offshore areas of the Philippines, India, and Gabon. In December 1996, the Company acquired its first domestic producing properties consisting of interests in eight platforms in the federal waters of the offshore Gulf of Mexico. Four of the platforms are being operated by VAALCO.

Substantially all of the Company's crude oil and natural gas is sold at the well head at posted prices under short term contracts, as is customary in the industry. During the year ended December 31, 1996, one purchaser of the Company's crude oil accounted for all of the Company's total crude oil sales. The Company markets its crude oil share under an agreement with Sea Oil, a local Philippines refiner. While the loss of this buyer might have a material effect on the Company in the near term, management believes that the Company would be able to obtain other customers for its crude oil.

USE OF ESTIMATES IN FINANCIAL STATEMENT PREPARATION - The preparation of financial statements in conformity with generally accepted accounting principles requires estimates and assumptions that affect the reported amounts of assets and liabilities as well as certain

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disclosures. The Company's financial statements include amounts that are based on management's best estimates and judgments. Actual results could differ from those estimates.

RECLASSIFICATIONS - Certain amounts from 1995 have been reclassified to conform to the 1996 presentation.

4. CRUDE OIL INVENTORY

There was no crude oil inventory at December 31, 1996. Crude oil inventory at December 31, 1995 represents the cost of 95,402 barrels of crude oil in storage. The estimated market value of the inventory was approximately \$1,670 as of December 31, 1995.

5. ACCRUED LIABILITIES

	December 31,	
	1996	1995
Interest	\$ 115	\$ 14
Other	1,164	1,210
	\$ 1,279	\$ 1,224

6. DEBT OBLIGATIONS AND FINANCING ARRANGEMENTS

	December 31,	
	1996	1995
Note payable - Bank	\$ 3,300	\$ 4,000
Note payable - Other	618	---
Less current portion	(3,918)	(4,000)
Long-term portion	\$ ---	\$ ---

The Company entered into a credit agreement (the "Credit Agreement") on June 23, 1993 to borrow \$6 million, at an interest rate of LIBOR plus 2%, from a European institutional lender. The Company drew down \$6 million against the facility in the third quarter of 1993. Proceeds were utilized for further development of the West Linapacan "A" Field. The Company had repaid \$2.0 million of the note, plus interest, as of the second quarter of 1995. In August 1995, the Company and the noteholder reached an agreement to defer the entire balance of the note, at an interest rate of 7.6875% per annum, until January 31, 1997, in return for the pledge of marketable securities held by the Company. The Company sold a portion of these marketable securities and reduced the balance of the note by \$0.7 million in April 1996. Also in connection with the sale, the Company prepaid the interest on the note through January 1997. In February 1997, the Company sold additional pledged securities for \$3.4 million and paid all accrued interest and \$3.2 million of the \$3.3 million principal balance on the note. The remaining balance of \$0.1 is due in January 1988. The Company anticipates that it will recognize a gain of \$0.7 million on the sale of the marketable securities.

In December 1996, the Company issued \$0.6 in debt associated with the acquisition of certain properties in the Gulf of Mexico. The loan is secured by an assignment of a revenue interests ranging from 45% to 65% in certain properties. The loan is recourse only to the assigned revenue interests, and is not guaranteed by the Company.

7. STOCKHOLDERS' DEFICIT

The Company has the right to redeem any or all of its outstanding shares of preferred stock at any time for \$25 per share plus accrued unpaid dividends. No dividends were paid in 1996. Dividends of \$72 were paid on the preferred stock during 1995. The holders of preferred stock deferred their right to receive dividend payments in the fourth quarter of 1994. Dividend payments were also deferred for 1995 and 1996. A portion of the accrued dividend was used to pay down related party receivables. At December 31, 1996 and 1995, \$434 and \$209 of preferred stock dividends were accrued, respectively.

Shares of Common Stock with an aggregate market value of \$225 may be issued each year in payment for the dividends due on the Preferred

Stock.

An officer and director of the Company was granted options to purchase 75,000 shares of Common Stock of the Company, and was also granted 75,000 stock appreciation rights ("SARs"), all at an exercise price of \$10.25 per share. One-third of such options and SAR's vest at the end of each of the three years of the contract term, and are exercisable for five years from the date of vesting. As of December 31, 1996, the options and SAR's were completely vested, and none of the options and SAR's had been exercised, as the exercise price was in excess of market values. In 1996 additional options were granted to this officer and director for 1,000,000 shares of the Common Stock of the Company at exercise prices of \$0.375 per share for 400,000 shares, \$0.50 for 300,000 shares and \$1.00 for 300,000 shares. The options vest over a term of three years and may be exercised for five years from the vesting date. As of December 31, 1996, the officer and director had vested interests in 200,000 shares at \$0.375 per share. None of the options had been exercised as of December 31, 1996.

Another officer of the Company has been granted warrants to purchase shares of the Company's Common Stock. The warrants are for a term of five years and will consist of the right to purchase 250,000 shares of Common Stock at an exercise price of \$0.50 per share; 250,000 shares of Common Stock at an exercise price of \$2.50 per share; 250,000 shares of Common Stock at an exercise price of \$5.00 per share; and 250,000 shares of Common Stock at an exercise price of \$7.50 per share. The warrants were completely vested at December 31, 1996. None of the warrants had been exercised as of December 31, 1996.

In October 1994, the Company acquired a working interest in approximately 1,200 acres in Goliad County, Texas, in exchange for cash and warrants to purchase shares of the Company's Common Stock. The warrants have a term of three years and will consist of

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the right to purchase: (1) 200,000 shares of Common Stock at an exercise price of \$2.50 per share, and (2) 200,000 shares of Common Stock at an exercise price of \$5.00 per share, subject to the terms and conditions of the acquisition agreement.

Information with respect to the Company's stock option plan is as follows:

	Vested Options/ Warrants Exercisable	Shares Under Option	Weighted Average Exercise Price
Balance, December 31, 1994	425,000	475,000	\$4.73
Granted		0	--
Exercised		0	--
Canceled		0	--
Balance, December 31, 1995	450,000	475,000	\$4.73
Granted		2,000,000	2.24
Exercised		0	--
Canceled		0	--
Balance, December 31, 1996	1,675,000	2,475,000	2.73

The following table summarizes information about stock options outstanding as of December 31, 1996:

<TABLE>
<CAPTION>

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding At 12/31/96	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable At 12/31/96	Weighted-Average Exercise Price
<C>	<C>	<C>	<C>	<C>	<C>
\$ 0.375 to 1.00	1,250,000	5.50 years	\$ 0.58	450,000	\$ 0.44
1.01 to 2.50	450,000	3.01 years	2.50	450,000	2.50
2.51 to 5.00	450,000	3.01 years	5.00	450,000	5.00

5.01 to 10.00	325,000	4.03 years	8.07	325,000	8.07
\$ 0.375 to 10.00	2,475,000	4.40 years	\$ 2.73	1,675,000	\$ 3.70

</TABLE>

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123) encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value as determined by generally recognized option pricing models such as the Black-Scholes model or the binomial model. Because of the inexact and subjective nature of deriving

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non-freely traded employee stock option values using these methods, the Company has adopted the disclosure-only provisions of SFAS No. 123 and continues to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant date for awards consistent with the provisions of SFAS No. 123, the Company's net loss and fully diluted loss per share would not have been materially different in 1996 and 1995 respectively. The pro forma fair value of options at date of grant was estimated using the Black-Scholes model and the weighted average assumptions are as follows:

1996	
Expected life (years)	5
Interest rate	6.50%
Volatility	68%
Dividend yield	0%
Weighted average fair value at grant date	\$.12

8. INCOME TAXES

The Company and its domestic subsidiaries file a consolidated United States income tax return. Certain subsidiaries' operations are also subject to Philippine income taxes. As a result of net operating losses incurred during 1996 and 1995, no provision for taxes on income was recorded.

The primary differences between the financial statement and tax bases of assets and liabilities at December 31, 1996 and 1995 are as follows:

	December 31,	
	1996	1995
Deferred Tax Assets:		
Reserves not currently deductible	\$ 1,184	\$ 1,184
Foreign tax credit carryforwards	7,087	7,192
Operating loss carryforwards	7,465	7,223
Other assets, net	355	305
Net deferred tax asset	16,091	15,904
Valuation allowance	(16,091)	(15,904)
	\$ ---	\$ ---

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VAALCO ENERGY, INC. AND SUBSIDIARIES
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Pretax loss is comprised of the following:

	Year Ended December 31,	
	1996	1995
United States loss	\$ (212)	\$ (945)
Foreign loss (Philippine)	(147)	(6,010)
	\$ (359)	\$ (6,955)

A reconciliation between the provision (benefit) for income taxes recognized in the Company's Statements of Operations computed by applying the statutory federal income tax rate and income taxes to pre-tax losses follows:

	Year ended December 31,	
	1996	1995
	-----	-----
Income tax (benefit) computed at a statutory rate	\$ (74)	\$ (331)
Philippine taxes (benefit) on Philippine subsidiaries	(62)	(2,524)
Utilization of NOL carryforward and nondeductible foreign losses	(51)	2,700
Increase in valuation allowance .	187	155
	-----	-----
Total	\$---	\$---
	=====	=====

At December 31, 1996, the Company and its subsidiaries had estimated foreign tax credit ("FTC") carryforwards of approximately \$7.1 million for United States tax purposes. The FTC carryforwards, which are subject to certain limitations, expire in 1997.

As of December 31, 1996, the Company and its subsidiaries had net operating loss ("NOL") carryforwards of approximately \$7.5 million for United States income tax purposes, which will expire beginning in 2004 through 2010. These NOL carryforwards are available only to offset the taxable income of the parent Company.

9. RELATED-PARTY TRANSACTIONS

A subsidiary of VAALCO loaned funds to certain officers of the Company, and advanced funds to parties related to an officer of a wholly owned subsidiary of the Company, for the purpose of acquiring 3.5% and 10.4%, respectively, of the outstanding common stock of Alcorn Petroleum and Minerals Corporation ("APMC"). Certain officers, directors and stockholders of the Company are also officers, directors and stockholders of APMC. During 1995, an additional 588,000,000 shares of APMC stock was purchased by these persons. The loans and the advances are as follows:

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VAALCO ENERGY, INC. AND SUBSIDIARIES
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	December 31,	
	1996	1995
	-----	-----
Advances-related party	\$ 1,451	\$ 1,451

The executive officers and directors of the Company own as a group approximately 2% of the common stock of APMC. In addition, an officer of a wholly owned subsidiary of the Company is also an officer and director of APMC and owns approximately 4% of APMC. The Company beneficially owns, either directly or indirectly, an additional approximately 14.6% of the common stock of APMC. In February 1997, all APMC common stock was sold in order to pay debt.

At any given time, APMC may have a positive or negative balance with the Company in connection with the assigned working interest in Service Contract No. 14, including advances for certain expenses. These balances are settled in the normal course of business. Total amounts due to APMC, as of December 31, 1996 and 1995, amounted to \$4 and \$200, respectively.

A subsidiary of the Company has a note receivable from an officer, director and stockholder of the Company which bears interest at 9% per annum and is due in monthly installments through December 1, 2002. The balance of the note was \$48 and \$54 at December 31, 1996 and 1995, respectively.

General and administrative expenses for consulting services to companies owned by certain officers or stockholders were \$360 for the years ended December 31, 1996 and 1995, of which \$360 and \$30 is accrued and unpaid at December 31, 1996 and 1995, respectively.

An officer and director of a company from whom the Company leased certain oil field equipment served as a director of the Company until March 1995. The Company made lease payments on behalf of the consortium to such company in the amount of approximately \$2.1 million during the

year ended December 31, 1995. No payments were made to this company in 1996.

10. RETIREMENT PLAN

In 1988, a subsidiary of the Company operating in the Philippines established a noncontributory defined benefit plan covering substantially all of its employees. The benefits are based on years of service and levels of compensation.

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VAALCO ENERGY, INC. AND SUBSIDIARIES
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The following table sets forth the plan's funded status and amounts recognized in the consolidated balance sheets as of December 31, 1996 and 1995:

	1996	1995
	----	----
Actuarial present value of projected benefit obligations:		
Vested benefits	\$ --	\$ 219
Effect of projected future compensation levels ..	--	147
	----	-----
Projected benefit obligations	--	366
Less - plan assets at fair value	--	582
	----	-----
Projected benefit obligations, net of plan assets	--	(216)
Less:		
Unrecognized net (gain)	--	(179)
Unrecognized net initial obligations	--	96
	=====	=====
Net liability on balance sheet	\$ --	\$ (133)
	=====	=====

Net pension expense for the years ended December 31, 1996 and 1995, included the following components:

	1996	1995
	-----	-----
Service cost	\$ --	\$ 62
Interest cost on projected benefit obligations	--	36
Actual return on assets	--	(59)
Net amortization and deferral	--	(4)
	=====	=====
Net pension expense	\$ --	\$ 35
	=====	=====

The discount rate used in 1995 in determining the actuarial present value of the projected obligations is 11% per annum and the rate of increase in compensation levels is 10%. The expected long-term rate of return on assets is 11%.

As of December 31, 1996, the Company had 25 full time employees, 17 of which were located in the Philippines. The Company is not subject to any collective bargaining agreements and believes its relations with its employees are satisfactory. During 1995 and 1996, approximately 75% of the Company's employees were retired from the Philippines operations office under a severance program. The cost of the severance package was pre-accrued under the pension fund for the Philippine employees. As of December 31, 1996, the retirement plan had been terminated and the Company had no liabilities associated with plan.

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11. COMMITMENTS AND CONTINGENCIES

In July 1995, the Company acquired two blocks offshore Gabon, the Equata block and the Etame block. Both blocks contain previous discoveries that the Company is currently evaluating to determine their commercial viability. The Company and its partners have an obligation to the Government of Gabon to obtain approximately 1,500 line kilometers of seismic data and to drill one well on the Etame block during the three-year term of the license. In November 1996, the Company entered into a letter of intent with a multi-national seismic company which will perform the required seismic surveys and pay a disproportionate 80% of the cost, up to \$4.7 million, of the estimated \$5.8 million (dry hole cost) commitment well to earn a 65% interest in the concession. The

Company and its partners will be responsible for 20% of the cost (35% over \$4.7 million) of the commitment well. VAALCO's share of the dry hole cost of the commitment well is estimated to be \$0.7 million.

In December 1996, a member of the Service Contract No. 14 consortium in the Philippines, Oriental Petroleum & Minerals, Inc. ("Oriental"), filed an arbitration case against the other nine members of the consortium. Oriental alleges it is not responsible for certain amounts expended on the West Linapacan "A" Field for which it was placed in default by the consortium in 1995 due to non-payment. Oriental also questions certain provisions of the Joint Operating Agreement. Oriental is seeking \$1.0 million from the consortium and to be reinstated into the Service Contract.

The members of the consortium believe that Oriental's claims are without merit and intend to vigorously defend this action. The consortium has filed a reply to the claim seeking, among other things, \$1.5 million in unpaid cash calls plus interest from Oriental and certain damages to be determined by the arbitration panel. Management believes the consortium will prevail in its defenses and has not made any provisions for amounts claimed by Oriental.

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VAALCO ENERGY, INC. AND SUBSIDIARIES
 SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES
 (unaudited)

(in thousands of dollars, unless otherwise indicated)

The following information is being provided as supplemental information in accordance with certain provisions of SFAS No. 69, "Disclosures about Oil and Gas Producing Activities". The Company's reserves are located offshore of the Republic of the Philippines and the Gulf of Mexico. In 1995, the Company also had reserves off the East Coast of India. The following tables set forth costs incurred, capitalized costs, and results of operations relating to oil and natural gas producing activities for each of the periods.

COSTS INCURRED IN OIL AND GAS PROPERTY
 ACQUISITION, EXPLORATION AND DEVELOPMENT
 ACTIVITIES

	Year Ended December 31,	
	1996	1995
Costs incurred during the year:		
Exploration	\$ 268	\$ 489
Development	--	1,894
Acquisition	746	
Total	\$ 1,014	\$ 2,383

Exploration and development costs above for 1996 and 1995 include \$13 and \$221, respectively, related to the Company's India operations. Also included in the above table for 1996 and 1995 are exploration costs of \$255 and \$246 related to the Company's prospects located offshore Gabon for which no reserves are currently attributable. The acquisition costs in 1996 relate to the Company's interest in the Gulf of Mexico. The remaining 1995 costs are attributable to the Company's Philippine operations.

CAPITALIZED COSTS RELATING TO OIL AND GAS PRODUCING ACTIVITIES:

	December 31,	
	1996	1995
Capitalized costs	\$ 47,674	\$ 46,769
Accumulated depreciation, depletion, and amortization	(46,122)	(46,122)
Net capitalized costs	1,552	647
Future abandonment costs ...	(4,942)	(4,172)
	\$ (3,390)	\$ (3,525)

Of the above capitalized costs for 1996, \$746 are attributable to the Company's newly acquired properties in the Gulf of Mexico, while \$297 and \$137 are attributable to the Company's Goliad County, Texas properties for 1996 and 1995, respectively. Costs attributable to the Company's Gabon properties are \$510 for 1996 and 1995 respectively.

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VAALCO ENERGY, INC. AND SUBSIDIARIES
 SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES

(unaudited)
(in thousands of dollars, unless otherwise indicated)

RESULTS OF OPERATIONS FOR OIL AND GAS PRODUCING ACTIVITIES:

	Year Ended December 31,	
	1996	1995
Crude oil sales	\$ 2,732	\$ 3,671
Production expenses	(1,735)	(3,556)
Exploration expenses	(268)	(489)
Depreciation, depletion and amortization	--	(4,312)
Net income from oil producing activities (excluding interest expense and general and administrative expenses)	\$ 729	\$(4,686)

Proved Reserves

The following tables set forth the net proved reserves of VAALCO Energy, Inc. (which excludes the interests of the Philippine government and the other consortium members) as of December 31, 1996 and 1995, and the changes therein during the periods then ended.

	Oil (MBbls)	Gas (Mmcf)
PROVED RESERVES:		
BALANCE AT DECEMBER 31, 1994	1,033	--
Production	(317)	--
Discoveries, extensions and other additions	4,647	--
Revisions	(515)	--
BALANCE AT DECEMBER 31, 1995	4,848	--
Production	(60)	--
Discoveries, extensions and other additions	--	1,094
Sales of reserves in place	(4,647)	--
Revisions	74	--
BALANCE AT DECEMBER 31, 1996	215	1,094

In April 1996, the Company sold substantially all of its proved undeveloped reserves.

Production volumes are based on crude oil sales. Crude oil inventory was - -0- and 95,402 barrels at December 31, 1996 and 1995, respectively.

	Oil (MBbls)	Gas (MMcf)
PROVED DEVELOPED RESERVES		
Balance at December 31, 1994	580	--
Balance at December 31, 1995	201	--
Balance at December 31, 1996	215	1,094

All of the Company's Proved Developed Reserves are located offshore the Republic of the Philippines and the Gulf of Mexico.

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VAALCO ENERGY, INC. AND SUBSIDIARIES
SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES
(unaudited)
(in thousands of dollars, unless otherwise indicated)

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH
FLOWS RELATING TO PROVED OIL RESERVES

The information that follows has been developed pursuant to procedures prescribed by SFAS No. 69 and utilizes reserve and production data estimated by independent petroleum consultants. The information may be useful for certain comparison purposes, but should not be solely relied upon in evaluating VAALCO Energy, Inc. or its performance.

The future cash flows are based on sales prices and costs in existence at the dates of the projections, excluding the interests of the Philippine government and the other consortium members. Future production costs do not include overhead charges allowed under joint operating agreements or headquarters general and administrative overhead expenses. Future development costs include amounts accrued attributable to future abandonment. Abandonment costs are expected to be incurred for the Philippine operations in the years 2002 - 2003 when the last producing well is estimated to become uneconomical to operate. Abandonment costs for the Gulf of Mexico includes such costs for 8 platforms over a three to nine year period. The standardized measure of

discounted cash flows for 1996 do not include the costs of abandoning the Company's non-producing properties.

<TABLE>
<CAPTION>

	Philippines		Gulf of Mexico		Total	
	December 31,		December 31,		December 31,	
	1996	1995	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Future cash inflows	\$ 2,363	\$ 1,612	\$ 4,251	\$ --	\$ 6,114	\$ 1,612
Future production costs	(1,023)	(1,191)	(1,122)	--	(2,145)	(1,191)
Future development costs	(1,000)	(4,173)	(673)	--	(1,673)	(4,173)
Future income tax expense	--	--	--	--	--	--
Future net cash flows	340	(3,752)	2,456	--	2,796	(3,752)
Discount to present value at 10% annual rate	126	2,447	(84)	--	-(42)	2,447
Standardized measure of discounted future net cash flows \$	466	\$(1,305)	\$ 2,372	\$ --	\$ 2,838	\$(1,305)

</TABLE>

Future development costs at December 31, 1996 and 1995 includes \$1.7 and \$4.2 million for future abandonment costs which has been accrued by the Company. Due to the availability of net operating loss carryforwards, there are no future income tax expenses attributable to the Company's reserves. Discounted Future Net Cash Flows as of December 31, 1995 of \$9,752 relating to the Company's interest in India have been excluded as these interests were sold in 1996.

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VAALCO ENERGY, INC. AND SUBSIDIARIES
SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES
(unaudited)
(in thousands of dollars, unless otherwise indicated)

CHANGES IN STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS:

The following table sets forth the changes in standardized measure of discounted future net cash flows as follows:

<TABLE>
<CAPTION>

	Philippines		Gulf of Mexico		Total	
	December 31,		December 31,		December 31,	
	1996	1995	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE AT BEGINNING OF PERIOD	\$ (1,305)	\$ 510	\$ --	\$ --	\$ (1,305)	\$ 510
Sales of oil produce, net of production costs	(997)	(115)	--	--	(997)	(115)
Net changes in prices and production costs ..	929	(4,711)	--	--	929	(4,711)
Revisions of previous quantity estimates	454	(480)	--	--	454	480
Purchase of reserves in place, net of taxes .	--	--	2,372	--	2,372	--
Changes in estimated future development costs	1,045	1,351	--	--	1,045	1,351
Development costs incurred during the period	--	1,813	--	--	--	1,813
Accretion of discount	(140)	51	--	--	(140)	51
Net change in income taxes	--	--	--	--	--	--
Change in production rates (timing) and other	480	276	--	--	480	276
BALANCE AT END OF PERIOD	\$ 466	\$(1,305)	\$ 2,372	\$ --	\$ 2,838	\$(1,305)

</TABLE>

Discounted future net cash flows as of December 31, 1995 of \$9,752 relating to the Company's interests in India have been excluded as those interests were sold during 1996.

There are numerous uncertainties inherent in estimating quantities of proved reserves and in projecting future rates of production and timing of development expenditures, including many factors beyond the control of the Company. Reserve engineering is a subjective process of estimating underground accumulations of crude oil and natural gas that cannot be measured in an exact manner, and the accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. The quantities of oil and natural gas that are ultimately recovered, production and operating costs, the amount and timing of future development expenditures and future oil and natural gas sales prices may all differ from those assumed in these estimates. The standardized measure of discounted future net cash flow should not be construed as the current market value of the estimated oil and natural gas reserves attributable to the Company's properties. The information set forth in the foregoing tables includes revisions for certain reserve estimates attributable to proved properties included in the preceding year's estimates. Such revisions are the result of additional information from subsequent completions and production history from the properties involved or

the result of a decrease (or increase) in the projected economic life of such properties resulting from changes in product prices. Moreover, crude oil amounts shown are recoverable under the service contracts and the reserves in place remain the property of the Philippine government.

In accordance with the guidelines of the U.S. Securities and Exchange Commission, the Company's estimates of future net cash flow from the Company's properties and the present value thereof are made using oil and natural gas contract prices in effect as of year end and are held constant throughout the life of the properties except where such guidelines permit alternate treatment, including the use of fixed and determinable contractual price escalations. The contract

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VAALCO ENERGY, INC. AND SUBSIDIARIES
SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES
(unaudited)

(in thousands of dollars, unless otherwise indicated)

price as of December 31, 1996 was \$11.00 per Bbl for oil and \$3.89 per Mcf for gas. The contract price as of December 31, 1995 was \$8.00 and \$20.59 per Bbl of crude oil for the Philippine reserves and Indian reserves, which have subsequently been sold, respectively.

Under the laws of the Republic of the Philippines, the Philippine government is the owner of all oil and gas mineral rights. However, pursuant to The Oil Exploration and Development Act of 1972, the Philippine government, acting through its Office of Energy Affairs (formerly, the Petroleum Board), may enter into service contracts under which contractors will be granted exclusive rights to perform exploration, drilling, production and other "petroleum operations" in a contract area. Further, such Act vested the Ministry of Energy with regulatory powers over business activities relating to the exploration, exploitation, development and extraction of energy resources.

Pursuant to the service contracts, the Philippine government receives an allocation of the production from the contract area instead of a royalty. Under the service contracts, the Philippine government does not take actual delivery of its allocated production. Instead, the Company has been authorized to sell the Philippine government's share of production and remit the proceeds to the Philippine government. Under this production sharing scheme, the consortium is permitted a Filipino Participation Incentive Allowance ("FPIA") and a deduction to recover certain costs expended on the development of the contract area of up to 60% of gross revenues from the contract area. The FPIA, a deduction equivalent to 7 1/2% of project gross revenue, is allowed when Filipino ownership participation in the consortium equals or exceeds 15%, which is the case for Service Contract No. 14. The consortium also receives a production allowance of approximately 50% of the balance of the oil after deducting FPIA and cost recovery oil. The remaining oil is shared 40% by the consortium and 60% by the Philippine government. Under this scheme, the consortium currently receives approximately 90.3% of the oil produced and the Philippine government receives approximately 9.7%. Because the cost recovery account contains over \$200 million, the Company anticipates receiving the maximum 60% of cost oil during the life of the Nido and Matinloc reserves.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS
ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE
WITH SECTION 16 (A) OF THE EXCHANGE ACT.

The following table sets forth certain information with respect to the directors and executive officers of the Company. All officers are elected for an indefinite term and serve at the pleasure of the Board of Directors.

Name	Age	Position with the Company
Charles W. Alcorn, Jr.	69	Chief Executive Officer and Chairman of the Board
Virgil A. Walston, Jr.	63	Chief Operating Officer and Vice Chairman of the Board
W. Russell Scheirman	41	President, Chief Financial Officer and Director
William E. Pritchard III	39	Vice President and General Counsel
Arne R. Nielsen	71	Director

Pursuant to the Company's Certificate of Incorporation, as amended (the "Certificate of Incorporation"), the Board of Directors is divided into three classes that are elected for staggered three-year terms. Class I, comprised of Messrs. Nielsen and Scheirman, holds office for a term expiring at the annual meeting of stockholders to be held in 1997; Class II, comprised of Mr. Walston,

holds office for a term expiring at the annual meeting of stockholders to be held in 1998; and Class III, comprised of Mr. Alcorn, holds office for a term expiring at the annual meeting of stockholders to be held in 1999.

Mr. Alcorn has been employed as Chief Executive Officer and Chairman of the Board of the Company since March 1989. From August 1985 until December 1992, he served as Chief Executive Officer and Chairman of the Board of Alcorn. Prior to that and until June 1990, he served as Chief Executive Officer of Alcorn Well Service, Inc., an oil well workover and servicing company.

Mr. Walston has been employed as Chief Operating Officer and Vice Chairman of the Board of the Company since March 1989. From February 1991 to July 1992, he also served as the Company's President. From August 1985 to December 1992, he served as President of Alcorn. Prior to August 1985, he served as Manager of Middle East/Far East Operations for Occidental Exploration and Production Company, a California-based major integrated oil and gas company.

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Mr. Scheirman has been employed as President of the Company since July 1992 and as Chief Financial Officer since March 1991. He has served as a director of the Company since March 1991. From March 1991 to July 1992, he served as Executive Vice President of the Company. From October 1989 to March 1991, he was an energy consultant with McKinsey & Company, Inc., a management consulting firm. He served as a director of Alcorn from July 1985 to June 1986 and as Vice President of Production of Alcorn from November 1985 until June 1986. From July 1984 to October 1989, he served as an energy investment banker with Copeland, Wickersham, Wiley & Co., an investment banking firm. Prior to that he was employed by Exxon Company, U.S.A., a major integrated oil and gas company.

Mr. Pritchard has been employed as Vice President and General Counsel of VAALCO Energy, Inc. since September 1996. From 1994 to 1996, he was an oil and gas lawyer, partner and chairman of the oil and gas team for Adams and Reese, R.L.L.P. From 1990 to 1994, he was an oil and gas lawyer with Lyons, Pipes & Cook, L.L.C. Prior to that, he was a petroleum geologist for Marathon Oil Company.

Mr. Nielsen has served as a director of the Company since March 1989. He has served as the Chairman of the Board of Poco Petroleum, Ltd., a Canadian oil and gas company, since February 1992 and served as President and Chief Executive Officer of such company from February 1992 to September 1992. From June 1990 to February 1992, he served as President and Chief Executive Officer of Bowtex Energy Corp., an oil and gas exploration and production company. From January 1989 to June 1990, he was an oil and gas consultant. From January 1986 to January 1989, he served as Chairman and Chief Executive Officer of Canadian Superior Oil Ltd., a Canadian oil and gas company and subsidiary of Mobil Oil Corporation.

Mr. Alcorn is married to Mr. Walston's sister.

Mr. Nielsen serves on the Company's Audit Committee. No Audit Committee meetings were held with the Company's accountants in 1995 or 1996.

The Company has employment agreements with each of Messrs. Alcorn, Walston, Scheirman and Pritchard and consulting agreements with companies controlled by Messrs. Alcorn and Walston. See "Certain Relationships and Related Transactions".

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ITEM 10. EXECUTIVE COMPENSATION

CASH COMPENSATION

The following table sets forth all compensation, for each executive officer of the Company and for all executive officers of the Company as a group, including salaries, fees, bonuses and deferred compensation, paid or accrued for the account of such persons for services rendered in all capacities during the year ended December 31, 1996. The Company does not maintain any benefit plans or pension plans for the persons named below or any other employees of the Company domiciled in the United States.

SUMMARY COMPENSATION TABLE

<TABLE>
<CAPTION>

(i)	(a)	(b)	ANNUAL COMPENSATION			LONG TERM COMPENSATION		
			(c)	(d)	(e)	(f)	(g)	(h)
					OTHER ANNUAL COMPENSATION	RESTRICTED STOCK	OPTIONS/ WARRANTS/	
ALL OTHER	PRINCIPAL POSITION	YEAR	SALARY	BONUS	(1)	AWARDS	SAR'S (#)	LTIP PAYOUTS

COMPENSATION

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Charles W. Alcorn, Jr	1996	\$ 96,000	\$ 0	\$180,000	0	0	0
Chief Executive Officer & . .	1995	96,000	0	180,000	0	0	0
Chairman of the Board	1994	96,000	0	180,000	0	0	0
Virgil A. Walston, Jr	1996	\$ 96,000	\$ 0	\$180,000	0	0	0
Chief Operating Officer & ..	1995	96,000	0	180,000	0	0	0
Vice Chairman of the Board . .	1994	96,000	0	180,000	0	0	0
W. Russell Scheirman	1996	160,000	0	0	1,000,000	0	0
President &	1995	160,000	0	0	0	0	0
Chief Financial Officer	1994	160,000	25,000	0	0	150,000	0
William E. Pritchard III (2)	1996	\$ 53,333	0	0	0	0	0
Vice President &	1995	0	0	0	0	0	0
General Counsel	1994	0	0	0	0	1,000,000	0

</TABLE>

- (1) Payments made to companies controlled by the individual under consulting agreements.
- (2) Mr. Pritchard became an employee of the Company in September 1996.

COMPENSATION OF DIRECTORS

The Company's directors receive no direct compensation for services as a director.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information with respect to the ownership of shares of the Company's Common Stock and the Company's 10% Cumulative Preferred Stock, ("Preferred Stock"), as of February 28, 1997 by (i) each director of the Company, (ii) all executive officers and directors of the Company as a group and (iii) each person known by the Company to own beneficially more than 5% of the outstanding shares of Common Stock or Preferred Stock. To the Company's knowledge, the persons indicated below have sole voting and investment power with respect to the shares indicated as owned by them, except as otherwise stated. Holders of the Common Stock are entitled to one vote

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on all matters to be considered by the stockholders for each share held. Holders of Preferred Stock have limited voting rights.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Charles W. Alcorn, Jr. 100 Magruder Dr. Victoria, Texas 77904	3,040,500	27.8%
Virgil A. Walston, Jr. Route 1, Box 119 A Moulton, Texas 77975	3,150,950 (1)	28.9% (1)
W. Russell Scheirman 4600 Post Oak Place Suite 309 Houston, TX 77027	1,075,000 (2)	9.8%
William E. Pritchard III 4600 Post Oak Place Suite 309 Houston, TX 77027	1,000,000 (3)	9.2%
Arne R. Nielsen	-----	-----
Common Stock owned by all directors and executive officers as a group (four persons)	8,266,450 (1) (2) (3)	75.7% (1) (2) (3)

PREFERRED STOCK

Charles W. Alcorn, Jr. 100 Magruder Dr. Victoria, Texas 77904	45,000	50%
---	--------	-----

Virgil A. Walston, Jr. 45,000 50%
 Route 1, Box 119 A
 Moulton, Texas 77975

- (1) Includes 148,700 shares of Common Stock owned by Mr. Walston's sons as to which Mr. Walston disclaims beneficial ownership.
 (2) Includes 1,075,000 shares issuable on the exercise of options.

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- (3) Includes 1,000,000 shares issuable on the exercise of warrants.

As indicated above, management of the Company currently beneficially owns approximately 75.7% of the outstanding shares of the Common Stock, and all of the outstanding shares of the Preferred Stock, and such stockholders have the ability to elect all of the Company's directors and to control most corporate actions.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The executive officers and directors of the Company own as a group approximately 2.0% of the common stock of APMC as described below. Messrs. Walston, Alcorn and Scheirman serve as officers and directors of APMC. Additionally, an officer of Alcorn (Production) Philippines Inc. ("APPI"), a wholly owned subsidiary of the Company, is also an officer, director and approximately 4% stockholder of APMC.

	% of APMC Common Stock Owned
C.W. Alcorn, Jr.	0.6
V.A. Walston, Jr.	1.3
	=====
Total all company officers	1.9
	=====

The Company beneficially owns, either directly or indirectly, an additional approximately 14.6% of the common stock of APMC. In February 1997, the Company sold all of its APMC stock.

In December 1991, APMC purchased from the Company a 2.4% undivided working interest in Service Contract No. 14 for \$1,920,000 in cash and the incurrence by APMC of \$1,150,000 of future development costs otherwise attributable to the Company's working interest. The purchase price for the working interest was determined through negotiations between the Company and APMC. Such transaction increased the total working interest owned by APMC to 7.4%. APMC acquired a 5% undivided working interest in a portion of Blocks B and C of Service Contract No. 14 in 1988 by participating in the North Matinloc discovery well and the long-term production test of the Galoc field.

As of December 31, 1996, the Company owed APMC approximately \$4,000. The average amount due to APMC during such period was approximately \$15,000. The largest amount outstanding in 1996 was approximately \$81,000. The cash calls were made by the Company's subsidiary, APPI, to all consortium members in the normal course of business under the operating agreement for Service Contract No. 14 to fund the development and operating costs of the West Linapacan "A" field. From time to time all consortium members including APMC have positive or negative balances with the Company in connection with operations. APMC's balances are settled in the normal course of business as with other consortium members.

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In 1987, the Company loaned Mr. Walston approximately \$90,000 to purchase a townhouse. The note is amortized in monthly installments through December 1, 2002, with interest at 9% per annum. The payments on the note were current as of December 31, 1995. As of December 31, 1996 and 1995, the balance of the note was approximately \$48,000 and \$59,000, respectively.

In connection with Alcorn International, Inc. becoming a wholly owned subsidiary of the Company, as of March 31, 1990, the Company purchased an aggregate of approximately 14.7% of the outstanding shares of Alcorn International, Inc. from Messrs. Alcorn and Walston. The total purchase price was \$2.25 million and was satisfied by the issuance of an aggregate of 90,000 shares of Preferred Stock. The purchase price was determined based upon the Company's book value of its interest in Alcorn International, Inc..

From March 1, 1992 through February 29, 1998, the Company is a party to an Employment Agreement with each of Messrs. Alcorn and Walston. Each Employment Agreement provides for an annual salary of \$96,000 and the use of a motor vehicle at the Company's expense.

In addition, the Company is a party to a Consulting Agreement from February 15, 1988 through February 28, 1998 with Alcorn Production Company. Mr. Alcorn owns all of the capital stock of Alcorn Production Company. Under the

Consulting Agreement, the Company was required to pay Alcorn Production Company \$180,000 per year.

The Company was also party to a Consulting Agreement with V.A. Walston & Associates, Inc., which is wholly owned by Mr. Walston. The terms of such agreement were substantially identical to that of the Consulting Agreement with Alcorn Production Company described above.

The Employment Agreements and the Consulting Agreements permit Messrs. Alcorn and Walston to engage in the business of exploring for, producing and selling petroleum in any part of the world in addition to their services for the Company, as long as such outside activities do not materially detract from their ability to discharge their responsibilities under their respective agreements. Both Mr. Alcorn and Mr. Walston are engaged in oil and gas related activities outside of their relationship with the Company, including owning interests in oil and gas properties in the U.S. that are not affiliated with the operations of the Company.

From March 15, 1993 through March 14, 1998, the Company is a party to an Employment Agreement with Mr. Scheirman which provides for annual compensation of \$160,000. Mr. Scheirman was granted options to purchase 75,000 shares of Common Stock of the Company, and was also granted 75,000 SARs all at an exercise price of \$10.25 per share. One-third of such options and SARs vested at the end of each of the first three years of the contract term, and are exercisable for five years from the date of vesting. In 1996 additional options were granted to Mr. Scheirman for 1,000,000 shares of the Common Stock of the Company at exercise prices of \$0.375 per share for 400,000 shares, \$0.50 for 300,000 shares and \$1.00 for 300,000 shares. The options vest over a

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term of three years and may be exercised for five years from the vesting date. As of December 31, 1996, Mr. Scheirman had vested options to purchase in 200,000 shares at \$0.375 per share. None of the options had been exercised as of December 31, 1996.

From September 1, 1996 through September 1, 1997, the Company is a party to an Employment Agreement with Mr. Pritchard which provides for annual compensation of \$160,000. Mr. Pritchard has been granted 1,000,000 warrants to purchase shares of the Company's Common Stock. The warrants are for a term of five years and will consist of the right to purchase 250,000 shares of Common Stock at an exercise price of \$0.50 per share, 250,000 shares of Common Stock at an exercise price of \$2.50 per share, 250,000 shares of Common Stock at an exercise price of \$5.00 per share, and 250,000 shares of Common Stock at an exercise price of \$7.50 per share. The warrants were completely vested at December 31, 1996. None of the warrants had been exercised as of December 31, 1996.

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ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 3.1a Certificate of Incorporation of the Company, as amended.
- 3.2a Bylaws of the Company, as amended.
- 4.1a Certificate of Designation of 10% Cumulative Preferred Stock, Series A (contained in Exhibit 3.1 hereto).
- 10.1a Service Contract No. 6, dated September 1, 1973, among the Petroleum Board of the Republic of the Philippines and Mosbacher Philippines Corporation, ET AL, as amended.
- 10.2a Operating Agreement, dated January 1, 1975, among Mosbacher Philippines Corporation, Husky (Philippines) Oil, Inc. and Amoco Philippines Petroleum Company.
- 10.3a Service Contract No. 14, dated December 17, 1975, among the Petroleum Board of the Republic of the Philippines and Philippines--Cities Service, Inc., ET AL, as amended.
- 10.4a Operating Agreement, dated July 17, 1975, among Philippines-Cities Service, Inc., Husky (Philippines) Oil, Inc., Oriental Petroleum and Minerals Corporation, Philippines-Overseas Drilling & Oil Development Corporation, Basic Petroleum and Minerals, Inc., Landoil Resources Corporation, Westrans Petroleum, Inc. and Philippine National Oil Company, as amended.
- 10.5a Production Sharing Agreement for Petroleum Exploration, Development and Production in Belize, dated September 1, 1992, between the Government of Belize and Exeter Oil and Gas, Ltd.
- 10.6a West Linapacan Trustee and Paying Agent Agreement, dated June 17, 1992, between Bankers Trust Company and Alcorn (Production) Philippines Inc.
- 10.7a Memorandum of Understanding, dated April 2, 1979, among the Bureau of Energy Development of the Republic of the Philippines and Philippines--Cities Service, Inc., ET AL.
- 10.8a+ Employment Agreement between the Company and Charles W. Alcorn, Jr. dated March 1, 1992.
- 10.9a*+ Employment Agreement between the Company and Virgil A. Walston, Jr. dated March 1, 1992.
- 10.10+ Employment Agreement between the Company and W. Russell Scheirman dated March 15, 1993.

- 10.11a+ Consulting Agreement between the Company and Alcorn Production Company dated February 15, 1988, as amended.
- 10.12a+ Consulting Agreement between the Company and V.A. Walston & Associates, Inc. dated February 15, 1988, as amended.
- 10.13a Indemnity Agreement entered into among the Company and certain of its officers and directors listed therein.
- 10.14b Production Sharing Contract, dated December 30, 1994, between The Government of India and Oil & Natural Gas Corporation LTD. and VAALCO Energy, Inc., Hindustan Oil Exploration Company Limited and TATA Petrodyne Private Limited.

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- 10.15b Letter Agreement, dated October 3, 1994, between VAALCO Energy, Inc. and Allegro Investments, Inc.
- 10.16b Stock Purchase Warrant to Purchase Shares of Common Stock of VAALCO Energy, Inc., dated October 3, 1994, between VAALCO Energy, Inc. and Allegro Investments, Inc.
- 10.17b Stock Purchase Warrant to Purchase Shares of Common Stock of VAALCO Energy, Inc., dated October 3, 1994, between VAALCO Energy, Inc. and Allegro Investments, Inc.
- 10.18b Stock Purchase Warrant to Purchase Shares of Common Stock of VAALCO Energy, Inc., dated October 3, 1994, between VAALCO Energy, Inc. and Allegro Investments, Inc.
- 10.19c Exploration and Production Sharing contract between the Republic of Gabon and VAALCO Gabon (Equata), Inc. dated July 7, 1995.
- 10.20c Exploration and Production Sharing contract between the Republic of Gabon and VAALCO Gabon (Etame), Inc. dated July 7, 1995.
- 10.21c Deed of Assignment and Assumption between VAALCO Gabon (Etame), Inc., VAALCO Energy (Gabon), Inc. and Petrofields Exploration & Development Co., Inc. dated September 28, 1995.
- 10.22c Deed of Assignment and Assumption between VAALCO Gabon (Equata), Inc., VAALCO Production (Gabon), Inc. and Petrofields Exploration & Development Co., Inc. dated September 8, 1995.
- 10.23d Letter Agreement dated February 13, 1996 between VAALCO Energy, Inc. and Hardy Oil & Gas (UK) Limited.
- 10.24e Rescheduling Agreement dated August 14, 1995 between Alcorn Philippines, Inc. and Nissho Iwai Europe Plc.
- 10.25 Letter of Intent for Etame Block, Offshore Gabon dated January 22, 1997 between the Company and Western Atlas International, Inc.
- 10.26 Farm In Agreement for Service Contract No. 14 Offshore Palawan Island, Philippines dated September 24, 1996 between the Company and SOCDT Production PTY, Ltd.
- 10.27 Letter Agreement between the Company and Northstar Interests LLC. dated December 5, 1996.
- 10.28 Production and Delivery Agreement between the Company and Tenneco Ventures Finance Corporation dated December 11, 1996.
- 10.29 Conveyance of Production Payment Agreement between the Company and Tenneco Ventures Finance Corporation dated December 11, 1996.
- 10.30 Employment Agreement between the Company and William E. Pritchard III dated September 1, 1996.
- 21.1a List of subsidiaries.

 (a) Filed as an exhibit to the Company's Form 10 (File No. 0-20928) filed on December 3, 1992, as amended by Amendment No. 1 on Form 8 on January 7, 1993, and by Amendment No. 2 on Form 8 on January 25, 1993, and hereby incorporated by reference herein.

(b) Filed as an exhibit to the Company's Form 10-KSB for the year ended December 31, 1994.

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(c) Filed as an exhibit to the Company's Form 10-QSB for the quarterly period ended September 30, 1995.

(d) Filed as an exhibit to the Company's Form 10-QSB for the quarterly period ended March 31, 1996

(e) Filed as an exhibit to the Company's Form 10-QSB for the quarterly period ended September 30, 1996.

+ Management contract or compensatory plan or arrangement required to be filed pursuant to Item 13 of Form 10-KSB.

(b) Reports on Form 8-K.
None.

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SIGNATURES

IN ACCORDANCE WITH SECTION 13 OR 15(D) OF THE EXCHANGE ACT, THE REGISTRANT CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

VAALCO ENERGY, INC.
(Registrant)

By /s/ W. RUSSELL SCHEIRMAN
W. RUSSELL SCHEIRMAN, PRESIDENT,
CHIEF FINANCIAL OFFICER AND DIRECTOR

Dated April 2, 1997

IN ACCORDANCE WITH THE EXCHANGE ACT, THIS REPORT HAS BEEN SIGNED BELOW
ON THE 29TH DAY OF MARCH, BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT
AND IN THE CAPACITIES INDICATED.

SIGNATURE	TITLE
----- By: /s/ CHARLES W. ALCORN, JR. Charles W. Alcorn, Jr.	----- Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)
By: /s/ VIRGIL A. WALSTON, JR. Virgil A. Walston, Jr.	Vice Chairman of the Board, Chief Operating Officer and Director
By: /s/ W. RUSSELL SCHEIRMAN W. Russell Scheirman	President, Chief Financial Officer and Director (Principal Financial Officer and Principal Accounting Officer)
By: /s/ WILLIAM E. PRITCHARD III William E. Pritchard III	Vice President and General Counsel
By: ----- Arne R. Nielsen	Director

[Employment Agreement between the Company and W. Russell Scheirman dated
March 15, 1993. TO COME]

WI, INC.

10011 Meadowglen
Houston, Texas 77042
P.O. Box 1147
Houston, Texas 77251
Tel 713-972-6800
Fax 713-972-6801

January 22, 1997

CONFIDENTIAL

Vaalco Energy, Inc.
Vaalco Energy (Gabon), Inc.
Vaalco Gabon (Etame), Inc.

Attention: Virgil A. Waiston, Chief Operating Officer

Gentlemen:

This letter is intended to summarize the principal terms of a proposal by WI, Inc. ("WI") regarding the possible acquisition of an undivided sixty-five percent (65%) interest in the production sharing contract dated July 7, 1995 (the "PSC") for the Etame Permit (the "Contract Area") entered into between the Republic of Gabon (the "State"), of the first part, and Vaalco Gabon (Etame), Inc. ("Vaalco Etame") and Vaalco Energy (Gabon), Inc. ("Vaalco Gabon"), of the second part (the "Proposed Transaction"). Vaalco Etame and Vaalco Gabon are wholly-owned subsidiaries of Vaalco Energy, Inc. ("Vaalco Energy", Vaalco Etame. Vaalco Gabon and Vaalco Energy are sometimes collectively referred to in this letter as the "Vaalco Parties").

If this proposal is acceptable to the Vaalco Parties, this letter will evidence the mutual intentions of the Vaalco Parties, on the one part, and of WI, on the other part, to proceed diligently to negotiate the terms and conditions of a participation agreement (the "Participation Agreement") and a joint operating agreement (the "JOA") pursuant to which WI would acquire an undivided sixty-five percent (65%) interest in the PSC and the parties would explore for hydrocarbons in the Contract Area (the Participation Agreement and the JOA, collectively the "Definitive Agreements").

Based on the information currently known to WI, it is proposed that the Definitive Agreements include the following terms:

1.1 ACQUISITION OF WI PARTICIPATING INTEREST. Upon the execution of the Participation Agreement, WI would acquire an undivided sixty-five percent (65%) interest in the PSC (the "WI Participating Interest"). The manner in which WI would acquire the WI Participating Interest would either be pursuant to (a) an assignment to WI by Vaalco Etame and Vaalco Gabon of an undivided sixty-five percent (65%) in the PSC (the "Assignment"), (b) the acquisition by WI of all of the shares of Vaalco Gabon which would have been confirmed by the State at the time of the acquisition as owning an undivided sixty-five percent (65%) interest in the PSC (the "Stock Purchase") or (c) such other manner as may be determined by WI based on advice from legal counsel. The Participation Agreement would provide for Vaalco Etame and Vaalco Gabon to reimburse to WI all sums paid by WI under the Participation Agreement, the JOA and the PSC, including all amounts paid by WI for the Seismic Program as described in paragraph 1.4 below,

should, in the case of the Assignment, the State fail to grant all necessary approvals as may be required or deemed appropriate to make fully effective the Assignment in which case WI would reassign to Vaalco Etame and Vaalco Gabon the WI Participating Interest or, in the case of the Stock Purchase, the State fail to have confirmed in writing that Vaalco Gabon owns an undivided sixty-five percent (65%) interest in the PSC. The manner in which WI would acquire the WI Participating Interest shall be determined in the sole discretion of WI. The appropriate company on behalf of WI would be responsible for the WI Participating Interest share of the commitment set forth in Article 46.2 of the PSC.

1.2. CONSIDERATION. For and in consideration of the assignment to WI of WI's Participating Interest, WI would pay for all of the costs required to conduct 2D and 3D seismic acquisition and processing programs over the Contract Area sufficient to satisfy the Contractor's seismic obligation set forth in Section 4.1 of the PSC (the "Seismic Program") and for eighty percent million seven hundred thousand dollars (\$4,700,000) incurred to drill to targeted depth and log the first exploratory well in the Contract Area (the "First Well"). The parties estimate that the cost of the Seismic Program would not exceed three million five hundred thousand (\$3,500,000). Any costs incurred for the First Well above four million seven hundred thousand dollars (\$4,700,000) would be borne and paid by the parties in accordance with their respective participating interests in the PSC in the manner provided in the JOA. Upon approval of an AFE for the First Well, each of WI, Vaalco Etame, Vaalco Gabon, Petrofields Exploration and Development Co., Inc. ("Petrofields") and Alcorn Petroleum and Minerals Corporation ("APMC") would deposit into an interest bearing joint

account administered by the operator and opened at a bank agreed to by the parties its participating interest share of an amount no less than one hundred ten percent (110%) of the cost of the First Well as defined by the AFE. Withdrawals from the joint account would require signatures of authorized representatives of parties holding a majority of the interest in the PSC and would be applied by the operator to pay for WI's, Vaalco Etame's (and Vaalco Gabon's if WI acquires the WI Participating Interest by Assignment), Petrofields' and APMC's share of the costs of the First Well. All indirect charges which would be subject to cost recovery under the PSC and the JOA and would be incurred by the party designated as operator under the JOA would be borne by each party in accordance with its participating interest in the PSC. All indirect charges which would not be eligible for cost recovery under the PSC and JOA would be borne by the party which incurs the charge. Default by any party of its financial or other material obligations under the Definitive Agreements or the PSC would subject its participating interest in the PSC to forfeiture in accordance with the JOA.

1.3 TERMINATION OF PREVIOUS ASSIGNMENTS. As a condition to the acquisition by WI of the WI Participating Interest, prior to the execution of the Definitive Agreements, Vaalco, Petrofields and APMC would execute such documentation as is necessary and appropriate and in forms acceptable to WI to cause the forty-nine percent (49%) participating interest in the PSC previously assigned to Petrofields and seven and one-half percent (7.5%) of the forty-nine percent (49%) participating interest in the PSC previously assigned to APMC to be reassigned to Vaalco Gabon and Vaalco Etame including, but not limited to, agreements to terminate respectively that certain Heads of Agreement dated June 28, 1995 between Vaalco and Petrofields and that certain agreement dated August 29, 1995 between Petrofields and APMC (the "Reassignment Agreements").

1.4. SEISMIC ACQUISITION. It is acknowledged by the parties that the Seismic Program could commence prior to the execution by the parties of the Definitive Agreements and the acquisition by WI of the WI Participating Interest. WI is willing to allow the Seismic Program to commence and to accept responsibility for paying the costs of the Seismic Program, provided that, as security to WI for expending the funds prior to the execution of Definitive Agreements and the acquisition of the WI Participating Interest, (i) WI would be the sole owner of the seismic data until the execution by the parties of the Definitive Agreements and (ii) Vaalco Energy would enter into a promissory note and a stock pledge agreement in forms acceptable to WI pursuant to which Vaalco Energy would evidence the debt to WI of the cost of the Seismic Program and pledge to WI sixty-five percent (65%) of all of the issued and outstanding shares of Vaalco Gabon and Vaalco Etame. The ownership of the seismic data would remain with WI and the promissory note and stock pledge agreement would continue in force until (a) the execution of the Definitive Agreements and the acquisition by WI of the WI Participating Interest or (b) WI is reimbursed all sums paid by WI under the Participation Agreement, the JOA and the PSC, including all amounts paid by WI for the Seismic Program, should WI fail to acquire the WI Participating Interest for the reasons described in paragraph 1.1 of this letter. Upon the occurrence of (a) or (b) of this paragraph, the ownership of the seismic data would be transferred to each party holding a participating interest in the PSC and the promissory note and stock pledge agreement would be terminated.

1.5. JOINT OPERATING AGREEMENT. A JOA based on the AIPN (Association of International Petroleum Negotiators) form would govern the rights and obligations of all parties owning a participating interest in the PSC. The JOA would be separately executed by the parties concurrently with the execution of the Participation Agreement and filed with the State for its review, approval and execution. All decisions to be made by the parties under the JOA until the completion or plugging and abandoning of the First Well would require the consent of WI. Thereafter, all decisions made by the parties under the JOA would require the consent of two (2) or more parties holding collectively a majority of the participating interest in the PSC. Vaalco Etame would be designated as the operator for the Seismic Program and the First Well. Thereafter, the designation of operator would be determined in accordance with the voting provisions specified in the JOA. WI would be designated as technical advisor for the Seismic Program and would instruct Vaalco Etame, as operator, on the amount of data to be acquired and the specifications pursuant to which the Seismic Program would be conducted. Cost Oil attributed to cost recovery for the direct costs incurred for the Seismic Program would be allocated solely to WI. Eighty percent (80%) of the Cost Oil attributed to cost recovery for the first four million seven hundred thousand dollars (\$4,700,000) of direct costs incurred for the First Well would be allocated to WI. Transfer by any party of its participating interest in the PSC would be subject to a right of first negotiation in favor of the other parties.

1.6. OTHER TERMS OF DEFINITIVE AGREEMENTS. The Definitive Agreements would contain comprehensive representations, warranties, covenants and indemnities of the Vaalco Parties and WI as are customary in such transactions of this kind and such other terms as may be deemed necessary and advisable by the parties. In addition, the Definitive Agreements would contain terms and provisions relating to the following:

- (a) all tax liabilities related to periods prior to the Closing of the Proposed Transaction and any tax (whether income, sales, use tax or otherwise and federal, state or foreign) consequences arising from the Proposed Transaction would be for the account of Vaalco Gabon and Vaalco

Etame or Vaalco Energy; and

(b) the closing of the Proposed Transaction would be on or before February 28, 1997, or such other date and time as may be agreed to by the parties.

2. CONDITIONS OF PROPOSED TRANSACTION. The Proposed Transaction outlined in this letter would be subject to: (i) the negotiation and execution of the Definitive Agreements; (ii) in the case of a Stock Purchase, satisfactory completion of WI's due diligence concerning the business and assets of the Vaalco Gabon; (iii) the approvals of the respective Boards of Directors of the Vaalco Parties and the Board of Directors of WI of the Proposed Transaction; (iv) the approvals of the respective Boards of Directors of Petrofields and APMC of the execution of the Reassignment Agreements; (v) the receipt by WI of fully executed Reassignment Agreements; and (vi) such other matters as may be agreed by WI and the Vaalco Parties.

3. IMMEDIATE ACTIONS. Upon acceptance by the Vaalco Parties of this letter:

(a) the Vaalco Parties shall conduct the business of the Contractor under the PSC in the ordinary course and refrain from any extraordinary transactions with respect to the PSC or any operations thereunder without the prior consent of WI;

(b) Vaalco Etame and Vaalco Gabon covenant that they will not either alone or together assign, transfer, sell or pledge any rights or interests in the PSC which would prevent, restrict or encumber WI's acquisition of the WI Participating Interest;

(c) upon notification to Vaalco Energy by WI that WI elects to acquire the WI Participating Interest by a Stock Purchase, Vaalco Energy shall cause a firm of nationally recognized independent public accountants to conduct an audit of the financial statements of Vaalco Gabon for the period from incorporation of Vaalco Gabon and December 31, 1996, and provide to WI a copy of such audited financial statements promptly upon receipt thereof by Vaalco Gabon;

(d) representatives of WI shall have full and free access to the properties, contracts, books and records, and all other documents and data regarding the PSC and the Contract Area, and shall begin a due diligence review of the financial condition, prospects, properties, contracts, books and records and all other documents and data of the PSC and the Contract Area satisfactory to WI; and

(e) WI shall commence the preparation of initial drafts of the Participation Agreement and the JOA.

4. EXCLUSIVITY. WI and the Vaalco Parties will proceed diligently to negotiate the terms and conditions of the Definitive Agreements during the period of sixty (60) days following the date of acceptance of this proposal by the Vaalco Parties. Upon the acceptance of the proposal set forth in this letter by the Vaalco Parties, the Vaalco Parties agree that they will not, directly or indirectly, through any representative or otherwise, solicit or entertain offers from, negotiate with or in any manner encourage, consider, discuss, or accept any proposal of any other person relating to the acquisition of the WI Participating Interest, in whole or in part, whether directly or indirectly. through purchase, merger, consolidation, or otherwise unless and until negotiations hereunder shall have terminated. Vaalco Energy will immediately notify WI regarding any contact between the Vaalco Parties or any of their representatives and any other person regarding any such offer or proposal or any related inquiry. Likewise, Petrofields and APMC agree to comply with the provisions of the two previous sentences with respect to their respective participating interests in the PSC which they hold. After the expiration of sixty (60) days, either WI or the Vaalco Parties may terminate negotiations hereunder by giving written notice of termination to the other unless the Seismic Program has commenced in which case only WI shall be entitled to terminate negotiations hereunder.

5. PUBLIC STATEMENTS. Except as may be required by applicable securities laws and stock exchange regulations, WI, the Vaalco Parties, Petrofields and APMC shall not, without the prior written consent of the others, disclose or publicize the transaction contemplated by this letter, the fact that WI and the Vaalco Parties have executed this letter and are negotiating with respect to the Proposed Transaction, other than to their respective counsel, public accountants, financial advisors, or key personnel of WI, the Vaalco Parties, Petrofields and APMC who are participating in evaluation of the Proposed Transaction. Any proposed disclosure in connection with a filing with the Securities and Exchange Commission and any other disclosures required pursuant to applicable laws or regulations shall, to the extent reasonably practicable, be coordinated among WI and the Vaalco Parties prior to disclosure.

6. BROKERS' OR FINDERS' FEES. Each of WI and the Vaalco Parties represent and warrant to the other that no broker or finder has been or shall be utilized in connection with the Proposed Transaction, that, to the best of their respective knowledge, no person is or shall be entitled to any fee, commission or similar compensation for effecting or assisting in the consummation of the Proposed

Transaction, and, further, each is not aware of any claim or the basis for any claim by a third party for any such fee, commission or compensation.

7. COSTS AND EXPENSES. Each of WI, the Vaalco Parties, Petrofields and APMC shall bear and be solely responsible for its respective costs and expenses incurred in connection with pursuing or consummating the Proposed Transaction.

8. NATURE OF PROPOSAL. Except for the obligations established in paragraphs 1.4, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12 and 13 which are binding on the parties (the "Binding Provisions"), this letter constitutes a nonbinding letter of intent and not a contract, agreement or valid and enforceable offer, express or implied, binding on any of the parties, and neither the signing, delivery nor acceptance of this letter shall create any obligations of any party. This letter is only a statement of intention which sets forth the basis for the negotiation, preparation and consummation of the Definitive Agreements described in this letter.

9. NO LIABILITY. Except as expressly provided in the Binding Provisions, no past or future action, course of conduct, or failure to act relating to the Proposed Transaction, or relating to the negotiation of the terms of the Proposed Transaction, will give rise to or serve as a basis for any obligation or other liability on the part of the Vaalco Parties or WI.

10. GOVERNING LAW. Irrespective of the place of execution by the parties hereto, this letter shall be construed according to the laws of the State of Texas, the United States of America which laws shall govern the validity and interpretation of the provisions hereof and the transactions contemplated hereby, without application of its conflict of laws principles.

11. FURTHER ASSURANCE. The parties undertake to use all reasonable endeavors to obtain consents, approvals and waivers.

12. ENTIRE AGREEMENT. The Binding Provisions constitute the entire agreement between the parties, and supersede all prior oral or written agreements, understandings, representations and warranties, and courses of conduct and dealing between the parties on the subject matter hereof. Except as otherwise provided herein, the Binding Provisions may be amended or modified only by a writing executed by all of the parties.

13. COUNTERPART AND FACSIMILE EXECUTION. This letter may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, and such counterparts together shall constitute only one original. This letter may also be executed and delivered by exchange of facsimile transmissions of originally executed copies, provided that an originally executed copy is promptly delivered to each party.

If the proposal outlined in this letter is an acceptable basis for the negotiation, preparation and execution of Definitive Agreements setting forth the Proposed Transaction described in this letter, please have this original letter and the five (5) enclosed copies of this letter signed on behalf of the Vaalco Parties, Petrofields and APMC where indicated below and return one (1) fully executed copy to WI.

Sincerely,

WI, INC.

By:/s/GERALD M. GILBERT

Gerald M. Gilbert, Executive Vice President

Accepted and agreed to this
22 day of January, 1997.

VAALCO ENERGY, INC.

By:/s/VIRGIL A. WALSTON

Title:Vice Chairman

Accepted and agreed to this
22 day of January, 1997.

VAALCO ENERGY (GABON), INC.

By:/s/W. RUSSELL SCHEIRMAN

Title:President

Accepted and agreed to this
22 day of January, 1997.

VAALCO GABON (ETAME), INC.

By:/s/W. RUSSELL SCHEIRMAN

Title:President

The undersigned, Petrofields Exploration and Development Co., Inc. and Alcorn Petroleum and Minerals Corporation, hereby consent and agree to be bound by the obligations established in paragraphs 1.2, 1.3, 1.4, 1.5, 2(iv), 2(v), 4,

5, 7, 10 and 13 of this letter.

Accepted and agreed to this
___day of January___, 1997.

PETROFIELDS EXPLORATION AND DEVELOPMENT CO., INC.

By:_____

Title:_____

Accepted and agreed to this
___day of January___, 1997

ALCORN PETROLEUM AND MINERALS CORPORATION By:

By:_____

Title:_____

Accepted and agreed to this
22 day of January, 1997.

VAALCO ENERGY (GABON), INC.

By:/s/W. RUSSELL SCHEIRMAN
Title:President

Accepted and agreed to this
22 day of January, 1997.

VAALCO GABON (ETAME), II',LC.

By:/s/W. RUSSELL SCHEIRMAN
Title:President

The undersigned, Petrofields Exploration and Development Co., Inc. and Alcorn Petroleum and Minerals Corporation, hereby consent and agree to be bound by the obligations established in paragraphs 1.2, 1.3, 1.4, 1.5, 2(iv), 2(v'l, 4, 5, 7, 10 and 13 of this letter.

Accepted and agreed to this
31ST day of January___, 1997

PETROFIELDS EXPLORATION AND DEVELOPMENT CO., INC.

By:Unreadable Signature
Title:President

Accepted and agreed to this
31ST day of January___, 1997

ALCORN RETROLEUM AND MINERALS CORPORATION

By:Unreadable Signature
Title:Vice-President

DATED SEPTEMBER 24, 1996

ALCORN (PRODUCTION) PHILIPPINES, INC.

ALCORN (PHILIPPINES) INC.

ALCORN PETROLEUM AND MINERALS CORPORATION

BASIC PETROLEUM AND MINERALS INC.

BALABAC OIL EXPLORATION AND DRILLING CO., INC.

PETROFIELDS EXPLORATION AND DEVELOPMENT COMPANY, INC.

THE PHILODRILL CORPORATION

SEAFRONT RESOURCES CORPORATION

UNIOIL AND GAS DEVELOPMENT COMPANY, INC.

ALSONS CONSOLIDATED RESOURCES INC.

(collectively Assignors)

-AND-

SOCDET PRODUCTION PTY. LTD.

ACN 008 607 976

FARMIN AGREEMENT
FOR SERVICE CONTRACT 14
OFFSHORE PALAWAN ISLAND, PHILIPPINES

EDWARDS THOMPSON
Solicitors
Level 31, QV1 Building
250 St George's Terrace
Perth, Western Australia 6000

Tel: (09) 321 2722

Fax: (09) 321 2788

Ref: AGT:JAS:950350

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EXHIBIT A - Assignors' Participating Interests plus Share of Forfeitable Participating Interest

EXHIBIT B - Initial Farmout Interests to be Assigned by Assignors to SOCDET

EXHIBIT C - Additional Farmout Interests to be Assigned by Assignors to SOCDET

EXHIBIT D - Illustrative Example of Allocation of Revenues from Block C

EXHIBIT E - Illustrative Example of Computation of Production Allowance and FPIA for Block C

EXHIBIT F - Form of Assignment and Assumption

EXHIBIT G - Addendum to Operating Agreement

EXHIBIT H - Co-ordinates of Contract Area

EXHIBIT I - Map of Contract Area

THIS FARM-IN AGREEMENT is made the day of 1996

BETWEEN:

ALCORN (PRODUCTION) PHILIPPINES, INC. (APPI) of 15th Floor, Pacific Star Building, Sen. Gil. J. Puyat Avenue, corner of Makati Avenue, Makati City, Metro Manila, Philippines.

ALCORN (PHILIPPINES) INC. (API) of 15th Floor, Pacific Star Building, Sen. Gil. J. Puyat Avenue, corner of Makati Avenue, Makati City, Metro Manila,

Philippines.

ALCORN PETROLEUM AND MINERALS CORPORATION (APMC) of Suite 1801, Pearlbank Centre; 146 Valero Street, Salcedo Village, Makati City, Metro Manila, Philippines.

BASIC PETROLEUM AND MINERALS INC. (Basic) of 7th Floor, Basic Petroleum Building, Carlos Palanca, Jr. St., Legaspi Village Makati City, Metro Manila, Philippines.

BALABAC OIL EXPLORATION AND DRILLING CO., INC. (Balabac) of Suite 6A Sagittarius Condominium H.V. dela Costa St., Salcedo Village Makati City, Metro Manila, Philippines.

PETROFIELDS EXPLORATION AND DEVELOPMENT COMPANY, INC. (Petrofields) of 7th Floor, JMT Building, ADB Avenue Ortigas Centre, Pasig City 1600, Philippines

THE PHILODRILL CORPORATION (Philo drill) of 8th Floor, Quad Alpha Centrum, 125 Pioneer St, Mandaluyong City, Metro Manila, Philippines

SEAFRONT RESOURCES CORPORATION (Seafront) of 32/F Tektite Tower No. 1, Tektite Rd, Ortigas Centre, Pasig City, Metro Manila

UNIOIL AND GAS DEVELOPMENT COMPANY, INC. (Unioil) of Unit 6B, Sagittarius Condominium H.V. dela Costa St., Salcedo Village, Makati City, Metro Manila

ALSONS CONSOLIDATED RESOURCES INC. (Alsons) of 2F Priscilla Bldg., 2278 Pasong Tamo Ext. Makati City, Metro Manila, Philippines (collectively ASSIGNORS)

AND

SOCDET PRODUCTION PTY. LTD. ACN 008 607 976 (SOCDET) a company incorporated in Australia with its principal office at 2nd Floor, 76 Kings Park Road, West Perth, Western Australia.

RECITALS

- A. The Assignors and Oriental Petroleum and Minerals Corporation (ORIENTAL) comprise the Contractor parties under Service Contract No. 14 made and entered into on 17th December 1975 as amended by the First Amendment of the Service Contract entered into 29th December 1980 and further amended by Addendum to Service Contract entered into 7th October 1991 (together referred to as the SERVICE CONTRACT).
- B. The Contract Area originally comprised four blocks "A", "B", "C" and "D" offshore Palawan Island, as more particularly described in annex A to the Service Contract. Subsequently parts of the original Contract Area have been delineated as Production Areas and relinquished and retained and varied such that::

(a) the Production Areas now comprise::

(i) the Production Area being Block A covering 2424.24 hectares (NIDO BLOCK);

(ii) the Production Areas of the Matinloc Block covering 2666.67 hectares and of the Libro Field covering 121.2 hectares, (together the MATINLOC OIL PRODUCTION COMPLEX); and

(iii) the Production Area to the north of the Matinloc Block being Block B1 covering 848.48 hectares (NORTH MATINLOC BLOCK); and

(b) the retained areas, in addition to the Production Areas, now comprise:

(i) the retention area being Block C covering 33818.18 hectares (WEST LINAPACAN/GALOC BLOCK);

(ii) the retention area within Block B covering 8848.48 hectares; and

(iii) the retention area being Block D covering 18,545.45 hectares.

The co-ordinates for each of the foregoing areas are listed in Exhibit I attached hereto and the areas are shown on the map attached hereto as Exhibit J.

- C. The Contractor parties are bound by a Participation Agreement dated 2nd December 1975 ("Participation Agreement") and an Operating Agreement entered into 17 July 1976 as supplemented by a Supplementary Agreement dated 14th April 1977 and amended by a deed dated 1st January 1979 in relation to petroleum operations under the Service Contract.
- D. As between the Contractor parties their entitlements to revenues from the Service Contract is affected by a Settlement Agreement made effective 1st January 1984 relating to an arbitrated settlement of a dispute between the then Contractor parties to the Service Contract.
- E. Oriental is a Contractor party under the Service Contract and is bound by the Operating Agreement but is a Defaulting Party as referred to in section 7.1 of the Operating Agreement and such default has to date not been remedied in accordance with the Operating Agreement.
- F. As of the date hereof the participating interests of each of the Contractor parties in each of the Blocks of the Contract Area is set opposite that party's name in the second column of Exhibit A attached hereto and a pro rata share in the participating interest of Oriental is set out in the

fourth column of Exhibit A (FORFEITABLE PARTICIPATING INTEREST). Upon forfeiture of the relevant Forfeitable Participating Interest of Oriental as a Defaulting Party, the participating interest of each of the Assignors in each of the Blocks of the Service Contract will be as set out opposite that party's name in the fifth column of Exhibit A.

- G. The Assignors have proposed to farmout to SOCDT undivided participating interests in all Blocks of the Contract Area as governed and affected by the Service Contract and the Operating Agreement, subject to the terms and conditions contained in this Agreement.

OPERATIVE PROVISIONS

1. DEFINITIONS AND INTERPRETATIONS

- 1.1 In this Agreement unless the context otherwise requires, the following expressions have the meanings set opposite

ADDITIONAL FARMOUT INTEREST has the meaning in clause 3.3

AGREEMENT DATE means the date of this Agreement.

AFFILIATE has the meaning set forth in Section 1.1 of the Operating Agreement.

ASSIGNMENT DOCUMENT means the document in the form or substantially in the form of Exhibit F.

BLOCK means one or more of the areas of the Service Contract as referred to in Recital B, but excluding the Excluded Area, as may be varied from time to time in accordance with the Service Contract, the Operating Agreement and this Agreement.

BLOCK A means the Nido Block.

BLOCK B means the Matinloc Oil Production Complex and the retention area described in Recital B (b) (ii).

BLOCK C means the West Linapacan/Galoc Block.

BLOCK D means the retention area described in Recital B (b) (iii).

CONSORTIUM means the Assignors and Oriental.

CONTRACT AREA has the meaning in Recital B.

COST RECOVERY means the recovery of Operating Expenses allowed Contractor under the Service Contract.

DOE means the Department of Energy of the Republic of the Philippines.

DRILLING OPTION has the meaning in clause 3.1.

EARNING PERIOD means the period from the Agreement Date up to the date upon which SOCDT shall have earned the Initial Farmout Interest under clause 2.2 and then from that date until SOCDT shall have earned the Additional Farmout Interest under clause 3.3.

ENCUMBRANCE means mortgages, charges, pledges, bills of sale, retained interests, royalties, carried interests, net profit interests or other interests by whatever name called or claims by third parties.

EXCLUDED AREA means the area covered by the North Matinloc Block

EXISTING OPERATIONS means cyclic production operations within the Nido Block and Matinloc Block and such other operations in relation to the Contract Area as in accordance with good oilfield and engineering practices are required to maintain existing production facilities. and equipment in good operating order and condition and are necessary to maintain in good standing the Service Contract.

FARMOUT CONTRACT AREA means the Contract Area excluding the Excluded Area.

FARMOUT INTERESTS means the Initial Farmout Interest or the Additional Farmout Interest or both of them.

FILIPINO PARTICIPATION ALLOWANCE or FPPIA has the meaning defined in sections 2.19 and 6.3 of the Service Contract.

FORFEITABLE PARTICIPATING INTEREST has the meaning in Recital E.

GOVERNMENT means Government of the Republic of the Philippines.

GOVERNMENTAL means an agency, instrumentality, department, division or executive arm of the Government.

INITIAL FARMOUT INTEREST has the meaning in clause 2.1.

NET PROCEEDS has the meaning defined in section 7.3(b) of the Service Contract.

NON-OPERATOR has the meaning under the Operating Agreement.

OPERATING AGREEMENT means the Operating Agreement referred to in Recital

C and includes the Supplemented JOA.

OPERATING EXPENSES has the meaning defined in section 2.8 of the Service Contract.

OPERATOR has the meaning under the Operating Agreement.

OPTIONAL WELL has the meaning in clause 3.1.

ORIENTAL means Oriental Petroleum and Minerals Corporation and its successors and assigns.

PARTICIPATING INTEREST means an undivided interest in each Block of the Service Contract and the Operating Agreement and all Joint Property attributable thereto and for avoidance of doubt includes a corresponding interest in FPIA and Production Allowance applicable thereto.

PETROLEUM INFORMATION means all data, results, records, reports and information relating to the Farmout Contract Area acquired, purchased or generated by or on behalf of the Assignors.

PETROLEUM LEGISLATION means the Oil Exploration and Development Act of 1972 (Presidential Decree No. 87) as amended by Presidential Decree No. 1857 and the Regulations.

PRODUCTION ALLOWANCE has the meaning described in section 6.4 of the Service Contract.

SERVICE CONTRACT has the meaning in Recital A.

SETTLEMENT AGREEMENT means the agreement referred to in Recital D.

SUPPLEMENTED JOA means the Operating Agreement referred to in Recital C as supplemented by the Addendum in the form of Exhibit G.

WORK PROGRAM has the meaning in clause 2.1(a).

1.2 In this Agreement

- (a) a reference to this Agreement includes any variation or replacement of it;
- (b) a reference to a statute, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them occurring at any time before or after the date of this Agreement;
- (c) the singular includes the plural and vice versa;
- (d) a reference to a person includes a firm, a body corporate, an unincorporated association or an authority;
- (e) a reference to a person includes a reference to the person's executors, administrators, successors, substitutes (including, without limitation, persons taking by novation) and assigns;
- (f) a reference to a clause or a schedule is a reference to a clause or a schedule in this Agreement;
- (g) a reference to a month is a reference to a calendar month; and
- (h) the expressions "Affiliate"; "Contract Year"; "Defaulting Party"; "Management Committee"; "Non-defaulting Party"; "Petroleum"; "Production Area"; "Operations"; "Property"; and "Regulations" when used herein in the context of the Operating Agreement have the same meanings given to those expressions under the Operating Agreement.

2. Farmout to SOCDDET

- 2.1 The Assignors agree to farmout to SOCDDET an undivided thirty five percent (35%) Participating Interest in all Blocks of the Farmout Contract Area, as governed and affected by the Service Contract and the Operating Agreement (Initial Farmout Interest), subject to the following terms and conditions:
 - (a) SOCDDET shall, subject to the terms hereunder, submit to the DOE a firm work program and budget consisting of a 3-D acquisition, processing and interpretation program relating to the Farmout Contract Area with a minimum expenditure commitment of U.S. dollars six million (US\$6,000,000.00) (subject to the last sentence hereof) which 3-D seismic program shall be commenced within the coming weather window, i.e. October, 1996 to June, 1997 (WORK PROGRAM). SOCDDET shall have the right to include in the Work Program the drilling of the Optional Well with a minimum expenditure commitment of U.S. dollars four million (US\$4,000,000.00) as referred to in clause 3.1 below. If the Work Program acquires, processes and interprets 3/D seismic over the whole of the Farmout Contract Area at a cost of less than US dollars six million (US\$6,000,000) then the amount of the under-expenditure shall be applied towards the cost of the drilling of the Optional Well;
 - (b) subject to existing laws, rules and regulations of the DOE and the Service Contract, SOCDDET shall undertake the Work Program at its sole cost, risk and expense and shall satisfy on behalf of Consortium all reportorial requirements of the DOE applicable to the

Work Program. SOCDDET shall further furnish the Consortium, through the Operator, with a copy of the relevant contract covering the 3-D seismic data acquisition and processing;

(c) SOCDDET shall exert utmost care and diligence to ensure that the data obtained in the Work Program is forthwith and with dispatch duly processed by a reputable data processing outfit and, thereafter, interpreted with diligence and dispatch; and

(d) SOCDDET shall always keep the Consortium, through the Operator, current on developments affecting the Work Program and furnish the Consortium, through the Operator, with copies of the processed data and the interpretation thereof, including other relevant reports thereon.

2.2 Upon receipt by the Consortium Of the data under clause 2.1(d) above, and the exercise by SOCDDET of the Drilling Option, SOCDDET shall have earned the Initial Farmout Interest which interest is shown in the third column of Exhibit B attached hereto.

2.3 SOCDDET and the Assignors (and to the extent required, the Assignors shall procure that Oriental) promptly thereafter shall execute an appropriate Assignment Document assigning the Initial Farmout Interest to SOCDDET free of Encumbrances.

3. OPTIONAL PROGRAM

3.1 Notwithstanding the inclusion or non-inclusion of an optional well in the Work Program submitted to the DOE pursuant to clause 2.1(a) above, SOCDDET shall have the option to drill (Drilling Option) one well in the Farmout Contract Area with a minimum expenditure commitment of Four Million US Dollars (US\$4,000,000.00) (Optional Well) which option shall be exercisable within nine (9) months from the date of the completion of the 3-D seismic data interpretation under clause 2.1(c) above and which Optional Well shall be drilled within one year from the date of the exercise of the Drilling Option.

3.2 SOCDDET shall assume operatorship of the Service Contract for purposes of drilling the Optional Well from the date of the exercise of the Drilling Option and shall drill the well at its sole cost, risk and expense. In connection with the drilling of the Optional Well, SOCDDET shall be bound by the obligations of Operator to the Non-Operators set forth in the Operating Agreement with the Consortium being considered as the Non-Operator. Not later than sixty (60) days from the date of the exercise of the Drilling Option, SOCDDET shall, unless otherwise agreed upon by the parties, become the new Operator of the Service Contract and shall then assume full operatorship of the Service Contract and APPI shall resign and promptly carry out its hand over obligations under clause 3.6 of the Operating Agreement.

3.3 Upon the completion of the drilling of the Optional Well to its programmed depth or economic basement or the completion of testing, if warranted, and the capping or plugging of the well, whether permanently in the case of a dry well or temporarily in the case of a well which was tested positive for hydrocarbons whether or not such well may thereafter be completed as a producing well, SOCDDET shall have earned an additional twenty five percent (25%) Participating Interest in all Blocks of the Farmout Contract Area as governed and affected by the Service Contract and Operating Agreement (Additional Farmout Interest), which interest is shown in the third column of Exhibit C attached hereto.

3.4 SOCDDET and the Assignors (and to the extent required; the Assignors shall procure that Oriental) shall execute an appropriate Assignment Document assigning the Additional Farmout Interest to SOCDDET free of Encumbrances.

4. JOINT OPERATING AGREEMENT

4.1 Each Assignor by becoming a party to this Agreement agrees to be bound by the Addendum in Exhibit G and to execute and procure the execution by Oriental of the Addendum in Exhibit G and to be bound by the Supplemented JOA with effect from the date of this Agreement and agrees that in the event of any inconsistency between the Supplemented JOA and the Operating Agreement referred to in Recital B the Supplemented JOA prevails to the extent of the inconsistency.

4.2 Whilst SOCDDET is carrying out the Work Program in clause 2.1(a), the parties agree that the text of certain amendments to the Operating Agreement shall be agreed to provide for the following principles of allocation, once SOCDDET shall have earned a Farmout Interest as herein contemplated and after appropriate DOE approval of the relevant assignment of interest:

(a) the Filipino Participation Incentive Allowance allowed under the Service Contract shall be allocated between SOCDDET and the Consortium in the same manner as the allocation of the Production Allowance applicable to each Block under the Service Contract, and the Operating Agreement;

(b) the Cost Recovery allowed Contractor under the Service Contract shall be allocated between SOCDDET and the Consortium in proportion to their respective Participating Interests in each Block from which petroleum production or production proceeds is derived;

- (c) the Net Proceeds share of Contractor under the Service Contract shall be allocated to SOCDET and the Consortium in proportion to their respective Participating Interests in each Block from which petroleum production or production proceeds is derived; and
- (d) as among the parties comprising the Consortium, the Contractor's entitlements above allocated to the Consortium shall be governed by the Settlement Agreement without effect of this clause 4.2.

4.3 Using for illustrative purposes only Block C and assuming SOCDET shall have earned its 60% Participating Interest in that Block the intended effect of clause 4.2 is shown in Exhibits D & E attached.

4.4 Following the receipt by the Consortium of the data under clause 2.1(d) above and prior to the exercise by SOCDET of the Drilling Option the Supplemented JOA will be reviewed and changes negotiated in good faith in order to make its provisions more consistent with then applicable current practices in the international exploration and production oil and gas industry. The revised draft will be prepared by SOCDET and will also consolidate the amendments agreed under clause 4.2 and the parties will negotiate in good faith with a view to its terms being settled prior to the exercise by SOCDET of the Drilling Option.

5. SPECIAL PROVISIONS RE: DEFAULTING PARTY

5.1 The parties recognise that the Assignors as members of the Consortium, as Non-Defaulting Parties, have contingent proportionate shares in the Forfeitable Participating Interest in each Block of the Defaulting Party, Oriental, which contingent proportionate shares include costs and expenses attributable to the Forfeitable Participating Interest as well as production proceeds attributable to the Forfeitable Participating Interest plus the interest stipulated in the Operating Agreement. SOCDET is likewise made aware of the Assignors' willingness, but without waiver of rights, remedies and causes of action under the law and the Operating Agreement to allow the Defaulting Party to remedy its default by the full payment of the amount advanced on behalf of Oriental, including the stipulated interest thereon, which amount stands, as of April 02, 1996, at U.S. dollars one million four hundred and three thousand four hundred and ninety and twenty four cents (US\$1,403,490.24).

5.2 Upon each assignment of a Farmout Interest to SOCDET, which assignment will necessarily include a relevant proportion of each Assignor's contingent or actual proportionate share in the Forfeitable Participating Interest SOCDET shall succeed to all rights, remedies and causes of action thereafter attributable to each Assignor's contingent or actual proportionate share assigned to SOCDET but without being liable to pay or contribute towards any amount which was or may have been paid by any Assignor as its pro-rata share in the costs and expenses attributable to the Forfeitable Participating Interest of Oriental prior to the date that SOCDET shall have earned its respective Farmout Interests.

5.3 Upon each assignment of a Farmout Interest SOCDET acknowledges its obligation under the Operating Agreement to meet cash calls attributable to the respective Farmout Interests earned by it.

5.4 In the event that the Assignors and Oriental agree upon Oriental's remedying its default before a Farmout Interest is earned by SOCDET, then the Assignors shall ensure that Oriental shall be bound by this Agreement and join the Consortium in proportionately assigning the Farmout Interest earned by SOCDET.

5.5 In the event that the parties agree to allow Oriental to remedy its default after SOCDET shall have earned a Farmout Interest then SOCDET shall have the right to recover from Oriental payment pari passu with the Assignors any amount it may have advanced on behalf of the proportionate share of the Forfeitable Participating Interest assigned to it pursuant to this Agreement.

6. EARNING PERIOD

6.1 During the Earning Period, the Operator and if requested each Assignor shall provide SOCDET and its authorised employees, agents or professional advisers access to all Petroleum Information and such technical, legal and financial information in its possession or under its control relating to the Farmout Contract Area as SOCDET may from time to time reasonably require.

6.2 During the Earning Period, each Assignor shall, subject to its obligations under this clause, continue to meet its pro rata share of all duly approved cash calls, expenditures, including insurance costs, relating to the Operating Agreement.

6.3 During the Earning Period each Assignor agrees with SOCDET, without prejudice to the rights and obligations of Operator under the Operating Agreement, that it shall hold and administer its Participating Interest with due regard to the interests of SOCDET under this Agreement and, in particular, shall:

- (a) conduct its affairs in relation to its Participating Interest and the Contract Area in a businesslike and usual manner and in accordance with good oilfield practice;
- (b) perform its obligations under the Service Contract and the Operating Agreement and all other contracts affecting its Participating

Interest and promptly notify SOCDET of any material breach thereof by any party thereto (including itself);

- (c) promptly provide SOCDET with copies of all notices, work programmes, budgets, authorisations for expenditure, operating and technical committee minutes, cash calls and other information prepared or received by it relating to its Participating Interest; .
 - (d) promptly notify SOCDET of any material matters coming to its attention and which in any way affects its Participating Interest or the Service Contract including without limitation all offers, trades, farm-in proposals and other expressions of interest relating to its Participating Interest; and
 - (e) consult with SOCDET in respect of all material decisions in respect of operations under the Service Contract and shall seek to reach mutual agreement with SOCDET on all such matters. In the event that agreement cannot be reached each Assignor shall retain the right to take such decisions and conduct operations as it considers appropriate, but subject always to clauses 6.4 and 6.5.
- 6.4 From the Agreement Date, each Assignor shall keep SOCDET informed of any approval, consent or waiver under the Service Contract or the Operating Agreement in relation to the following:-
- (a) the approval or variation of any work programme or budget relating to furthering or recommencing Existing Operations;
 - (b) any production Operations in the Production Areas or elsewhere in the Contract Area as part of Existing Operations;
 - (c) the execution of any contract or other instrument relating to the conduct of Existing Operations; or
 - (d) any other matter likely to affect in any material respect the nature or extent of exploration, appraisal, development or production operations under the Service Contract or the extent of any existing or future expenditure obligations relating to the Participating Interests.
- 6.5 From the Agreement Date, the Assignors shall not without the prior consent of SOCDET:
- (a) commence any litigation, arbitration or administrative or other proceeding which affects or touches on the validity of the Participating Interests or this Agreement and promptly will provide SOCDET with details of any proceedings or claims brought or threatened against the Assignors or any of them in relation to the Participating Interests; or
 - (b) dispose of, grant, allow or enter into any contract agreeing to dispose of, grant, or agree to any option or right over the Participating Interests;
 - (c) transfer, assign, surrender, withdraw, farmout, non consent or sole risk any right or interest under the Service Contract or Operating Agreement;
 - (d) conduct any drilling operations in the Farmout Contract Area;
 - (e) conduct any production operations in the Farmout Contract Area which are not as at the Agreement Date covered by, or in the ordinary course are contemplated by, Existing Operations;
 - (f) agree to or permit any variation, amendment or exception from conditions under the Service Contract; or
 - (g) agree to or permit any amendment or variation of the Operating Agreement.
- 6.6 From the Agreement Date, each Assignor shall use all reasonable efforts having regard to the interests of SOCDET under this Agreement to:
- (a) ensure that Service Contract is kept in full force and effect and is not subject to revocation, forfeiture or cancellation;
 - (b) ensure that Existing Operations are carried out efficiently and the Property is preserved and maintained; and
 - (c) ensure that the Participating Interests remain valid, subsisting and enforceable in accordance with the terms.
- 6.7 If, from the Agreement Date:
- (a) any interest of an Assignor (not being part of that Assignor's Participating Interest available for assignment as part of the Initial Farmout Interest or Additional Farmout Interest) is offered for sale under the Operating Agreement then, SOCDET may acquire such interest on the terms offered for sale unless the assignment is made in favor of an Affiliate of the Assignor and in accordance with the provisions of clauses 9.1 and 9.2; and
 - (b) any Assignor withdraws from the Service Contract or Operating Agreement such that the remaining Assignors' Participating Interests are proportionally increased then the additional interest so

acquired shall in turn proportionally become part of the Farmout Interests and shall be transferred and assigned to SOCDDET under clause 2.2 or clause 3.3 as applicable for no additional consideration.

- 6.8 The Assignors undertake that they will cause Operator to maintain in full force and effect insurance coverage in respect of the Participating Interests during the Earning Period and will arrange for SOCDDET's interest to be noted by insurer and evidence of this is to be provided to SOCDDET.
- 6.9 The risk in the Farmout Interests shall remain with the Assignors until the interests have been earned respectively under clause 2.2 and clause 3.3, at which time it shall pass to SOCDDET. Notwithstanding any other provision of this Agreement, there shall be no obligation upon SOCDDET to proceed with this Agreement if the Assignors' interest in the Participating Interests or Property is cancelled, forfeited, surrendered, lost, or destroyed or becomes a total constructive loss before the Farmout Interests have been respectively earned under clause 2.2 and clause 3.3.

7. REPRESENTATIONS AND WARRANTIES

7.1 Each Assignor represents, warrants and covenants severally as at the date of this Agreement and as of the date of assignment of each of the Farmout Interests that:

- (a) the Recitals hereto are accurate;
- (b) the Assignors can and will procure and assign on an unencumbered basis, other than for the provisions of the Service Contract and the Operating Agreement, sufficient interests to make up the Farmout Interests to be assigned to SOCDDET under clause 2.3 and if applicable clause 3.4;
- (c) the Assignors can and will secure all necessary consents and approvals in order to give full legal effect to the amendments referred to in clause 4.2.
- (d) the current term of the Service Contract is valid until 17th December 2010 with a right to renewal for a further period of up to 15 years upon terms to be agreed with DOE;
- (e) it has no knowledge of any, breach of the conditions of the Service Contract as would provide grounds for terminating the Service Contract and the Service Contract is in good standing in terms of the Petroleum Legislation;
- (g) there have been no amendments to the Service Contract other than as recited herein;
- (h) there are no outstanding work programmes committed under section 5 of the Service Contract required to be undertaken in the Contract Area;
- (i) the Cost Recovery attributable to the Farmout that has not been recovered under the Contract Area is approximately US\$200,000,000 and there are no major outstanding audit or other exceptions raised by the DOE in relation to the Cost Recovery;
- (j) it has not received, nor is it aware of any Governmental demand, directive, order or request for rehabilitation, decommissioning or removal of any platform or installed facilities in the Farmout Contract Area;
- (k) the inventory of equipment provided to SOCDDET and dated 25th June, 1996 is complete as of said date in all material respects;
- (l) the Property is in existence and has not suffered major physical damage other than ordinary wear and tear which materially adversely affects the operation of the facilities and equipment;
- (m) the platforms and installed facilities in the Farmout Contract Area were installed in accordance with good oilfield practice and no Governmental demand directive order or request for modification or change to the platforms and installed facilities has been required;
- (n) the Petroleum Information listing provided by Operator to SOCDDET in Manila on 1st August 1996 is complete in all material respects;
- (o) the Operating Agreement is in force in accordance with its terms;
- (p) there have been no amendments to the Operating Agreement other than as recited herein;
- (q) there are no carried interests other than as provided in the Participation Agreement and the Operating Agreement;
- (r) the Supplemented JOA is an accurate statement of the rights and obligations of all parties entitled thereunder;
- (s) as regards SOCDDET only, and its rights and obligations the Supplemented JOA is effective to override any reserved rights, including options to purchase, rights of refusal and voting proxy arrangements which may have arisen from prior assignments or

agreements to assign Participating Interests between itself and another Assignor;

- (t) APPI is the Operator and is not in default with its obligations under the Operating Agreement;
 - (u) there are no current independent operations as referred to in Article IX of the Operating Agreement other than in the Nido Block;
 - (v) there are no current insurance claims that are outstanding or have been declined;
 - (w) as regards SOCDT only, and its rights and obligations, to the extent that the provisions of the Settlement Agreement are in conflict with the Supplemented JOA the provisions of the Supplemented JOA shall prevail, notwithstanding clause 16 of the Settlement Agreement;
 - (x) save for in relation to Existing Operations there are no seismic, technical services, charter party equipment leasing or other contracts in existence relating to the Farmout Contract Area and which have been or are purported to have been entered into by or on behalf of the Consortium;
 - (y) there are no overlift or underlift entitlements to production as referred to in Article 10 of the Operating Agreement;
 - (z) all authorizations or approvals required under any environmental law or Governmental directive relating to the carrying out of operations in the Farmout Contract Area are current and have not been breached;
 - (aa) all liabilities that have arisen under the Service Contract and fallen due for settlement prior to the Agreement Date have been settled, discharged or compromised;
 - (bb) it has no knowledge of any default, including failure to pay any cash calls, by any other party (other than Oriental) to the Service Contract or the Operating Agreement in its compliance with its obligations under the Service Contract and the Operating Agreement;
 - (cc) its Participating Interest is free from Encumbrances;
 - (dd) it owns its Participating Interest legally and beneficially and has a good title to it and, subject to the terms of the Service Contract and the Operating Agreement and this Agreement, it has the right to assign and transfer its share of its Participating Interest to SOCDT subject to the prior approval of the DOE as provided under the Service Contract and the Operating Agreement;
 - (ee) it has no knowledge of any actions or other proceedings pending or threatened against it in or by any court, administrative or other tribunal which might affect the title of SOCDT to its share of its Participating Interest or its right to assign and complete the assignments to SOCDT in accordance with this Agreement; and
 - (ff) all information provided to SOCDT by it or on its behalf is accurate and complete in all material respects and SOCDT is entitled to rely upon the same in entering into this Agreement.
- 7.2 Each Assignor shall not do any act or thing, or authorize any act or thing to be done over which it has control or which it can otherwise by the exercise of any right or power reasonably prevent from being done, which would reasonably prevent any of the representations or warranties set out in clause 7.1 from being materially true and materially accurate when repeated as at the date of assignment of each of the Farmout Interests by reference to circumstances then existing.
- 7.3 Each Assignor acknowledges that SOCDT has entered into this Agreement in reliance on the representations, warranties and undertakings of each Assignor herein.
- 7.4 If any change in circumstance or in any fact or matter as referred to in clause 7.1 occurs during the Earning Period which renders the representations and warranties given by each Assignor in this Agreement materially inaccurate, the Assignor shall forthwith give SOCDT a disclosure letter containing the full particulars and that Assignor and SOCDT shall promptly discuss the material inaccuracy including the effects on the value of the Farmout Interests and whether the consideration herein should be varied or other terms hereof should be amended or supplemented to take account of any such change in circumstances or fact or matter
- 7.5 The Assignors jointly and severally indemnify and hold harmless SOCDT against any loss, claim, liability, cost or expense (including legal costs) suffered by it by virtue of any breach of warranty by the Assignors or any failure on the part of the Assignors to comply with clause 7.1.
- 7.6 Disputes or differences regarding any of the provisions of this clause 7 are not referable to arbitration under clause 14.

8. CONSENTS AND APPROVALS

- 8.1 This Agreement is subject to:

- (a) verification by DOE that the Service Contract is in force in accordance with its terms, in terms satisfactory to SOCDDET; and
- (b) the consent of the DOE being obtained under clause 16.4 of the Service Contract subject to the usual DOE requirements for financial and technical capability of the assignee.

SOCDET shall forthwith seek the verification under paragraph (a), if not already done prior to the Agreement Date, and Operator and SOCDDET shall forthwith make application to DOE for its consent under paragraph (b).

- 8.2 Each party will use all reasonable endeavors to ensure clause 8.1 is satisfied as soon as practicable and Operator shall notify all parties as soon as clause 8.1 is satisfied.
- 8.3 Clause 8.1 is for the benefit of SOCDDET and may be waived by it any time by notice in writing to the Assignors.
- 8.4 If Clause 8.1 is not satisfied or waived prior to 30 days before the expected commencement date of the Work Program (or such other date as may be agreed by the parties) then SOCDDET may terminate this Agreement.

9. ASSIGNMENT

- 9.1 A Party may assign to any Affiliate any or all of its rights hereunder. Each Party shall remain liable to the other for performance of all its obligations under this Agreement notwithstanding any assignment by such Party pursuant to this Clause 9.1, but performance of such obligations by the Affiliate to which such rights are assigned shall pro tanto discharge such Party from performance of such obligations.
- 9.2 An assignment pursuant to clause 9.1 shall be subject to the condition that the Affiliate shall first have agreed with the Parties to be bound by the provisions of this Agreement.
- 9.3 Subject to the Service Contract and the Operating Agreement, a Party may assign the whole, or part of its rights and obligations under this Agreement if the proposed assignee has the technical and financial resources to undertake and discharge the obligations being assigned to it and has agreed with the Parties to be bound by this Agreement.

10. CONFIDENTIALITY

- 10.1 This Agreement shall remain confidential and no Party shall make any public announcement or statement with respect thereto without the written consent of the other Party except to the extent necessary in order to comply with the Service Contract and except to the extent required by law, or regulation or local order of the court or by a stock exchange upon which the shares of a Party or of an Affiliate are listed.
- 10.2 It is agreed that all information and data pertaining to this Agreement and the Work Program and Optional Well shall be held strictly confidential in accordance with the Operating Agreement.
- 10.3 The provisions of this Clause 10 shall continue to bind each of the Parties notwithstanding that it may have ceased to be a Party until a date three (3) years after the termination of this Agreement.

11. FORCE MAJEURE

- 11.1 Neither Party shall be liable for any delay in or failure of performance of any of its obligations hereunder, other than an obligation to make a monetary payment, if:
 - (a) such delay or failure is caused by events beyond its reasonable control including act of God, strike, lockout or other labor difficulty, act of public enemy, war, blockade, revolution, riot, insurrection, civil commotion, native title claim, lightning, storm, flood, fire, earthquake, explosion, action, inaction, demand, order, restraint, restriction, requirement, prevention, frustration or hindrance by or of any persons, government or competent authority, embargoes, unavailability of labor, services, essential equipment, chemicals or other materials, lack of transportation and any other cause whether specifically referred to above or otherwise which is not within its reasonable control;
 - (b) it has taken all proper precautions, due care and reasonable alternative measures with the object of avoiding the delay or failure and of carrying out its obligations under this Agreement provided that nothing herein contained shall require a Party to settle or compromise a labor dispute if to do so would in its sole discretion be contrary to its best interest; and
 - (c) as soon as possible after the beginning of an occurrence which affects the ability of the claiming Party under this clause 11.1 to observe or perform any of its covenants or obligations under this Agreement, the claiming Party shall give notice to the other Party of the specific nature of the occurrence and, as far as possible, estimating its duration.

12. NOTICES

12.1 Any notice or other communication in connection with this Agreement must be in writing and in the English language signed by the Party giving it or that Party's authorized representative and it may be:

- (a) handed to or served upon the Party's duly designated representative or the person in charge of the office or place of business;
- (b) sent by registered mail (airmail if posted to or from a place outside the Philippines or Australia) to the address of the addressee; or
- (c) sent by facsimile to the facsimile number of the addressee,

the particulars of which are as follows:

ASSIGNORS

Address: C/- Alcorn (Production) Philippines, Inc.
15th Floor
Pacific Star Building, Sen. Gil. J. Puyat Avenue
Corner of Makati Avenue
Makati City, Metro Manila
Philippines

Facsimile: 0011 632 811 5683

SOCDET

Address: 2nd Floor
76 Kings Park Road
West Perth
Western Australia

Facsimile: (619) 322 4413

or any other address or facsimile number which is notified by a Party to the other Parties.

12.2 Any notice of other communication takes effect from the time it is received unless a later time is specified in it.

12.3 A notice or other communication is taken to be received:

- (a) if served as provided in Section 12.1(a) at the time of actual receipt as evidenced in the receipt;
- (b) if served as provided in Section 12.1(b), upon actual receipt by the addressee, but if it fails to claim its mail from the post office within five (5) days from the date of the first notice of the postmaster, service shall take effect at the expiration of such time; and
- (c) if it is sent by facsimile, on production of a transmission report by the machine from which the facsimile was sent which indicates that the facsimile was sent in its entirety to the facsimile number of the addressee.

For the purposes of this clause, "business day" means a day on which banks are open for business in Manila and Perth except a Saturday or Sunday.

13. MISCELLANEOUS PROVISIONS

RELATIONSHIP

13.1 Nothing in this Agreement is to be construed so as to constitute any Party the partner or agent of any other Party or to create any trust, joint venture or partnership between or involving them.

COSTS

13.2 The Parties are to pay their own legal and other costs and expenses in connection with the preparation, execution and completion of this Agreement and or other related documentation.

WAIVER AND VARIATION

13.3 A provision of or a right created under this Agreement may not be:

- (a) waived except in writing signed by the Party granting the waiver; or
- (b) varied except in writing signed by the Parties.

APPROVALS AND CONSENTS

13.4 A Party may give conditionally or unconditionally or withhold its approval or consent in its absolute discretion unless this Agreement provides otherwise.

REMEDIES CUMULATIVE

13.5 The rights, powers and remedies provided in this Agreement are

cumulative with and not exclusive of the rights, powers or remedies provided by law independently of this Agreement.

INDEMNITIES

13.6. In relation to each indemnity in this Agreement:

- (a) it is a continuing obligation, separate and independent from the other obligations of the Parties and survives termination of this Agreement; and
- (b) it is not necessary for a party to incur expense or make payment before enforcing a right of indemnity conferred by this Agreement.

PUBLICITY

13.7 A Party may not make press or other announcements or releases relating to this Agreement and the transactions the subject of this Agreement without the approval of the other Party to the form and manner of the announcement or release unless that announcement or release is required to be made by law or by a stock exchange.

ENTIRE AGREEMENT

13.8 This Agreement constitutes the entire agreement of the Parties about its subject matter and any previous agreements (including without limitation a Heads of Agreement dated 25th June 1996), understandings and negotiations on that subject matter cease to have effect.

GOVERNING LAW AND JURISDICTION

13.9 This Agreement is governed by the law in force in the Philippines and each party irrevocably and unconditionally submits to the exclusive jurisdiction of the Courts of the Republic of the Philippines.

14. DISPUTE RESOLUTION AND ARBITRATION

14.1 In this clause 14, "Dispute Notice" means a notice given by Parties under clause 14.3 (a), which specifies in general terms the nature of the dispute or difference.

14.2 If any dispute or difference arises between the Parties in connection with any aspect of this Agreement (other than clause 7), the Work Program, Optional Well, the Service Contract or the Farmout Contract Area or the validity of this Agreement, the Parties undertake with each other to use all reasonable endeavors, in good faith, to settle the dispute or difference by negotiation.

14.3 For the purpose of facilitating the process of negotiation referred to in clause 14.2:

- (a) the Party claiming that the dispute or difference has arisen is to give notice to that effect to the other Parties and the notice is also to designate a representative for the negotiation who will have authority to settle the dispute on behalf of that Party; and
- (b) the other Parties are then to promptly designate by notice to the Party giving the Dispute Notice, its or their representative for the negotiation who will have authority to settle the dispute on behalf of the other Parties.

14.4 Unless a Party has complied with clauses 14.2 and 14.3, that Party may not commence court or arbitration proceedings relating to the dispute or difference.

14.5 If the Parties or their representatives do not settle the dispute or difference by negotiation within 21 days after the Dispute Notice is given, the Party giving the Dispute Notice shall have the right to commence court proceedings or refer the dispute or difference to arbitration, in accordance with the Rules of the International Chamber of Commerce.

14.6 An arbitrator is to be appointed as follows:

- (a) the Parties may jointly appoint a sole arbitrator they may agree within 35 days after the Dispute Notice is given; or
- (b) if an arbitrator is not jointly appointed within that period, either Participant may request the President of the Association of International Petroleum Negotiators, headquartered in Dallas, Texas to appoint an arbitrator.

14.7 The arbitration is to be conducted in accordance with and subject to the laws of the Republic of the Philippines.

14.8 Each Party may be represented by a duly qualified legal practitioner or other representative.

14.9 All evidence and submissions to the arbitrator are to be in writing unless the arbitrator otherwise directs or the Parties otherwise agree.

14.10 The arbitrator is to have authority to give a Party such relief as

could be ordered by a court having the appropriate jurisdiction.

14.11 Each of the Parties agrees to indemnify the arbitrator against any loss, liability, cost or expense incurred or suffered by the arbitrator arising from or in connection with the arbitration.

IN WITNESS WHEREOF, the parties hereto have caused the execution of this Agreement by the signatures of their respective authorized representatives this 24th day of September, 1996 at Manila

ASSIGNORS:

ASSIGNEE:

ALCORN (PRODUCTION)
PHILIPPINES, INC.

SOCDET PRODUCTION PTY. LTD.
ACN 008 607 976

by: /s/ EDUARDO F. HERNANDEZ
EDUARDO F. HERNANDEZ
Executive Vice-President

by: /s/ CHARLES W. MORGAN
CHARLES W. MORGAN
Managing Director

ALCORN
PHILIPPINES, INC.

by: /s/ EDUARDO F. HERNANDEZ
EDUARDO F. HERNANDEZ
Executive Vice-President

ALCORN PETROLEUM AND MINERALS CORPORATION

by: /s/ EDUARDO F. HERNANDEZ
EDUARDO F. HERNANDEZ
President

BASIC PETROLEUM AND MINERALS, INC.

by: /s/ OSCAR C. DE VENEZIA
OSCAR C. DE VENEZIA
Chairman & President

BALABAC OIL EXPLORATION AND DRILLING CO., INC.

By: /s/ ANTONIO Q. SEVILLA
ANTONIO Q. SEVILLA
Executive Vice-President

PETROFIELDS EXPLORATION
AND DEVELOPMENT CO., INC.

By: /s/ MILAGROS V. REYES
MILAGROS V. REYES
President

THE PHILODRILL CORPORATION

by: /s/ AUGUSTO B. SUNICO
AUGUSTO B. SUNICO
EVP & Treasurer

SEAFRONT RESOURCES CORPORATION

by: /s/ MANUEL D. RECTO
MANUEL D. RECTO
President

UNIOIL RESOURCES AND
HOLDINGS CORPORATION

by: /s/ FELIX V. GONZALEZ, JR.
FELIX V. GONZALEZ, JR.
President

ALSONS CONSOLIDATED
RESOURCES, INC.

by: /s/ TIRSO G. SANTILLAN, JR.
TIRSO G. SANTILLAN, JR.
Executive Vice-President

EXHIBIT A

ASSIGNORS' PARTICIPATING INTERESTS
PLUS SHARE OF FORFEITABLE PARTICIPATING INTEREST
BLOCK A

(NIDO)

Parties	P.I.'s	% Share of Default	Share of Default Interest	Total
APPI	34.114	70.215%	36.101	70.215
BASIC	10.138	20.867%	10.729	20.867
PHILODRILL	4.333	8.918%	4.585	8.918

ORIENTAL	(51.415)	--	--	--
Total		100.000%	51.415	100.000

BLOCK "B"
(MATINLOC)

Parties	P.I.'s	% Share of Default	Share of Default Interest	Total
APPI	25.724	30.937%	5.213	30.937
API	32.932	39.606%	6.674	39.606
PHILODRILL	12.683	15.253%	2.570	15.253
BASIC	11.810	14.204%	2.394	14.204
ORIENTAL	(16.851)	--	--	--
Total		100.000%	16.851	100.000

BLOCK "C"
(W.L./GALOC)

Parties	P.I.'s	% Share of Default	Share of Default Interest	Total
APPI	23.40	36.909%	13.509	36.909
API	5.60	8.833%	3.233	8.833
APMC	7.40	11.672%	4.272	11.672
BASIC	11.00	17.350%	6.350	17.350
BALABAC	1.00	1.577%	0.577	1.577
PETROFIELDS	5.00	7.886%	2.886	7.886
PHILODRILL	3.00	4.732%	1.732	4.732
SEAFRONT	4.00	6.309%	2.309	6.309
UNIOIL	2.00	3.155%	1.155	3.155
ALSONS	1.00	1.577%	0.577	1.577
ORIENTAL	(36.60)	--	--	--
Total		100.000%	36.600	100.000

BLOCK "D"

Parties	P.I.'s	% Share of Default	Share of Default Interest	Total
APPI	33.15	40.353%	7.203	40.353
API	35.00	42.605%	7.605	42.605
APMC	5.00	6.086%	1.086	6.086
BASIC	7.00	8.521%	1.521	8.521
PHILODRILL	2.00	2.435%	0.435	2.435
ORIENTAL	(17.85)	--	--	--
Total		100.000%	17.850	100.000

EXHIBIT B

INITIAL FARMOUT INTEREST TO BE ASSIGNED
BY ASSIGNORS TO SOCDET

BLOCK "A" (NIDO)

Parties	Participating Interest (Share In Default Int.)	Assigned Interest (35%)	Residual Interest
APPI	34.114	11.940	22.174
	(36.101)	(12.635)	(23.466)
BASIC	10.138	3.548	6.590
	(10.729)	(3.755)	(6.974)
PHILODRILL	4.333	1.517	2.816
	(4.585)	(1.605)	(2.980)
ORIENTAL	(51.415)	--	--
TOTAL	100.000	35.000	65.000

BLOCK "B" (MATINLOC)

Parties	Participating Interest (Share In Default Int.)	Assigned Interest (35%)	Residual Interest
APPI	25.724	9.003	16.721
	(5.213)	(1.825)	(3.388)
API	32.932	11.526	21.406
	(6.674)	(2.336)	(4.338)
BASIC	11.810	4.133	7.677
	(2.394)	(0.838)	(1.556)
PHILODRILL	12.683	4.439	8.244
	(2.570)	(0.900)	(1.670)
ORIENTAL	(16.851)	--	--
Total	100.000	35.000	65.000

BLOCK "C" (W.L./GALOC)

Parties	Participating Interest (Share In Default Int.)	Assigned Interest (35%)	Residual Interest
APPI	23.40	8.190	15.210
	(13.509)	(4.728)	(8.781)
API	5.60	1.960	3.640
	(3.233)	(1.132)	(2.101)
APMC	7.40	2.590	4.810
	(4.272)	(1.495)	(2.777)

BASIC	11.00	3.850	7.150
	(6.350)	(2.223)	(4.128)
BALABAC	1.00	0.350	0.650
	(0.577)	(0.202)	(0.375)
PETROFIELDS	5.00	1.750	3.250
	(2.886)	(1.010)	(1.876)
PHILODRILL	3.00	1.050	1.950
	(1.732)	(0.606)	(1.126)
SEAFRONT	4.00	1.400	2.600
	(2.309)	(0.808)	(1.501)
UNIOIL	2.00	0.700	1.300
	(1.155)	(0.404)	(0.750)
ALSONS	1.00	0.350	0.650
	(0.577)	(0.202)	(0.375)
ORIENTAL	(36.60)	--	--
Total	100.000	35.001	64.999

Page 1 of 2

BLOCK "D"

Parties	Participating Interest (Share In Default Int.)	Assigned Interest (35%)	Residual Interest
A P P I	33.15	11.603	21.548
	(7.203)	(2.521)	(4.682)
A P I	35.00	12.250	22.750
	(7.605)	(2.662)	(4.943)
A P M C	5.00	1.750	3.250
	(1.086)	(0.380)	(0.706)
B A S I C	7.00	2.450	4.550
	(1.521)	(0.532)	(0.989)
P H I L O D R I L L	2.00	0.700	1.300
	(0.435)	(0.152)	(0.282)
O R I E N T A L	(17.85)	--	--
Total	100.000	35.000	65.000

Page 2 of 2
EXHIBIT C

ADDITIONAL FARMOUT INTERESTS TO BE ASSIGNED
BY ASSIGNORS TO SOCDET

BLOCK "A" (NIDO)

EXHIBIT "C"

Parties	Participating Interest (Share In Default Int.)	Assigned Interest (25%)	Residual Interest
A P P I	34.114	8.529	13.645
	(36.101)	(9.025)	(14.441)
B A S I C	10.138	2.535	4.055
	(10.729)	(2.682)	(4.292)
P H I L O D R I L L	4.333	1.083	1.733
	(4.585)	(1.146)	(1.834)
O R I E N T A L	(51.415)	--	--
TOTAL	100.000	25.000	40.000

BLOCK "B" (MATINLOC)

Parties	Participating Interest (Share In Default Int.)	Assigned Interest (25%)	Residual Interest
A P P I	25.724	6.431	10.290
	(5.213)	(1.303)	(2.085)
A P I	32.932	8.233	13.173
	(6.674)	(1.669)	(2.669)
B A S I C	11.810	2.953	4.724
	(2.393)	(0.598)	(0.958)
P H I L O D R I L L	12.683	3.171	5.073
	(2.570)	(0.642)	(1.028)
O R I E N T A L	(16.851)	--	--
Total	100.000	25.000	40.000

BLOCK "C" (W.L./GALOC)

Parties	Participating Interest (Share In Default Int.)	Assigned Interest (25%)	Residual Interest
A P P I	23.40	5.850	9.360
	(13.509)	(3.377)	(5.404)
A P I	5.60	1.400	2.240
	(3.233)	(0.808)	(1.293)
A P M C	7.40	1.850	2.960
	(4.272)	(1.068)	(1.709)
B A S I C	11.00	2.750	4.400
	(6.350)	(1.588)	(2.539)
B A L A B A C	1.00	0.250	0.400
	(0.577)	(0.144)	(0.231)
P E T R O F I E L D S	5.00	1.250	2.000
	(2.886)	(0.722)	(1.154)
P H I L O D R I L L	3.00	0.750	1.200
	(1.732)	(0.433)	(0.693)
S E A F R O N T	4.00	1.000	1.600
	(2.309)	(0.577)	(0.924)

UNIOIL	2.00	0.500	0.800
	(1.155)	(0.289)	(0.462)
ALSONS	1.00	0.250	0.400
	(0.577)	(0.144)	(0.231)
ORIENTAL	(36.60)	--	--
TOTAL	100.000	25.000	40.000

Page 1 of 2

BLOCK "D"

Parties	Participating Interest (Share In Default Int.)	Assigned Interest (25%)	Residual Interest
APPI	33.15 (7.203)	8.288 (1.801)	13.259 (2.881)
API	35.00 (7.605)	8.750 (1.901)	14.000 (3.042)
APMC	5.00 (1.086)	1.250 (0.271)	2.000 (0.435)
BASIC	7.00 (1.521)	1.750 (0.380)	2.800 (0.609)
PHILODRILL	2.00 (0.435)	0.500 (0.109)	0.800 (0.174)
ORIENTAL	(17.85)	--	--
TOTAL	100.000	25.000	40.000

Page 2 of 2
EXHIBIT D

ILLUSTRATIVE EXAMPLE OF ALLOCATION
OF REVENUES FROM BLOCK C

SCHEDULE A

EXHIBIT "D"

ALCORN (PRODUCTION) PHILIPPINES, INC.
ALLOCATION OF SALES PROCEEDS
FOR BLOCK C

	No. of bbls. lifted	100,000.0		
	Price/bbl.	\$15.0000		
	TOTAL	SOCDET	"CONSORTIUM"	GOV'T
<S>	<C>	<C>	<C>	
FPIA	112,500.00	65,930.63	46,569.37	
COST RECOVERY	1,050,000.00	630,000.00	420,000.00	
NET PROCEEDS				
Contractors	63,458.44	38,075.05	25,383.39	
Government	101,533.50			101,533.50
Filipino Group	4,230.56		4,230.56	
	169,222.50	38,075.05	29,613.95	101,533.50
PRODUCTION ALLOWANCE	168,277.50	98,619.03	69,658.47	
GROSS PROCEEDS IN USD	\$ 1,500,000.00	\$ 832,624.71	\$ 565,841.79	\$ 101,533.50
Average Revenue Interest	100.000%	55.508%	37.723%	6.769%
Participating Interest	100.000%	60.000%	40.000%	

</TABLE>
<TABLE>
<CAPTION>

DISTRIBUTION

	BASIS	MANNER (Between Socdet & "Consortium")
<S>	<C>	<C>
FPIA	7.5% of gross proceeds	Amount of FPIA multiply by the percentages as per column D of schedule B.
COST RECOVERY	70% of gross proceeds	Based on participating interest.
NET PROCEEDS	Gross proceeds less FPIA, Cost Recovery & Production Allowance	
Contractors	37.5% of net proceeds	Based on participating interest.
Government	60% of net proceeds	
Filipino group	2.5% of net proceeds	
PRODUCTION ALLOWANCE	49.86% of gross proceeds less FPIA & Cost recovery	Amount of Production Allowance multiply by the percentages as per column D of schedule B.

</TABLE>

NOTE:

Allocations to "Consortium" shall be further distributed to the parties concerned in accordance with existing agreements (i.e. JOA as amended and Settlement Agreement).

EXHIBIT "E"

SCHEDULE B

ALCORN (PRODUCTION) PHILIPPINES, INC.
COMPUTATION OF PRODUCTION ALLOWANCE/FPIA
PERCENTAGE DISTRIBUTION

A B C D

SOCDET	\$38,075.05	56.250%	22.430%	58.605%
OTHER CONSORTIUM MEMBERS				
CONSISTING OF:				
FOREIGN PARTIES (APPI/API)	7,361.18	10.875%	4.336%	
FILIPINO PARTIES	18,022.20	26.625%	9.319%	
FILIPINO GROUP	4,230.56	6.250%	2.188%	
	29,613.94		15.843%	41.395%
TOTAL NET PROCEEDS - CONTRACTOR	\$ 67,688.99	100.000%	38.273%	100.000%

Effective Tax Rates:

Filipino:	
Income Tax	35.000%
Foreign	
Income Tax	35.000%
Branch profit remittance tax	4.875%
	39.875%

NOTES:

- A Represents parties' share on net proceeds.
- B Represents the percentage of each party's share on net proceeds to total net proceeds.
- C Column "B" multiply by the effective tax rate.
- D Shows percentages to be used in distributing Production Allowance & FPIA.

EXHIBIT F

FORM OF ASSIGNMENT AND ASSUMPTION

EXHIBIT F

DATED 1996

ALCORN (PRODUCTION) PHILIPPINES, INC.

ALCORN (PHILIPPINES) INC.

ALCORN PETROLEUM AND MINERALS CORPORATION

BASIC PETROLEUM AND MINERALS INC.

BALABAC OIL EXPLORATION AND DRILLING CO., INC.

PETROFIELDS EXPLORATION AND DEVELOPMENT COMPANY, INC.

THE PHILODRILL CORPORATION

SEAFRONT RESOURCES CORPORATION

UNIOIL AND GAS DEVELOPMENT COMPANY, INC.

ALSONS CONSOLIDATED RESOURCES INC.

[ORIENTAL PETROLEUM AND MINERALS CORPORATION]*

(collectively ASSIGNORS)

- AND -

SOCDET PRODUCTION PTY. LTD.
ACN 008 607 976

DEED OF ASSIGNMENT AND ASSUMPTION
SERVICE CONTRACT 14

EDWARDS THOMPSON
Solicitors
Level 31, QV1 Building
250 St George's Terrace
Perth, Western Australia 6000

Tel: (09) 321 2722
Fax: (09) 321 2788
Ref: AGT:JAS:980350

* [CURRENTLY A DEFAULTING PARTY. IF DEFAULT IS REMEDIED BY EFFECTIVE DATE INCLUDE AS A PARTY, OTHERWISE DELETE.]

THIS DEED OF ASSIGNMENT AND ASSUMPTION is made and entered into this day of 199[].

BETWEEN:

ALCORN (PRODUCTION) PHILIPPINES, INC. (APPI) of 15th Floor, Pacific Star Building, Sen. Gil. J. Puyat Avenue, corner of Makati Avenue, Makati City, Metro Manila, Philippines

ALCORN (PHILIPPINES) INC. (API) of 15th Floor, Pacific Star Building, Sen. Gil. J. Puyat Avenue, corner of Makati Avenue, Makati City, Metro Manila, Philippines

ALCORN PETROLEUM AND MINERALS CORPORATION (APMC) of Suite 1801, Pearlbank Centre, 146 Valero Street, Salcedo Village, Makati City, Metro Manila, Philippines.

BASIC PETROLEUM AND MINERALS INC. (Basic) of 7th Floor, Basic Petroleum Building, Carlos Palanca, Jr. St., Legaspi Village, Makati City, Metro Manila, Philippines

BALABAC OIL EXPLORATION AND DRILLING CO., INC. (Balabac) of Suite 6A Sagittarius Condominium H.V. delta Costa St., Salcedo Village, Makati City, Metro Manila, Philippines

PETROFIELDS EXPLORATION AND DEVELOPMENT COMPANY, INC. (Petrofields) of 7th Floor, JMT Building, ADB Avenue Ortigas Centre, Pasig City 1600, Philippines

THE PHILODRILL CORPORATION (Philodrill) of 8th Floor, Quad Alpha Centrum, 125 Pioneer St, Mandaluyong City, Metro Manila, Philippines

SEAFRONT RESOURCES CORPORATION (Seafront) of 32/F Tektite Tower No. 1, Tektite Rd, Ortigas Centre, Pasig City, Metro Manila, Philippines

UNIOIL AND GAS DEVELOPMENT COMPANY, INC. (Unioil) of Unit 6B, Sagittarius Condominium H.V. dela Costa St., Salcedo Village, Makati City, Metro Manila, Philippines

ALSONS CONSOLIDATED RESOURCES INC. (Alsons) of 2F Priscilla Bldg., 2278 Pasing Tamo Ext. Makati City, Metro Manila, Philippines

[ORIENTAL PETROLEUM AND MINERALS CORPORATION (Oriental) of 7th Floor, Corinthian Plaza, Paseo de Roxas, Legaspi Village, Makati City, Metro Manila, Philippines]*

(collectively ASSIGNORS)

AND

SOCDET PRODUCTION PTY. LTD. ACN 008 607 976 (SOCDET) a company incorporated in Australia with its principal office at 2nd Floor, 76 Kings Park Rd, West Perth, Western Australia.

WITNESSETH

WHEREAS

A. The Assignors comprise the Contractor parties under Service Contract No. 14 made and entered into on 17th December 1975 as amended by the First Amendment of the Service Contract entered into 29th December 1980 and further amended by Addendum to Service Contract entered into 7th October 1991 (together referred to as the SERVICE CONTRACT).

B. The Contract Area originally comprised four blocks "A", "B", "C" and "D" offshore Palawan Island, as more particularly described in annex A to the Service Contract. Subsequently parts of the original Contract Area have been delineated as Production Areas and relinquished and retained and varied such that:

(a) the Production Areas now comprise:

(i) the Production Area being Block A covering 2424.24 hectares (NIDO BLOCK);

(ii) the Production Areas of the Matinloc Block covering 2666.67 hectares and of the Libro Field covering 121.2 hectares (together the MATILOC OIL PRODUCTION COMPLEX); and

(iii) the Production Area to the north of the Matinloc Block being Block B1 covering 848.48 hectares (NORTH MATINLOC BLOCK); and

(b) the retained areas, in addition to the Production Areas, now comprise:

[* CURRENTLY A DEFAULTING PARTY. IF DEFAULT IS REMEDIED BY EFFECTIVE DATE, INCLUDE AS A PARTY, OTHERWISE DELETE]

(i) the retention area being Block C covering 33818.18 hectares (WEST LINAPACAN/GALOC BLOCK);

(ii) the retention area within Block B covering 8848.48 hectares; and

(iii) the retention area being Block D covering 18,545.45 hectares.

The co-ordinates for each of the foregoing areas are listed in Exhibit B attached hereto and the areas are shown on the map attached hereto as Exhibit C.

C. For the purpose of this deed BLOCK means all or any of Block A, Block B, Block C and Block D and

o Block A means the Nido Block;

- o Block B means the Matinloc Oil Production Complex and the retention area in Recital B(b) (ii);
 - o Block C means the West Linapacan/Galoc Block; and
 - o Block D means the retention area described in Recital B(b) (iii).
- D. The Contractor parties are bound by an Operating Agreement entered into 17 July 1976 as supplemented by a Supplementary Agreement dated 14th April 1977, amended by a deed dated 1st January 1979 and supplemented by an Addendum dated 1996, all in relation to petroleum operations under the Service Contract.
- E. SOCDDET has earned an undivided interest of [] percent [insert 35% or 25%, as applicable] in each Block under the Service Contract and the Operating Agreement with effect from the 19[] ("EFFECTIVE DATE").
- F. Accordingly, each Assignor wishes to assign
- (a) to SOCDDET and the Assignors the Service Contract; [DELETE THIS PARAGRAPH IF ASSIGNMENT IS FOR THE 25 % INTEREST]
 - (b) to SOCDDET an interest in each Block under the Service Contract as set opposite that Assignor's name in the third column of Exhibit A hereto; and
 - (c) to SOCDDET a corresponding undivided interest in each Block under the Operating Agreement
- all with effect from the Effective Date.

NOW THEREFORE:

1. In accordance with section 16.4 of the Service Contract and sections 2.22 and 11.1 of the Operating Agreement the Assignors hereby assign, transfer and convey:
 - (a) to SOCDDET and the Assignors the Service Contract; [DELETE THIS PARAGRAPH IF ASSIGNMENT IS FOR THE 25% INTEREST]
 - (b) a 35% [OR IF APPLICABLE A 25%] interest in each Block which is contributed by each Assignor as set opposite that Assignor's name in the third column of Exhibit A hereto (and which for avoidance of doubt includes a corresponding proportionate share of "Operating Expenses", "FPIA" and "Production Allowance" as defined and referred to the Service Contract); and
 - (c) to SOCDDET a corresponding undivided interest under Operating Agreement

free of any lien, encumbrance or third party claim except as may be provided in the Service Contract all with effect from the Effective Date.
2. SOCDDET accepts the assignments in clause I and assumes with effect from the Effective Date all rights and obligations, risks, benefits and liabilities of the Assignors under, the Service Contract and the Operating Agreement attributable to the interests assigned.
3. These assignments and assumptions are made subject to the terms and conditions of the Service Contract, and the Operating Agreement and to the extent that any provisions and the Operating Agreement may limit, restrict or require any waiver in order to perfect the assignments herein (including without limitation clause 2.22 of the Operating Agreement) then the Assignors expressly waive any such limitation or restriction.
4. For the purposes of Section 19.1 (Notices) of the Operating Agreement notices may be given to SOCDDET as follows:

"SOCDDET Production Pty. Ltd.
 Attention: Mr. C. Morgan
 2nd Floor, 76 Kings Park Road
 West Perth, Western Australia 6005
 Telephone No. (61) 09 322 1142
 Facsimile (61) 09-322-1143"
5. This Deed shall be subject to the approval of the Department acting for the Government of the Republic of the Philippines as required under the Service Contract.
6. Upon approval of the Department stated in Clause 5 above, the assignments shall relate back to and be effective from the Effective Date.
7. This Deed may be executed in multiple counterparts, each of which shall be an original but all of which shall constitute one instrument.
8. This Deed is governed by the laws of the Republic of the Philippines.

IN WITNESS WHEREOF, the parties have executed this Deed.

ASSIGNORS:

ALCORN (PRODUCTION)
 PHILIPPINES, INC.

ASSIGNEE:

SOCDDET PRODUCTION PTY. LTD.
 ACN 008 607 976

by:.....
CHARLES W. ALCORN, JR.
Chairman

by:
CHARLES W. MORGAN
Managing Director

ALCORN PHILIPPINES, INC.

by:.....

ALCORN PETROLEUM AND MINERALS CORPORATION

by:.....

BASIC PETROLEUM AND MINERALS, INC.

by:.....

BALABAC OIL EXPLORATION AND
DRILLING CO., INC.

by:.....
PETROFIELDS EXPLORATION
AND DEVELOPMENT CO., INC

by:.....

THE PHILODRILL CORPORATION

by:.....

SEAFRONT RESOURCES CORPORATION

by:.....

UNIOIL RESOURCES AND
HOLDINGS CORPORATION

by:.....

ALSONS CONSOLIDATED RESOURCES, INC.

by:.....

[ORIENTAL PETROLEUM AND
MINERALS CORPORATION]*

by:.....

[*CURRENTLY A DEFAULTING PARTY. IF DEFAULT IS REMEDIED BY EFFECTIVE DATE
INCLUDE AS A PARTY, OTHERWISE DELETE.]

The Department of Energy on behalf of the Government of the Republic of the
Philippines hereby approves this Deed of Assignment and Assumption this day of
, 199[].

By: _____

Title: _____

EXHIBIT A'

ASSIGNED INTERESTS
FOR 35% INTEREST

BLOCK "A" (NIDO)

Parties	Participating Interest (Share In Default Int.)	Assigned Interest (35%)	Residual Interest
APPI	34.114 (36.101)	11.940 (12.635)	22.174 (23.466)
BASIC	10.138 (10.729)	3.548 (3.755)	6.590 (6.974)
PHILODRILL	4.333 (4.585)	1.517 (1.605)	2.816 (2.980)
ORIENTAL	(51.415)	--	--
TOTAL	100.000	35.000	65.000

BLOCK "B" (MATINLOC)

Parties	Participating Interest (Share In Default Int.)	Assigned Interest (35%)	Residual Interest
APPI	25.724 (5.213)	9.003 (1.825)	16.721 (3.388)
API	32.932	11.526	21.406

	(6.674)	(2.336)	(4.338)
BASIC	11.810	4.133	7.677
	(2.394)	(0.838)	(1.556)
PHILODRILL	12.683	4.439	8.244
	(2.570)	(0.900)	(1.670)
ORIENTAL	(16.851)	--	--
Total	100.000	35.000	65.000

BLOCK "C" (W.L./GALOC)

Parties	Participating Interest (Share In Default Int.)	Assigned Interest (35%)	Residual Interest
APPI	23.40	8.190	15.210
	(13.509)	(4.728)	(8.781)
API	5.60	1.960	3.640
	(3.233)	(1.132)	(2.101)
APMC	7.40	2.590	4.810
	(4.272)	(1.495)	(2.777)
BASIC	11.00	3.850	7.150
	(6.350)	(2.223)	(4.128)
BALABAC	1.00	0.350	0.650
	(0.577)	(0.202)	(0.375)
PETROFIELDS	5.00	1.750	3.250
	(2.886)	(1.010)	(1.876)
PHILODRILL	3.00	1.050	1.950
	(1.732)	(0.606)	(1.126)
SEAFRONT	4.00	1.400	2.600
	(2.309)	(0.808)	(1.501)
UNIOIL	2.00	0.700	1.300
	(1.155)	(0.404)	(0.750)
ALSONS	1.00	0.350	0.650
	(0.577)	(0.202)	(0.375)
ORIENTAL	(36.60)	--	--
Total	100.000	35.001	64.999

Page 1 of 2

BLOCK "D"

Parties	Participating Interest (Share In Default Int.)	Assigned Interest (35%)	Residual Interest
APPI	33.15	11.603	21.548
	(7.203)	(2.521)	(4.682)
API	35.00	12.250	22.750
	(7.605)	(2.662)	(4.943)
APMC	5.00	1.750	3.250
	(1.086)	(0.380)	(0.706)
BASIC	7.00	2.450	4.550
	(1.521)	(0.532)	(0.989)
PHILODRILL	2.00	0.700	1.300
	(0.435)	(0.152)	(0.282)
ORIENTAL	(17.85)	--	--
Total	100.000	35.000	65.000

Page 2 of 2

EXHIBIT A'

ASSIGNED INTERESTS FOR 25% INTEREST

BLOCK "A" (NIDO)

Exhibit "C"

Parties	Participating Interest (Share In Default Int.)	Assigned Interest (25%)	Residual Interest
APPI	34.114	8.529	13.645
	(36.101)	(9.025)	(14.441)
BASIC	10.138	2.535	4.055
	(10.729)	(2.682)	(4.292)
PHILODRILL	4.333	1.083	1.733
	(4.585)	(1.146)	(1.834)
ORIENTAL	(51.415)	--	--
TOTAL	100.000	25.000	40.000

BLOCK "B" (MATINLOC)

Parties	Participating Interest (Share In Default Int.)	Assigned Interest (25%)	Residual Interest
APPI	25.724	6.431	10.290
	(5.213)	(1.303)	(2.085)
API	32.932	8.233	13.173
	(6.674)	(1.669)	(2.669)
BASIC	11.810	2.953	4.724
	(2.393)	(0.598)	(0.958)
PHILODRILL	12.683	3.171	5.073
	(2.570)	(0.642)	(1.028)
ORIENTAL	(16.851)	--	--
Total	100.000	25.000	40.000

BLOCK "C" (W.L./GALOC)

Parties	Participating Interest (Share In Default Int.)	Assigned Interest (25%)	Residual Interest
---------	---	----------------------------	-------------------

APPI	23.40	5.850	9.360
	(13.509)	(3.377)	(5.404)
API	5.60	1.400	2.240
	(3.233)	(0.808)	(1.293)
APMC	7.40	1.850	2.960
	(4.272)	(1.068)	(1.709)
BASIC	11.00	2.750	4.400
	(6.350)	(1.588)	(2.539)
BALABAC	1.00	0.250	0.400
	(0.577)	(0.144)	(0.231)
PETROFIELDS	5.00	1.250	2.000
	(2.886)	(0.722)	(1.154)
PHILODRILL	3.00	0.750	1.200
	(1.732)	(0.433)	(0.693)
SEAFRONT	4.00	1.000	1.600
	(2.309)	(0.577)	(0.924)
UNIOIL	2.00	0.500	0.800
	(1.155)	(0.289)	(0.462)
ALSONS	1.00	0.250	0.400
	(0.577)	(0.144)	(0.231)
ORIENTAL	(36.60)	--	--
Total	100.000	25.000	40.000

Page 1 of 2

BLOCK "D"

Parties	Participating Interest (Share In Default Int.)	Assigned Interest (25%)	Residual Interest
APPI	33.15	8.288	13.259
	(7.203)	(1.801)	(2.881)
API	35.00	8.750	14.000
	(7.605)	(1.901)	(3.042)
APMC	5.00	1.250	2.000
	(1.086)	(0.271)	(0.435)
BASIC	7.00	1.750	2.800
	(1.521)	(0.380)	(0.609)
PHILODRILL	2.00	0.500	0.800
	(0.435)	(0.109)	(0.174)
ORIENTAL	(17.85)	--	--
Total	100.000	25.000	40.000

Page 2 of 2

EXHIBIT B

CO-ORDINATES OF CONTRACT AREA

Block A - Nido Production Area

LATITUDE	LONGITUDE		
11 03 19.00	118 47 49.10		
11 01 07.00	118 46 44.70		
11 01 07.00	118 50 02.20		
11 02 40.00	118 51 00.00		
11 03 19.00	118 50 00.00	-----	
11 03 19.00	118 47 49.10	2,424.24 HECTARES	(Approx)

MATINLOC PRODUCTION AREA

LATITUDE	LONGITUDE		
11 03 00.00	119 01 25.00		
11 26 43.00	118 59 00.00		
11 25 12.00	118 59 00.00		
11 25 12.00	118 59 49.00		
11 29 05.00	119 02 47.00	-----	
11 30 00.00	119 01 25.00	2,666.67 HECTARES	(Approx)

LIBRO PRODUCTION AREA

LATITUDE	LONGITUDE		
11 26 30.00	119 03 30.00		
11 26 05.00	119 04 00.00		
11 24 55.00	119 03 03.00	-----	
11 26 30.00	119 03 30.00	121.2 HECTARES	(Approx)

BLOCK B-1 NORTH MATINLOC PRODUCTION AREA

LATITUDE	LONGITUDE		
11 32 00.00	119 03 00.00		
11 28 56.29	119 03 00.00		
11 30 00.00	119 01 25.00	-----	
11 32 00.00	119 03 00.00	848.48 HECTARES	(Approx)

BLOCK C - WEST LINAPACAN/GALOC RETENTION BLOCK

LATITUDE	LONGITUDE
12 03 51.21	119 18 00.00
12 00 00.00	119 18 00.00
12 00 00.00	119 15 00.00
11 49 48.00	119 15 00.00
11 50 27.00	119 08 33.00
11 50 27.00	119 05 58.00

11 46 45.00	119 05 58.00		
11 44 30.00	119 09 00.00		
11 43 00.00	119 11 00.00		
11 42 18.65	119 12 00.00		
11 44 00.00	119 12 00.00		
11 44 00.00	119 14 30.00		
11 43 00.00	119 14 30.00		
11 45 00.00	119 15 00.00		
11 48 00.00	119 15 00.00		
11 48 00.00	119 18 00.00		
11 56 00.00	119 18 00.00		
11 56 00.00	119 21 00.00		
11 56 05.00	119 20 20.00		
11 57 23.84	119 21 00.00		
12 02 45.66	119 21 00.00	-----	
12 03 51.21	119 18 00.00	33,818.18 Hectares	(Approx)

BLOCK B - RETENTION BLOCK

LATITUDE	LONGITUDE		
11 24 00.00	118 57 00.00		
11 24 00.00	118 54 00.00		
11 20 00.00	118 54 00.00		
11 20 00.00	118 57 00.00		
11 24 00.00	118 57 00.00		
11 24 00.00	119 08 00.00		
11 25 12.00	118 59 49.00		
11 25 12.00	118 59 00.00		
11 26 43.00	118 59 00.00		
11 30 00.00	119 01 25.00		
11 32 00.00	119 00 00.00		
11 25 12.00	118 57 00.00	-----	
11 24 00.00	118 57 00.00	8,848.48 Hectares	(Approx)

BLOCK D- RETENTION BLOCK

LATITUDE	LONGITUDE		
11 44 30.00	119 09 00.00		
11 44 00.00	119 09 00.00		
11 44 00.00	119 06 00.00		
11 40 00.00	119 06 00.00		
11 40 00.00	119 03 00.00		
11 36 00.00	119 03 00.00		
11 36 00.00	119 00 00.00		
11 32 00.00	119 00 00.00		
11 32 00.00	118 57 00.00		
11 28 00.00	118 57 00.00		
11 25 12.00	118 57 00.00		
11 32 09.50*	119 00 00.00*		
11 30 00.00	119 01 25.00		
11 32 10.40	119 03 00.00		
11 36 00.00	119 03 00.00		
11 36 00.00	119 05 50.00		
11 36 14.00	119 06 00.00		
11 40 00.00	119 06 00.00		
11 40 00.00	119 08 46.00		
11 43 00.00	119 11 00.00	-----	
11 44 30.00	119 09 00.00	18,545.45 Hectares	(Approx)

* Wrong value - needs to be corrected]

EXHIBIT C

MAP OF CONTRACT AREA

[To be attached to execution copy of Deed of Assignment.]

EXHIBIT G

ADDENDUM TO OPERATING AGREEMENT
DATED THE DAY OF 1996

ALCORN (PRODUCTION) PHILIPPINES, INC.

ALCORN (PHILIPPINES) INC.

ALCORN PETROLEUM AND MINERALS CORPORATION

ALSONS CONSOLIDATED RESOURCES, INC.

BALABAC OIL EXPLORATION AND DRILLING CO., INC.

BASIC PETROLEUM AND MINERALS, INC.

PETROFIELDS EXPLORATION AND DEVELOPMENT COMPANY, INC.

THE PHILODRILL CORPORATION

SEAFRONT RESOURCES CORPORATION

UNIOIL AND GAS DEVELOPMENT COMPANY INC.

[ORIENTAL PETROLEUM AND MINERALS CORPORATION]*

ADDENDUM TO OPERATING AGREEMENT

* DEFAULTING PARTY

EXHIBIT G

ADDENDUM TO OPERATING AGREEMENT

This Addendum to Operating Agreement is entered into this ___ day of 1996

BETWEEN:

ALCORN (PRODUCTION) PHILIPPINES, INC. ("APPI") - Operator;

ALCORN (PHILIPPINES) INC. ("API");

ALCORN PETROLEUM AND MINERALS CORPORATION ("APMC");

ALSONS CONSOLIDATED RESOURCES, INC. ("ALSONS");

BALABAC OIL EXPLORATION AND DRILLING CO., INC. ("BALABAC");

BASIC PETROLEUM AND MINERALS, INC. ("BASIC");

PETROFIELDS EXPLORATION AND DEVELOPMENT COMPANY, INC. ("PETROFIELDS");

THE PHILODRILL CORPORATION ("PHILODRILL");

SEAFRONT RESOURCES CORPORATION ("SEAFRONT");

UNIOIL AND GAS DEVELOPMENT COMPANY INC. ("UNIOIL"); and

[ORIENTAL PETROLEUM AND MINERALS CORPORATION ("OPMC").]*

all collectively referred to as the "CONSORTIUM" and individually hereinafter referred to as "Party".

WITNESSETH:

WHEREAS:

A. The parties constituting the Consortium are interest owners and participants in Service Contract No. 14 dated December 17, 1975, as amended by a First Amendment to Service Contract entered into on December 29, 1980 and an Addendum to Service Contract dated October 7, 1991, all being hereafter collectively referred to as the "Service Contract";

* DEFAULTING PARTLY

B. The basis and agreement under which the parties constituting the Consortium will conduct Petroleum Operations under the Service Contract and own, operate and share in Petroleum and expenses attributable thereto is:

(i) a Participation Agreement dated December 2, 1975 ("Participation Agreement"); and

(ii) an Operating Agreement dated July 17, 1976 as supplemented by a Supplemental Agreement dated April 14, 1977 and amended by a First Amendment to Operating Agreement dated January 1, 1979, (all hereafter collectively referred to as the "Operating Agreement" or "JOA"); and

(iii) a Settlement Agreement effective January 1, 1984, (hereafter referred to as the "Settlement Agreement").

C. On or about the date of this agreement the Parties hereto entered into a Farmin Agreement with SOCDET Production Pty Ltd ACN 008 607 976 ("SOCDET") under which the Consortium has agreed to assign certain interests in the Service Contract, and the Operating Agreement to SOCDET at the completion of each Earning Period, as defined in the Farmin Agreement ("Earning Period").

D. The Parties hereto desire by this Addendum to Operating Agreement to restate the basis and agreement under which the Consortium during the Earning Period will conduct Petroleum Operations under the Service Contract and own, operate and share in Petroleum and the expenses attributable thereto.

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants and agreements contained herein, the Parties hereto agree as follows:

1. The Parties hereto agree to be bound by the Operating Agreement as supplemented, modified or amended by this Addendum to Operating Agreement ("Addendum").

2. The Parties hereto acknowledge and agree that:

(a) the Participation Agreement is no longer applicable and is hereby cancelled;

(b) the "Contract Area" as defined in the JOA is now divided into Blocks "A", "B", "C" and "D" having co-ordinates as listed in Exhibit A hereto;

(c) the wells, elections and payments referred to in clauses 2.2 to 2.13 inclusive of the JOA have been drilled, exercised and paid for and these

clauses are now only relevant to the extent a carried interest was held by BASIC at the time the third well referred to in those clauses was drilled;

- (d) BASIC is now the only "Non-Paying Party" as defined in the JOA in as much as it held a 0.60% carried or non-paying interest in Block A and a 6.9% carried or non-paying interest in Block B and clause 2.19 of the JOA is applicable to the recovery by the Paying Parties of the expenditures made for the benefit of BASIC in relation to those carried or non-paying interests;
- (e) the respective participating interests of the Parties hereto in each Block of the Contract Area and the JOA are shown in Exhibit B hereto;
- (f) the "Petroleum Board" reference in the JOA shall be construed as a reference to the Department of Energy;
- (g) the representatives and alternate representatives of the Parties for the purposes of the Management Committee deliberations under clause 4.1 are as shown in Exhibit C, subject to the other provisions of clause 4.1;
- (h) an example of the calculation of a "Determination" for the purposes of clause 4.1 is:

Assume:

	Block A	Block B	Block C	Block D
Party 1	10	20	-	30
Party 2	20	60	40	-
Party 3	-	20	20	50
Party 4	70	-	20	20
	---	---	---	---
	100%	100%	100%	100%

Therefore:

- (i) Sum of Paying Parties' Shares in each Block is for

Party 1	:	60
Party 2	:	120
Party 3	:	90
Party 4	:	130

		400

- (ii) Voting pass-mark of 2 Paying Parties owning at least 65% of sum in (i) above would be achieved by Party 1, Party 2 and Party 3 voting affirmatively together.

- (i) clause 7.5 of the JOA is no longer applicable;
- (j) clause 12.4 of the JOA is no longer applicable; and
- (k) for the purposes of clause 19.1 the notice details in Exhibit C hereto apply, subject to change in accordance with clause 19.2.

3. On and from the expiry of each Earning Period:

- (a) all the Petroleum produced and saved from the Contract Area which is allocated for the recovery of Operating Expenses pursuant to Section 7.2 of the Service Contract and Section 1(a) of the Addendum to Service Contract shall be allocated between SOCDT and the Consortium in proportion to their respective Participating Interests in each Block from which Petroleum is produced and saved;
- (b) all Petroleum produced and saved from the Contract Area which is allocated as the Filipino Participation Incentive Allowance under Section 6.3 of the Service Contract and all Petroleum which is allocated as Production Allowance under Section 6.4 of the Service Contract shall be allocated among the Parties hereto in accordance with Section 2.17 of the Operating Agreement;
- (c) the Contractor's share in the net proceeds as provided in Section 7.3(a) of the Service Contract shall be allocated between SOCDT and the Consortium in proportion to their respective Participating Interests in each Block from which Petroleum or production proceeds is derived; and
- (d) all entitlements to Petroleum allocated to the Consortium under paragraphs (a), (b) and (c) above shall be allocated among the Parties constituting the consortium in accordance with the Operating Agreement as heretofore applicable to the Consortium and the Settlement Agreement.

IN WITNESS WHEREOF, the Parties hereto have Operating Agreement to be signed this day of 1996 by their duly authorized representatives.

ALCORN (PRODUCTION)
PHILIPPINES, INC.

PETROFIELDS EXPLORATION
AND DEVELOPMENT CO., INC.

By:

By:

ALCORN (PHILIPPINES), INC.
by:

THE PHILODRILL CORPORATION
By:

ALCORN PETROLEUM AND
MINERALS CORPORATION

ALSONS CONSOLIDATED
RESOURCES, INC.

By:
SEAFRONT RESOURCES
CORPORATION

By:
BALAABAC OIL EXPLORATION
AND DRILLING CO., INC.

By:
UNIOIL GAS DEVELOPMENT
COMPANY INC.

By:
[ORIENTAL PETROLEUM AND
MINERALS CORPORATION]*

By:

By:

- - - - -
*[CURRENTLY A DEFAULTING PARTY. IF DEFAULT IS REMEDIED BY THE DATE OF THIS
ADDENDUM INCLUDE AS A SIGNATORY. IF NOT WORDS SIGNIFYING AUTHORITY TO SIGN FOR
AND ON BEHALF OF ORIENTAL].

EXHIBIT A

CO-ORDINATES OF CONTRACT AREA

BLOCK A - NIDO PRODUCTION AREA

LATITUDE	LONGITUDE		
11 03 19.00	118 47 49.10		
11 01 07.00	118 46 44.70		
11 01 07.00	118 50 02.20		
11 02 40.00	118 51 00.00		
11 03 19.00	118 50 00.00		
11 03 19.00	118 47 49.10	-----	
		2,424.24 HECTARES	(Approx)

MATINLOC PRODUCTION AREA

LATITUDE	LONGITUDE		
11 03 00.00	119 01 25.00		
11 26 43.00	118 59 00.00		
11 25 12.00	118 59 00.00		
11 25 12.00	118 59 49.00		
11 29 05.00	119 02 47.00		
11 30 00.00	119 01 25.00	-----	
		2,666.67 HECTARES	(Approx)

LIBRO PRODUCTION AREA

LATITUDE	LONGITUDE		
11 26 30.00	119 03 30.00		
11 26 05.00	119 04 00.00		
11 24 55.00	119 03 03.00		
11 26 30.00	119 03 30.00	-----	
		121.2 HECTARES	(Approx)

BLOCK B-1 NORTH MATINLOC PRODUCTION AREA

LATITUDE	LONGITUDE		
11 32 00.00	119 03 00.00		
11 28 56.29	119 03 00.00		
11 30 00.00	119 01 25.00		
11 32 00.00	119 03 00.00	-----	
		848.48 HECTARES	(Approx)

BLOCK C - WEST LINAPACAN/GALOC RETENTION BLOCK

LATITUDE	LONGITUDE		
12 03 51.21	119 18 00.00		
12 00 00.00	119 18 00.00		
12 00 00.00	119 15 00.00		
11 49 48.00	119 15 00.00		
11 50 27.00	119 08 33.00		
11 50 27.00	119 05 58.00		
11 46 45.00	119 05 58.00		
11 44 30.00	119 09 00.00		
11 43 00.00	119 11 00.00		
11 42 18.65	119 12 00.00		
11 44 00.00	119 12 00.00		
11 44 00.00	119 14 30.00		
11 43 00.00	119 14 30.00		
11 45 00.00	119 15 00.00		
11 48 00.00	119 15 00.00		
11 48 00.00	119 18 00.00		
11 56 00.00	119 18 00.00		
11 56 00.00	119 21 00.00		
11 56 05.00	119 20 20.00		
11 57 23.84	119 21 00.00		
12 02 45.66	119 21 00.00		
12 03 51.21	119 18 00.00	-----	
		33,818.18 HECTARES	(Approx)

BLOCK B - RETENTION BLOCK

LATITUDE	LONGITUDE		
11 24 00.00	118 57 00.00		
11 24 00.00	118 54 00.00		
11 20 00.00	118 54 00.00		
11 20 00.00	118 57 00.00		
11 24 00.00	118 57 00.00		

11 24 00.00	119 08 00.00		
11 25 12.00	118 59 49.00		
11 25 12.00	118 59 00.00		
11 26 43.00	118 59 00.00		
11 30 00.00	119 01 25.00		
11 32 00.00	119 00 00.00		
11 25 12.00	118 57 00.00		
11 24 00.00	118 57 00.00	8,848.48 Hectares	(Approx)

BLOCK D- RETENTION BLOCK

LATITUDE	LONGITUDE		
11 44 30.00	119 09 00.00		
11 44 00.00	119 09 00.00		
11 44 00.00	119 06 00.00		
11 40 00.00	119 06 00.00		
11 40 00.00	119 03 00.00		
11 36 00.00	119 03 00.00		
11 36 00.00	119 00 00.00		
11 32 00.00	119 00 00.00		
11 32 00.00	118 57 00.00		
11 28 00.00	118 57 00.00		
11 25 12.00	118 57 00.00		
11 32 09.50*	119 00 00.00*		
11 30 00.00	119 01 25.00		
11 32 10.40	119 03 00.00		
11 36 00.00	119 03 00.00		
11 36 00.00	119 05 50.00		
11 36 14.00	119 06 00.00		
11 40 00.00	119 06 00.00		
11 40 00.00	119 08 46.00		
11 43 00.00	119 11 00.00		
11 44 30.00	119 09 00.00	18,545.45 Hectares	(Approx)

* Wrong value - needs to be corrected]

BLOCK A
(NIDO)

Parties	P.I.'s	% Share of Default	Share of Default Interest	Total
APPI	34.114	70.215%	36.101	70.215
BASIC	10.138	20.867%	10.7291	20.867
PHILODRILL	4.333	8.918%	4.585	8.918
ORIENTAL	(51.415)	--	--	--
Total		100.000%	51.415	100.000

BLOCK "B"
(MATINLOC)

Parties	P.I.'s	% Share of Default	Share of Default Interest	Total
APPI	25.724	30.937%	5.213	30.937
API	32.932	39.606%	6.674	39.606
PHILODRILL	12.683	15.253%	2.570	15.253
BASIC	11.810	14.204%	2.394	14.204
ORIENTAL	(16.851)	--	--	--
Total		100.000%	16.851	100.000

BLOCK "C"
(W.L/GALOC)

Parties	P.I.'s	% Share of Default	Share of Default Interest	Total
APPI	23.40	36.909%	13.509	36.909
API	5.60	8.833%	3.233	8.833
APMC	7.40	11.672%	4.272	11.672
BASIC	11.00	17.350%	6.350	17.350
BALABAC	1.00	1.577%	0.577	1.577
PETROFIELDS	5.00	7.886%	2.886	7.886
PHILODRILL	3.00	4.732%	1.732	4.732
SEAFRONT	4.00	6.309%	2.309	6.309
UNIOIL	2.00	3.155%	1.155	3.155
ALSONS	1.00	1.577%	0.577	1.577
ORIENTAL	(36.60)	--	--	--
Total		100.000%	36.600	100.000

BLOCK "D"

Parties	P.I.'s	% Share of Default	Share of Default Interest	Total
APPI	33.15	40.353%	7.203	40.353
API	35.00	42.605%	7.605	42.605
APMC	5.00	6.086%	1.086	6.086
BASIC	7.00	8.521%	1.521	8.521
PHILODRILL	2.00	2.435%	0.435	2.435
ORIENTAL	(17.85)	--	--	--
Total		100.000%	17.850	100.000

S.C. 14 PARTNERS

1. ALCORN (PRODUCTION) PHILLIPINES, INC./
2. ALCORN PHILLIPINES, INC.
15th Floor, Pacific Star Building
Makati Ave. corner Sen. Gil J. Puyat Ave.
Makati City, Metro Manila, Philippines
Tel.: (63-2) 817-6021 to 24
Fax: (63-2) 811-5683; (63-2) 818-4369
Arty. Eduardo F. Hernandez - EVP & Gen. Manager
Atty. Mario M. Uson - VP - Legal
3. ALCORN PETROLEUM & MINERALS CORPORATION
Suite 1801, Pearlbank Center
146 Valero Street, Salcedo Village
Makati City 1227, Metro Manila, Philippines
Tel: (63-2) 840-3696 to 98
Fax: (632) 892-1156
Mr. Ponciano K. Mathay, Jr. - Vice-President
4. ALSONS CONSOLIDATED RESOURCES, INC.
2F Priscilla Bldg., 2278 Pasong Tamo Ext.
Makati City, Metro Manila, Philippines
Tel.: (63-2) 812-0365
Fax: (63-2) 812-1005
Mr. Tirso G. Santillan, Jr. - Executive Vice-President
5. BALABAC OIL EXPLORATION & DRILLING CO., INC.
Suite 6A, Sagittarius Condominium
H.V. dela Costa St., Salcedo Village
Makati City, Metro Manila, Philippines
Tel.: (63-2) 892-2946 dl (AQS)
Fax: (63-2) 815-2855
Mr. Antonio Q. Sevilla - Executive Vice-President
6. BASIC PETROLEUM & MINERALS, INC.
7th Floor, Basic Petroleum Bldg.
Carlos Palanca, Jr. St., Legaspi Village
Makafi City, Metro Manila, Philippines
Tel.: (63-2) 817-8596 to 98
Fax: (63-2) 817-0191
Mr. Oscar C. de Venecia - President
7. PETROFIELDS EXPLORATION & DEVELOPMENT CO., INC.
7th Floor, JMT Building, ADB Avenue
Ortigas Centre, Pasig City 1600, Philippines
Tel.: (63-2) 633-8716 to 23
Fax: (63-2) 633-8730
Ms. Milagros V. Reyes - President
8. THE PHILODRILL CORPORATION
8th Floor, Quad Alpha Centrum
125 Pioneer St., Mandaluyong City
Metro Manila, Philippines
Tel.: (63-2) 631-8151 to 52; 631-1801 to 06
Fax: (63-2) 631-8080
M. Alfredo C. Ramos - President
Atty. Augusto B. Sunico - EVP & Treasurer
9. SEAFRONT RESOURCES CORPORATION
32/F: Tektite Tower No. 1, Tektite Road
Ortigas Center, Pasig City, Metro Manila
Tel.: (63-2) 634-6364 to 68
Fax: (63-2) 634-8630
Mr. Manuel D. Recto - President
10. UNIOIL & GAS DEVELOPMENT CO., INC.
Unit 6B, Sagittarius Condominium
H.V. dela Costa St., Salcedo Village
Makati City, Metro Manila
Tel.: (63-2) 810-5869
Fax.- (63-2) 817-6856
Mr. Felix V. Gonzalez, Jr. - President
- * (11. ORIENTAL PETROLEUM & MINERALS CORPORATION
7th Floor, Corinthian Plaza Paseo de Roxas
Legaspi Village, Makati City, Metro Manila
Tel.: (63-2) 892-60-66 to 71
Fax: (63-2) 811-3216; (63-2) 811-3089 (Operations)
Mr. John L. Gokongwci, Jr. - Chairman
Mr. Apollo P. Madrid - VP - Operations)

- -----
* In Default

EXHIBIT H

CO-ORDINATES OF CONTRACT AREA

BLOCK A - NIDO PRODUCTION AREA

LATITUDE	LONGITUDE
11 03 19.00	118 47 49.10

11 01 07.00	118 46 44.70		
11 01 07.00	118 50 02.20		
11 02 40.00	118 51 00.00		
11 03 19.00	118 50 00.00		
11 03 19.00	118 47 49.10	-----	
		2,424.24 HECTARES	(Approx)

MATINLOC PRODUCTION AREA

LATITUDE	LONGITUDE		
11 03 00.00	119 01 25.00		
11 26 43.00	118 59 00.00		
11 25 12.00	118 59 00.00		
11 25 12.00	118 59 49.00		
11 29 05.00	119 02 47.00	-----	
11 30 00.00	119 01 25.00	2,666.67 HECTARES	(Approx)

LIBRO PRODUCTION AREA

LATITUDE	LONGITUDE		
11 26 30.00	119 03 30.00		
11 26 05.00	119 04 00.00		
11 24 55.00	119 03 03.00	-----	
11 26 30.00	119 03 30.00	121.2 HECTARES	(Approx)

BLOCK B-1 NORTH MATINLOC PRODUCTION AREA

LATITUDE	LONGITUDE		
11 32 00.00	119 03 00.00		
11 28 56.29	119 03 00.00		
11 30 00.00	119 01 25.00	-----	
11 32 00.00	119 03 00.00	848.48 HECTARES	(Approx)

BLOCK C - WEST LINAPACAN/GALOC RETENTION BLOCK

LATITUDE	LONGITUDE		
12 03 51.21	119 18 00.00		
12 00 00.00	119 18 00.00		
12 00 00.00	119 15 00.00		
11 49 48.00	119 15 00.00		
11 50 27.00	119 08 33.00		
11 50 27.00	119 05 58.00		
11 46 45.00	119 05 58.00		
11 44 30.00	119 09 00.00		
11 43 00.00	119 11 00.00		
11 42 18.65	119 12 00.00		
11 44 00.00	119 12 00.00		
11 44 00.00	119 14 30.00		
11 43 00.00	119 14 30.00		
11 45 00.00	119 15 00.00		
11 48 00.00	119 15 00.00		
11 48 00.00	119 18 00.00		
11 56 00.00	119 18 00.00		
11 56 00.00	119 21 00.00		
11 56 05.00	119 20 20.00		
11 57 23.84	119 21 00.00		
12 02 45.66	119 21 00.00	-----	
12 03 51.21	119 18 00.00	33,818.18 HECTARES	(Approx)

BLOCK B - RETENTION BLOCK

LATITUDE	LONGITUDE		
11 24 00.00	118 57 00.00		
11 24 00.00	118 54 00.00		
11 20 00.00	118 54 00.00		
11 20 00.00	118 57 00.00		
11 24 00.00	118 57 00.00		
11 24 00.00	119 08 00.00		
11 25 12.00	118 59 49.00		
11 25 12.00	118 59 00.00		
11 26 43.00	118 59 00.00		
11 30 00.00	119 01 25.00		
11 32 00.00	119 00 00.00		
11 25 12.00	118 57 00.00	-----	
11 24 00.00	118 57 00.00	8,848.48 HECTARES	(Approx)

BLOCK D- RETENTION BLOCK

LATITUDE	LONGITUDE		
11 44 30.00	119 09 00.00		
11 44 00.00	119 09 00.00		
11 44 00.00	119 06 00.00		
11 40 00.00	119 06 00.00		
11 40 00.00	119 03 00.00		
11 36 00.00	119 03 00.00		
11 36 00.00	119 00 00.00		
11 32 00.00	119 00 00.00		
11 32 00.00	118 57 00.00		
11 28 00.00	118 57 00.00		
11 25 12.00	118 57 00.00		
11 32 09.50*	119 00 00.00*		
11 30 00.00	119 01 25.00		
11 32 10.40	119 03 00.00		
11 36 00.00	119 03 00.00		

11 36 00.00	119 05 50.00		
11 36 14.00	119 06 00.00		
11 40 00.00	119 06 00.00		
11 40 00.00	119 08 46.00		
11 43 00.00	119 11 00.00	-----	
11 44 30.00	119 09 00.00	18,545.45 HECTARES	(Approx)

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* Wrong value - needs to be corrected]

EXHIBIT I

MAP OF CONTRACT AREA

EXHIBIT "I"

PHILIPPINES
NORTHWEST PALAWAN
SERVICE CONTRACT 14

12 00 00.00

[GRAPHIC OMITTED]

VAALCO Energy, Inc.
4600 POST OAK PLACE, SUITE 309
HOUSTON, TEXAS 77027
TEL. (713) 623-0801 FAX. (713) 625-0982

December 5, 1996

Mr. S. Glynn Roberts
Northstar Interests, L.C.
9821 Katy Freeway, Suite 1040
Houston, Texas 77024

RE: 1996 Apache Offshore Gulf of Mexico Sales Package
Amendment to October 22, 1996 Letter Agreement between VAALCO and
Northstar

Dear Glynn:

This letter amends the October 22, 1996 Letter Agreement between] VAALCO Energy, Inc. ("VAALCO") and Northstar Interests, L.C. ("Northstar") with respect to the companies' joint purchase of the Apache Corporation offshore properties described in the Exhibit "A" of said letter agreement. The amended terms and conditions of the agreement being as follows:

(1) According to the Settlement Statement issued by Apache and dated December 6, 1996, attached hereto as Exhibit "A", the Total Adjusted Purchase Price for the properties is Five Hundred and Forty One Thousand and One Hundred Sixty Nine (\$541,169.00) Dollars.

(2) VAALCO will pay one half the Total Adjusted Purchase Price and Northstar will pay the other half. All amounts previously deposited by each of the respective parties with Apache in accordance with the October 22, 1996 Letter Agreement shall be credited against the amount due at closing from each such respective party (eg. VAALCO will be credited \$85,500.00 and Northstar will be credited \$55,500.00).

(3) The Effective Date of the transaction with Apache will be July 1, 1996, and thereafter VAALCO and Northstar will equally share all revenues and expenses attributable to the properties save and except ss148. Similarly, VAALCO and Northstar will equally share responsibility for all gas imbalances inherited with respect to the properties.

(4) With one exception, at closing VAALCO (or its designated subsidiary VAALCO ENERGY (USA), INC.) will be assigned half of the interest conveyed by Apache to Northstar in the properties and Northstar will retain the other half. The one exception is that VAALCO will not be assigned an interest in the Ship Shoal 148 override to be conveyed by Apache to Northstar.

(5) Northstar and VAALCO will be equally responsible for satisfying the Apache bonding requirements and any supplemental bonding requirements of the MMS. VAALCO will be solely responsible for satisfying THE three \$50,000.00 MMS lease bonds on High Island Blocks A-280, A-313 and A-314, and will have its' principals Severally guaranty the \$400,000.00 above \$1,200,000. in liability on the bonds being issued by Underwriters Indemnity. Northstar's principals will execute a separate guaranty agreement with the VAALCO principals wherein they will agree to be liable to said principals for one half, or \$200,000.00, of the \$400,000.00 being guaranteed by the said VAALCO principals as above described.

(6) VAALCO will operate the High Island Block 313/314 and High Island Block A-280 fields and with respect to those fields Northstar will be responsible to VAALCO for its proportionate share of COPAS authorized overhead charges billed the non-operators.

Sincerely,

VAALCO ENERGY, INC.

/s/WILLIAM E PRITCHARD. III
William E Pritchard. III
Vice President and General Counsel

Agreed to and Accepted this ___ day of December, 1996.

NORTHSTAR INTERESTS L.C.

By: /s/ S. GLYNN ROBERTS
S. Glynn Roberts
Its: Managing Director

Settlement Statement

Seller:	Apache Corporation
Buyer:	Northstar Interests, L.C.
Effective Time:	July 1, 1996 @ 7:00 a.m.
Closing Date: December 6, 1997	Post-Closing Date: March 6, 1997
Well Name:	Various - Offshore Properties

Wire Transfer Instructions:

Seller: To be designated by written notice
Buyer: To be designated by written notice

	Preliminary Settlement	Post Closing Adjustment	Final Settlement
Purchase Price	\$1,310,000	\$0	\$0

ADJUSTMENTS			
Increases to Purchase Price-			
Post Effective Date Expenditures	247,061	0	0
Hydrocarbon Inventory	966	0	0
Underproduced Gas Imbalances	49,897	0	0
Other	0	0	0

Total Increases	297,924	0	0

Decreases to Purchase Price-			
Post Effective Date Revenues	804,051	0	0
Title Defects	0	0	0
Overproduced Gas Imbalances	262,704	0	0
Other	0	0	0

Total Decreases	1,066,755	0	0

Adjustments to Purchase Price	(768,831)	0	0

Total Adjusted Purchase Price	\$541,169	\$--	\$--
Less: Payments Received	(141,000)		\$--

Amount Due (To) From Buyer	\$400,169	\$--	\$--

Buyer: /s/ S. Glynn Roberts
Seller: /s/ M. Lofhouse

Date:12-05-96
Date:12-05-96

PRODUCTION AND DELIVERY AGREEMENT

THIS AGREEMENT ("Agreement") is made and entered into this 11th day of December, 1996, but effective as of the 1st day of October, 1996, by and between VAALCO Energy (USA), Inc., whose address is 4600 Post Oak Place, Suite 309, Houston, Texas 77027 ("Grantor"), and Tenneco Ventures Finance Corporation, whose address is 1010 Milam Street, Houston, Texas 77002 ("Grantee").

WHEREAS, by Conveyance of Production Payment effective as of October 1, 1996, from Grantor to Grantee (the "Conveyance"), Grantee has purchased and acquired from Grantor and Grantor has sold and conveyed to Grantee as a Production Payment a limited overriding royalty interest in the Leases described in Exhibit A to the Conveyance; and

NOW, THEREFORE, as a material inducement to cause Grantee to purchase the Production Payment and in consideration of the mutual benefits and obligations of the parties hereunder, Grantee and Grantor have agreed, and hereby agree, as follows:

1. DEFINITIONS.

Each capitalized term used herein but not defined herein shall have the meaning given to it in the Conveyance.

2. MARKETING.

(a) Subject to the provisions of Section 3, the Production Payment Hydrocarbons shall be delivered to the credit of Grantee, free of cost, at the Delivery Points.

(b) Grantor shall market and sell all Production Payment Oil on behalf of Grantee on the same basis as Grantor markets its own share of Oil produced from or attributable to land covered by Subject Interests, but never for less than the net price received by Grantor at the Delivery Points.

(c) During the remaining term of each Existing Gas Sales Contract, Grantor shall deliver thereunder on behalf of and for the credit of Grantee all of the Production Payment Gas which is subject to such Existing Gas Sales Contract at the contract price and terms applicable thereto without deduction for nonperformance or noncompliance. Grantor shall not amend any of the Existing Gas Sales Contracts or any gas gathering or transportation contract without Grantee's prior written consent.

(d) All Production Payment Hydrocarbons marketed by Grantor on behalf of Grantee shall be sold pursuant to arm's length contracts with parties not affiliated with Grantor, containing terms negotiated by Grantor as a prudent operator.

(e) All proceeds received by Grantor from the sale of Production Payment Hydrocarbons sold on behalf of Grantee pursuant to the terms hereof are received by Grantor in

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trust for Grantee and shall be held in trust by Grantor for Grantee; provided, however, Grantor shall pay such proceeds to Grantee by wire transfer to such account as Grantee shall have designated from time to time within seven (7) days after receipt thereof by Grantor. The foregoing sentence is subject to Grantee's right at any time Grantee considers prudent to direct the purchasers of any Production Payment Hydrocarbons to pay the proceeds thereof directly to Grantee by delivering to such purchasers the letters in lieu of transfer orders previously executed by Grantor and held by Grantee. In the event Grantee requests direct payment, Grantor will cooperate in instructing the purchasers to pay such proceeds directly to Grantee and shall execute such additional instruments as may be necessary or appropriate in connection therewith. In the event any Production Payment Hydrocarbons are sold by Grantor, on behalf of Grantee, under the terms of any agreement between Grantor and Grantee or any of its affiliates, Grantee shall at all times be entitled to retain the proceeds of such sale and receive direct payment from Grantor's affiliate.

(f) Production Payment Gas shall be marketed by Grantor on the same basis as Grantor markets its share of Gas produced from the Subject Interests.

(g) All Production Payment Gas shall be delivered to Grantee's credit into the facilities installed and maintained by the operator or the First Transporter located at each applicable Delivery Point, currently as produced and saved, in its natural state after removal of liquids by conventional mechanical field separation facilities (low temperature absorption, lean oil absorption, or similar "separation" facilities shall not be considered conventional mechanical field separation facilities), and if Production Payment Gas is flowed through any processing plant or cryogenic facilities after delivery to Grantee or to the credit of Grantee at the Delivery Points the provisions of Section 4 shall be applicable.

3. GATHERING AND TRANSPORTATION.

Grantor shall gather or cause to be gathered all Production Payment Hydrocarbons at the wellheads where produced and transport the same to the Delivery Points. Grantor shall be in exclusive control and possession of the Production Payment Hydrocarbons gathered at the wellheads and responsible for any loss, damage or injury caused thereby.

4. PROCESSING; PLANT PRODUCTS; EXCHANGE.

It is recognized that as the owner of the Production Payment Grantee owns the Production Payment Gas in its natural state, including, without limitation, all liquefiable Hydrocarbons contained therein. It is recognized that certain of the Subject Interests currently are subject to those existing processing agreements which are Permitted Encumbrances. Grantee agrees that Grantor may commit Production Payment Gas to other processing agreements on the same terms as it commits Gas from its interests in the Subject Interests as long as such agreements would not have an adverse affect on Grantor's interest in the Production Payment or Grantee's

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ability to market the Production Payment Gas. If as a result of any existing or future processing agreement Grantor elects to process Production Payment Gas, Grantee will have an interest in all plant products and liquids extracted (the "Liquids") and all residue gas remaining ("Plant Residue Gas") attributable or allocable to the Production Payment and the Production Payment Gas under the terms of the Processing Agreements. Grantor agrees that it will not exercise any processing rights if the Plant Residue Gas would not meet the quality requirements set forth in Section 7.

5. RATE OF PRODUCTION.

Grantor shall use its best efforts to prudently operate and produce the Subject Wells (or, if any Subject Wells are operated by a third party, cause the Subject Wells to be prudently operated and produced) in accordance with the terms of the joint operating agreement and in accordance with good engineering practices and the following requirements: (i) the amount of Hydrocarbons produced from any Subject Well shall not exceed in any Month the lower of (x) the maximum amount that in the good faith judgment of the operator is capable of producing at its maximum efficient rate of flow or (y) the respective allowable rate of flow under applicable orders, rules, regulations or laws, if any; (ii) the amount of Hydrocarbons produced from the Subject Wells shall be in the good faith judgment of the operator sufficient to prevent a net migration of Hydrocarbons from the reservoirs to which proved reserves are attributed underlying the Subject Interests; and (iii) subject to field rules established by governmental authorities having or asserting jurisdiction, the amount of Hydrocarbons produced from the Subject Wells shall be equitable and ratable, based on factors used in determining such field rules.

6. SCHEDULING.

Not less than fifteen (15) days prior to the first day of each Month, Grantor will notify Grantee of the daily quantities of (i) Gas which Grantor estimates will be produced from each Subject Well during such Month and (ii) the quantity of Gas which Grantor estimates will be available for delivery to the credit of Grantee as Production Payment Gas at each Delivery Point during such Month.

7. QUALITY REQUIREMENTS.

All Production Payment Gas delivered to Grantee, or to Grantee's credit, shall satisfy the quality requirements and specifications as set forth in the First Transporter's transportation agreements and/or published tariffs filed with the FERC for acceptance and transportation of Gas at the Delivery Points without penalty or deduction for nonconformity, as the same may be modified from time to time. All costs and expenses of dehydrating, treating, and compressing Production Payment Hydrocarbons to satisfy such quality requirement shall be borne and paid by Grantor.

8. PRESSURE.

Grantor shall deliver, or cause to be delivered, the Production Payment Gas at a pressure sufficient to deliver the same into the First Transporter's pipeline at each Delivery Point

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against the operating pressure of First Transporter's pipeline in existence from time to time; provided that Grantor shall not be required to install compression equipment or other equipment in circumstances in which such installation is not economically feasible without regard to the burden of the Production Payment. Grantor shall inform Grantee, as often as may be necessary, of the delivery rate and pressure of the Production Payment Gas delivered to Grantee or to Grantee's credit.

9. OPERATION OF SUBJECT INTERESTS.

At all times from the date hereof until the termination of the

Production Payment, Grantor, at Grantor's cost and expense shall:

(i) Cause the Subject Interests to be maintained in full force and effect, and to be developed, protected against drainage, and continuously operated for the production of Hydrocarbons in a good and workmanlike manner as would a prudent operator (and without regard to the burden of the Production Payment), all in accordance with generally accepted industry practices, applicable operating agreements, and all applicable federal, state and local laws, rules and regulations, and shall otherwise comply with all applicable laws, rules and regulations;

(ii) Pay, or cause to be paid, promptly as and when due and payable, all rentals and royalties payable in respect of the Subject Interests or the production therefrom, and all costs, expenses and liabilities incurred in or arising from the operation or development of the Subject Interests, or the producing, treating, gathering, storing, marketing or transporting of Hydrocarbons therefrom;

(iii) Cause all wells, machinery, equipment and facilities of any kind now or hereafter located on the Subject Interests, and necessary or useful in the operation thereof for the production of Hydrocarbons therefrom, to be provided and to be kept in good and effective operating condition as would a prudent operator (and without regard to the burden of the Production Payment), and all repairs, renewals, replacements, additions and improvements thereof or thereto, useful or needful to such end, to be promptly made;

(iv) Give or cause to be given to Grantee written notice of every adverse claim or demand made by any person affecting the Subject Interests, the Hydrocarbons produced therefrom, the Production Payment and/or the Production Payment Hydrocarbons in any manner whatsoever, and of any suit or other legal proceeding instituted with respect thereto, and at Grantor's expense cause all necessary and proper steps to be taken with reasonable diligence to protect and defend the Subject Interests, the Hydrocarbons produced therefrom, the Production Payment and/or the Production Payment Hydrocarbons against any such adverse claim or demand, including (but not limited to) the employment of counsel for the prosecution or defense of litigation and the contest, release or discharge of such adverse claim or demand;

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(v) Cause the Subject Interests to be kept free and clear of liens, charges and encumbrances of every character, other than (1) Taxes constituting a lien but not due and payable, and (2) the Permitted Encumbrances;

(vi) Pay, or cause to be paid, all Taxes when due and before they become delinquent, and reimburse Grantee for any Taxes paid by Grantee as a result of the Production Payment or the Production Payment Hydrocarbons or the production of same, other than Grantee's respective share of any Hydrocarbon severance Taxes, which shall be paid by Grantee;

(vii) Pay, or cause to be paid, promptly when due and before they become delinquent all operating expenses and all billings under the applicable joint operating agreements (except to the extent contested in good faith); and

(viii) Not resign as operator or, if any of the Subject Interests are operated by third parties, not vote for the removal of the operator as operator of any of the Subject Interests until and unless the successor operator has been approved in writing by Grantee.

Nothing contained in this Section 9 shall be construed to cause Grantor to violate the terms of any Permitted Encumbrance.

10. INSURANCE; DAMAGE OR LOSS.

(a) Grantor shall maintain or cause to be maintained, at its sole cost and expense and with financially sound and reputable insurers reasonably satisfactory to Grantee, insurance covering the Leases and pipelines, wells, and facilities located thereon against such liabilities, casualties, risks and contingencies, and in such types as is customary in the case of independent oil companies engaged in similar operations and having similar property. Such insurance shall name Grantee as an additional insured as Grantee's interests appear. Grantor shall furnish certificates of such insurance to Grantee and shall obtain endorsements to such policies providing that the insurer will notify Grantee not less than thirty (30) days prior to the expiration or termination of such policy of insurance.

(b) In the event of any damage to or loss of any pipeline, well, equipment or facility on the Leases, Grantor (at no cost to Grantee) shall promptly redrill, rebuild, reconstruct, repair, restore or replace such damaged or lost property, unless to do so would not be economically feasible (without regard to the burden of the Production Payment, but taking into account insurance proceeds and recoveries).

11. ABANDONMENT OF WELLS.

(a) Until the termination of the Production Payment, Grantor shall not, without first obtaining the written consent of Grantee, abandon any

Subject Well heretofore or hereafter completed for production of Hydrocarbons on any of the lands and waterbottoms covered by or

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attributable to the Subject Interests or surrender, abandon or release any Lease or Subject Interest or any part thereof, provided, however, that, without the consent of Grantee:

(i) If and when, in Grantor's reasonable judgment, exercised in good faith and as would a prudent operator not burdened by the Production Payment, a well becomes no longer capable of producing Hydrocarbons in paying quantities (without regard to the burden of the Production Payment) and it would not be economically feasible (without regard to the burden of the Production Payment) to restore the productivity of such well by reworking, reconditioning, deepening, plugging back, or otherwise, Grantor shall have the right to abandon such well, subject to the provisions of Section 11(c) of this Agreement.

(ii) Subject to the provisions of Section 11(c), Grantor shall have the right to surrender and release any Subject Interest or part thereof when, in the reasonable judgment of Grantor exercised in good faith and as would a prudent operator not burdened by the Production Payment, there is no well located thereon which is capable of producing Hydrocarbons in paying quantities and the drilling of an additional well thereon would not, in Grantor's reasonable opinion, be economically feasible (without regard to the burden of the Production Payment).

(b) For all purposes of this Agreement, (i) a well shall be deemed to be capable of producing Hydrocarbons "in paying quantities" unless and until there arises a condition which reasonably appears to be permanent, such that the aggregate value of the Hydrocarbons which are being produced from such well, net of royalties and Taxes and appropriately risked and discounted but without regard to the burden of the Production Payment, no longer exceeds or will not exceed the costs and expenses directly related to the operation and maintenance of such well (including the direct operating costs and expenses incurred by the Operator under the joint operating agreement but excluding office and management overhead and similar charges), and (ii) the restoration of the productivity of a well or the drilling of a well shall be deemed to be "economically feasible" whenever the aggregate value of the Hydrocarbons which it reasonably appears will be produced from such well, net of royalties and Taxes and appropriately risked and discounted but without regard to the burden of the Production Payment, will exceed the costs and expenses directly related to such restoration or drilling and the operation and maintenance of such well (excluding office and management overhead and similar charges).

(c) Before abandoning any well or surrendering or releasing any Subject Interest or part thereof, Grantor shall offer, subject to the Permitted Encumbrances, to assign the same to Grantee upon Grantee's payment of the net salvage value (if any) attributable to Grantor's interest therein and assumption of the obligations attributable to Grantor's interest therein.

12. VOTING UNDER THE JOINT OPERATING AGREEMENT.

Grantor shall not vote for, consent to, or otherwise endorse under the terms of any applicable joint operating agreement or otherwise, any operation or action that is inconsistent with Grantor's obligations under this Agreement.

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13. INFORMATION.

At all times from the date hereof until the termination of the Production Payment, Grantor, at its own expense, shall furnish to Grantee the following reports and information at the times indicated below.

(a) Monthly, Grantor shall furnish a report showing the gross production of Hydrocarbons from each Subject Well, the quantity of Hydrocarbons sold for Grantor's account or taken in kind by Grantor and the quantity of Production Payment Hydrocarbons sold for Grantee's account.

(b) Upon request, Grantor shall make available to Grantee for review and copying in Grantor's offices in Houston, Texas surface maps showing property lines and well locations, well logs, core analysis data, flow and pressure tests, natural gas analysis and casing programs and other similar information related to the Subject Wells and the production therefrom.

(c) Upon request, Grantor shall furnish such other information as Grantee may reasonably request.

14. ACCESS TO SUBJECT INTERESTS.

Grantor shall permit the duly authorized representatives of Grantee, at any reasonable time, but at Grantee's risk and expense, to make such inspection of the Subject Interests and the property, machinery, equipment and facilities used in the operation thereof as such representatives shall deem proper.

15. REMEDIES OF GRANTEE.

(a) At any time and from time to time until the termination of the Production Payment, if Grantor shall fail to perform or observe any of the covenants or agreements provided herein or in the Conveyance to be performed or observed by Grantor, Grantee, in addition to Grantee's right to recover damages and all other remedies available to Grantee at law or in equity, may, if such failure shall continue unremedied after fifteen (15) days after written notice thereof is delivered to Grantor:

(i) perform or cause to be performed on behalf of and at the expense of Grantor, any obligation which has not been performed or observed by Grantor, in which event Grantee may advance funds and incur and pay bills for expenses for such purpose and shall be reimbursed out of the proceeds attributable to Grantor's interest in the Subject Interests, together with interest on the unpaid amounts thereof at the rate of interest publicly announced by Citibank, N.A. as its prime or base rate plus 3%, but not to exceed the maximum nonusurious rate permitted by applicable law (the "Agreed Rate"), from the date of such advance or payment by Grantee until the date reimbursed by Grantor; and

(II) upon written notice to Grantor, succeed to and exercise any and all rights of the Grantor with respect to the possession, operation and development of the Subject

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Interests, and use in connection therewith all property of Grantor as may be useful or appropriate for the production, treating, storing or transportation of Hydrocarbons or other minerals, and all other properties and rights of a similar character then held by Grantor and situated upon or useful or held for future use in connection with the exploration, development or operation of the Subject Interests for the production, treating, storing, or transportation of Hydrocarbons or other minerals, and the Grantee shall have the right on behalf and for the account of Grantor, to sell and utilize all of the Hydrocarbons attributable to Grantor's interest in the Subject Interests and to apply the proceeds thereof to the costs and expenses of the operation and development of the same and to reimburse Grantee for any amounts so expended by Grantee;

(iii) pay any of the costs, expenses, Taxes (which Taxes are not being contested in good faith by the Grantor) or other amounts which the Grantor has agreed to pay under the Conveyance which have become delinquent, and to be reimbursed out of the proceeds of the Hydrocarbons attributable to the Grantor's interest in the Subject Interests, together with interest on the unliquidated amounts thereof, at the Agreed Rate from the date of such payment;

(iv) apply to a court of equity for the specific performance or observance of any such covenant or condition and in aid of the execution of any power herein granted and for the appointment of a receiver of the Subject Interests and the Hydrocarbons produced therefrom.

(b) Any purchaser of Hydrocarbons from or attributable to the Subject Interests is authorized and directed to make payment to the Grantee out of the Hydrocarbons attributable to Grantor's interest in the Subject Interests for any amount which Grantee shall certify to such purchaser that it has paid and which Grantor is obligated to pay hereunder. Any insurer is authorized and directed to make payment to the Grantee of proceeds of insurance described in Section 10(a) hereof for any amount which Grantee shall certify to such insurer that it has expended in redrilling, rebuilding, reconstructing, repairing, restoring or replacing damaged or lost property which Grantor has failed or refused to do promptly pursuant to Section 11 (b) hereof. Grantor hereby designates Grantee as its agent and attorney in fact to execute any instruments which may be necessary or appropriate, including without limitation designations of operator, to enable Grantee to exercise its rights under this Section 15. This designation and appointment shall be irrevocable as long as the Production Payment remains in effect.

16. FORCE MAJEURE.

In the event of either party being rendered unable, wholly or in part, by Force Majeure to carry out its obligations under this Agreement other than to make payments due hereunder, it is agreed that on such party's giving notice and full particulars of such force majeure in writing or by telecopy to the other party as soon as possible after the occurrence of the cause relied on, then the obligations of the party giving such notice, so far as they are affected by such Force Majeure, shall be suspended during the continuance of any inability so caused but for no longer period, and such cause shall as far as possible be remedied with all reasonable dispatch.

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17. NOTICES.

All notices, requests, demands, instructions and other communications required or permitted to be given hereunder shall be in writing and shall be delivered personally or mailed by certified mail, postage prepaid and return receipt requested or by telex or telecopier, as follows:

If to Grantor, addressed to:

VAALCO Energy (USA), Inc.
4600 Post Oak Place, Ste. 309

Houston, Texas 77027
Attention: Virgil A. Walston
Telecopy No.: (713) 623-0801

If to Grantee, addressed to:

Tenneco Ventures Finance Corporation
1010 Milam Street
Houston, Texas 77002
Attention: Michael V. Ronca
Telecopy No.: (713) 757-8253

or to such other place within the United States of America as either party may designate as to itself by written notice to the other. All notices given by personal delivery or mail shall be effective on the date of actual receipt at the appropriate address. Notice given by telex or telecopier shall be effective upon actual receipt if received during recipient's normal business hours or at the beginning of the next business day after receipt if received after the recipient's normal business hours. All notices by telex or telecopier shall be confirmed promptly after transmission, by certified mail or personal delivery.

18. INDEMNITY.

IT IS UNDERSTOOD AND AGREED THAT UNDER NEITHER THIS AGREEMENT NOR THE CONVEYANCE DOES GRANTEE ASSUME OR SHALL GRANTEE EVER BE LIABLE OR RESPONSIBLE IN ANY WAY FOR THE PAYMENT OF ANY COSTS, EXPENSES OR LIABILITIES INCURRED IN CONNECTION WITH DEVELOPING, EXPLORING, DRILLING, EQUIPPING, TESTING, OPERATING, PRODUCING, MAINTAINING OR ABANDONING THE SUBJECT INTERESTS OR ANY WELL OR FACILITY THEREON OR STORING, HANDLING, TREATING OR TRANSPORTING TO THE DELIVERY POINTS PRODUCTION THEREFROM. GRANTOR SHALL FULLY DEFEND, PROTECT, INDEMNIFY AND HOLD GRANTEE, ITS OFFICERS, EMPLOYEES, REPRESENTATIVES AND AGENTS HARMLESS FROM AND AGAINST ANY AND ALL CLAIMS, DEMANDS, SUITS AND CAUSES OF ACTION OF EVERY KIND AND CHARACTER, INCLUDING REASONABLE ATTORNEYS' FEES AND

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COSTS OF DEFENSE, WHICH MAY BE MADE OR ASSERTED BY ANY THIRD PARTY OR GOVERNMENTAL AGENCY OR ENTITY, OR BY GRANTOR, GRANTOR'S EMPLOYEES, AGENTS, CONTRACTORS AND SUBCONTRACTORS AND THEIR EMPLOYEES, AGENTS, ON ACCOUNT OF PERSONAL INJURY, DEATH OR PROPERTY DAMAGE (INCLUDING, WITHOUT LIMITATION, CLAIMS FOR POLLUTION AND ENVIRONMENTAL DAMAGE), ANY CIVIL OR CRIMINAL FINES OR PENALTIES AND ANY CAUSES OF ACTION ALLEGING STATUTORY LIABILITY, RELATING TO, ARISING OUT OF, OR IN ANY WAY INCIDENTAL TO THE SUBJECT INTERESTS, THE WELLS AND FACILITIES THEREON OR USED IN CONNECTION THEREWITH, THE OPERATION THEREOF AND THE PRODUCTION THEREFROM, WHETHER THROUGH AN ACT OR OMISSION OF GRANTEE OR ANY OTHER PARTY HERETO OR OTHERWISE, AND WHETHER OR NOT ARISING OUT OF THE SOLE, JOINT OR CONCURRENT NEGLIGENCE, FAULT OR STRICT LIABILITY OF GRANTOR OR ANY OTHER PERSON OR ENTITY INDEMNIFIED HEREUNDER. THIS INDEMNITY SHALL APPLY, WITHOUT LIMITATION, TO ANY LIABILITY IMPOSED UPON ANY PARTY INDEMNIFIED HEREUNDER AS A RESULT OF ANY STATUTE, RULE, REGULATION OR THEORY OF STRICT LIABILITY.

19. SUCCESSORS AND ASSIGNS.

All the covenants and agreements Grantee herein contained shall be deemed to be covenants running with the land and shall be binding upon the successors and assigns of Grantor's interest in the Subject Interests and Grantee's interest in the Production Payment and shall inure to the benefit of Grantor, Grantee, and their respective successors and permitted assigns. The foregoing notwithstanding, nothing herein is intended to modify or shall have the effect of modifying the restrictions on assignment set forth in the Conveyance regarding mortgage, assignments, transfer or pooling of Grantor's interest in the Subject Interests; and the preceding sentence shall not be deemed to permit any assignment or other transfer of the interest of Grantor in any of the Subject Interests that is not specifically permitted by the provisions of the Conveyance. Grantee's interest in the Production Payment is assignable.

20. DAMAGES.

It is recognized that Grantee will look solely to the Production Payment Hydrocarbons for satisfaction and discharge of the Production Payment, and that Grantor is not personally liable for the payment and discharge thereof. However, Grantor shall not be relieved of any obligations under this Agreement or any obligation to respond in damages for any breach of any of the provisions hereof or of the Conveyance.

21. COST OF LITIGATION.

In the event of a breach of this Agreement, or if a dispute arising hereunder is not resolved by mutual agreement, and either party should sue the other party to enforce its rights hereunder or for breach hereof, the party prevailing in such litigation shall be entitled to recover

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its costs and reasonable attorneys' fees in addition to any other remedy or recovery to which it may be entitled.

22. ENTIRE AGREEMENT: AMENDMENTS: WAIVER.

This Agreement constitutes the entire agreement between the parties hereto. This Agreement may not be amended and no rights hereunder may be waived except by a written document signed by the duly authorized representatives of the parties. No waiver of any of the provisions of this Agreement shall be deemed to be or shall constitute a waiver of any other provisions hereof (whether or not similar), nor shall such waiver constitute a continuing waiver unless otherwise expressly provided.

23. HEADINGS.

The headings of the sections of this Agreement are for guidance and convenience of reference only and shall not limit or otherwise affect any of the terms or provisions of this Agreement.

24. CERTAIN REFERENCES.

Certain agreements, contracts and other documents are listed in Exhibit A and included in the definition of Permitted Encumbrances. References herein or in Exhibit A to Permitted Encumbrances are made solely for the purpose of protecting Grantor on Grantor's warranties and representations as to the Subject Interests, and without regard to whether or not any Permitted Encumbrance is valid, subsisting, legal or enforceable or affects the Production Payment; and such references are not intended to constitute and shall not constitute any sort of recognition or acknowledgment by any party as to the validity, legality, or enforceability of the same or of any term, provision or condition thereof or the applicability thereof to the Production Payment, and shall not revive or ratify the same or create any rights in any third Person. With respect to the Subject Interests governed by Louisiana law no provision in this Agreement shall be construed as an agreement or expression of intent by Grantee to acquire the Production Payment subject to any unrecorded Permitted Encumbrance; provided however, no breach of any warranty of title hereunder shall arise as the result of any claim made pursuant to any unrecorded Permitted Encumbrance.

25. COUNTERPART EXECUTION.

This Agreement may be executed by Grantor and Grantee in any number of counterparts, each of which shall be deemed an original Instrument, but all of which shall constitute but one and the same Agreement.

26. PARTIAL INVALIDITY.

Except as otherwise expressly stated herein, in the event any provision contained in this Agreement shall for any reason be held invalid, illegal or unenforceable by a court or

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regulatory agency of competent jurisdiction by reason of a statutory change or enactment, such invalidity, illegality or unenforceability shall not affect the remaining provisions of this Agreement.

27. APPLICABLE LAW.

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.

28. TERMINATION TIME.

As used in this Agreement, "Termination Time" means the date upon which the proceeds actually received by Grantee from the Production Payment after the Effective Time (net of any applicable severance Taxes paid by Grantee) equal (i) the Production Payment Amount, plus (ii) an amount sufficient to provide Grantee with a 27% internal rate of return on the Production Payment Amount, as determined in accordance with the formula set forth in Exhibit A.

29. GAS IMBALANCES.

Notwithstanding anything in this Agreement or in the Conveyance to the contrary, to the extent any of the Subject Interests are subject to any gas imbalances that would reduce the amount of Hydrocarbons that would otherwise be attributable to such Subject Interests, the existence of any such gas imbalance shall not decrease, in any manner, the Production Payment Percentage applicable to such Subject Interest or the quantity of Production Payment Hydrocarbons to which Grantee is entitled, it being agreed that Grantor shall bear the entire burden of any such gas imbalance.

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EXECUTED in multiple originals as of the date first set forth above.

VAALCO ENERGY (USA), INC.

By:/s/VIRGIL A. WALSTON
Name: Virgil A. Walston
Title: Vice Chairman

TENNECO VENTURES FINANCE CORPORATION

By:/s/CATHERINE L. SLIVA
 Name:Catherine L. Sliva
 Title:V. P.

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 Exhibit A

$$N \frac{PI}{i=0 \quad (1+rate)^{dI-do} \quad 365}$$

VARIABLE DEFINITION OF VARIABLE

dI The Ith payment date or current payment date
 do The Oth payment date or previous payment date
 PI The Ith payment or current payment amount
 N Final number of payments

Given a schedule at dates and payments. Microsoft Excel uses iterative processes to determine the effective rate.

5) MMS SERIAL NO.: OCS 0434
 DATE OF LEASE: January 1, 1955
 LESSEE: Forest Oil Corporation
 DESCRIPTION:

All of Block 149, Ship Shoal Area, as shown on Official Leasing Map, Louisiana. May No. 5, INSOFAR AND ONLY INSOFAR as the Lease Covers:

- 1) NE 1/4 NE 1/4; N 1/2 NW 1/4 NE 1/4; SE 1/4 NW 1/4 NE 1/4; N 1/2 SE 1/4 NE 1/4; SE 1/4 SE 1/4 NE 1/4 of Block 149, Slfip Shoal Area, as to all depths; and
2. SW 1/4 NW 1/4 NE 1/4; SW 1/4 NE 1/4; SW 1/4 SE 1/4 NE 1/4; W 1/2; SE 1/4 of Block 149, Ship Shoal Area as to all depths below 9,000 feet.

SUBJECT INTERESTS:

<TABLE>
 <CAPTION>

LEASE NO.	GRANTOR'S OPERATING RIGHTS OR LEASEHOLD INTEREST %	GRANTOR'S NET REVENUE INTEREST %	DEDICATION FACTOR	PRODUCTION PAYMENT PERCENTAGE (STATED IN PERCENT)
<S>	<C>	<C>	<C>	<C>
High Island A-280	37.500000	25.812499	65%	16.778124%
High Island 313	26.411882	17.916059	65%	11.645438%
High Island 314	25.161883	17.697190	65%	11.503174%
West Cameron 538	11.240021	8.205215	45%	3.692347%
Ship Shoal 149	10.000000	8.333333	60%	5.000000%

</TABLE>

CONVEYANCE OF PRODUCTION PAYMENT

This CONVEYANCE OF PRODUCTION PAYMENT ("Conveyance"), effective as of the "Effective Time", is from VAALCO Energy (USA), Inc., whose address is 4600 Post Oak Place, Suite 309, Houston, Texas 77027 ("Grantor"), to Tenneco Ventures Finance Corporation, whose address is 1010 Milam, Houston, Texas 77002 ("Grantee").

WHEREAS, Grantor is the owner of undivided interests in and to the oil and gas leases described in Exhibit A hereto, and Grantor has agreed to convey to Grantee as a production payment the following described limited overriding royalty interest in such leases; and

WHEREAS, capitalized terms as used herein shall have the meanings given to them in Article II hereof unless otherwise defined herein.

NOW, THEREFORE, KNOW ALL MEN BY THESE PRESENTS:

ARTICLE I

CONVEYANCE

Section 1.01. CONVEYANCE OF PRODUCTION PAYMENT. In consideration of the payment by Grantee to Grantor of the Production Payment Amount, the receipt of which is hereby acknowledged, Grantor hereby GRANTS, BARGAINS, SELLS, CONVEYS, ASSIGNS, SETS OVER AND DELIVERS unto Grantee, its successors and assigns, for the term commencing on the Effective Time and ending on the Termination Time, as a PRODUCTION PAYMENT, a limited overriding royalty interest in and to all Hydrocarbons in and under and that may be produced and saved from the Subject Lands equal to the Production Payment Percentage, together with all and singular the rights and appurtenances thereto in any wise belonging (the "Production Payment").

TO HAVE AND TO HOLD the Production Payment unto Grantee, its successors and assigns forever, subject to the following terms, provisions and conditions.

Section 1.02. NON-OPERATING, NON-EXPENSE-BEARING INTEREST The Production Payment conveyed hereby is a non-operating, non-expense-bearing limited overriding royalty interest in and to the Subject Interests free of all cost, risk and expense of production, operations and delivery, other than applicable Hydrocarbon severance Taxes. In no event shall Grantee ever be liable or responsible in any way for payment of any costs, expenses or liabilities attributable to the Subject Interests (or any part thereof) or incurred in connection with the production, saving or delivery of Production Payment Hydrocarbons, except that Grantee shall be responsible for the payment of its respective share of Hydrocarbon severance Taxes as provided in Section 1.07. This Conveyance is an absolute conveyance of a real property interest.

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Section 1.03. TERMS AND DISCHARGE OF PRODUCTION PAYMENT. The Production Payment shall remain in full force and effect until 7:00 a.m. Central Time on the day following the Termination Time. Upon termination of the Production Payment as above provided, all rights, titles and interests herein conveyed shall automatically terminate and vest in Grantor and, upon request by Grantor, Grantee shall execute and deliver such instrument or instruments as may be necessary to evidence the termination of the Production Payment. In the event any individual Subject Interest (or portion thereof, as applicable) should terminate before the Termination Time and not be extended, renewed or replaced, the Production Payment no longer shall apply to that particular Subject Interest (or such portion thereof, as applicable), but the Production Payment shall remain in full force and effect and undiminished as to all remaining Subject Interests (and the remainder portion of such Subject Interest, as applicable), and the Production Payment Percentage shall not be reduced or diminished as to any remaining Subject Interests by reason of the termination of any one or more of the individual Subject Interests.

Section 1.04. DELIVERY TO GRANTEE. The Production Payment Hydrocarbons shall be delivered to the credit of Grantee into the facilities of the First Transporter or first purchaser at the Delivery Points. As between Grantor and Grantee, Grantor shall be in exclusive control and possession of the Production Payment Hydrocarbons deliverable hereunder and responsible for any loss, damage or injury caused thereby.

Section 1.05. CERTAIN LIMITATIONS. The Production Payment shall be subject to the following provisions:

(a) Grantee shall look solely to the Production Payment Hydrocarbons for satisfaction and discharge of the Production Payment Amount, and Grantor shall not be personally liable for the payment and discharge thereof

(b) There shall not be included in the Production Payment Hydrocarbons any Hydrocarbons used by Grantor in conformity with good oil field practices for drilling and production operations conducted for the purpose of producing subject Hydrocarbons from the Subject Interests or from any unit to

which the Subject Interests are committed; however, Grantor shall not, without the consent of Grantee, use Hydrocarbons allocable to the Subject Interests for the purpose of gas injection, secondary or tertiary recovery, pressure maintenance, repressuring or cycling operations.

Section 1.06. MEASUREMENT. Measurement of the volume and Btu Content of Production Payment Hydrocarbons delivered hereunder shall be made at the existing metering points. Measurement of Gas shall be as determined under the applicable transportation agreement with the First Transporter. The last previous measurement of Btu content of Gas under the applicable transportation agreement between Grantor and the First Transporter (corrected, if necessary, to an actual water vapor content basis), shall be deemed to be the Btu Content for all Gas delivered from that measurement date until the next following measurement date, and there shall be no retroactive application or adjustment relating to Btu Content. Measurement of Oil shall be determined in accordance with generally accepted industry practices in effect at the time and place of delivery using the latest American Society for Testing Materials (A.S.T.M.) or American Petroleum Institute (A.P.I.) test methods. Volume of Oil shall be corrected to 60 degrees

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Fahrenheit temperature in accordance with the latest A.S.T.M. test methods and the latest edition of A.P.I. volume correction tables, and full deductions shall be made for all basic sediment and water and other impurities.

Section 1.07. ROYALTIES; TAXES. The Production Payment shall be free of (and without deduction therefrom of) any and all royalties and other burdens on production and shall bear no part of same; Grantor's leasehold interest shall be burdened with, and Grantor shall timely pay, all such royalties and other burdens on production, and Grantor shall defend, indemnify and hold Grantee harmless from and against any loss or claim with respect to any such royalties and other burdens on production or any claim by the owners or holders of such royalties and other burdens on production. Grantor and the leasehold interest of Grantor shall bear and pay all Taxes with respect to the Production Payment and the Production Payment Hydrocarbons, with the Production Payment Hydrocarbons being free of Taxes and delivered without deduction for Taxes; PROVIDED, HOWEVER, that Grantor and Grantee shall each bear their respective shares of all Hydrocarbon severance Taxes.

Section 1.08. MORTGAGE, ASSIGNMENT OR POOLING BY GRANTOR. During the term of the Production Payment, (i) Grantor shall not mortgage, pledge or hypothecate the Subject Interests or create or allow to remain thereon any lien or security interest thereon or on any Hydrocarbons produced therefrom, and (ii) Grantor shall not assign, sell, convey or otherwise transfer Grantor's remaining interests in the Subject Interests or any part thereof unless Grantee expressly consents thereto in writing, the transferee expressly agrees to assume and perform all of Grantor's obligations under this Conveyance and the Production Agreement and such sale, transfer or assignment is made and accepted expressly subject and subordinate to this Conveyance and the Production Agreement. Any purported mortgage, pledge, hypothecation, lien, security interest, assignment, sale, conveyance or other transfer in contravention of the foregoing terms shall be null and void. During the term of the Production Payment, Grantor shall not voluntarily pool, communitize or unitize the Production Payment or the Subject Interests without the express written consent of Grantee, except to the extent required to satisfy applicable Legal Requirements, and any purported pooling, communitization or unitization in contravention of the preceding clause shall be null and void as to Grantee and shall not have the effect of pooling or affecting the Production Payment.

Section 1.09. TITLE. Grantor warrants and represents that the Leases are valid and subsisting oil and gas leases covering the lands described in Exhibit A; Grantor's ownership of the Subject Interests entitles Grantor to a share of all Hydrocarbons produced from or attributable to the Subject Wells and of the proceeds of such production, after giving effect to and/or deducting all applicable royalties, overriding royalties and other burdens or payments out of production (except the Production Payment) which is not less than the respective net revenue interests identified on Exhibit A, and obligates Grantor to pay a share of all costs of operation of the Subject Wells which is not greater than the respective operating rights or leasehold interests identified on Exhibit A. Grantor hereby binds Grantor and Grantor's heirs, legal representatives and successors, to warrant and forever defend all and singular title to the Production Payment and the Production Payment Hydrocarbons unto Grantee, its successors and assigns; provided, however, the foregoing warranty shall not be breached in any manner by the existence of the Permitted Encumbrances. -3-

Section 1.10 NO PROPORTIONATE REDUCTION. It is understood and agreed that, though the Production Payment is conveyed by Grantor to Grantee out of the Subject Interests, such Production Payment shall be equal to the full Production Payment Percentage of the Hydrocarbons produced from (or, to the extent pooled or unitized, allocated to) the Subject Lands, and shall not be reduced for any reason (including, without limitation, the same shall not be reduced if the undivided interest in a Lease represented by Subject Interests is less than the entire interest in such Lease, or if the interest in oil, gas and other minerals underlying such portion of the Subject Lands, or if the share of production from (or, to the extent pooled or unitized, allocated to) any portion of the Subject Lands which is attributable to the Subject Interests is less than the "Net Revenue Interest" set forth on Exhibit A for such portion of the Subject Lands

or if Grantor does not own, or otherwise have good title to, the Subject Interests described on Exhibit A).

ARTICLE II

DEFINITIONS

As used herein and in the exhibits hereto, the following terms shall have the respective meanings ascribed to them below:

"British Thermal Unit" or "Btu" means the amount of energy required to raise the temperature of one (1) pound of pure water one degree Fahrenheit (1oF.) from fifty-nine degrees Fahrenheit (59oF.) to sixty degrees Fahrenheit (60oF.) under a constant pressure of 14.73 pounds per square inch absolute.

"Btu Content" means the Btu content determined on an actual water vapor content basis.

"Central Time" means Central Standard Time or Central Daylight Savings Time in effect on the date in question.

"Delivery Points" means the points in or near the field where Hydrocarbons are customarily delivered to the purchasers thereof

"Effective Time" means 7:00 a.m. Central Time on October 1, 1996.

"Existing Gas Sales Contracts" means those Gas Sales Contracts listed as Permitted Encumbrances on Exhibit A.

"First Transporter" means the first interstate or intrastate pipeline downstream of the Delivery Point.

"Force Majeure" means acts of God, strikes, lockouts or other industrial disturbances, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, arrests and restraints and prohibitions of government, either federal or state, inability to obtain necessary materials, supplies (other than Hydrocarbons), or permits due to existing or future rules, order, laws of

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governmental authorities (both federal and state civil disturbances, explosions, sabotage, breakage or accident to machinery or lines of pipe, freezing of lines of pipe, interruption or curtailment of firm or interruptible transportation services provided by third party transporters, and any other causes whether of the kind herein enumerated or otherwise, which are not anticipated at the time of execution hereof, which are not within the control of the party claiming suspension and which by the exercise of due diligence such party could not have prevented or is unable to overcome. By way of illustration, the term "Force Majeure" shall not include shutdowns due to routine maintenance, repairs, or workovers, restrictions caused by gas balancing agreements or arrangements, or depletion of reserves.

"Gas" means natural gas and other gaseous hydrocarbons.

"Hydrocarbons" means Oil and Gas.

"Lease" means an oil and gas lease described, referred to or identified in Exhibit A hereto, and any replacement lease taken upon or in anticipation of expiration or termination of such lease (if executed and delivered during the term of or within one (1) year after expiration of the predecessor lease), as to all lands and depths described in the predecessor lease (unless the predecessor lease is specifically limited in depth or area extent in Exhibit A in which event only such portion of such lease shall be considered a renewal or extension or a replacement lease subject to this Conveyance); and "Leases" means all such leases and all such renewals and extensions and replacement leases.

"Legal Requirement" means any requirement imposed pursuant to any statute, rule, regulation, order, permit or license of any applicable governmental authority or by any applicable court order.

"MMBtu" means 1,000,000 British Thermal Units.

"Month" means a calendar month.

"Oil" means crude oil, condensate and other liquid hydrocarbons.

"Permitted Encumbrance" means the following:

(a) the agreements, contracts and other documents described in Exhibit A (to the extent the same are valid and enforceable and burden the Subject Interests) and lessors' royalties, overriding royalties, reversionary interests and similar burdens which affect the Subject Interests, to the extent the foregoing taken in the aggregate (i) do not reduce Grantor's net revenue interest in Hydrocarbons produced from any Subject Well to less than the net revenue interest set forth in Exhibit A for the Subject Interest pertaining to the applicable Lease and (ii) do not increase Grantor's portion of costs and expenses relating to operation of any Subject Well to a portion greater than the

working interest percentage for the applicable Lease shown in Exhibit A;

(b) division orders and sales contracts terminable without penalty upon no more than thirty (30) days' notice to the purchaser;

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(c) liens for taxes or assessments not yet delinquent;

(d) materialman's, mechanic's, repairman's, employee's, contractor's, operator's and other similar liens or charges arising in the ordinary course of business, to the extent the same secure amounts not yet due and payable;

(e) easements, rights-of-way, servitudes, permits, surface leases and other rights in respect of surface operations, to the extent the same do not materially interfere with operations on, or the operation, value or use of, any Lease or any Subject Interest; and

(f) other valid and enforceable liens, charges, encumbrances, contracts, agreements, obligations, defects and irregularities affecting the Subject Interests which taken in the aggregate and together with the matters identified in clauses (a) through (e) above: (i) do not materially interfere with operations on or the operation, value or use of any Subject Interest; (ii) do not prevent Grantor from receiving any proceeds of production from any Subject Well or Grantee from receiving Production Payment Hydrocarbons, or the proceeds thereof, from any Subject Interest; (iii) do not reduce Grantor's net revenue interest in Hydrocarbons produced from any Subject Well or applicable Lease to less than the net revenue interest set forth in Exhibit A for the Subject Interest pertaining to that Subject Well or applicable Lease; and (iv) do not increase Grantor's portion of costs and expenses relating to operation of any Subject Well or applicable Lease to a portion greater than the working interest percentage shown in Exhibit A for that Subject Well or applicable Lease.

"Production Agreement" is that certain Production and Delivery Agreement dated of even date herewith by and between Grantor and Grantee.

"Production Payment" shall have the meaning given such term in Section 1.01 hereof.

"Production Payment Amount" shall mean \$618,469.

"Production Payment Gas" means the portion of the Production Payment Hydrocarbons which are Gas.

"Production Payment Hydrocarbons" shall mean the Hydrocarbons conveyed to Grantee pursuant to Section 1.01 hereof.

"Production Payment Oil" means the portion of the Production Payment Hydrocarbons which are Oil.

"Production Payment Percentage" means with respect to each Subject Interest the percentage specified for such Subject Interest in Exhibit A.

"Property" means any Subject Interest or group of Subject Interests identified as a separate Property on Exhibit A.

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"Subject Interests" or "Subject Interest" means the respective interests set forth in Exhibit A in and to each Lease and any and all additional right, title, interest or claim of every kind and character of Grantor in the Leases and all lands now or hereafter pooled, communitized or unitized therewith, even though Grantor's interest be incorrectly or incompletely described in Exhibit A, all as the same shall be enlarged by the discharge of any burdens by the reversion of any interest or by the removal of any charges or encumbrances to which any of the same may be subject at the Effective Time, and any and all renewals and extensions of any of the same, but expressly excluding any additional interest in the Subject Wells acquired by Grantor after the execution and delivery of this Conveyance, other than by reason of or resulting from the discharge of any burden, the reversion of any interest or the removal of any charge or encumbrance.

"Subject Lands" means all lands described in each oil and gas lease described, referred to or identified in Exhibit A, and all lands now or hereafter pooled, communitized or unitized therewith as to all depths.

"Subject Well" or "Subject Wells" means any and all wells now located on the Leases or hereafter drilled on the Leases, and any other wells now or hereafter located on lands, waterbottoms, or leases pooled, communitized or unitized with the Leases, from the surface to the total depth to which any such well or wells may be drilled.

"Taxes" means all ad valorem, property, occupation, gathering, pipeline regulating, windfall profit, severance, gross production, excise and other taxes and governmental charges and assessments imposed on the Subject Interests or the Production Payment, including the Production Payment Hydrocarbons, other than income taxes.

"Termination Time" is defined in Section 28 of the Production Agreement.

ARTICLE III

MISCELLANEOUS

Section 3.01. PROTECTION TO PURCHASERS. No pipeline company or other person purchasing or taking or processing Production Payment Hydrocarbons shall be required to take notice of, or to keep informed concerning, termination of the Production Payment, until actual receipt of written notice from Grantee advising such company or person of such termination.

Section 3.0. GOVERNING LAW. THIS CONVEYANCE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, TILE LAWS OF THE STATE OF TEXAS.

Section 3.03. SUCCESSORS AND ASSIGNS. The provisions and conditions contained in this Conveyance shall run with the land and the respective interests of Grantor and Grantee and (subject to the foregoing restrictions in Section 1.08) shall be binding upon and inure to the benefit of Grantor and Grantee and their respective successors and assigns. All references herein to either Grantor or Grantee shall include their respective successors and assigns.

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Section 3.04. COUNTERPART EXECUTION; RECORDATION. This Conveyance may be executed in multiple originals all of which shall constitute one and the same Conveyance.

EXECUTED in multiple originals this 11th day of December, 1996, but effective for all purposes as of the Effective Time in the presence of the undersigned competent witnesses.

WITNESSES: VAALCO ENERGY (USA), INC.
/s/Unreadable Signature By:/s/VIRGIL A. WALSTON
Name: Virgil A. Walston
/s/Unreadable Signature Title:Vice Chairman

WITNESSES: TENNECO VENTURES FINANCE CORPORATION
/s/CHARLES A. JAMES By:/s/CATHERINE L. SLIVA
Name: Catherine L. Sliva
/s/DAVID C. STEVENS Title:V. P.
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THE STATE OF TEXAS
COUNTY OF HARRIS

On this 11th day of December, 1996, before me appeared Virgil A. Walston, to me personally known, who being by me duly sworn, did say that he is the duly authorized Vice Chairman of VAALCO Energy (USA), Inc., and that said instrument was signed on behalf of said corporation.

IN WITNESS WHEREOF, I have hereunto set my official hand and seal on the date hereinabove written.

/s/Judy Willis
Notary Public

THE STATE OF TEXAS
COUNTY OF HARRIS

On this 11th day of December, 1996, before me appeared Catherine L. Sliva, to me personally known, who being by me duly sworn, did say that he is the duly authorized Vice President of Teneco Ventures Finance Corporation, and that said instrument was signed on behalf of said corporation.

IN WITNESS WHEREOF, I have hereunto set my official hand and seal on the date hereinabove written.

/s/Judy Willis
Notary Public
EXHIBIT "A"

Attached to and made a part of that certain Conveyance of Production Payment dated effective October 1, 1996, by and between VAALCO Energy (USA), Inc., as Grantor, and Tenneco Ventures Finance Corporation, as Grantee.

LEASES:
1) MMS SERIAL NO.: OCS-G 3313
DATE OF LEASE: April 1, 1976
LESSEE: Exxon Corporation
DESCRIPTION:

Block 280, HIGH ISLAND AREA, East Addition, South Extension, as shown on OCS Leasing Map, Texas Map No. 7C, INsofar as it pertains to all horizons from the surface of the earth down to and including the stratigraphic equivalent of 6,182 feet subsea (being the total depth (TVD) of the Hall-Houston Oil Company OCS-G 3313 No. 2 Well plus 100 feet) within the North Half (N/2), the East Half of the Southeast Quarter (E/2SE/4), the Southwest Quarter of the Southeast Quarter (SW/4SE/4), and the East Half of the Northwest Quarter of the Southeast Quarter (E/2NW/4SE/4) thereof.

2) MMS SERIAL NO.: OCS-G 8570
DATE OF LEASE: October 1, 1986
LESSEE: Mobil Exploration & Producing U.S. Inc.
DESCRIPTION:

Block 314, High Island Area, East Addition, South Extension, as shown on OCS Leasing Map, Texas Map No. 7C, INsofar as it pertains from surface to 100' below the stratigraphic equivalent of 2,296' TVD, as seen in OCS-G 8570 Well No. 1.

3) MMS SERIAL NO.: OCS-G 2410
DATE OF LEASE: August 1, 1973
LESSEE: Mesa Petroleum Co., Canadian Occidental
of California,
Inc., Quintana Offshore Inc.

DESCRIPTION:

W1/2 of Block A-313, High Island Area, East Addition, South Extension, OCS Leasing Map, Texas Map No. 7C, from the surface of the earth down to, but not below, a depth of 2,604', being 100' below the deepest vertical depth drilled in the Hall-Houston Oil Company No. B-1 (OCS-G 2410) Well located in the W/2 of Block 313.

4) MMS SERIAL NO.: OCS-G 2552
DATE OF LEASE: May 1, 1974
LESSEE: Getty Oil Company, et al
DESCRIPTION:

All of Block 538, West Cameron Area, South Addition, as shown on OCS Leasing Map, Louisiana Map No. 1B.

EMPLOYMENT AGREEMENT

THIS AGREEMENT is entered into as effective the 1st day of September, 1996 by and between VAALCO ENERGY, INC., a Delaware corporation (hereinafter called "the Company"), and William E. Pritchard III (hereinafter called "the Executive").

WHEREAS:

- A. The Company wishes to retain the services of the Executive as Vice President and General Counsel of the Company upon the terms and conditions and subject to the provisions of this Agreement.
- B. The Executive has agreed to serve the Company as Vice President and General Counsel of the Company upon the terms and conditions and subject to the provisions of this Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged and confessed, the parties hereto agree as follows:

1. CONTRACT OF EMPLOYMENT

The Company shall employ the Executive and the Executive shall continue to serve the Company as its Vice President and General Counsel for the period and upon the terms and conditions and subject to the provisions of this Agreement.

2. TERM

This Agreement will continue for a period of one year from the date hereof, and thereafter for such period as may be agreed in writing between the parties.

3. DUTIES AND OBLIGATIONS

The Executive shall in performance of his duties:

- (1) To the best of his ability, use his talent, skill, expertise, knowledge, personality and energy to assist the Company in the operation and expansion of its petroleum business and under take such other duties and exercise such powers in relation to the Company and its business as the Board of Directors of the Company (hereinafter called "the Board") may from time to time properly and reasonably delegate or assign to him;
- (2) observe and comply with all lawful and reasonable resolutions, instructions, policies and directions from time to time made or given by the Board;
- (3) subject to Section 5 hereof, devote his time, skill and effort to the discharge of his duties under this Agreement; and
- (4) Serve on the Board of directors of the company.

4. TITLE

The Executive shall have and be known under the title of "Vice President and General Counsel" of the Company.

5. OTHER BUSINESS

During the course of his employment hereunder, the Executive may be engaged or Interested, either directly or indirectly, in any capacity, whether as a principal, active investor or participant, consultant or otherwise, in any trade business or occupation whatsoever (without limitation), including the businesses of exploring for, producing and selling petroleum in any part of the world, and practicing law, in addition to his employment by the Company and may be involved with any activity or undertaking whatsoever PROVIDED such trade, business, occupation, activities or undertakings do not materially detract from his ability to discharge his responsibilities under this Agreement.

6. REMUNERATION

- (1) In consideration of the performance of the above-described duties during the course of his employment hereunder, the Company will pay the Executive an annual salary of One Hundred Sixty Thousand and 00/100 United States Dollars (US\$160,000.00) payable at the rate of Thirteen Thousand Three Hundred Thirty Three and 33/100 United States Dollars (US\$13,333.33) per calendar month, on the first day of each calendar month. The first such payment shall be made on October 1, 1996 in respect of the Executive's salary entitlement for the month of September, 1996. The salary will be reviewed annually on each anniversary of the date of, and during the term of, this Agreement by the Company; provided, that the Company will not be under any obligation to increase the salary on such annual review but may

not decrease the salary.

- (2) In further consideration of the performance of the above-described duties during the course of his employment, the company will give to the Executive one million common shares in the form of warrants which may be exercised at the following levels:

- 250,000 warrants at \$.50
- 250,000 warrants at \$2.50
- 250,000 warrants at \$5.00
- 250,000 warrants at \$7.50

The warrants are for a term of five (5) years from September 1, 1996.

- (3) The Company may also make available to the Executive such allowances and benefits as the Board shall from time to time determine.

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- (4) The Executive will be entitled to:

- (a) Two weeks vacation leave in each year of employment at times mutually convenient, and all vacation leave not taken in any one year may be accumulated to a maximum of four weeks;
- (b) two weeks annual cumulative sick leave; and
- (c) reimbursement of reasonable expenses incurred or paid by the Executive from time to time in connection with his performance of services hereunder.

7 CONFIDENTIALITY

The Executive recognizes and agrees that the business of the Company and its business interests require a confidential relationship between it and its employees and the fullest practical protection and confidential treatment of its trade secrets, trade practices, prospects, transactions, customers and other knowledge of the business which will be or have been conceived, developed or learned by the Executive during the Executive's course of employment with the Company. Accordingly, the Executive agrees that during the Executive's term of employment with Company and for a period of one year thereafter, the Executive will:

- (1) Keep secret and confidential all such information, trade secrets, prospects, transactions, customer lists, and business practices of the Company;
- (2) not use or aid others in using, directly or indirectly, the same in competition with the Company; and
- (3) not contact or solicit the customers, employees, brokers, salesman, investors or competitors of the Company in any manner which relates to any business engaged in by the Company.

8 EARLY TERMINATION

The Company shall have the right to terminate the employment of the Executive forthwith by notice in writing if the Executive shall at any time during the term of this Agreement:

- (a) commit any felony; or
- (b) be guilty of any grave misconduct or gross neglect in the discharge of his duties hereunder such that would otherwise entitle the Company to instantly dismiss him at common law; or
- (c) commit any material breach of any of the provisions of this Agreement and not rectify that breach within seven days of being requested to do so in writing by the Board; or
- (d) in the opinion of two independent medical specialists, at any time be incapacitated or prevented by physical or mental illness, injury, accident or any other circumstances beyond his control from discharging his duties hereunder; or
- (e) in the opinion of the Board, after an aggregate absence (due to illness, injury, accident or other circumstance) of a total of sixty or more days in any twelve consecutive months, be incapacitated or prevented from discharging his duties hereunder.

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Until termination of the Agreement pursuant to subsections (d) or (e), the Executive shall be entitled to receive his salary during his absence from business due to incapacity for up to a total period not exceeding twelve weeks for every period of twelve months of employment by the Company

(including the period prior to execution of this Agreement).

9 PAYMENT ON TERMINATION

- (1) On the termination of the Executive's employment hereunder for any reason whatsoever he shall be entitled to receive an amount equal to his salary to the date of effective termination (any required notice having been given).
- (2) On the termination of the Executive's employment hereunder for any reason whatsoever except those matters referred to in paragraphs (a), (b) and (c) of Section 8 he shall, in addition to the payments mentioned in Section 9(1), be entitled to receive full payment of salary for the unexpired term of his employment hereunder.

10 GENERAL

This Agreement shall be governed and interpreted in accordance with the law of the State of Texas and the parties hereby submit to the jurisdiction of the Courts of that State and of all courts that have jurisdiction on appeal therefrom.

11 NOTICES

Any notice given hereunder shall be in writing and signed by the party giving the notice and addressed to the other party at the address first shown herein or such other address as that party may prescribe by written notice to the other. Service may be made by registered mail in which case it shall be deemed to be served on the fifth day following the date of posting.

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12. PREVIOUS AGREEMENTS

This Agreement supersedes any previous agreement whether written or oral between the Company and the Executive relating in any way to his employment in any capacity by the Company.

13. COSTS

The Company shall pay the reasonable costs of the preparation and execution in respect of this Agreement.

IN WITNESS WHEREOF this Agreement has been duly organized as of the day and year first above written.

VAALCO ENERGY, INC., a
Delaware corporation

By:/s/W. RUSSELL SCHEIRMAN
W. Russell Scheirman President

By:/s/WILLIAM E. PRITCHARD III
William E. Pritchard III