

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB
(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1997

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER 0-20928

VAALCO ENERGY, INC.

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

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

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 [X]

As of May 12, 1997, there were outstanding 8,865,469 shares of Common
Stock, \$.10 par value per share, of the registrant.

VAALCO ENERGY, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VAALCO ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS OF DOLLARS, EXCEPT PAR VALUE AMOUNTS)

	MARCH 31,	December 31,
	1997	1996
	-----	-----
	(UNAUDITED)	
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	\$ 1,739	\$ 1,055
Advances - related party	--	1,916
Marketable securities - related party	--	777
Receivables:		
Trade	298	103
Accounts with partners	186	190
Other	1,387	1,177
Materials and supplies	393	387
Prepaid expenses and other	46	9

Total current assets	4,049	5,614
PROPERTY AND EQUIPMENT-SUCCESSFUL EFFORTS METHOD		
Wells, platforms and other production facilities ..	46,770	46,866
Undeveloped acreage	826	808
Equipment and other	427	342
	48,023	48,016
Accumulated depreciation, depletion and amortization	(46,417)	(46,383)
Net property and equipment	1,606	1,633
OTHER ASSETS:		
Other long-term assets	133	119
Funds in escrow	370	370
TOTAL	\$ 6,158	\$ 7,736

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:		
Accounts payable	\$ 1,669	\$ 1,862
Accrued liabilities	1,150	1,280
Current portion of debt obligations	373	3,918
Total current liabilities	3,192	7,060
FUTURE ABANDONMENT COSTS	4,942	4,942
OTHER LONG TERM LIABILITIES	--	1,000
Total liabilities	8,134	13,002

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 5,395 are in the treasury	887	887
Additional paid-in capital	11,262	11,401
Accumulated deficit	(16,362)	(19,707)
Net unrealized loss on non-current marketable securities	--	(84)
Less treasury stock, at cost	(13)	(13)
Total stockholders' deficit	(1,976)	(5,266)
TOTAL	\$ 6,158	\$ 7,736

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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VAALCO ENERGY, INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED OPERATIONS
(Unaudited)

(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

	Three Months Ended March 31,	
	1997	1996
REVENUES:		
Crude oil and gas sales	\$ 895	\$ 1,871
Gain on sale of assets	3,331	--
Total revenues	4,226	1,871
OPERATING COSTS AND EXPENSES:		
Production expenses	357	1,222
Exploration costs	45	76
Depreciation, depletion and amortization	34	595
General and administrative expenses	517	544

Total operating costs	----- 953 -----	----- 2,437 -----
OPERATING INCOME (LOSS)	3,273	(566)
OTHER INCOME (EXPENSES):		
Interest income	2	49
Interest expense and financing charges	(97)	(80)
Other, net	84	(36)
Total other expense	----- (11) -----	----- (67) -----
NET INCOME (LOSS)	3,262	(633)
Preferred dividends	(56)	(56)
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ 3,206 =====	\$ (689) =====
LOSS PER COMMON SHARE	\$ 0.36 =====	\$ (0.08) =====
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 CASH FLOWS
(IN THOUSANDS OF DOLLARS)

	Three Months Ended March 31,	
	----- 1997 -----	----- 1996 -----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 3,262	\$ (633)
Adjustments to reconcile net income (loss) to net Cash provided by operating activities:		
Depreciation, depletion and amortization	34	595
Exploration costs	46	76
Gain on sale of assets	(3,331)	--
Change in assets and liabilities that provided (used) cash:		
Accounts with partners	(284)	(408)
Trade receivables	(195)	(72)
Other receivables	(211)	(156)
Crude oil inventory	--	951
Prepaid expenses and other	(38)	14
Accounts payable	352	(394)
Accrued liabilities	(315)	(155)
Other (net)	(53)	89
Net cash used in operating activities	----- (733) -----	----- (93) -----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Exploration costs	(46)	(76)
Additions to property and equipment	(87)	(151)
Proceeds from sale of assets	4,672	--
Other (net)	--	(4)
Net cash provided by (used in) in investing activities	----- 4,539 -----	----- (231) -----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of debt obligations	(4,545)	--
Advances from related parties (net)	1,423	2
Net cash provided by (used in) financing activities	----- (3,122) -----	----- 2 -----
NET CHANGE IN CASH AND EQUIVALENTS	684	(322)

CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	1,055	701
	-----	-----
CASH AND EQUIVALENTS AT END OF PERIOD	\$ 1,739	\$ 379
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Depletion costs previously capitalized in crude oil inventory	---	\$533
Net cash paid for interest and financing charges	\$142	\$---
	=====	=====

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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VAALCO ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 1997
(UNAUDITED)

1. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of VAALCO Energy, Inc. and Subsidiaries (collectively, "VAALCO" or the "Company"), included herein are unaudited, but include all adjustments which the Company deems necessary for a fair presentation of its financial position and results of operations for the interim period. Such results are not necessarily indicative of results to be expected for the full year. The Balance Sheet at December 31, 1996 has been taken from the audited financial statements at that date. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Form 10-KSB for the year ended December 31, 1996.

CURRENT DEVELOPMENTS

During the First Quarter of 1997, the Company completed the restructuring of its international assets. Certain marketable securities held by the Company in Alcorn Petroleum and Minerals Corporation, a publicly listed Philippines company were sold for a gain of \$0.7 million. Proceeds of \$3.4 million were used to retire debt. In addition, the Company sold the balance of its assets in India, consisting of a 4% net profit interest in the PY-3 Field, and a 20 percent working interest in the Gulf of Cambay Block CB-OS/1. The assets, were sold to Hardy Oil & Gas (U.K.) Ltd. for a gain of \$2.5 million.

In the Philippines, the Company announced a farmout in the fourth quarter of 1996 which will result in a \$7 million 3-D seismic survey program over acreage held by the Company. Seismic acquisition commenced in February 1997.

In Gabon, the Company completed the documentation associated with the previously announced letter of intent with Western Atlas Afrique, Ltd. for acquisition of seismic and drilling of a well on the Etame Contract. The formal participation agreement for the farm-in was executed on April 4, 1997.

Details of both the Philippines and the Gabon farm-ins can be found in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations."

3. DEBT OBLIGATIONS

The Company was guarantor of a note issued by its Philippines subsidiaries to borrow \$6 million in 1993. At year end 1996, the note had a balance of \$3.3 million principal plus \$0.2 million accrued interest. In February 1997, in connection with the sale of the marketable securities of Alcorn Petroleum and Minerals Corporation, the Company repaid \$3.4 million of the total \$3.5 million owed. The balance was paid in April 1997.

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VAALCO ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 1997
(UNAUDITED)

In December 1996, the Company issued \$0.6 million 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. The balance on the note at March 31, 1997 was \$0.4 million.

EARNINGS PER SHARE

In February 1997, the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 128 ("SFAS 128") "Earnings Per Share". SFAS 128 establishes standards for computing and presenting earnings per share ("EPS") and applies to entities with publicly held common stock or potential common stock. This statement simplifies the standards for computing EPS previously found in Accounting Principles Board Opinion No. 15, "Earnings Per Share," and makes them comparable to international EPS standards. This statement is effective for financial statements issued for periods ending after December 15, 1997, including interim periods; earlier application is not permitted. This statement requires restatement of all prior-period EPS data presented. Considering the guidelines as prescribed by SFAS 128, management believes that the adoption of this statement will not have a material effect on EPS and thus pro forma EPS, as suggested for all interim and annual periods prior to required adoption, have been omitted.

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

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

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. The Company currently produces the Nido and Matinloc fields in the Philippines at approximately 870 BOPD.

Through a diversification program undertaken by management, the Company has acquired producing assets in the Gulf of Mexico of the United States and interests in two blocks in Gabon. 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 balance of the note of March 31, 1997 was \$373,000. 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 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.

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

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 Western Atlas Afrique, Ltd. a subsidiary of Western Atlas 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.

Issuance of Recourse Debt

The Company, as guarantor, entered into a Credit Agreement (the "Credit Agreement") on June 23, 1993 for its Philippine subsidiaries to borrow \$6 million, at an interest rate of LIBOR plus 2%, from a European institutional lender. The subsidiaries 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. At year end 1996, the balance on the note stood at \$3.3 million plus \$0.2 million accrued interest. In February 1997, the Company sold additional pledged securities and with the proceeds paid \$3.4 million of the \$3.5 million balance due on the note. The remainder of the note was fully paid in April 1997.

Other Activities

In March 1997, the Company sold its Gulf of Cambay concession, in India and its 4% net profits interest in the CY-OS/2 concession, also in India, to Hardy Oil & Gas (UK) Limited for \$2.5 million. The Company applied \$1.0 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 in India.

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

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

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.

Cash Flows

Net cash used in operating activities for the three months ended March 31, 1997 was \$0.7 million, as compared to \$0.1 million for the same period in 1996. The change was primarily due to changes in current assets and reductions of accounts payable.

Net cash provided by investing activities for the three months ended March 31, 1997 was \$4.5 million, as compared to net cash used in investing activities of \$0.2 million for the same period in 1996. The 1997 amount reflects cash received from the sale of marketable securities and the Company's interest in India.

Net cash used in financing activities for the three months ended March 31, 1997 was \$3.1 million, as compared to net cash provided by financing activities of \$0.2 million for the same period in 1996. The 1997 amount reflects the payment of the Company's long term debt.

Item 2 of this 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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VAALCO ENERGY, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

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

THREE MONTHS ENDED MARCH 31, 1997 COMPARED TO THREE MONTHS ENDED MARCH 31, 1996

REVENUES

Total crude oil sales for the three months ended March 31, 1997 were \$0.9 million, a decrease of \$1.0 million, or 50%, as compared to \$1.9 million for 1996. The 1996 revenues relate to the Company's oil production in the Philippines, which continues to decline. The 1997 revenues include revenues relating to the Philippines, as well as gas revenues relating to the Company's Gulf of Mexico operations.

Gain on sale of assets for the three months ended March 31, 1997 was \$3.3 million. The gain resulted from in March 1997, the Company sold its Gulf of Cambay concession and its 4% net profits interest in the CY-OS/2 concession, both in India, to Hardy Oil & Gas (UK) Limited for \$2.5 million. With the completion of this sale, the Company sold all remaining interest that it had in India. The Company recognized a gain on sale of assets of \$2.5 million in the first quarter of 1997 as a result of this transaction. Also in February 1997 the Company sold marketable securities recognizing a gain of \$.7 million.

EXPENSES

Production expenses for the three months ended March 31, 1997 were \$0.4 million, a decrease of \$0.8 million, or 71%, as compared to \$1.2 million for the same period in 1996. The decrease is primarily due to declining production in the Philippines, offset by production costs incurred in the first quarter of 1997 relating to the Gulf of Mexico properties.

Depletion for 1997 relates to the Gulf of Mexico properties and no depletion expense was recorded in the first quarter of 1997 for the Philippine properties, as property was fully depleted. The 1996 amount reflects \$0.6 million in depletion for the Philippine operations.

NET INCOME (LOSS)

Net income attributable to common stockholders for the three months ended March 31, 1997 was \$3.2 million as compared to a net loss attributable to common stockholders of \$0.7 million for the same period in 1996. The 1997 amount is primarily due to the recognition of a gain resulting from the sale of the Company's interests in India

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PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibits
 - 27. Financial Data Schedule
- (b) Reports on Form 8-K
 - None.

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SIGNATURES

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

VAALCO ENERGY, INC.
(Registrant)

By /s/W. RUSSELL SCHEIRMAN
W. RUSSELL SCHEIRMAN, PRESIDENT,
Chief Financial Officer and Director

Dated May 14, 1997

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THE FINANCIAL DATA SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE QUARTERLY PERIOD ENDED MARCH 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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