

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2022

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

For the transition period from _____ to _____

Commission file number 1-32167

VAALCO Energy, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

**9800 Richmond Avenue
Suite 700
Houston, Texas**
(Address of principal executive offices)

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

77042
(Zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock
Common Stock

Trading symbol(s)
EGY
EGY

Name of each exchange on which registered
New York Stock Exchange
London Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of April 30, 2022, there were outstanding 58,902,069 shares of common stock, \$0.10 par value per share, of the registrant.

VAALCO ENERGY, INC. AND SUBSIDIARIES

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Unless the context otherwise indicates, references to "VAALCO," "the Company," "we," "our," or "us" in this Quarterly Report on Form 10-Q are references to VAALCO Energy, Inc., including its wholly-owned subsidiaries.

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

VALCO ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

	As of March 31, 2022	As of December 31, 2021
ASSETS	<i>(in thousands)</i>	
Current assets:		
Cash and cash equivalents	\$ 18,939	\$ 48,675
Restricted cash	4,230	79
Receivables:		
Trade, net	44,616	22,464
Accounts with joint venture owners, net of allowance of \$0.0 million in both periods presented	3,764	345
Other, net	11,612	9,977
Crude oil inventory	4,634	1,593
Prepayments and other	8,408	5,156
Total current assets	96,203	88,289
Crude oil and natural gas properties, equipment and other - successful efforts method, net	121,935	94,324
Other noncurrent assets:		
Restricted cash	1,752	1,752
Value added tax and other receivables, net of allowance of \$6.1 million and \$5.7 million, respectively	5,692	5,536
Right of use operating lease assets	6,872	10,227
Right of use finance lease assets	1,795	—
Deferred tax assets	50,296	39,978
Abandonment funding	21,369	21,808
Other long-term assets	2,596	1,176
Total assets	\$ 308,510	\$ 263,090
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 10,509	\$ 18,797
Accounts with joint venture owners	—	3,233
Accrued liabilities and other	91,409	49,444
Operating lease liabilities - current portion	6,429	9,642
Finance lease liabilities - current portion	341	—
Foreign income taxes payable	8,819	3,128
Current liabilities - discontinued operations	7	13
Total current liabilities	117,514	84,257
Asset retirement obligations	34,377	33,949
Operating lease liabilities - net of current portion	461	587
Finance lease liabilities - net of current portion	1,411	-
Total liabilities	153,763	118,793
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Preferred stock, \$25 par value; 500,000 shares authorized, none issued	—	—
Common stock, \$0.10 par value; 100,000,000 shares authorized, 69,862,217 and 69,562,774 shares issued, 58,858,901 and 58,623,451 shares outstanding, respectively	6,986	6,956
Additional paid-in capital	77,272	76,700
Less treasury stock, 11,003,316 and 10,939,323 shares, respectively, at cost	(44,234)	(43,847)
Retained earnings	114,723	104,488
Total shareholders' equity	154,747	144,297
Total liabilities and shareholders' equity	\$ 308,510	\$ 263,090

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2022	2021
<i>(in thousands, except per share amounts)</i>		
Revenues:		
Crude oil and natural gas sales	\$ 68,656	\$ 39,774
Operating costs and expenses:		
Production expense	18,360	16,133
Exploration expense	127	142
Depreciation, depletion and amortization	4,673	4,148
General and administrative expense	4,994	4,547
Bad debt expense and other	492	101
Total operating costs and expenses	28,646	25,071
Other operating expense, net	(5)	(360)
Operating income	40,005	14,343
Other income (expense):		
Derivative instruments loss, net	(31,758)	(5,954)
Interest (expense) income, net	(3)	5
Other (expense) income, net	(696)	4,580
Total other expense, net	(32,457)	(1,369)
Income from continuing operations before income taxes	7,548	12,974
Income tax (benefit) expense	(4,628)	3,086
Income from continuing operations	12,176	9,888
Income loss from discontinued operations, net of tax	(12)	(19)
Net income	\$ 12,164	\$ 9,869
Basic net income per share:		
Income from continuing operations	\$ 0.21	\$ 0.17
Loss from discontinued operations, net of tax	—	—
Net income per share	\$ 0.21	\$ 0.17
Basic weighted average shares outstanding	58,702	57,636
Diluted net income per share:		
Income from continuing operations	\$ 0.20	\$ 0.17
Loss from discontinued operations, net of tax	—	—
Net income per share	\$ 0.20	\$ 0.17
Diluted weighted average shares outstanding	59,179	58,461

See notes to condensed consolidated financial statements.

VAALCO ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)

	Common Shares Issued	Treasury Shares	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Total
	<i>(in thousands)</i>						
Balance at January 1, 2022	69,562	(10,939)	\$ 6,956	\$ 76,700	\$ (43,847)	\$ 104,488	\$ 144,297
Shares issued - stock-based compensation	300	(64)	30	168	—	—	198
Stock-based compensation expense	—	—	—	404	—	—	404
Treasury stock	—	—	—	—	(387)	—	(387)
Dividend Distribution	—	—	—	—	—	(1,929)	(1,929)
Net income	—	—	—	—	—	12,164	12,164
Balance at March 31, 2022	69,862	(11,003)	\$ 6,986	\$ 77,272	\$ (44,234)	\$ 114,723	\$ 154,747

	Common Shares Issued	Treasury Shares	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Total
	<i>(in thousands)</i>						
Balance at January 1, 2021	67,897	(10,366)	\$ 6,790	\$ 74,437	\$ (42,421)	\$ 22,652	\$ 61,458
Shares issued - stock-based compensation	431	(155)	43	304	—	—	347
Stock-based compensation expense	—	—	—	323	—	—	323
Treasury stock	—	—	—	—	(403)	—	(403)
Net income	—	—	—	—	—	9,869	9,869
Balance at March 31, 2021	68,328	(10,521)	\$ 6,833	\$ 75,064	\$ (42,824)	\$ 32,521	\$ 71,594

See notes to condensed consolidated financial statements.

VAALCO ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended March 31,	
	2022	2021
	<i>(in thousands)</i>	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 12,164	\$ 9,869
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Loss from discontinued operations, net of tax	12	19
Depreciation, depletion and amortization	4,673	4,148
Bargain purchase gain	—	(7,651)
Deferred taxes	(10,318)	1,809
Unrealized foreign exchange loss (gain)	116	(400)
Stock-based compensation	1,422	1,559
Cash settlements paid on exercised stock appreciation rights	(205)	(852)
Derivative instruments loss, net	31,758	5,954
Cash settlements paid on matured derivative contracts, net	(12,500)	(1,710)
Bad debt expense and other	492	101
Other operating expense, net	5	360
Operational expenses associated with equipment and other	240	247
Cash advance for other long-term assets	(1,452)	—
Change in operating assets and liabilities:		
Trade receivables	(22,152)	(12,647)
Accounts with joint venture owners	(6,652)	275
Other receivables	(1,723)	(53)
Crude oil inventory	(3,041)	5,795
Prepayments and other	(876)	(3,240)
Value added tax and other receivables	(1,076)	(149)
Accounts payable	(10,132)	(6,627)
Foreign income taxes receivable/payable	5,691	5,524
Accrued liabilities and other	12,814	(576)
Net cash (used in) provided by continuing operating activities	(740)	1,755
Net cash used in discontinued operating activities	(18)	(13)
Net cash (used in) provided by operating activities	(758)	1,742
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment expenditures	(23,148)	(1,198)
Acquisition of crude oil and natural gas properties	—	(17,858)
Net cash used in continuing investing activities	(23,148)	(19,056)
Net cash used in discontinued investing activities	—	—
Net cash used in investing activities	(23,148)	(19,056)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the issuances of common stock	198	347
Dividend distribution	(1,929)	—
Treasury shares	(387)	(403)
Net cash used in continuing financing activities	(2,118)	(56)
Net cash used in discontinued financing activities	—	—
Net cash used in financing activities	(2,118)	(56)
NET CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(26,024)	(17,370)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF PERIOD	72,314	61,317
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD	\$ 46,290	\$ 43,947

See notes to condensed consolidated financial statements.

VAALCO ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS SUPPLEMENTAL DISCLOSURES (Unaudited)

	<u>Three Months Ended March 31,</u>	
	2022	2021
	<i>(in thousands)</i>	
Supplemental disclosure of non-cash investing and financing activities:		
Property and equipment additions incurred but not paid at end of period	<u>\$ 26,113</u>	<u>\$ 3,137</u>
Recognition of right-of-use finance lease assets and liabilities	<u>\$ 1,851</u>	<u>\$ —</u>
Asset Retirement Obligations	<u>\$ —</u>	<u>\$ 14,564</u>

See notes to condensed consolidated financial statements.

VAALCO ENERGY, INC. AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND ACCOUNTING POLICIES

VAALCO Energy, Inc. (together with its consolidated subsidiaries “we”, “us”, “our”, “VAALCO” or the “Company”) is a Houston, Texas-based independent energy company engaged in the acquisition, exploration, development and production of crude oil. As operator, the Company has production operations and conducts exploration and development activities in Gabon, West Africa. The Company also has opportunities to participate in development and exploration activities in Equatorial Guinea, West Africa. As discussed further in Note 3 below, VAALCO has discontinued operations associated with activities in Angola, West Africa.

The Company’s consolidated subsidiaries are VAALCO Gabon (Etame), Inc., VAALCO Production (Gabon), Inc., VAALCO Gabon S.A., VAALCO Angola (Kwanza), Inc., VAALCO Energy (EG), Inc., VAALCO Energy Mauritius (EG) Limited, VAALCO Energy, Inc. (UK Branch) and VAALCO Energy (USA), Inc.

These condensed consolidated financial statements are unaudited, but in the opinion of management, reflect all adjustments necessary for a fair presentation of results for the interim periods presented. All adjustments are of a normal recurring nature unless disclosed otherwise. Interim period results are not necessarily indicative of results expected for the full year.

These condensed consolidated financial statements have been prepared in accordance with rules of the Securities and Exchange Commission (“SEC”) and do not include all the information and disclosures required by accounting principles generally accepted in the United States (“GAAP”) for complete financial statements. They should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021, which includes a summary of the significant accounting policies.

With respect to the novel strain of coronavirus (“COVID-19”), during 2021, and continuing in 2022, crude oil prices have experienced significant improvement and oil demand has stabilized over multiple quarters removing much of the uncertainty and instability in the industry. COVID-19 related travel restrictions have gradually eased as governments and people continue to have increasing access to vaccines that help reduce the spread of COVID-19. Further there are indicators of improving economic activity to pre-COVID-19 levels while managing the risk of a resurgence.

In July 2021, OPEC+ agreed to increase production beginning in August 2021 and to gradually phase out prior production cuts by September 2022. The decision to continue to increase production was reaffirmed by an OPEC+ meeting held on March 31, 2022. For the three months ended March 31, 2022, the average Brent crude oil price was over \$100 per barrel. The average Brent crude oil price for the three months ended March 31, 2021, June 30, 2021, September 30, 2021 and December 31, 2021 was \$61 per barrel, \$69 per barrel, \$73 per barrel and \$79 per barrel, respectively.

While the current community price environment is favorable and the Company has not experienced disruptions to its operations as a result of COVID-19 any new outbreak or emergence of a new variant may have a material adverse impact on financial results and business operations of the Company, including the timing and ability of the Company to complete future drilling campaigns and other efforts required to advance the development of its crude oil and natural gas properties.

Principles of consolidation – The accompanying condensed consolidated financial statements (“Financial Statements”) include the accounts of VAALCO and its wholly owned subsidiaries. Investments in unincorporated joint ventures and undivided interests in certain operating assets are consolidated on a pro rata basis. All intercompany transactions within the consolidated group have been eliminated in consolidation.

Use of estimates – The preparation of the Financial Statements in conformity with generally accepted accounting principles in the United States (“U.S.”) (“GAAP”) requires estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the Financial Statements and the reported amounts of revenues and expenses during the respective reporting periods. The Financial Statements include amounts that are based on management’s best estimates and judgments. Actual results could differ from those estimates.

Cash and cash equivalents – Cash and cash equivalents includes deposits and funds invested in highly liquid instruments with original maturities of three months or less at the date of purchase.

Restricted cash and abandonment funding – Restricted cash includes cash that is contractually restricted. Restricted cash is classified as a current or non-current asset based on its designated purpose and time duration. Current amounts in restricted cash at March 31, 2022 and 2021 each include an escrow amount for the floating, production, storage and offloading vessel (“FPSO”), representing bank guarantees for customs clearance in Gabon and funds paid in advance to a counterparty related to the Company’s derivative transactions (see Note 8 for further discussion). Long-term amounts at March 31, 2022 and 2021 include a charter payment escrow for the FPSO offshore Gabon as discussed in Note 10 and amounts set aside for the future abandonment of the Etame Marin block. The Company invests restricted and excess cash in readily redeemable money market funds. The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the condensed consolidated balance sheets to the amounts shown in the condensed consolidated statements of cash flows.

	As of March 31,	
	2022	2021
	<i>(in thousands)</i>	
Cash and cash equivalents	\$ 18,939	\$ 19,251
Restricted cash - current	4,230	82
Restricted cash - non-current	1,752	1,752
Abandonment funding	21,369	22,862
Total cash, cash equivalents and restricted cash	\$ 46,290	\$ 43,947

The Company conducts regular abandonment studies to update the estimated costs to abandon the offshore wells, platforms and facilities on the Etame Marin block. This cash funding is reflected under "Other noncurrent assets" as "Abandonment funding" on the condensed consolidated balance sheets. Future changes to the anticipated abandonment cost estimate could change the asset retirement obligation and the amount of future abandonment funding payments. See Note 10 for further discussion.

On February 28, 2019, the Gabonese branch of the international commercial bank holding the abandonment funds in a U.S. dollar denominated account advised that the bank regulator required transfer of the funds to the Central Bank ("Central Bank") for African Economic and Monetary Community ("CEMAC"), of which Gabon is one of the six member states, for conversion to local currency with a credit back to the Gabonese branch in local currency. The Company's production sharing contract related to the Etame Marin block located offshore Gabon ("Etame PSC") provides these payments must be denominated in U.S. dollars and the CEMAC regulations provide for the establishment of a U.S. dollar account with the Central Bank. Although the Company requested establishment of such account, the Central Bank did not comply with its requests until February 2021. As a result, the Company was not able to make the annual abandonment funding payments in 2019, 2020 or 2021 totaling \$4.3 million, net to VAALCO based on the 2018 abandonment study. In February of 2021, the Bank of Central African State ("BEAC") authorized the Company to apply for a U.S. dollar denominated escrow account for the abandonment fund at Citibank Gabon ("Citibank"). Working with Citibank, on March 12, 2021 the Company filed the application to open the account and is currently awaiting the approval of the account from the Central Bank. Accordingly, the Company was not able to make our funding payment in 2021. In December 2021, as part of the new FX regulations issued by BEAC, BEAC allowed for the opening of U.S. dollars escrow accounts for the abandonment funds at BEAC. The Company is currently working with the extractive industry to formulate the agreements, which are expected to be finalized in 2022, that regulate these accounts. Accordingly, pursuant to Amendment No. 5 of the Etame PSC that required these funds to be in U.S. dollars, once the account for the U.S. dollars abandonment fund is open at BEAC we will resume our funding of the abandonment fund in compliance with the Etame PSC.

Accounts with joint venture owners – Accounts with joint venture owners represent the excess of charges billed over cash calls paid by the joint venture owners for exploration, development and production expenditures made by the Company as an operator.

Accounts Receivable and Allowance for Doubtful Accounts – The Company's accounts receivable results from sales of crude oil production, joint interest billings to its joint interest owners for their share of expenses on joint venture projects for which the Company is the operator, and receivables from the government of Gabon for reimbursable Value-Added Tax ("VAT"). Collection efforts, including remedies provided for in the contracts, are pursued to collect overdue amounts owed to the Company. Portions of the Company's costs in Gabon (including the Company's VAT receivable) are denominated in the local currency of Gabon, the Central African CFA Franc ("XAF"). Most of these receivables have payment terms of 30 days or less. The Company monitors the creditworthiness of the counterparties, and it has obtained credit enhancements from some parties in the form of parental guarantees or letters of credit. Joint owner receivables are secured through cash calls and other mechanisms for collection under the terms of the joint operating agreements.

The Company routinely assesses the recoverability of all material receivables to determine their collectability. The Company accrues a reserve on a receivable when, based on management's judgment, it is probable that a receivable will not be collected and the amount of such reserve may be reasonably estimated. When collectability is in doubt, the Company records an allowance against the accounts receivable and a corresponding income charge for bad debts, which appears in the "Bad debt expense and other" line item of the condensed consolidated statements of operations.

As of March 31, 2022, the outstanding VAT receivable balance, excluding the allowance for bad debt, was approximately \$15.8 million (\$10.2 million, net to VAALCO). As of March 31, 2022, the exchange rate was XAF 590.1 = \$1.00. As of December 31, 2021, the outstanding VAT receivable balance, excluding the allowance for bad debt, was approximately \$14.5 million (\$9.6 million, net to VAALCO). As of December 31, 2021, the exchange rate was XAF 578.2 = \$1.00. The receivable amount, net of allowances, is reported as a non-current asset in the "Value added tax and other receivables" line item in the condensed consolidated balance sheets. Because both the VAT receivable and the related allowances are denominated in XAF, the exchange rate revaluation of these balances into U.S. dollars at the end of each reporting period also has an impact on the Company's results of operations. Such foreign currency gains (losses) are reported separately in the "Other, net" line item of the condensed consolidated statements of operations.

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The following table provides a roll forward of the aggregate allowance for bad debt:

	Three Months Ended March 31,	
	2022	2021
	<i>(in thousands)</i>	
Allowance for bad debt		
Balance at beginning of period	\$ (5,741)	\$ (2,273)
Bad debt charge, net of receipts	(492)	(101)
Adjustment associated with Sasol Acquisition	—	(2,879)
Foreign currency gain	98	161
Balance at end of period	<u>\$ (6,135)</u>	<u>\$ (5,092)</u>

Other receivables— Under the terms of the Etame PSC, the Company can be required to contribute to meeting domestic market needs of the Republic of Gabon by delivering to it, or another entity designated by the Republic of Gabon, an amount of crude oil proportional to the Company's share of production to the total production in Gabon over the year. In 2021, the Company was notified by the Republic of Gabon to deliver to a refinery its proportionate share of crude oil to meet the domestic market need as per the terms of the Etame PSC. The Company is entitled, per the Etame PSC, to a fixed selling price for the oil delivered. Since the crude-oil produced by the Company was not compatible with the crude-oil requirements of the refinery, the Company entered into 2 contracts to fulfill its domestic market needs obligation under the Etame PSC. One contract was to purchase oil from another producer that was more compatible to the refinery and another contract with the refinery itself to deliver the crude oil to. Under the contract with another producer, the producer is entitled to a selling price consistent with the price the Company receives under the terms of the Etame PSC. As a result of these contracts and timing differences between when the oil is procured and when it is delivered to and paid by the refinery, included in the Company's March 31, 2022 condensed consolidated balance sheet is other receivables of approximately \$11.6 million for amounts due to the Company from the refinery and a \$11.6 million liability included in accrued liabilities for amounts due to the oil supplier.

Prepayments and Other— Included in "Prepayments and other" line item of the condensed consolidated balance sheet for the three months ended March 31, 2022 are \$3.9 million of prepayments related to fixed assets and \$2.1 million of prepayments related to royalty expenses.

Crude oil inventory— Crude oil inventories are carried at the lower of cost or net realizable value and represent the share of crude oil produced and stored on the FPSO, but unsold at the end of the period.

Materials and supplies— Materials and supplies, which are included in the "Prepayments and other" line item of the condensed consolidated balance sheet, are primarily used for production related activities. These assets are valued at the lower of cost, determined by the weighted-average method, or net realizable value.

Crude Oil and natural gas properties, equipment and other— The Company uses the successful efforts method of accounting for crude oil and natural gas producing activities. Management believes that this method is preferable, as the Company has focused on exploration activities wherein there is risk associated with future success and as such earnings are best represented by drilling results.

Capitalization— Costs of successful wells, development dry holes and leases containing productive reserves are capitalized and amortized on a unit-of-production basis over the life of the related reserves. Other exploration costs, including dry exploration well costs, geological and geophysical expenses applicable to undeveloped leaseholds, leasehold expiration costs and delay rentals, are expensed as incurred. The costs of exploratory wells are initially capitalized pending a determination of whether proved reserves have been found. At the completion of drilling activities, the costs of exploratory wells remain capitalized if a determination is made that proved reserves have been found. If no proved reserves have been found, the costs of exploratory wells are charged to expense. In some cases, a determination of proved reserves cannot be made at the completion of drilling, requiring additional testing and evaluation of the wells. Cost incurred for exploratory wells that find reserves that cannot yet be classified as proved are capitalized if (a) the well has found a sufficient quantity of reserves to justify its completion as a producing well and (b) sufficient progress in assessing the reserves and the economic and operating viability of the project has been made. The status of suspended well costs is monitored continuously and reviewed quarterly. Due to the capital-intensive nature and the geographical characteristics of certain projects, it may take an extended period of time to evaluate the future potential of an exploration project and the economics associated with making a determination of its commercial viability. Geological and geophysical costs are expensed as incurred. Costs of seismic studies that are utilized in development drilling within an area of proved reserves are capitalized as development costs. Amounts of seismic costs capitalized are based on only those blocks of data used in determining development well locations. To the extent that a seismic project covers areas of both developmental and exploratory drilling, those seismic costs are proportionately allocated between development costs and exploration expense.

Depreciation, depletion and amortization— Depletion of wells, platforms, and other production facilities are calculated on a block basis under the unit-of-production method based upon estimates of proved developed reserves. Depletion of developed leasehold acquisition costs are provided on a block basis under the unit-of-production method based upon estimates of proved reserves. Support equipment (other than equipment inventory) and leasehold improvements related to crude oil and natural gas producing activities, as well as property, plant and equipment unrelated to crude oil and natural gas producing activities, are recorded at cost and depreciated on a straight-line basis over the estimated useful lives of the assets, which are typically five years for office and miscellaneous equipment and five to seven years for leasehold improvements.

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Impairment – The Company reviews the crude oil and natural gas producing properties for impairment on a block basis whenever events or changes in circumstances indicate that the carrying amount of such properties may not be recoverable. If the sum of the expected undiscounted future cash flows from the use of the asset and its eventual disposition is less than the carrying amount of the asset, an impairment charge is recorded based on the fair value of the asset. This may occur if the block contains lower than anticipated reserves or if commodity prices fall below a level that significantly effects anticipated future cash flows. The fair value measurement used in the impairment test is generally calculated with a discounted cash flow model using several Level 3 inputs that are based upon estimates the most significant of which is the estimate of net proved reserves. 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 Company’s control. 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 crude oil and natural gas that are ultimately recovered, production and operating costs, the amount and timing of future development expenditures and future crude oil and natural gas sales prices may all differ from those assumed in these estimates. Capitalized equipment inventory is reviewed regularly for obsolescence. When undeveloped crude oil and natural gas leases are deemed to be impaired, exploration expense is charged. Unproved property costs consist of acquisition costs related to undeveloped acreage in the Etame Marin block in Gabon and in Block P in Equatorial Guinea. See Note 7 for further discussion.

Purchase Accounting – On February 25, 2021, VAALCO Gabon S.A., a wholly owned subsidiary of the Company, completed the acquisition of Sasol Gabon S.A.’s (“Sasol’s”) 27.8% working interest in the Etame Marin block offshore Gabon pursuant to the sale and purchase agreement (“SPA”) dated November 17, 2020 (the “Sasol Acquisition”). The Company made various assumptions in determining the fair values of acquired assets and liabilities assumed. In order to allocate the purchase price, the Company developed fair value models with the assistance of outside consultants. These fair value models were used to determine the fair value associated with the reserves and applied discounted cash flows to expected future operating results, considering expected growth rates, development opportunities, and future pricing assumptions. The fair value of working capital assets acquired and liabilities assumed were transferred at book value, which approximates fair value due to the short-term nature of the assets and liabilities. The fair value of the fixed assets acquired was based on estimates of replacement costs and the fair value of liabilities assumed was based on their expected future cash outflows. See Note 3 for further discussion.

Lease commitments – At inception, contracts are reviewed to determine whether an agreement contains a lease as defined under Accounting Standards Codification (“ASC”) 842, Leases. Further, if a lease is identified within the contract, a determination is made whether the lease qualifies as an operating or financing lease. Regardless of the type of lease, the initial measurement of the lease results in recording a right of use (“ROU”) asset and a lease liability at the present value of the future lease payments. ROU assets for operating leases are recorded under “Right of use operating lease assets” and the current portion and long-term portion of the lease liabilities for operating leases are reflected in “Operating lease liabilities – current portion” and “Operating lease liabilities – net of current portion” within the condensed consolidated balance sheets. ROU assets for financing leases are recorded within “Right of use financing lease assets” and the current portion and long-term portion of the lease liabilities for financing leases are reflected in “Financing lease liabilities – current portion” and “Financing lease liabilities – net of current portion” within the condensed consolidated balance sheets.

Asset retirement obligations (“ARO”) – The Company has significant obligations to remove tangible equipment and restore land or seabed at the end of crude oil and natural gas production operations. The removal and restoration obligations are primarily associated with plugging and abandoning wells, removing and disposing of all or a portion of offshore crude oil and natural gas platforms, and capping pipelines. Estimating the future restoration and removal costs is difficult and requires management to make estimates and judgments. Asset removal technologies and costs are constantly changing, as are regulatory, political, environmental, safety, and public relations considerations.

A liability for ARO is recognized in the period in which the legal obligations are incurred if a reasonable estimate of fair value can be made. The ARO liability reflects the estimated present value of the amount of dismantlement, removal, site reclamation, and similar activities associated with crude oil and natural gas properties. The Company uses current retirement costs to estimate the expected cash outflows for retirement obligations. Inherent in the present value calculation are numerous assumptions and judgments including the ultimate settlement amounts, inflation factors, credit-adjusted discount rates, timing of settlement, and changes in the legal, regulatory, environmental, and political environments. Initial recording of the ARO liability is offset by the corresponding capitalization of asset retirement cost recorded to crude oil and natural gas properties. To the extent these or other assumptions change after initial recognition of the liability, the fair value estimate is revised and the recognized liability adjusted, with a corresponding adjustment made to the related asset balance or income statement, as appropriate. Depreciation of capitalized asset retirement costs and accretion of asset retirement obligations are recorded over time. Depreciation is generally determined on a units-of-production basis for crude oil and natural gas production facilities, while accretion escalates over the lives of the assets to reach the expected settlement value. Where there is a downward revision to the ARO that exceeds the net book value of the related asset, the corresponding adjustment is limited to the amount of the net book value of the asset and the remaining amount is recognized as a gain. See Note 12 for further discussion.

Revenue recognition– Revenues from contracts with customers are generated from sales in Gabon pursuant to crude oil sales and purchase agreements. There is a single performance obligation (delivering crude oil to the delivery point, i.e. the connection to the customer’s crude oil tanker) that gives rise to revenue recognition at the point in time when the performance obligation event takes place. In addition to revenues from customer contracts, the Company has other revenues related to contractual provisions under the Etame PSC. The Etame PSC is not a customer contract. The terms of the Etame PSC includes provisions for payments to the government of Gabon for: royalties based on 13% of production at the published price and a shared portion of “Profit Oil” determined based on daily

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production rates, as well as a gross carried working interest of 7.5% (increasing to 10% beginning June 20, 2026) for all costs. For both royalties and Profit Oil, the Etame PSC provides that the government of Gabon may settle these obligations in-kind, i.e. taking crude oil barrels, rather than with cash payments. See Note 6 for further discussion.

Major maintenance activities – Costs for major maintenance are expensed in the period incurred and can include the costs of workovers of existing wells, contractor repair services, materials and supplies, equipment rentals and labor costs.

Stock-based compensation – The Company measures the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the date of the grant. The grant date fair value for options or stock appreciation rights (“SARs”) is estimated using either the Black-Scholes or Monte Carlo method depending on the complexity of the terms of the awards granted. The SARs fair value is estimated at the grant date and remeasured at each subsequent reporting date until exercised, forfeited or cancelled.

Black-Scholes and Monte Carlo models employ assumptions, based on management’s best estimates at the time of grant, which impact the calculation of fair value and ultimately, the amount of expense that is recognized over the life of the stock options or SAR award. These models use the following inputs: (i) the quoted market price of the Company’s common stock on the valuation date, (ii) the maximum stock price appreciation that an employee may receive, (iii) the expected term that is based on the contractual term, (iv) the expected volatility that is based on the historical volatility of the Company’s stock for the length of time corresponding to the expected term of the option or SAR award, (v) the expected dividend yield that is based on the anticipated dividend payments and (vi) the risk-free interest rate that is based on the U.S. treasury yield curve in effect as of the reporting date for the length of time corresponding to the expected term of the option or SAR award.

For restricted stock, the grant date fair value is determined using the market value of the common stock on the date of grant.

The stock-based compensation expense for equity awards is recognized over the requisite or derived service period, using the straight-line attribution method over the service period for each separately vesting portion of the award as if the award was, in-substance, multiple awards.

Unless the awards contain a market condition, previously recognized expense related to forfeited awards is reversed in the period in which the forfeiture occurs. For awards containing a market condition, previously recognized stock-based compensation expense is not reversed when the awards are forfeited. See Note 14 for further discussion.

Income taxes – The annual tax provision is based on expected taxable income, statutory rates and tax planning opportunities available to the Company in the various jurisdictions in which the Company operates. The determination and evaluation of the annual tax provision and tax positions involves the interpretation of the tax laws in the various jurisdictions in which the Company operates and requires significant judgment and the use of estimates and assumptions regarding significant future events such as the amount, timing and character of income, deductions and tax credits. Changes in tax laws, regulations, agreements and tax treaties or the level of operations or profitability in each jurisdiction would impact the tax liability in any given year. The Company also operates in foreign jurisdictions where the tax laws relating to the crude oil and natural gas industry are open to interpretation, which could potentially result in tax authorities asserting additional tax liabilities. While the income tax provision (benefit) is based on the best information available at the time, a number of years may elapse before the ultimate tax liabilities in the various jurisdictions are determined. We also record as income tax expense the increase or decrease in the value of the government’s allocation of Profit Oil which results due to changes in value from the time the allocation is originally produced to the time the allocation is actually lifted.

Judgment is required in determining whether deferred tax assets will be realized in full or in part. Management assesses the available positive and negative evidence to estimate if existing deferred tax assets will be utilized, and when it is estimated to be more-likely-than-not that all or some portion of specific deferred tax assets, such as net operating loss carry forwards or foreign tax credit carryovers, will not be realized, a valuation allowance must be established for the amount of the deferred tax assets that are estimated to not be realizable. Factors considered are earnings generated in previous periods, forecasted earnings and the expiration period of carryovers.

In certain jurisdictions, the Company may deem the likelihood of realizing deferred tax assets as remote where the Company expects that, due to the structure of operations and applicable law, the operations in such jurisdictions will not give rise to future tax consequences. For such jurisdictions, the Company has not recognized deferred tax assets. Should the expectations change regarding the expected future tax consequences, the Company may be required to record additional deferred taxes that could have a material effect on the condensed consolidated financial position and results of operations. See Note 15 for further discussion.

Derivative instruments and hedging activities – The Company enters into crude oil hedging arrangements from time to time in an effort to mitigate the effects of commodity price volatility and enhance the predictability of cash flows relating to the marketing of a portion of our crude oil production. While these instruments mitigate the cash flow risk of future decreases in commodity prices, they may also curtail benefits from future increases in commodity prices.

The Company records balances resulting from commodity risk management activities in the condensed consolidated balance sheets as either assets or liabilities measured at fair value. Gains and losses from the change in fair value of derivative instruments and cash settlements on commodity derivatives are presented in the “Derivative instruments loss, net” line item located within the “Other income (expense)” section of the condensed consolidated statements of operations. See Note 8 for further discussion.

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Fair value – Fair value is defined as the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date. Inputs used in determining fair value are characterized according to a hierarchy that prioritizes those inputs based on the degree to which they are observable. The three input levels of the fair-value hierarchy are as follows:

Level 1 – Inputs represent quoted prices in active markets for identical assets or liabilities (for example, exchange-traded commodity derivatives).

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (for example, quoted market prices for similar assets or liabilities in active markets or quoted market prices for identical assets or liabilities in markets not considered to be active, inputs other than quoted prices that are observable for the asset or liability, or market-corroborated inputs).

Level 3 – Inputs that are not observable from objective sources, such as internally developed assumptions used in pricing an asset or liability (for example, an estimate of future cash flows used in the internally developed present value of future cash flows model that underlies the fair-value measurement).

Nonrecurring Fair Value Measurements – The Company applies fair value measurements to its nonfinancial assets and liabilities measured on a nonrecurring basis, which consist of measurements or remeasurements of impairment of crude oil and natural gas properties, asset retirement assets and liabilities and other long-lived assets and assets acquired and liabilities assumed in a business combination. Generally, a cash flow model is used in combination with inflation rates and credit-adjusted, risk-free discount rates or industry rates to determine the fair value of the assets and liabilities. Based upon our review of the fair value hierarchy, the inputs used in these fair value measurements are considered Level 3 inputs.

Fair value of financial instruments – The Company's current assets and liabilities include financial instruments such as cash and cash equivalents, restricted cash, accounts receivable, derivative assets and liabilities, accounts payable, liabilities for SARs and guarantees. As discussed further in Note 8, derivative assets and liabilities are measured and reported at fair value each period with changes in fair value recognized in net income. The derivatives referenced below are reported in "Accrued liabilities and other" on the condensed consolidated balance sheet. SARs liabilities are measured and reported at fair value using level 2 inputs each period with changes in fair value recognized in net income. The SARs liabilities is reported in "Accrued liabilities and other" on the condensed consolidated balance sheet. With respect to the other financial instruments included in current assets and liabilities, the carrying value of each financial instrument approximates fair value primarily due to the short-term maturity of these instruments.

Balance Sheet Line		As of March 31, 2022			
		Level 1	Level 2	Level 3	Total
<i>(in thousands)</i>					
Liabilities					
SARs liability	Accrued liabilities and other	\$ —	\$ 1,422	\$ —	\$ 1,422
Derivative liability - crude oil swaps	Accrued liabilities and other	—	24,064	—	24,064
		\$ —	\$ 25,486	\$ —	\$ 25,486

Balance Sheet Line		As of December 31, 2021			
		Level 1	Level 2	Level 3	Total
<i>(in thousands)</i>					
Liabilities					
SARs liability	Accrued liabilities and other	\$ —	\$ 609	\$ —	\$ 609
Derivative liability - crude oil swaps	Accrued liabilities and other	—	4,806	—	4,806
		\$ —	\$ 5,415	\$ —	\$ 5,415

Earnings per Share – Basic earnings per common share is calculated by dividing earnings available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is calculated by dividing earnings available to common stockholders by the weighted average number of diluted common shares outstanding, which includes the effect of potentially dilutive securities. Potentially dilutive securities consist of unvested restricted stock awards and stock options using the treasury method. Under the treasury method, the amount of unrecognized compensation expense related to unvested stock-based compensation grants or the proceeds that would be received if the stock options were exercised are assumed to be used to repurchase shares at the average market price. When a loss exists, all potentially dilutive securities are anti-dilutive and are therefore excluded from the computation of diluted earnings per share. See Note 5 for further discussion.

2. NEW ACCOUNTING STANDARDS

Not Yet Adopted

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Codification (“ASU”) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”) related to the calculation of credit losses on financial instruments. All financial instruments not accounted for at fair value will be impacted, including the Company’s trade and joint venture owners’ receivables. Allowances are to be measured using a current expected credit loss (“CECL”) model as of the reporting date that is based on historical experience, current conditions and reasonable and supportable forecasts. This is significantly different from the current model that increases the allowance when losses are probable. Initially, ASU 2016-13 was effective for all public companies for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years and will be applied with a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The FASB subsequently issued ASU No. 2019-04 (“ASU 2019-04”): *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives, and Topic 825, Financial Instruments and ASU No. 2019-05 (“ASU 2019-05”): Financial Instruments—Credit Losses (Topic 326) - Targeted Transition Relief*. ASU 2019-04 and ASU 2019-05 provide certain codification improvements related to implementation of ASU 2016-13 and targeted transition relief consisting of an option to irrevocably elect the fair value option for eligible instruments. In November 2019, the FASB issued ASU No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*. This amendment deferred the effective date of ASU No. 2016-13 from January 1, 2020 to January 1, 2023 for calendar year end smaller reporting companies, which includes the Company. The Company plans to defer the implementation of ASU 2016-13, and related updates, until January 2023.

3. ACQUISITIONS AND DISPOSITIONS

Acquisition of Sasol Gabon S.A.’s Interest in Etame

On February 25, 2021, VAALCO Gabon S.A. completed the acquisition of Sasol’s 27.8% working interest in the Etame Marin block offshore Gabon pursuant to the SPA. The effective date of the transaction was July 1, 2020. Prior to the Sasol Acquisition, the Company owned and operated a 31.1% working interest in Etame. The Sasol Acquisition increased the Company’s working interest to 58.8%. As a result of the Sasol Acquisition, the net portion of production and costs relating to the Company’s Etame operations increased from 31.1% to 58.8%. Reserves, production and financial results for the interests acquired in the Sasol Acquisition have been included in VAALCO’s results for periods after February 25, 2021.

The following amounts represent the allocation of the purchase price to the assets acquired and liabilities assumed in the Sasol Acquisition.

	February 25, 2021
	<i>(in thousands)</i>
Purchase Consideration	
Cash	\$ 33,959
Fair value of contingent consideration	4,647
Total purchase consideration	\$ 38,606
	February 25, 2021
	<i>(in thousands)</i>
Assets acquired:	
Wells, platforms and other production facilities	\$ 37,176
Equipment and other	5,568
Value added tax and other receivables	1,234
Abandonment funding	11,781
Accounts receivable - trade	11,220
Other current assets	3,963
Liabilities assumed:	
Asset retirement obligations	(14,564)
Accrued liabilities and other	(10,121)
Bargain purchase gain	(7,651)
Total purchase price	\$ 38,606

All assets and liabilities associated with Sasol’s interest in Etame Marin block, including crude oil and natural gas properties, asset retirement obligations and working capital items, were recorded at their fair value. The Company used estimated future crude oil prices as of the closing date, February 25, 2021, to apply to the estimated reserve quantities acquired and market participant assumptions to the estimated future operating and development costs to arrive at the estimates of future net revenues. The future net revenues were discounted using the Company’s weighted average cost of capital to determine the fair value at closing. The valuations to derive the

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purchase price included the use of both proved and unproved categories of reserves, expectation for timing and amount of future development and operating costs, projections of future rates of production, expected recovery rates, and risk adjusted discount rates. Other significant estimates were used by the Company to determine the fair value of assets acquired and liabilities assumed. The Company had one year from the date of closing to record purchase price adjustments as a result of changes in such estimates. As a result of comparing the purchase price to the fair value of the assets acquired and liabilities assumed a \$7.7 million bargain purchase gain was recognized. A bargain purchase gain of \$5.5 million is included in "Other, net" under "Other income (expense)" in the 2021 condensed consolidated statements of operations. An income tax benefit of \$2.2 million, related to the bargain purchase gain, is also included in the 2021 condensed consolidated statements of operations. The bargain purchase gain is primarily attributable to the increase in crude oil price forecasts from the date the SPA was signed, November 17, 2020, to the closing date, February 25, 2021, when the fair value of the reserves associated with the Sasol Acquisition were determined.

The actual impact of the Sasol Acquisition was an increase to "Crude oil and natural gas sales" in the condensed consolidated statements of operations of \$32.4 million and \$9.4 million for the three months ended March 31, 2022 and March 31, 2021, respectively. The actual impact of the Sasol Acquisition was an increase to "Net income" in the condensed consolidated statements of operations of \$5.7 million and \$1.2 million for the three months ended March 31, 2022 and March 31, 2021, respectively.

The unaudited pro forma results presented below have been prepared to give the effect to the Sasol Acquisition discussed above on the Company's results of operations for the three months ended March 31, 2022, and March 31, 2021, respectively, as if the Sasol Acquisition had been consummated on January 1, 2020. The unaudited pro forma results do not purport to represent what the Company's actual results operations would have been if the Sasol Acquisition had been completed on such date or to project the Company's results of operations for any future date or period.

	Three Months Ended March 31,	
	2021	
	<i>(in thousands)</i>	
Pro forma (unaudited)		
Crude oil and natural gas sales	\$	57,547
Operating income		25,025
Net income		11,736 (a)
Basic net income loss per share:		
Income from continuing operations	\$	0.20
Net income per share	\$	0.20
Basic weighted average shares outstanding		57,636
Diluted net income per share:		
Income from continuing operations	\$	0.20
Net income per share	\$	0.20
Diluted weighted average shares outstanding		58,461

(a) The pro forma net loss for the three months ended March 31, 2021 excludes nonrecurring pro forma adjustments directly attributable to the Sasol Acquisition, consisting of a bargain purchase gain of \$7.7 million and transaction costs of \$1.0 million.

Under the terms of the SPA, a contingent payment of \$5.0 million was payable to Sasol should the average Dated Brent price over a consecutive 90-day period from July 1, 2020 to June 30, 2022 exceed \$60.00 per barrel. Included in the purchase consideration was the fair value, at closing, of the contingent payment due to Sasol. The conditions related to the contingent payment were met and on April 29, 2021, the Company paid the \$5.0 million contingent amount to Sasol in accordance with the terms of the SPA.

Discontinued Operations - Angola

In November 2006, the Company signed a production sharing contract for Block 5 offshore Angola ("Block 5 PSA"). The Company's working interest was 40%, and the Company carried Sonangol P&P, for 10% of the work program. On September 30, 2016, the Company notified Sonangol P&P that it was withdrawing from the joint operating agreement effective October 31, 2016. On November 30, 2016, the Company notified the national concessionaire, Sonangol E.P., that it was withdrawing from the Block 5 PSA and reduced its activities in Angola. As a result of this strategic shift, the Company classified all the related assets and liabilities as those of discontinued operations in the condensed consolidated balance sheets. The operating results of the Angola segment have been classified as discontinued operations for all periods presented in the Company's condensed consolidated statements of operations. The Company segregated the cash flows attributable to the Angola segment from the cash flows from continuing operations for all periods presented in the Company's condensed consolidated statements of cash flows. During three months ended March 31, 2022 and 2021, the Angola segment did not have a material impact on the Company's financial position, results of operations, cash flows and related disclosures.

[Table of Contents](#)**4. SEGMENT INFORMATION**

The Company's operations are based in Gabon and the Company has an undeveloped block in Equatorial Guinea. Each of the Company's two reportable operating segments is organized and managed based upon geographic location. The Company's Chief Executive Officer, who is the chief operating decision maker, and management review and evaluate the operation of each geographic segment separately, primarily based on operating income (loss). The operations of all segments include exploration for and production of hydrocarbons where commercial reserves have been found and developed. Revenues are based on the location of hydrocarbon production. Corporate and other is primarily corporate and operations support costs that are not allocated to the reportable operating segments.

Segment activity of continuing operations for the three months ended March 31, 2022 and 2021 as well as long-lived assets and segment assets at March 31, 2022 and December 31, 2021 are as follows:

	Three Months Ended March 31, 2022			
<i>(in thousands)</i>	Gabon	Equatorial Guinea	Corporate and Other	Total
Revenues-crude oil and natural gas sales	\$ 68,656	\$ —	\$ —	\$ 68,656
Depreciation, depletion and amortization	4,653	—	20	4,673
Bad debt expense and other	492	—	—	492
Other operating expense, net	(5)	—	—	(5)
Operating income (loss)	44,705	(318)	(4,382)	40,005
Derivative instruments loss, net	—	—	(31,758)	(31,758)
Other, net	(638)	(1)	(57)	(696)
Income tax expense (benefit)	7,858	—	(12,486)	(4,628)
Additions to crude oil and natural gas properties and equipment – accrual	31,780	—	—	31,780

	Three Months Ended March 31, 2021			
<i>(in thousands)</i>	Gabon	Equatorial Guinea	Corporate and Other	Total
Revenues-crude oil and natural gas sales	\$ 39,774	\$ —	\$ —	\$ 39,774
Depreciation, depletion and amortization	4,121	—	27	4,148
Operating loss	18,680	(132)	(4,205)	14,343
Derivative instruments gain, net	—	—	(5,954)	(5,954)
Other, net	7,681	(2)	(3,099)	4,580
Income tax expense	5,239	1	(2,154)	3,086
Additions to crude oil and natural gas properties and equipment – accrual ⁽¹⁾	2,515	—	—	2,515

(1) Excludes assets acquired in the Sasol acquisition.

<i>(in thousands)</i>	Gabon	Equatorial Guinea	Corporate and Other	Total
Long-lived assets from continuing operations:				
As of March 31, 2022	\$ 111,787	\$ 10,000	\$ 148	\$ 121,935
As of December 31, 2021	\$ 84,156	\$ 10,000	\$ 168	\$ 94,324

<i>(in thousands)</i>	Gabon	Equatorial Guinea	Corporate and Other	Total
Total assets from continuing operations:				
As of March 31, 2022	\$ 235,229	\$ 10,871	\$ 62,410	\$ 308,510
As of December 31, 2021	\$ 201,748	\$ 10,548	\$ 50,794	\$ 263,090

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Information about the Company's most significant customers

The Company currently sells crude oil production from Gabon under term crude oil sales and purchase agreements (“COSPAs”) with pricing based upon an average of Dated Brent in the month of lifting, adjusted for location and market factors. The Company signed a COSPA with ExxonMobil Sales and Supply LLC (“Exxon”) that covered sales from February 2020 through January 2022 with pricing based upon an average of Dated Brent in the month of lifting, adjusted for location and market factors. The COSPA with Exxon has been amended and extended several times, most recently in January 2022, to extend the date of the COSPA through the end of July 2022.

During the three months ended March 31, 2022 and 2021 revenues from sales of crude oil to Exxon were 100% of the Company's total revenues from customers.

5. EARNINGS PER SHARE

Basic earnings per share (“EPS”) is calculated using the average number of shares of common stock outstanding during each period. For the calculation of diluted shares, the Company assumes that restricted stock is outstanding on the date of vesting, and the Company assumes the issuance of shares from the exercise of stock options using the treasury stock method.

A reconciliation of reported net income (loss) to net income (loss) used in calculating EPS as well as a reconciliation from basic to diluted shares follows:

	Three Months Ended March 31,	
	2022	2021
	<i>(in thousands)</i>	
Net income (numerator):		
Income from continuing operations	\$ 12,176	\$ 9,888
Income from continuing operations attributable to unvested shares	(140)	(187)
Numerator for basic	12,036	9,701
Income from continuing operations attributable to unvested shares	—	—
Numerator for dilutive	\$ 12,036	\$ 9,701
Loss from discontinued operations, net of tax	\$ (12)	\$ (19)
Income from discontinued operations attributable to unvested shares	—	—
Numerator for basic	(12)	(19)
Income from discontinued operations attributable to unvested shares	—	—
Numerator for dilutive	\$ (12)	\$ (19)
Net Income	\$ 12,164	\$ 9,869
Net income attributable to unvested shares	(139)	(187)
Numerator for basic	12,025	9,682
Net (income) loss attributable to unvested shares	—	—
Numerator for dilutive	\$ 12,025	\$ 9,682
Weighted average shares (denominator):		
Basic weighted average shares outstanding	58,702	57,636
Effect of dilutive securities	477	825
Diluted weighted average shares outstanding	59,179	58,461
Stock options and unvested restricted stock grants excluded from dilutive calculation because they would be anti-dilutive	139	298

6. REVENUE

Revenues from contracts with customers are generated from sales in Gabon pursuant to COSPAs. COSPAs with customers are renegotiated near the end of the contract term and may be entered into with a different customer or the same customer going forward.

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Except for internal costs, which are expensed as incurred, there are no upfront costs associated with obtaining a new COSPA. See Note 4 under “*Information about the Company’s most significant customers*” for further discussion.

COSPAs with customers are renegotiated near the end of the contract term and may be entered into with a different customer or the same customer going forward. Except for internal costs, which are expensed as incurred, there are no upfront costs associated with obtaining a new COSPA.

Customer sales generally occur on a monthly basis when the customer’s tanker arrives at the FPSO and the crude oil is delivered to the tanker through a connection. There is a single performance obligation (delivering crude oil to the delivery point, i.e. the connection to the customer’s crude oil tanker) that gives rise to revenue recognition at the point in time when the performance obligation event takes place. This is referred to as a “lifting”. Liftings can take one to two days to complete. The intervals between liftings are generally 30 days; however, changes in the timing of liftings will impact the number of liftings that occur during the period. Therefore, the performance obligation attributable to volumes to be sold in future liftings are wholly unsatisfied, and there is no transaction price allocated to remaining performance obligations. The Company has utilized the practical expedient in ASC Topic 606-10-50-14(a), which states that the Company is not required to disclose the transaction price allocated to remaining performance obligations if the variable consideration is allocated entirely to a wholly unsatisfied performance obligation.

The Company accounts for production imbalances as a reduction in reserves. The volumes sold may be more or less than the volumes that the Company is entitled based on the ownership interest in the property, and the Company would recognize a liability if the existing proved reserves were not adequate to cover an imbalance.

For each lifting completed under a COSPA, payment is made by the customer in U.S. dollars by electronic transfer 30 days after the date of the bill of lading. For each lifting of crude oil, pricing is based upon an average of Dated Brent in the month of lifting, adjusted for location and market factors.

Generally, no significant judgments or estimates are required as of a given filing date with regard to applicable price or volumes sold because all of the parameters are known with certainty related to liftings that occurred in the recently completed calendar quarter. As such, the Company deemed this situation to be characterized as a fixed price situation.

In addition to revenues from customer contracts, the Company has other revenues related to contractual provisions under the Etame PSC. The Etame PSC is not a customer contract, and therefore the associated revenues are not within the scope of ASC 606. The terms of the Etame PSC includes provisions for payments to the government of Gabon for: royalties based on 13% of production at the published price, and a shared portion of “Profit Oil” determined based on daily production rates as well as a gross carried working interest of 7.5% (increasing to 10% beginning June 20, 2026) for all costs. For both royalties and Profit Oil, the Etame PSC provides that the government of Gabon may settle these obligations in-kind, i.e. taking crude oil barrels, rather than with cash payments.

To date, the government of Gabon has not elected to take its royalties in-kind, and this obligation is settled through a monthly cash payment. Payments for royalties are reflected as a reduction in revenues from customers. Should the government elect to take the production attributable to its royalty in-kind, the Company would no longer have sales to customers associated with production assigned to royalties.

With respect to the government’s share of Profit Oil, the Etame PSC provides that the corporate income tax liability may be satisfied through the payment of Profit Oil. In the condensed consolidated statements of operations, the government’s share of revenues from Profit Oil is reported in revenues with a corresponding amount reflected in the current provision for income tax expense. Prior to February 1, 2018, the government did not take any of its share of Profit Oil in-kind. These revenues have been included in revenues to customers as the Company entered into the contract with the customer to sell the crude oil and was subject to the performance obligations associated with the contract. For the in-kind sales by the government beginning February 1, 2018, these sales are not considered revenues under a customer contract as the Company is not a party to the contracts with the buyers of this crude oil. However, consistent with the reporting of Profit Oil in prior periods, the amount associated with the Profit Oil under the terms of the Etame PSC is reflected as revenue with an offsetting amount reported as a current income tax expense. Payments of the income tax expense are reported in the period that the government takes its Profit Oil in-kind, i.e. the period in which it lifts the crude oil. The Company has a \$8.8 million foreign income tax payable as of March 31, 2022. As of December 31, 2021, the foreign taxes payable attributable to this obligation was \$3.1 million.

Certain amounts associated with the carried interest in the Etame Marin block discussed above are reported as revenues. In this carried interest arrangement, the carrying parties, which include the Company and other working interest owners, are obligated to fund all of the working interest costs that would otherwise be the obligation of the carried party. The carrying parties recoup these funds from the carried interest party’s revenues.

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The following table presents revenues from contracts with customers as well as revenues associated with the obligations under the Etame PSC.

	Three Months Ended March 31,	
	2022	2021
Revenue from customer contracts:		
Sales under the COSPA	\$ 76,486	\$ 43,829
Other items reported in revenue not associated with customer contracts:		
Carried interest recoupment	1,112	1,822
Royalties	(8,942)	(5,877)
Crude oil and natural gas sales	\$ 68,656	\$ 39,774

7. CRUDE OIL AND NATURAL GAS PROPERTIES AND EQUIPMENT

The Company's crude oil and natural gas properties and equipment is comprised of the following:

	As of March 31, 2022	As of December 31, 2021
	<i>(in thousands)</i>	
Crude oil and natural gas properties and equipment - successful efforts method:		
Wells, platforms and other production facilities	\$ 504,406	\$ 488,756
Work-in-progress	28,713	13,515
Undeveloped acreage	23,735	23,735
Equipment and other	24,410	23,478
	581,264	549,484
Accumulated depreciation, depletion, amortization and impairment	(459,329)	(455,160)
Net crude oil and natural gas properties, equipment and other	\$ 121,935	\$ 94,324

Extension of Term of Etame Marin Block PSC

On September 25, 2018, VAALCO, together with the other joint venture owners in the Etame Marin block (the "Etame Consortium"), received an implementing Presidential Decree from the government of Gabon authorizing an extension for additional years ("PSC Extension") to the Etame Consortium to operate in the Etame Marin block. The Company's subsidiary, VAALCO Gabon S.A., currently has a 63.575% participating interest (working interest including the working interest attributable to the carried interest owner) in the Etame Marin block. The PSC Extension extended the term for each of the three exploitation areas in the Etame Marin block for a period of ten years with effect from September 17, 2018, the effective date of the PSC Extension, with two five-year options to extend the PSC.

In accordance with the Etame PSC, the Etame Consortium maintains a "Cost Account," which accumulates capital costs and operating expenses that are deductible against revenues, net of royalties, in determining taxable profits. Under the PSC Extension, the Cost Recovery Percentage increased to 80% for the ten-year period from September 17, 2018 through September 16, 2028. After September 16, 2028, the Cost Recovery Percentage returns to 70%. The government of Gabon will acquire from the Etame Consortium an additional 2.5% gross working interest carried by the Etame Consortium effective June 20, 2026. VAALCO's share of this interest to be transferred to the government of Gabon is 1.6%.

Proved Properties

The Company reviews the crude oil and natural gas producing properties for impairment quarterly or whenever events or changes in circumstances indicate that the carrying amount of such properties may not be recoverable. When a crude oil and natural gas property's undiscounted estimated future net cash flows are not sufficient to recover its carrying amount, an impairment charge is recorded to reduce the carrying amount of the asset to its fair value. The fair value of the asset is measured using a discounted cash flow model relying primarily on Level 3 inputs into the undiscounted future net cash flows. The undiscounted estimated future net cash flows used in the impairment evaluations at each quarter end are based upon the most recently prepared independent reserve engineers' report adjusted to use forecasted prices from the forward strip price curves near each quarter end and adjusted as necessary for drilling and production results.

There was no triggering event in the quarter ended March 31, 2022 that would cause the Company to believe the value of crude oil and natural gas producing properties should be impaired. Factors considered included higher forward price curves for the first quarter of 2022, and expected capital expenditures in the period related to the Etame Marin block.

Undeveloped Leasehold Costs

VAALCO acquired a 31% working interest in an undeveloped portion of a block ("Block P") offshore Equatorial Guinea in 2012. The Ministry of Mines and Hydrocarbons ("EG MMH") approved our appointment as operator for Block P on November 12, 2019. The

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Company acquired an additional working interest of 12% from Atlas Petroleum, thereby increasing its working interest to 43% in 2020, in exchange for a potential future payment of \$3.1 million in the event that there is commercial production from Block P. On August 27, 2020, the amendment to the production sharing contract to ratify the Company's increased working interest and appointment as operator was approved by the EG MMH. On April 12, 2021, the majority of non-defaulting parties assigned the defaulting party's interest to the non-defaulting parties. As a result, VAALCO's working interest will increase to 45.9% once the EG MMH approves a new amendment to the production sharing contract. As of March 31, 2022, the Company had \$10.0 million recorded for the book value of the undeveloped leasehold costs associated with the Block P license. The Company has completed a feasibility study of a standalone production development opportunity of the Venus discovery on Block P. VAALCO is now proceeding to a field development concept and will work closely with the other joint venture owners to complete this over the coming months. The Block P production sharing contract provides for a development and production period of 25 years from the date of approval of a development and production plan.

As a result of the PSC Extension discussed above, the exploitation area for the Etame Marin block was expanded to include previously undeveloped acreage. The Company allocated \$6.7 million of the share of the signing bonus and \$7.1 million of the \$18.6 million resulting from the deferred tax impact for the difference between book basis and tax basis to unproved leasehold costs using the acreage attributable to the previous exploitation areas and the additional acreage in the expanded exploitation areas.

Exploitation of this additional area is permitted throughout the term of the Etame PSC. As a result of discovering reserves in connection with drilling the South East Etame 4H development well in March 2020, \$2.3 million of costs were transferred to proved leasehold costs leaving a remaining \$11.5 million in unproved leasehold costs. In connection with the Sasol Acquisition discussed under Note 3, \$2.2 million of reserves were attributed to undeveloped properties. The balance of undeveloped leasehold costs related to the Etame Marin block at March 31, 2022 was \$13.7 million.

Capitalized Equipment Inventory

Capitalized equipment inventory is reviewed regularly for obsolescence. Adjustments for inventory obsolescence are recorded in the "Other operating income (expense), net" line item of the condensed consolidated statements of operations but were not material for the three months ended March 31, 2022 and 2021.

8. DERIVATIVES AND FAIR VALUE

The Company uses derivative financial instruments from time to time to achieve a more predictable cash flow from crude oil production by reducing the Company's exposure to price fluctuations.

On May 6, 2021, the Company entered into commodity swaps at a Dated Brent weighted average price of \$66.51 per barrel for the period from and including May 2021 through October 2021 for a quantity of 672,533 barrels. On August 6, 2021, the Company entered into additional commodity swaps at a Dated Brent weighted average price of \$67.70 per barrel for the period from and including November 2021 through February 2022 for a quantity of 314,420 barrels. On September 24, 2021, the Company entered into additional commodity swaps at a Dated Brent weighted average price of \$72.00 per barrel for the period from and including March 2022 to June 2022 for a quantity of 460,000 barrels. On January 6, 2022, the Company entered into additional commodity swaps at a Dated Brent weighted average price of \$76.53 per barrel for the period from and including July 2022 to September 2022 for a quantity of 375,000 barrels. On February 23, 2022, the Company entered into additional commodity swaps at a Dated Brent weighted average price of \$85.01 per barrel for the period from and including April 2022 to June 2022 for a quantity of 234,000 barrels. See the table below for the unexpired barrels as of March 31, 2022.

Settlement Period	Type of Contract	Index	Barrels	Weighted Average Price
April 2022 to June 2022	Swaps	Dated Brent	345,000	\$ 72.00
April 2022 to June 2022	Swaps	Dated Brent	234,000	\$ 85.01
July 2022 to September 2022	Swaps	Dated Brent	375,000	\$ 76.53
			<u>954,000</u>	

While these commodity swaps are intended to be an economic hedge to mitigate the impact of a decline in crude oil prices, the Company has not elected hedge accounting. The contracts are being measured at fair value each period, with changes in fair value recognized in net income. The Company does not enter into derivative instruments for speculative or trading purposes.

The crude oil swap contracts are measured at fair value using the Income Method. Level 2 observable inputs used in the valuation model include market information as of the reporting date, such as prevailing Brent crude futures prices, Brent crude futures commodity price volatility and interest rates. The determination of the swap contracts' fair value includes the impact of the counterparty's non-performance risk.

To mitigate counterparty risk, the Company enters into such derivative contracts with creditworthy financial institutions deemed by management as competent and competitive market makers.

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At times, the Company's counterparties require that it post collateral for changes in the net fair value of the derivative contracts. This cash collateral is reported in the line item Restricted cash on the condensed consolidated balance sheets.

The following table sets forth the loss on derivative instruments on the Company's condensed consolidated statements of operations:

Derivative Item	Statement of Operations Line	Three Months Ended March 31,	
		2022	2021
		<i>(in thousands)</i>	
Crude oil swaps	Cash settlements paid on matured derivative contracts, net	\$ (12,500)	\$ (1,710)
	Cash settlements not paid on matured derivative contracts, net	(19,258)	(4,244)
	Derivative instruments loss, net	<u>\$ (31,758)</u>	<u>\$ (5,954)</u>

9. ACCRUED LIABILITIES AND OTHER

Accrued liabilities and other balances were comprised of the following:

	As of March 31, 2022	As of December 31, 2021
	<i>(in thousands)</i>	
Accrued accounts payable invoices	\$ 24,749	\$ 11,967
Gabon DMO, PID and PIH obligations	10,470	9,465
Derivative liability - crude oil swaps	24,064	4,806
Capital expenditures	20,568	11,327
Stock appreciation rights – current portion	1,422	609
Accrued wages and other compensation	939	2,124
ARO Obligation	6,790	6,745
Other	2,407	2,401
Total accrued liabilities and other	<u>\$ 91,409</u>	<u>\$ 49,444</u>

10. COMMITMENTS AND CONTINGENCIES

Abandonment funding

Under the terms of the Etame PSC, the Company has a cash funding arrangement for the eventual abandonment of all offshore wells, platforms and facilities on the Etame Marin block. As a result of the PSC Extension, annual funding payments are spread over the periods from 2018 through 2028, under the 2018 abandonment study. The amounts paid will be reimbursed through the Cost Account and are non-refundable. In November 2021, an abandonment study was done and the estimate used for this purpose is approximately \$81.3 million (\$47.9 million, net to VAALCO) on an undiscounted basis. The abandonment estimate will be presented to the Gabonese Directorate of Hydrocarbons as required by the Etame PSC. Through March 31, 2022, \$36.3 million (\$21.4 million, net to VAALCO) on an undiscounted basis has been funded. The annual payments will be adjusted based on revisions in the abandonment estimate. This cash funding is reflected under "Other noncurrent assets" in the "Abandonment funding" line item of the condensed consolidated balance sheets. Future changes to the anticipated abandonment cost estimate could change the asset retirement obligation and the amount of future abandonment funding payments.

On March 5, 2019, in accordance with certain foreign currency regulatory requirements, the Gabonese branch of an international commercial bank holding the abandonment funds in a U.S. dollar denominated account transferred the funds to the Central Bank for CEMAC, of which Gabon is one of the six member states. The U.S. dollars were converted to local currency with a credit back to the Gabonese branch. During the three months ended March 31, 2022, the Company recorded a \$0.4 million foreign currency loss associated with the abandonment funding account. During the three months ended March 31, 2021, the Company recorded a \$0.5 million foreign currency loss associated with the abandonment funding account. In December 2021, as part of the new FX regulations issued by BEAC, BEAC allowed for opening of U.S. dollars escrow accounts for the abandonment funds at BEAC. The Company is currently working with the extractive industry to formulate the agreements which are expected to be finalized in 2022, that regulate these accounts. Accordingly, pursuant to Amendment No. 5 of the Etame PSC that required these funds to be in U.S. dollars, once the account for the U.S. dollars abandonment fund is open at BEAC we will resume our funding of the abandonment fund in compliance with the Etame PSC.

FPSO charter

In connection with the charter of the FPSO, the Company, as operator of the Etame Marin block, guaranteed all of the charter payments under the charter through its contract term. At the Company's election, the charter could be extended for two one-year periods beyond September 2020. These elections have been made, and the charter has been extended through September 2022. The Company obtained guarantees from each of the Company's joint venture owners for their respective shares of the payments. The Company's net share of the charter payment is 58.8%, or approximately \$19.4 million per year. Although the Company believes the need for

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performance under the charter guarantee is remote, the Company recorded a liability of \$0.1 million as of March 31, 2022 and \$0.1 million as of December 31, 2021 representing the guarantee's estimated fair value. Estimated future minimum obligations as of March 31, 2022 through the end of the FPSO charter in September 2022 are approximately \$15.9 million (\$9.4 million, net to VAALCO).

The FPSO charter payment includes a \$0.93 per barrel charter fee for production up to 20,000 barrels of crude oil per day and a \$2.50 per barrel charter fee for those barrels produced in excess of 20,000 barrels of crude oil per day.

Regulatory and Joint Interest Audits and Related Matters

The Company is subject to periodic routine audits by various government agencies in Gabon, including audits of the Company's petroleum cost account, customs, taxes and other operational matters, as well as audits by other members of the contractor group under the Company's joint operating agreements.

In 2016, the government of Gabon conducted an audit of the Company's operations in Gabon, covering the years 2013 through 2014. The Company received the findings from this audit and responded to the audit findings in January 2017. Since providing the Company's response, there have been changes in the Gabonese officials responsible for the audit. The Company is working with the newly appointed representatives to resolve the audit findings. The Company does not anticipate that the ultimate outcome of this audit will have a material effect on the Company's financial condition, results of operations or liquidity.

Between 2019 and 2021, the government of Gabon conducted an audit of the operations in Gabon, covering the years 2015 and 2016. The Company has not yet received the findings from this audit.

In 2019, the Etame joint venture owners conducted audits for the years 2017 and 2018. In June 2020, the Company agreed to a \$0.8 million payment to resolve claims made by one of the Etame Marin block joint venture owners, Addax Petroleum Gabon S.A. There are now no unresolved matters related to the joint venture owner audits for these years.

FSO

On August 31, 2021, VAALCO and its co-venturers at Etame approved the Bareboat Contract (the "Bareboat Contract") and Operating Agreement (collectively, the "FSO Agreements") with World Carrier Offshore Services Corp. to replace the existing FPSO with a Floating Storage and Offloading unit ("FSO"). The FSO Agreements require a prepayment of \$2 million gross (\$1.3 million net to VAALCO) in 2021 and \$5 million gross (\$3.2 million net) in 2022 of which \$6 million will be recovered against future rentals. Current total block level capital conversion estimates are \$40 to \$50 million gross (\$26 to \$32 million net to VAALCO). No other prepayments are required under the FSO Agreements until the vessel is accepted by the Company at the Etame Marin Block location. The FSO Agreements contain purchase provisions and termination provisions. The Company does not expect to utilize the terminations provision under the FSO Agreements. VAALCO currently believes that all of the associated engineering, long-lead equipment and significant contracts are proceeding in-line with the anticipated timelines and expected delivery schedules for the deployment of the FSO in the third quarter of 2022.

Dividend Policy

On November 3, 2021, the Company announced that the Company's board of directors adopted a cash dividend policy of an expected \$0.0325 per common share per quarter. On January 28, 2022, the Company announced that the Company's board of directors had declared a quarterly cash dividend of \$0.0325 per share of common stock, paid on March 18, 2022 to stockholders of record at the close of business on February 18, 2022. In April 2022, we declared our intent to pay a dividend of \$0.0325 per share of common stock for the second quarter of 2022 (\$0.13 annualized), which is payable June 24, 2022 to stockholders of record at the close of business on May 25, 2022. However, payment of future dividends, if any, will be at the discretion of the board of directors after taking into account various factors, including current financial condition, the tax impact of repatriating cash, operating results and current and anticipated cash needs.

Other contractual commitments

In June 2021, the Company entered into a short-term agreement with an affiliate of Borr Drilling Limited to drill a minimum of three wells with options to drill additional wells. Upon completion of the ETBSM 1HB-ST2 well, the commitment to Borr Drilling Limited will be satisfied.

11. LEASES

Under the leasing standard that became effective January 1, 2019, there are two types of leases: finance and operating. Regardless of the type of lease, the initial measurement of the lease results in recording a ROU asset and a lease liability at the present value of the future lease payments.

Practical Expedients – The Company elected to use all the practical expedients, effectively carrying over its previous identification and classification of leases that existed as of January 1, 2019. Additionally, a lessee may elect not to recognize ROU assets and liabilities arising from short-term leases provided there is no purchase option the entity is likely to exercise. The Company has elected this short-term lease exemption.

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Operating leases

The Company is currently a party to several operating lease agreements for the corporate office, rental of marine vessels and helicopters, equipment and the FPSO. The duration for these agreements range from 3 to 36 months. In some cases, the lease contracts require the Company to make payments both for the use of the asset itself and for operations and maintenance services. Only the payments for the use of the asset related to the lease component are included in the calculation of ROU assets and lease liabilities. Payments for the operations and maintenance services are considered non-lease components and are not included in calculating the ROU assets and lease liabilities. For leases on ROU assets used in joint operations, generally the operator reflects the full amount of the lease component, including the amount that will be funded by the non-operators. As operator for the Etame Marin block, the ROU asset recorded for the FPSO, the marine vessels, helicopter and certain equipment used in the joint operations includes the gross amount of the lease components.

During the third quarter of 2019, the Company notified the lessor of the FPSO of its intent to extend the lease term by the first option that extends the FPSO lease to September 2021. Similarly, during the third quarter of 2020, the Company gave notification to extend the FPSO lease to September 2022.

The FPSO agreement also contains options to purchase the assets during or at the end of the lease term. The Company does not consider these options reasonably certain of exercise and has excluded the purchase price from the calculation of ROU assets and lease liabilities.

The FPSO and helicopter, marine vessels and certain equipment leases include provisions for variable lease payments, under which the Company is required to make additional payments based on the level of production or the number of days or hours the asset is deployed, or the number of persons onboard the vessel. Because the Company does not know the extent that the Company will be required to make such payments, they are excluded from the calculation of ROU assets and lease liabilities.

Financing leases

In August 2021, the Company signed the FSO agreements to lease a FSO to replace the current FPSO whose term will end in September 2022. Under the terms of the FSO agreements, a third party is expected to modify the leased vessel in order to meet the Company's crude-oil production requirements. The vessel is expected to arrive on location in the Etame Marin block in September 2022 at which time control of the vessel will transfer to the Company and at which time the Company will record the ROU asset and Lease liabilities associated with this lease.

On February 15, 2022, the Company signed a contract for a finance lease of generators and related parts. The minimum lease term is 67 months, and the ROU asset and lease liability was recorded on the lease commencement date of February 15, 2022.

All leases

For all leases that contain an option to extend, the Company has evaluated whether it will extend the lease beyond the initial lease term, which payments have been included in the calculation for the ROU assets and liabilities. The discount rate used to calculate ROU assets and lease liabilities represents the Company's incremental borrowing rate. The Company determined this by considering the term and economic environment of each lease, and estimating the resulting interest rate the Company would incur to borrow the lease payments.

For the three months ended March 31, 2022 and 2021, the components of the lease costs and the supplemental information were as follows:

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	Three Months Ended March 31,	
	2022	2021
Lease cost:	<i>(in thousands)</i>	
Finance lease cost ⁽¹⁾	\$ 66	\$ —
Operating lease cost	4,196	4,390
Short-term lease cost ⁽²⁾	1,014	794
Variable lease cost ⁽³⁾	1,338	1,434
Total lease expense	6,614	6,618
Lease costs capitalized	772	—
Total lease costs	\$ 7,386	\$ 6,618
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:	2022	2021
Operating cash flows attributable to finance leases	\$ —	\$ —
Weighted-average remaining lease term	5.42 years	—
Weighted-average discount rate	3.54%	—
Operating cash flows attributable to operating leases	\$ 6,551	\$ 4,773
Weighted-average remaining lease term	0.73 years	1.5 years
Weighted-average discount rate	5.83%	6.09%

(1) Represents depreciation and interest associated with financing leases.

(2) Represents short term leases under contracts that are 1 year or less where a ROU asset and lease liability are not required to be recorded.

(3) Variable costs represent differences between minimum lease costs and actual lease costs incurred under lease contracts.

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The table below describes the presentation of the total lease cost on the Company's condensed consolidated statement of operations. As discussed above, the Company's joint venture owners are required to reimburse the Company for their share of certain expenses, including certain lease costs.

	Three Months Ended March 31,	
	2022	2021
	<i>(in thousands)</i>	
Finance lease cost	\$ 39	\$ —
Production expense	3,838	2,649
General and administrative expense	16	49
Lease costs billed to the joint venture owners	3,002	3,920
Total lease expense	6,895	6,618
Lease costs capitalized	491	—
Total lease costs	\$ 7,386	\$ 6,618

The following table describes the future maturities of the Company's lease liabilities at March 31, 2022:

Year	Operating Leases	Finance Leases
	<i>(in thousands)</i>	
2022	\$ 6,397	\$ 311
2023	371	368
2024	197	368
2025	33	368
Thereafter	—	537
	6,998	1,952
Less: imputed interest	108	201
Total lease liabilities	\$ 6,890	\$ 1,751

Under the joint operating agreements, other joint venture owners are obligated to fund \$5.3 million of the \$9.0 million in future lease liabilities.

12. ASSET RETIREMENT OBLIGATIONS

The following table summarizes the changes in the Company's asset retirement obligations:

<i>(in thousands)</i>	As of March 31, 2022		As of December 31, 2021	
Beginning balance	\$	40,694	\$	17,334
Accretion		473		1,627
Additions		—		14,564
Revisions		—		7,169
Ending balance	\$	41,167	\$	40,694

Accretion is recorded in the line item "Depreciation, depletion and amortization" on the condensed consolidated statements of operations.

The Company is required under the Etame PSC for the Etame Marin block in Gabon to conduct abandonment studies to update the amounts being funded for the eventual abandonment of the offshore wells, platforms and facilities on the Etame Marin block. The current abandonment study was prepared in November 2021. At December 31, 2021, associated with the study, the Company recorded an upward revision of \$7.2 million to the asset retirement obligation primarily as a result of increased costs expected with the abandonment of the Etame Marin block and a change in the expected timing of the abandonment costs associated with the termination of the FPSO charter. As a result of the expected timing of the abandonment of the FPSO, included in accrued liabilities in the condensed consolidated balance sheet is \$6.8 million of costs associated with the retirement obligation as of March 31, 2022.

13. SHAREHOLDERS' EQUITY

Preferred stock – Authorized preferred stock consists of 500,000 shares with a par value of \$25 per share. No shares of preferred stock were issued and outstanding as of March 31, 2022 or December 31, 2021.

Treasury stock – For the majority of restricted stock awards granted by the Company, the number of shares issued to the participant on the vesting date are net of shares withheld to meet applicable tax withholding requirements. In addition, when options are exercised, the participant may elect to remit shares to the Company to cover the tax liability and the cost of the exercised options. When this happens, the Company adds these shares to treasury stock and pays the taxes on the participant's behalf.

Although these withheld shares are not issued or considered common stock repurchases under the Company's stock repurchase program, they are treated as common stock repurchases in our financial statements as they reduce the number of shares that would have been issued upon vesting. See Note 14 for further discussion.

14. STOCK-BASED COMPENSATION AND OTHER BENEFIT PLANS

The Company's stock-based compensation has been granted under several stock incentive and long-term incentive plans. The plans authorize the Compensation Committee of the Company's board of directors to issue various types of incentive compensation. The Company had previously issued stock options and restricted shares under the 2014 Long-Term Incentive Plan ("2014 Plan") and stock appreciation rights under the 2016 Stock Appreciation Rights Plan. On June 25, 2020, the Company's stockholders approved the 2020 Long-Term Incentive Plan (as amended, the "2020 Plan") under which 5,500,000 shares are authorized for grants. In June 2021, the Company's stockholders approved an amendment to the 2020 Plan pursuant to which an additional 3,750,000 shares were authorized for issuance pursuant to awards under the 2020 Plan. At March 31, 2022, 6,694,501 shares were available for future grants under the 2020 Plan.

For each stock option granted, the number of authorized shares under the 2020 Plan will be reduced on a one-for-one basis. For each restricted share granted, the number of shares authorized under the 2020 Plan will be reduced by twice the number of restricted shares. The Company has no set policy for sourcing shares for option grants. Historically the shares issued under option grants have been new shares.

As referenced in the table below, the Company records compensation expense related to stock-based compensation as general and administrative expense associated with the issuance of stock options, restricted stock and stock appreciation rights. During the three months ended March 31, 2022, the Company settled in cash \$0.2 million for stock appreciation rights and received \$0.2 million for stock option exercises. During the three months ended March 31, 2021, the Company settled in cash \$0.9 million for stock appreciation rights and received \$0.3 million for stock option exercises

	Three Months Ended March 31,	
	2022	2021
	<i>(in thousands)</i>	
Stock-based compensation - equity awards	\$ 404	\$ 323
Stock-based compensation - liability awards	1,018	1,236
Total stock-based compensation	\$ 1,422	\$ 1,559

Stock options and performance shares

Stock options have an exercise price that may not be less than the fair market value of the underlying shares on the date of grant. In general, stock options granted to participants will become exercisable over a period determined by the Compensation Committee of the Company's board of directors that is generally a three-year period, vesting in three equal parts on the anniversaries from the date of grant, and may contain performance hurdles.

In March 2022, the Company granted options to certain employees of the Company that are considered performance stock options to purchase an aggregate of 241,358 shares at an exercise price of \$6.41 per share and a life of ten years. For each performance stock option award, one-third of the underlying shares vest on the later of the first anniversary of the grant date and the date on which the Company's stock price, determined using a 30-day average, exceeds \$7.37 per share; performance stock options with respect to one-third of the underlying shares vest on the later of the second anniversary of the grant date and the date on which the Company's stock price, determined using a 30-day average, exceeds \$8.48 per share; and performance stock options with respect to the remaining one-third of the underlying shares vest on the later of the third anniversary of the grant date and the date on which the Company's stock price, determined using a 30-day average, exceeds \$9.75 per share. These awards are option awards that contain a market condition. Compensation cost for such awards is recognized ratably over the derived service period and compensation cost related to awards with a market condition will not be reversed if the Company does not believe it is probable that such performance criteria will be met or if the service provider (employee or otherwise) fails to meet such performance criteria.

The Company used the Monte Carlo simulation to calculate the grant date fair value of performance stock option awards. The fair value of these awards will be amortized to expense over the derived service period of the option.

For options that do not contain a market or performance condition, the Company uses the Black-Scholes model to calculate the grant

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date fair value of stock option awards. This fair value is then amortized to expense over the service period of the option.

During the three months ended March 31, 2022 and 2021, the weighted average assumptions shown below were used to calculate the weighted average grant date fair value of option grants under the Monte Carlo.

	Three Months Ended March 31,			
	2022		2021	
Weighted average exercise price - (\$/share)	\$	6.41	\$	3.14
Expected life in years		6.0		6.0
Average expected volatility		72 %		75 %
Risk-free interest rate		1.98 %		0.95 %
Expected dividend yield		2.30 %		—
Weighted average grant date fair value - (\$/share)	\$	2.84	\$	2.07

Stock option activity associated with the Monte Carlo model for the three months ended March 31, 2022 is provided below:

	Number of Shares Underlying Options <i>(in thousands)</i>	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term <i>(in years)</i>	Aggregate Intrinsic Value <i>(in thousands)</i>
Outstanding at January 1, 2022	359	\$ 1.96		
Granted	241	6.41		
Exercised	—	—		
Unvested shares forfeited	—	—		
Vested shares expired	—	—		
Outstanding at March 31, 2022	600	\$ 3.75	9.09	\$ 1,670
Exercisable at March 31, 2022	120	\$ 1.96	8.51	\$ 547

Stock option activity associated with the Black-Scholes model for the three months ended March 31, 2022 is provided below:

	Number of Shares Underlying Options <i>(in thousands)</i>	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term <i>(in years)</i>	Aggregate Intrinsic Value <i>(in thousands)</i>
Outstanding at January 1, 2022	615	\$ 1.58		
Granted	—	—		
Exercised	(171)	1.16		
Unvested shares forfeited	—	—		
Vested shares expired	—	—		
Outstanding at March 31, 2022	444	\$ 1.74	1.49	\$ 2,125
Exercisable at March 31, 2022	429	\$ 1.73	1.47	\$ 2,062

During the three months ended March 31, 2022, 28,761 shares were added to treasury as a result of tax withholding on options exercised.

Restricted shares

Restricted stock granted to employees will vest over a period determined by the Compensation Committee that is generally a three-year period, vesting in three equal parts on the anniversaries following the date of the grant. Restricted stock granted to directors will vest on the earlier of (i) the first anniversary of the date of grant and (ii) the first annual meeting of stockholders following the date of grant (but not less than fifty (50) weeks following the date of grant). In March 2022, the Company issued 353,424 shares of service-based restricted stock to employees, with a grant date fair value of \$6.41 per share. The vesting of these shares is dependent upon, among other things, the employees' and directors' continued service with the Company.

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The following is a summary of activity for the three months ended March 31, 2022:

	<u>Restricted Stock</u> <i>(in thousands)</i>	<u>Weighted Average Grant Date Fair Value</u>
Non-vested shares outstanding at January 1, 2022	741	\$ 2.36
Awards granted	353	6.41
Awards vested	(129)	3.07
Awards forfeited	(26)	3.06
Non-vested shares outstanding at March 31, 2022	<u>939</u>	<u>\$ 3.77</u>

During the three months ended March 31, 2022, 35,232 shares were added to treasury as a result of tax withholding on the vesting of restricted shares.

Stock appreciation rights (“SARs”)

SARs may be granted under the VAALCO Energy, Inc. 2016 Stock Appreciation Rights Plan and the 2020 Plan. A SAR is the right to receive a cash amount equal to the spread with respect to a share of common stock upon the exercise of the SAR. The spread is the difference between the SAR exercise price per share specified in the SAR award (that may not be less than the fair market value of the Company’s common stock on the date of grant) and the fair market value per share of the Company’s common stock on the date of exercise of the SAR. SARs granted to participants will become exercisable over a period determined by the Compensation Committee of the Company’s board of directors. In addition, SARs will become exercisable upon a change in control, unless provided otherwise by the Compensation Committee of the Company’s board of directors.

During the three months ended March 31, 2022, the Company did not grant SARs to employees or directors.

SAR activity for the three months ended March 31, 2022 is provided below:

	<u>Number of Shares Underlying SARs</u> <i>(in thousands)</i>	<u>Weighted Average Exercise Price Per Share</u>	<u>Term</u> <i>(in years)</i>	<u>Aggregate Intrinsic Value</u> <i>(in thousands)</i>
Outstanding at January 1, 2022	362	\$ 1.81		
Granted	—	—		
Exercised	(59)	1.41		
Unvested SARs forfeited	—	—		
Vested SARs expired	—	—		
Outstanding at March 31, 2022	<u>303</u>	\$ 1.89	1.75	<u>\$ 1,402</u>
Exercisable at March 31, 2022	<u>237</u>	\$ 1.94	1.65	<u>\$ 1,086</u>

Other Benefit Plans

The Company has adopted forms of change in control agreements for its named executive officers and certain other officers of the Company as well as a severance plan for its Houston-based non-executive employees in order to provide severance benefits in connection with a change in control. Upon a termination of a participant’s employment by the Company without cause or a resignation by the participant for good reason three months prior to a change in control or six months following a change in control, executives and officers with change in control agreements and participants in the severance plan will be entitled to receive 100% and 50%, respectively, of the participant’s base salary and continued participation in the Company’s group health plans for the participant and his or her eligible spouse and other dependents for six months. In addition, certain named executive officers will receive 75% of their target bonus. Some of the named executive officers are also entitled to severance payments under their employment agreements.

15. INCOME TAXES

VAALCO and its domestic subsidiaries file a consolidated U.S. income tax return. Certain foreign subsidiaries also file tax returns in their respective local jurisdictions.

Income taxes attributable to continuing operations for the three months ended March 31, 2022, and 2021 are attributable to foreign taxes payable in Gabon as well as income taxes in the U.S.

Provision for income taxes related to income from continuing operations consists of the following:

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	Three Months Ended March 31,	
	2022	2021
U.S. Federal:	<i>(in thousands)</i>	
Current	\$ —	\$ —
Deferred	(12,486)	(2,153)
Foreign:		
Current	5,691	3,435
Deferred	2,167	1,804
Total	<u>\$ (4,628)</u>	<u>\$ 3,086</u>

The Company's effective tax rate for the three months ended March 31, 2022 and 2021, excluding the impact of discrete items, was 67.9% and (64%), respectively. For the three months ended March 31, 2022, the Company's overall effective tax rate was impacted by non-deductible items associated with operations, and a change in valuation allowance. The total tax expense for the three months ended March 31, 2022 includes a discrete adjustment for the release of \$12.7 million of valuation allowance as a result of an increase in forecasted future earnings. For the three months ended March 31, 2022, the current tax expense of \$ 5.7 million includes a \$3.1 million unfavorable oil price adjustment as a result of the change in value of the government of Gabon's allocation of Profit Oil between the time it was produced and the time it was taken in-kind. After excluding the impact, current income taxes were \$2.6 million for the period. For the three months ended March 31, 2021, the current tax expense of \$3.4 million includes a \$0.5 million unfavorable oil price adjustment as a result of the change in value of the government of Gabon's allocation of Profit Oil between the time it was produced and the time it was taken in-kind. After excluding the impact, current income taxes were \$2.9 million for the period.

As of March 31, 2022, the Company had no material uncertain tax positions. The Company's policy is to recognize potential interest and penalties related to unrecognized tax benefits as a component of income tax expense.

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this "Quarterly Report") includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which are intended to be covered by the safe harbors created by those laws. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements include information about possible or assumed future results of our operations. All statements, other than statements of historical facts, included in this Annual Report that address activities, events or developments that we expect or anticipate may occur in the future, including without limitation, statements regarding our financial position, operating performance and results, reserve quantities and net present values, market prices, business strategy, derivative activities, the amount and nature of capital expenditures, payment of dividends and plans and objectives of management for future operations are forward-looking statements. When we use words such as "anticipate," "believe," "estimate," "expect," "intend," "forecast," "outlook," "aim," "target," "will," "could," "should," "may," "likely," "plan," and "probably" or the negative of such terms or similar expressions, we are making forward-looking statements. Many risks and uncertainties that could affect our future results and could cause results to differ materially from those expressed in our forward-looking statements include, but are not limited to:

- ⊗ the impact of the coronavirus ("COVID-19") pandemic, including its impact on global demand for crude oil and crude oil prices, potential difficulties in obtaining additional liquidity when and if needed, disruptions in global supply chains, quarantines of our workforce or workforce reductions and other matters related to the pandemic;
- ⊗ the impact of any future production quotas imposed by Gabon, as a member of the Organization of the Petroleum Exporting Countries ("OPEC"), as a result of agreements among OPEC, Russia and other allied producing countries (collectively, "OPEC+") with respect to crude oil production levels;
- ⊗ volatility of, and declines and weaknesses in crude oil and natural gas prices, as well as our ability to offset volatility in prices through the use of hedging transactions;
- ⊗ the discovery, acquisition, development and replacement of crude oil and natural gas reserves;
- ⊗ impairments in the value of our crude oil and natural gas assets;
- ⊗ future capital requirements;
- ⊗ our ability to maintain sufficient liquidity in order to fully implement our business plan;
- ⊗ our ability to generate cash flows that, along with our cash on hand, will be sufficient to support our operations and cash requirements;
- ⊗ the ability of the BWE Consortium of VAALCO, BW Energy and Panoro Energy to successfully execute its business plan;
- ⊗ our ability to attract capital or obtain debt financing arrangements;
- ⊗ our ability to pay the expenditures required in order to develop certain of our properties;
- ⊗ operating hazards inherent in the exploration for and production of crude oil and natural gas;
- ⊗ difficulties encountered during the exploration for and production of crude oil and natural gas;
- ⊗ the impact of competition;
- ⊗ our ability to identify and complete complementary opportunistic acquisitions;
- ⊗ our ability to effectively integrate assets and properties that we acquire into our operations;
- ⊗ weather conditions;
- ⊗ the uncertainty of estimates of crude oil and natural gas reserves;
- ⊗ currency exchange rates and regulations;
- ⊗ unanticipated issues and liabilities arising from non-compliance with environmental regulations;
- ⊗ the ultimate resolution of our abandonment funding obligations with the government of Gabon and the audit of our operations in Gabon currently being conducted by the government of Gabon;
- ⊗ the availability and cost of seismic, drilling and other equipment;
- ⊗ difficulties encountered in measuring, transporting and delivering crude oil to commercial markets;
- ⊗ our ability to effectively replace the floating, production, storage and offloading vessel ("FPSO");
- ⊗ timing and amount of future production of crude oil and natural gas;
- ⊗ hedging decisions, including whether or not to enter into derivative financial instruments;
- ⊗ general economic conditions, including any future economic downturn, the impact of inflation, disruption in financial markets and the availability of credit;
- ⊗ our ability to enter into new customer contracts;

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- ① changes in customer demand and producers' supply;
- ① actions by the governments of and events occurring in the countries in which we operate;
- ① actions by our joint venture owners;
- ① compliance with, or the effect of changes in, governmental regulations regarding our exploration, production, and well completion operations including those related to climate change;
- ① the outcome of any governmental audit; and
- ① actions of operators of our crude oil and natural gas properties.

The information contained in this Quarterly Report and the information set forth under the heading "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021 ("2021 Form 10-K"), identifies additional factors that could cause our results or performance to differ materially from those we express in forward-looking statements. Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of these assumptions and therefore also the forward-looking statements based on these assumptions, could themselves prove to be inaccurate. In light of the significant uncertainties inherent in the forward-looking statements that are included in this Quarterly Report and the 2021 Form 10-K, our inclusion of this information is not a representation by us or any other person that our objectives and plans will be achieved. When you consider our forward-looking statements, you should keep in mind these risk factors and the other cautionary statements in this Quarterly Report.

Our forward-looking statements speak only as of the date the statements are made and reflect our best judgment about future events and trends based on the information currently available to us. Our results of operations can be affected by inaccurate assumptions we make or by risks and uncertainties known or unknown to us. Therefore, we cannot guarantee the accuracy of the forward-looking statements. Actual events and results of operations may vary materially from our current expectations and assumptions. Our forward-looking statements, express or implied, are expressly qualified in their entirety by this "Cautionary Statement Regarding Forward-Looking Statements," which constitute cautionary statements. These cautionary statements should also be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue.

Except as otherwise required by applicable law, we disclaim any duty to update any forward-looking statements, all of which are expressly qualified by the statements in this section, to reflect events or circumstances occurring after the date of this Quarterly Report.

INTRODUCTION

VAALCO is a Houston, Texas based independent energy company engaged in the acquisition, exploration, development and production of crude oil. As operator, we have production operations and conduct exploration and development activities in Gabon, West Africa. We also have opportunities to participate in development and exploration activities in Equatorial Guinea, West Africa. As discussed further in Note 3 to the condensed consolidated financial statements included in this Quarterly Report, we have discontinued operations associated with our activities in Angola, West Africa.

RECENT DEVELOPMENTS

Marine Construction Agreement for Subsea Reconfiguration

On March 17, 2022, VAALCO Gabon, SA ("VAALCO Gabon"), a wholly owned subsidiary of the Company, entered into an Agreement for the Provision of Subsea Construction and Installation Services (the "Marine Construction Agreement") with DOF Subsea Canada Corp. ("DOF Subsea"), to support the subsea reconfiguration in connection with the replacement of the existing FPSO vessel with a Floating Storage and Offloading vessel ("FSO") at the Company's Etame Marin field offshore Gabon. Pursuant to the Marine Construction Agreement, DOF Subsea agreed to, among other things, provide all personnel, crew and equipment necessary to assist in the reconfiguration of the Etame field subsea infrastructure to accommodate all field production to the flow to the FSO, which is currently under conversion, including (i) assistance with retrieval of over 5,000 meters of new flexible pipelines from a manufacturing facility in the United Kingdom, transporting the pipelines to Gabon and installing the pipelines in the Etame field, (ii) performing the retrieval and relocation of existing in-field flowlines and umbilicals to accommodate the reconfigured field development plan and (iii) assistance in the connection of new risers to the FSO (collectively, the "Services"). Pursuant to the Marine Construction Agreement, DOF Subsea will provide an offshore construction vessel to facilitate the performance of the Services. The Marine Construction Agreement provides that the Services will commence in early July 2022 and be completed by the end of September 2022, subject to certain conditions therein. As consideration for the Services provided to the Company, the Company agreed to pay DOF Subsea certain fixed fees upon the completion of the achievement of Service-related milestones, as well as a day rate, subject to certain conditions, as set forth in the Marine Construction Agreement.

Recent Operational Updates

Provisional Award of Two Offshore Blocks in Gabon

On October 11, 2021 we announced our entry into a consortium with BW Energy and Panoro Energy (the "BWE Consortium") and that the BWE Consortium has been provisionally awarded two blocks in the 12th Offshore Licensing Round in Gabon. The award is subject

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to concluding the terms of production sharing contracts (“PSCs”) with the Gabonese government. BW Energy will be the operator with a 37.5% working interest, with VAALCO (37.5% working interest) and Panoro Energy (25% working interest) as non-operating joint owners. The two blocks, G12-13 and H12-13, are adjacent to our Etame PSC as well as BW Energy and Panoro’s Dussafu PSC offshore Southern Gabon, and cover an area of 2,989 square kilometers and 1,929 square kilometers, respectively.

Charter Agreement for the Floating Storage and Offloading Unit

We are currently a party to an FPSO charter for the storage of all of the crude oil that we produce. This contract will expire in September 2022. In August of 2021, we and our co-venturers at Etame approved the Bareboat Contract (the “Bareboat Contract”) and Operating Agreement (the “Operating Agreement” and collectively, the “FSO Agreements”) with World Carrier Offshore Services Corp. (“World Carrier”) to replace the existing FPSO with an FSO. The FSO Agreements require a prepayment of \$2 million gross (\$1.3 million net) in 2021 and \$5 million gross (\$3.2 million net) in 2022 of which \$6 million will be recovered against future rentals. Current total capital conversion estimates are \$40 to \$50 million gross (\$26 to \$32 million net to VAALCO).

2021/2022 Drilling Campaign

In conjunction with the 2021/2022 drilling program, that began in December 2021, we executed a contract with Borr Jack-Up XIV Inc., an affiliate of Borr Drilling Limited, to drill a minimum of three wells with options to drill additional wells. On October 4, 2021, we novated the Borr Jack-Up XIV Inc contract with Borr West Africa Assets, Inc. In December of 2021, we spudded the Etame 8H sidetrack, the first well of the 2021/2022 drilling program. In February of 2022 we completed the drilling of the Etame 8-H well and moved the drilling rig to the Avouma platform to drill the Avouma 3H-ST1 development well, which is targeting the Gamba reservoir. In April 2022, the well was completed and brought online in April with an IP rate of approximately 3,100 gross BOPD, 1,589 BOPD net to VAALCO’s 58.8% working interest in 2022.

VAALCO is currently drilling the ETBSM 1HB-ST2 well also on the Avouma platform and targeting the Gamba reservoir while also testing the Dentale formation, which is productive in other areas in the Etame license, with the potential to complete and produce from the Dentale in this well. We are currently planning to drill a fourth well following the ETBSM 1HB-ST2 well as part of its 2021/2022 drilling campaign.

We estimate the range of cost of the 2021/2022 drilling program with four wells to be between \$117.0 million to \$143.0 million gross, or \$74.0 million to \$91.0 million, net to VAALCO’s 63.6% participating interest with about \$26 million to about \$31 million gross expected in 2021, or about \$16 million to \$20 million net to VAALCO.

Acquisition of Additional Working Interest at Etame Marin Block

In November 2020, we signed a SPA to acquire Sasol’s 27.8% working interest in the Etame Marin block offshore Gabon. On February 25, 2021, we completed the acquisition of Sasol’s 27.8% working interest in the Etame Marin block offshore Gabon pursuant to the SPA. The effective date of the transaction was July 1, 2020. Prior to the Sasol Acquisition, we owned and operated a 31.1% working interest in Etame. The Sasol Acquisition increased our working interest to 58.8%. As a result of the Sasol Acquisition, the net portion of production and costs relating to our Etame operations increased from 31.1% to 58.8%. Reserves, production and financial results for the interests acquired have been included in our results for periods after February 25, 2021. All assets and liabilities associated with Sasol’s interest in Etame Marin block, including crude oil and natural gas properties, asset retirement obligations and working capital items were recorded at their fair value. See Note 3 for further information.

ACTIVITIES BY ASSET

Gabon

Offshore – Etame Marin Block

Development and Production

We operate the Etame Marin Block on behalf of a consortium of companies. As of March 31, 2022, production operations in the Etame Marin block included eleven platform wells, plus three subsea wells tied back by pipelines to deliver crude oil and associated natural gas through a riser system to allow for delivery, processing, storage and ultimately offloading the crude oil from a leased FPSO anchored to the seabed on the block. We currently have fourteen producing wells. The FPSO has production limitations of approximately 25,000 barrels of oil per day and 30,000 barrels of total fluids per day. During the three months ended March 31, 2022 and 2021, production from the block was 1,416 MBbls (725 MBbls net) and 1,253 MBbls (466 MBbls net), respectively, as discussed below in “*Results of Operations*”.

Equatorial Guinea

Our working interest will increase to 45.9% once the EG MMH approves a new amendment to the production sharing contract. As of March 31, 2022, we had \$10.0 million recorded for the book value of the undeveloped leasehold costs associated with the Block P license. We have completed a feasibility study of a standalone production development opportunity of the Venus discovery on Block P. We are now proceeding to a field development concept and will work closely with the other joint venture owners to complete this over the coming months. The Block P production sharing contract provides for a development and production period of 25 years from the date of approval of a development and production plan.

DISCONTINUED OPERATIONS-ANGOLA

In November 2006, we signed a production sharing contract for Block 5 offshore Angola (“PSA”). Our working interest is 40%, and we carried Sonangol P&P, for 10% of the work program. On September 30, 2016, we notified Sonangol P&P that we were withdrawing from the joint operating agreement effective October 31, 2016. On November 30, 2016, we notified the national concessionaire, Sonangol E.P. that we were withdrawing from the PSA. Further to our decision to withdraw from Angola, we have closed our office in Angola and do not intend to conduct future activities in Angola. As a result of this strategic shift, the Angola segment has been classified as discontinued operations in the Financial Statements for all periods presented. See Note 3 to the Financial Statements. For the three months ended March 31, 2022 and 2021, the Angola segment did not have a material impact on the Company’s financial position, results of operations, cash flows and related disclosures.

CAPITAL RESOURCES AND LIQUIDITY

Cash Flows

Our cash flows for the three months ended March 31, 2022 and 2021 are as follows:

	Three Months Ended March 31,		
	2022	2021	Increase (Decrease) in 2022 over 2021
	<i>(in thousands)</i>		
Net cash provided by operating activities before changes in operating assets and liabilities	\$ 26,407	\$ 13,453	\$ 12,954
Net change in operating assets and liabilities	(27,147)	(11,698)	(15,449)
Net cash (used in) provided by continuing operating activities	(740)	1,755	(2,495)
Net cash used in discontinued operating activities	(18)	(13)	(5)
Net cash (used in) provided by operating activities	(758)	1,742	(2,500)
Net cash used in investing activities	(23,148)	(19,056)	(4,092)
Net cash used in financing activities	(2,118)	(56)	(2,062)
Net change in cash, cash equivalents and restricted cash	\$ (26,024)	\$ (17,370)	\$ (8,654)

The \$13.0 million increase in net cash provided by our operating activities, before changes in operating assets and liabilities for the three months ended March 31, 2022 compared to the same period of 2021, was mainly due to positive contributions from adding back to cash the change in unrealized derivative losses. The net decrease in operating assets and liabilities of \$15.4 million for the three months ended March 31, 2022 compared to the same period of 2021 was primarily related to an increase in assets of \$25.5 million which was partially offset by a \$10.1 million increase in liabilities.

The \$4.1 million increase in net cash used in investing activities during the three months ended March 31, 2022 was due to increases in capital spending in 2022 for the Etame-8H development well and Etame field reconfiguration and other items to support the 2021/2022 drilling Campaign. For the three months ended March 31, 2021, cash used in investing activities was mainly due to cash used in the purchase of Sasol’s interest in the Etame Block.

Net cash used in financing activities during the three months ended March 31, 2022 included \$1.9 million for dividend distribution, \$0.4 million for treasury stock as a result of tax withholding on options exercised and vested restricted stock as discussed in Note 14 to our condensed consolidated financial statements, partially offset by \$0.2 million in proceeds from options exercised.

Capital Expenditures

For the three months ended March 31, 2022 we had accrual basis capital expenditures attributable to continuing operations of \$31.8 million compared to \$2.5 million accrual basis capital expenditures in 2021, excluding the Sasol acquisition. For the three months ended March 31, 2022, our efforts were focused on spending related to the 2021/2022 drilling campaign and Etame field reconfigurations and FSO projects. During the same time in 2021, our spending was concentrated on the Sasol acquisition and obtaining certain long lead items for the 2021/2022 drilling campaign.

See table below in “Capital Resources, Liquidity and Cash Requirements” for further information.

Regulatory and Joint Interest Audits

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We are subject to periodic routine audits by various government agencies in Gabon, including audits of our petroleum Cost Account, customs, taxes and other operational matters, as well as audits by other members of the contractor group under our joint operating agreements. See Note 10 to the Financial Statements for further discussion.

Commodity Price Hedging

The price we receive for our crude oil significantly influences our revenue, profitability, liquidity, access to capital and prospects for future growth. Crude oil commodities and, therefore their prices can be subject to wide fluctuations in response to relatively minor changes in supply and demand. We believe these prices will likely continue to be volatile in the future.

Due to the inherent volatility in crude oil prices, we use commodity derivative instruments such as swaps to hedge price risk associated with a portion of our anticipated crude oil production. These instruments allow us to reduce, but not eliminate, the potential effects of variability in cash flow from operations due to fluctuations in commodity prices. The instruments provide only partial protection against declines in crude oil prices and may limit our potential gains from future increases in prices. None of these instruments are used for trading purposes. We do not speculate on commodity prices but rather attempt to hedge physical production by individual hydrocarbon product in order to protect returns. The counterparty to our derivative transactions is a major oil company's trading subsidiary, and our derivative positions are generally reviewed on a monthly basis. We have not designated any of our derivative contracts as fair value or cash flow hedges. The changes in fair value of the contracts are included in the condensed consolidated statement of operations. We record such derivative instruments as assets or liabilities in the condensed consolidated balance sheet. We do not anticipate any substantial changes in our hedging policy.

On September 24, 2021, we entered into additional commodity swaps at a Dated Brent weighted average price of \$72.00 per barrel for the period from and including March 2022 to June 2022 for a quantity of 460,000 barrels. On January 6, 2022, we entered into additional commodity swaps at a Dated Brent weighted average price of \$76.53 per barrel for the period from and including July 2022 to September 2022 for a quantity of 375,000 barrels. On February 23, 2022, we entered into additional commodity swaps at a Dated Brent weighted average price of \$85.01 per barrel for the period from and including April 2022 to June 2022 for a quantity of 234,000 barrels.

The following is a list of outstanding contracts at March 31, 2022:

<u>Settlement Period</u>	<u>Type of Contract</u>	<u>Index</u>	<u>Barrels</u>	<u>Weighted Average Price</u>
April 2022 to June 2022	Swaps	Dated Brent	345,000	\$ 72.00
April 2022 to June 2022	Swaps	Dated Brent	234,000	\$ 85.01
July 2022 to September 2022	Swaps	Dated Brent	375,000	\$ 76.53
			<u>954,000</u>	

Cash on Hand

At March 31, 2022, we had unrestricted cash of \$18.9 million. We invest cash not required for immediate operational and capital expenditure needs in short-term money market instruments primarily with financial institutions where we determine our credit exposure is negligible. As operator of the Etame Marin block in Gabon, we enter into project-related activities on behalf of our working interest joint venture owners. We generally obtain advances from joint venture owners prior to significant funding commitments. Our cash on hand will be utilized, along with cash generated from operations, to fund our operations.

We currently sell our crude oil production from Gabon under a term contract that began in January 2020 and ends in July 2022. Pricing under this contract is based upon an average of Dated Brent in the month of lifting, adjusted for location and market factors.

Capital Resources, Liquidity and Cash Requirements

Historically, our primary source of liquidity has been cash flows from operations and our primary use of cash has been to fund capital expenditures for development activities in the Etame Marin block. We continually monitor the availability of capital resources, including equity and debt financings that could be utilized to meet our future financial obligations, planned capital expenditure activities and liquidity requirements including those to fund opportunistic acquisitions. Our future success in growing proved reserves, production and balancing the long-term development of our assets with a focus on generating attractive corporate-level returns will be highly dependent on the capital resources available to us.

Our future success in growing proved reserves, production and balancing the long-term development of our assets with a focus on generating attractive corporate-level returns will be highly dependent on the capital resources available to us.

Based on current expectations, we believe we have sufficient liquidity through our existing cash balances and cash flow from operations to support our current cash requirements, including those related to our 2021/2022 drilling program and our ability to fund the FPSO through September 2022 and the FSO charter, through June 2023. However, our ability to generate sufficient cash flow from operations or fund any potential future acquisitions, consortiums, joint ventures or pay dividends for other similar transactions depends on operating and economic conditions, some of which are beyond our control. If additional capital is needed, we may not be able to obtain debt or equity financing on terms favorable to us, or at all. We are continuing to evaluate all uses of cash, including opportunistic acquisitions,

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and whether to pursue growth opportunities and whether such growth opportunities, additional sources of liquidity, including equity and/or debt financings, are appropriate to fund any such growth opportunities.

Cash Requirements

Our material cash requirements generally consist of operating leases, purchase obligations, capital projects and 3D seismic processing, the Sasol Acquisition and abandonment funding, each of which is discussed in further detail below.

Sasol Acquisition – As a result of completing the Sasol Acquisition on February 25, 2021, our obligations with respect to development activities in the Etame have increased based on the increase in our working interest in the Etame from 31.1 % at December 31, 2020, to 58.8%. As a result of the Sasol Acquisition, the net portion of production and costs relating to the Company's Etame operations increased from 31.1% to 58.8%. Reserves, production and financial results for the interests acquired in the Sasol Acquisition have been included in VAALCO's results for periods after February 25, 2021.

FSO Agreements – We are currently a party to an FPSO charter for the production and storage of all of the crude oil that we produce. This contract will expire in September 2022. On August 31, 2021, we and our Etame co-venturers approved the Bareboat Contract and Operating Agreement with World Carrier to replace the existing FPSO with a FSO unit at the Etame Marin block offshore Gabon. Pursuant to the Bareboat Charter, World Carrier will provide use of the *Cap Diamant* vessel to VAALCO Gabon for an initial eight-year term, subject to optional two successive one-year extensions. Pursuant to the Operating Agreement, VAALCO Gabon agreed to engage World Carrier for the purposes of maintaining and operating the FSO on its behalf in accordance with the specifications therein and to provide other services to VAALCO Gabon in connection with the operation and maintenance of the FSO. As consideration for the performance by World Carrier of the Operator Services, VAALCO Gabon agreed to pay a daily operating fee (to be paid monthly) beginning on the date of issuance of the Fit to Receive Certificate (as defined in the Operating Agreement) until the end of the term, with such term being the same as the term in the Bareboat Charter.

The FSO Agreements require a prepayment of \$2 million gross (\$1.2 million net to VAALCO) in 2021 and \$5 million gross (\$3.2 million net) in 2022 of which \$6 million will be recovered against future rentals. In addition, VAALCO Gabon agreed to pay a daily hire rate at certain rates specified therein, with such hire rate being based on the year within the term.

In connection with the implementation of the FSO, we are required to incur certain capital expenses in order to facilitate the FSO. Current total capital conversion estimates are \$40 to \$50 million gross (\$26 to \$32 million net to VAALCO).

BWE Consortium – On October 11, 2021 we announced our entry into a consortium with BW Energy and Panoro Energy and that the BWE Consortium has been provisionally awarded two blocks in the 12th Offshore Licensing Round in Gabon. The award is subject to concluding the terms of the PSC with the Gabonese government. BW Energy will be the operator with a 37.5% working interest. We will have a 37.5% working interest and Panoro Energy will have a 25% working interest as non-operating joint owners. The two blocks, G12-13 and H12-13, are adjacent to our Etame PSC as well as BW Energy and Panoro's Dussafu PSC offshore Southern Gabon, and cover an area of 2,989 square kilometers and 1,929 square kilometers, respectively. The two blocks will be held by the BWE Consortium and the PSCs over the blocks will have two exploration periods totaling eight years which may be extended by an additional two more years. During the first exploration period, the joint owners intend to reprocess existing seismic and carry out a 3-D seismic campaign on these two blocks and have also committed to drilling exploration wells on both blocks. In the event the BWE Consortium elects to enter the second exploration period, the BWE Consortium will be committed to drilling at least another one exploration well on each of the awarded blocks.

Drilling Program – We commenced the 2021/2022 drilling campaign in December 2021 with the drilling of the Etame 8-H development well. In February of 2022 we completed the drilling of the Etame 8-H well and moved the drilling rig to the Avouma platform to drill the Avouma 3H-ST1 development well, which is targeting the Gamba reservoir. The initial flow rate of the ETAME 8-H well was 5,000 BOPD, 2,560 BOPD net to VAALCO's 58.8% working interest in 2022. In April 2022, the well was completed and brought online in April with an IP rate of approximately 3,100 gross BOPD, 1,589 BOPD net to VAALCO's 58.8% working interest in 2022.

VAALCO is currently drilling the ETBSM 1HB-ST2 well also on the Avouma platform and targeting the Gamba reservoir while also testing the Dentale formation, which is productive in other areas in the Etame license, with the potential to complete and produce from the Dentale in this well. We are currently planning to drill a fourth well following the ETBSM 1HB-ST2 well as part of its 2021/2022 drilling campaign.

We expect the campaign to include two development wells and two appraisal wells at an estimated cost of \$117.0 million to \$143.0 million gross, or \$74.0 million to \$91.0 million, net to VAALCO's 63.6% participating interest.

In June 2021, in conjunction with our 2021/2022 drilling program, we entered into a contract with an affiliate of Borr Drilling Limited to drill a minimum of three wells with options to drill additional wells. Upon completion of the ETBSM 1HB-ST2 well, the commitment to Borr Drilling Limited will be satisfied.

Dividend Policy – On November 3, 2021, we announced that our board of directors adopted of a quarterly cash dividend policy of an expected \$0.0325 per common share commencing in the first quarter of 2022. We paid on March 18, 2022 a quarterly cash dividend of \$1.9 million to the shareholders of record on February 18, 2022. Further we announced our intent to pay a dividend of \$0.0325 per share of common stock for the second quarter of 2022 (\$0.13 annualized), which is payable June 24, 2022 to stockholders of record at the close of business on May 25, 2022.

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Payment of future dividends, if any, will be at the discretion of the board of directors after taking into account various factors, including current financial condition, the tax impact of repatriating cash, operating results and current and anticipated cash needs.

Trends and Uncertainties

COVID-19 Pandemic – While crude oil prices are currently at the highest levels seen in recent years, the continued spread of COVID-19, including vaccine-resistant strains, or deterioration in crude oil and natural gas prices could result in additional adverse impacts on our results of operations, cash flows and financial position, including asset impairments. The health of our employees, contractors and vendors, and our ability to meet staffing needs in our operations and certain critical functions cannot be predicted and is vital to our operations. We are unable to predict the extent of the impact that the continuing spread of COVID-19 throughout Gabon may have on our ability to continue to conduct our operations.

Commodity Prices – Historically, the markets for oil and natural gas have been volatile. Oil, natural gas and NGL prices are subject to wide fluctuations in supply and demand. Our cash flows from operations may be adversely impacted by volatility in crude oil prices, a decrease in demand for crude oil and future production cuts by OPEC+. In July 2021, OPEC+ agreed to increase production beginning in August 2021 to phase out a portion of the prior production cuts. Brent crude prices were approximately \$107 per barrel as of March 31, 2022. The decision to increase production was reaffirmed by an OPEC+ meeting held on March 31, 2022.

ESG and Climate Change Effects – ESG matters continue to attract considerable public and scientific attention. In particular, we expect continued regulatory attention on climate change issues and emissions of greenhouse gases (“GHGs”), including methane (a primary component of natural gas) and carbon dioxide (a byproduct of crude oil and natural gas combustion). This increased attention to climate change and environmental conservation may result in demand shifts away from crude oil and natural gas products to alternative forms of energy, higher regulatory and compliance costs, additional governmental investigations and private litigation against us. For example, numerous proposals have been made and are likely to continue to be made at the international, national, regional and state levels of government to monitor and limit emissions of GHGs. These efforts have included consideration of cap-and-trade programs, carbon taxes, GHG reporting and tracking programs and regulations that directly limit GHG emissions from certain sources. In addition, institutional investors, proxy advisory firms and other industry participants continue to focus on ESG matters, including climate change. We expect that this heightened focus will continue to drive ESG efforts across our industry and influence investors’ investment and voting decisions, which for some investors may lead to less favorable sentiment towards carbon assets and diversion of investment to other industries. Consistent with the increased attention on ESG matters and climate change, we have prioritized and are committed to responsible environmental practices by monitoring our adherence to ESG standards, including the reduction of our carbon footprint and measurement of GHG emissions. ESG is important to us, and we are in the process of developing a multi-year plan to establish and document our ESG base currently and developing a systematic plan to monitor and improve matters related to ESG and climate change going forward.

Hedging

We seek to mitigate the impact of volatility in crude oil prices through hedging. On September 24, 2021, we entered commodity swaps at a Dated Brent weighted average price of \$72.00 per barrel for the period from and including March 2022 to June 2022 for a quantity of 460,000 barrels. On January 6, 2022, we entered into additional commodity swaps at a Dated Brent weighted average price of \$76.53 per barrel for the period from and including July 2022 to September 2022 for a quantity of 375,000 barrels. On February 23, 2022, we entered into additional commodity swaps at a Dated Brent weighted average price of \$85.01 per barrel for the period from and including April 2022 to June 2022 for a quantity of 234,000 barrels.

See the table below for the unexpired barrels as of March 31, 2022:

Settlement Period	Type of Contract	Index	Barrels	Weighted Average Price
April 2022 to June 2022	Swaps	Dated Brent	345,000	\$ 72.00
April 2022 to June 2022	Swaps	Dated Brent	234,000	\$ 85.01
July 2022 to September 2022	Swaps	Dated Brent	375,000	\$ 76.53
			<u>954,000</u>	

CRITICAL ACCOUNTING POLICIES

There have been no material changes to our critical accounting policies subsequent to December 31, 2021.

NEW ACCOUNTING STANDARDS

See Note 2 to the condensed consolidated financial statements.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2022 Compared to the Three Months Ended March 31, 2021

Net income for the three months ended March 31, 2022 was \$12.2 million compared to net income of \$9.9 million for the same period of 2021. See discussion below for changes in revenue and expense.

Crude oil and natural gas revenues increased \$28.9 million, or approximately 72.6%, during the three months ended March 31, 2022 compared to the same period of 2021. The increase in revenue is attributable to higher sales prices and Sasol's additional working interest for the full three months ended March 31, 2022.

	Three Months Ended March 31,		Increase/(Decrease)
	2022	2021	
	<i>(in thousands except per bbl information)</i>		
Net crude oil sales volume (MBbls)	616	619	(3)
Average crude oil sales price (per Bbl)	\$ 109.65	\$ 61.31	\$ 48.34
Net crude oil revenue	\$ 68,656	\$ 39,774	\$ 28,882
Operating costs and expenses:			
Production expense	18,360	16,133	2,227
Exploration expense	127	142	(15)
Depreciation, depletion and amortization	4,673	4,148	525
General and administrative expense	4,994	4,547	447
Bad debt expense	492	101	391
Total operating costs and expenses	28,646	25,071	3,575
Other operating expense, net	(5)	(360)	355
Operating income	\$ 40,005	\$ 14,343	\$ 25,662

The revenue changes in the three months ended March 31, 2022 compared to the same period in 2021 identified as related to changes in price or volume, are shown in the table below:

<i>(in thousands)</i>	
Price ⁽¹⁾	\$ 29,667
Volume	(184)
Other	(601)
	\$ 28,882

(1) The price in the table above excludes revenues attributed to carried interests

The table below shows net production, sales volumes and realized prices for both periods.

	Three Months Ended March 31,	
	2022	2021
Gabon net crude oil production (MBbls)	725	466
Gabon net crude oil sales (MBbls)	616	619
Average realized crude oil price (\$/Bbl)	\$ 109.65	\$ 61.31
Average Dated Brent spot price* (\$/Bbl)	100.87	61.04

*Average of daily Dated Brent spot prices posted on the U.S. Energy Information Administration website.

Crude oil sales are a function of the number and size of crude oil liftings in each quarter from the FPSO, and thus, crude oil sales do not always coincide with volumes produced in any given quarter. We made two liftings during the three months ended March 31, 2022 and three liftings during the three months March 31, 2021. Although the number of barrels sold at March 31, 2022 is about the same as the numbers of barrels sold during March 31, 2021, the three months ended March 31, 2022 includes Sasol's interest for the entire period while during the same period in 2021, Sasol's interest was included after the acquisition date, February 25, 2021. Due to field start-up operational issues which pushed out the timing of third lifting until April 4, 2022, only two liftings occurred for the three months ended March 31, 2022. Our share of crude oil inventory aboard the FPSO, excluding royalty barrels, was approximately 174,250 barrels and 53,858 barrels at March 31, 2022 and 2021, respectively.

Production expenses increased \$2.2 million, or approximately 13.8%, for the three months ended March 31, 2022 compared to the same period in 2021. The increase in expense was primarily related to higher FPSO costs, boat expense, personnel, costs, and domestic market obligation ("DMO") costs. On a per barrel basis, production expense, excluding workover expense, for the three months ended March 31, 2022 increased to \$29.81 per barrel from \$26.02 per barrel for the three months ended March 31, 2021 primarily as a result of lower

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sales volumes due to production interruptions in order to facilitate the 2021/2022 drilling campaign. While we have not experienced any material operational disruptions associated with the current worldwide COVID-19 pandemic, we have incurred approximately \$0.9 million and \$0.6 million in higher costs related to the proactive measures taken in response to the pandemic for each of the three months ended March 31, 2022 and 2021, respectively.

Depreciation, depletion and amortization costs increased \$0.5 million, or approximately 12.7% due to the higher depletable base as a result of capital expenditures related to the 2021/2022 drilling program.

General and administrative expenses increased \$0.4 million, or approximately 9.8% in the three months ended March 31, 2022 compared to the same period of 2021. The increase in expense was primarily related to increase on wages and salaries \$0.4 million, professional and audit fees \$0.5 million, offset by decrease legal fees \$0.2 million and stock-based compensation \$0.2 million.

Bad debt expense was higher between the three months ended March 31, 2022 and 2021 primarily due to 1) increased TVA balances as a result of increased interest in TVA balances and 2) increased TVA balances as a result of increased spend as a result of the 2021/2022 drilling campaign. The bad debt expense and related allowance account associated TVA balance has also increased as we have received no payments related to these balances in 2022.

Other operating income (expense), net for the three months ended March 31, 2022 and for the three months ended March 31, 2021 was not material to our results.

Derivative instruments loss, net is attributable to our swaps as discussed in Note 8 to the condensed consolidated financial statements. The \$31.8 million and \$6.0 million losses for the three months ended March 31, 2022 and 2021 are a result of the increase in the price of Dated Brent crude oil during the two periods. Every quarter in 2021 and continuing in 2022 Dated Brent crude oil process have increased. Since the Company owes the counterparty for any Dated Brent price over the initial per barrel value and the Company continued to place on additional hedges in 2021 and 2022, the loss associated with the derivatives have increased. Our derivative instruments currently cover a portion of our production through September 2022.

Other, net for the three months ended March 31, 2022 increased \$5.4 million from an expense of \$0.7 million for the three months ended March 31, 2022 compared to \$4.6 million of income in the same period of 2021. For the three months ended March 31, 2022 Other, net primarily consists of foreign currency losses as discussed in Note 1 to the condensed consolidated financial statements. For the three months ended March 31, 2022, the \$4.6 million of income in Other, net is primarily attributable to \$7.7 million for the bargain purchase gain and expenses of \$2.2 million for the difference in book to tax basis caused by the bargain purchase gain and \$1.0 million for an acquisition success fee.

Income tax expense (benefit) for the three months ended March 31, 2022 was a benefit of \$4.6 million. This is comprised of \$12.5 million of deferred tax benefit and a current tax expense of \$ (5.7) million. See Note 15 to the condensed consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK

We are exposed to market risk, including the effects of adverse changes in commodity prices, foreign exchange rates and interest rates as described below.

FOREIGN EXCHANGE RISK

Our results of operations and financial condition are affected by currency exchange rates. While crude oil sales are denominated in U.S. dollars, portions of our costs in Gabon are denominated in the local currency (the Central African CFA Franc, or XAF), and our VAT receivable as well as certain liabilities in Gabon are also denominated in XAF. A weakening U.S. dollar will have the effect of increasing costs while a strengthening U.S. dollar will have the effect of reducing costs. For our VAT receivable in Gabon, a strengthening U.S. dollar will have the effect of decreasing the value of this receivable resulting in foreign exchange losses, and vice versa. The Gabon local currency is tied to the Euro. The exchange rate between the Euro and the U.S. dollar has historically fluctuated in response to international political conditions, general economic conditions and other factors beyond our control. As of March 31, 2022, we had net monetary assets of \$11.1 million (XAF 6,525.3 million) denominated in XAF. A 10% weakening of the CFA relative to the U.S. dollar would have a \$1.0 million reduction in the value of these net assets. For the three months ended March 31, 2022, we had expenditures of approximately \$7.3 million denominated in XAF.

COUNTERPARTY RISK

We are exposed to market risk on our open derivative instruments related to potential nonperformance by our counterparty. To mitigate this risk, we enter into such derivative contracts with creditworthy financial institutions deemed by management as competent and competitive market makers.

COMMODITY PRICE RISK

Our major market risk exposure continues to be the prices received for our crude oil and natural gas production. Sales prices are primarily driven by the prevailing market prices applicable to our production. Market prices for crude oil and natural gas have been volatile and

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unpredictable in recent years, and this volatility may continue. Sustained low crude oil and natural gas prices or a resumption of the decreases in crude oil and natural gas prices could have a material adverse effect on our financial condition, the carrying value of our proved reserves, our undeveloped leasehold interests and our ability to borrow funds and to obtain additional capital on attractive terms. If crude oil sales were to remain constant at the most recent quarterly sales volumes of 616 MBbls, a \$5 per Bbl decrease in crude oil price would be expected to cause a \$3.1 million decrease per quarter in revenues and operating income (loss) and a \$2.8 million decrease per quarter in net income (loss).

As of March 31, 2022, we had unexpired derivative instruments outstanding covering 954 MBbls of production through September 2022. These instruments were intended to be an economic hedge against declines in crude oil prices; however, they were not designated as hedges for accounting purposes. See Note 8 to our condensed consolidated financial statements for further discussion.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We performed an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. The evaluation was performed with the participation of senior management, under the supervision of the principal executive officer and principal financial officer. Based on their evaluation as of March 31, 2022, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting during the three months ended March 31, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to litigation claims and governmental and regulatory proceedings arising in the ordinary course of business. It is management's opinion that none of the claims and litigation we are currently involved in are material to our business.

ITEM 1A. RISK FACTORS

Our business faces many risks. Any of the risks discussed elsewhere in this Quarterly Report and our other SEC filings could have a material impact on our business, financial position or results of operations. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also impair our business operations.

For a discussion of our potential risks and uncertainties, see the information in Item 1A. "Risk Factors" in our 2021 Form 10-K. There have been no material changes in our risk factors from those described in our 2021 Form 10-K.

ITEM 6. EXHIBITS

(a) Exhibits

3.1	Certificate of Incorporation as amended through May 7, 2014 (filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed on November 10, 2014 and incorporated herein by reference).
3.2	Third Amended and Restated Bylaws (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on August 4, 2020 and incorporated herein by reference).
3.3	Certificate of Elimination of Series A Junior Participating Preferred Stock of VAALCO Energy, Inc., dated as of December 22, 2015 (filed as Exhibit 3.2 to the Company's Current Report on Form 8-K filed on December 23, 2015, and incorporated herein by reference).
10.1 *	Amendment No. 1 to Employment Agreement, effective as of January 27, 2022, by and between VAALCO Energy, Inc. and George Maxwell (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 28, 2022 and incorporated herein by reference).
10.2 *	Amendment No. 1 to Employment Agreement, effective as of January 27, 2022, by and between VAALCO Energy, Inc. and Ronald Bain (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on January 28, 2022 and incorporated herein by reference).
10.3 **	Agreement for the Provision of Subsea Construction and Installation Services, by and between VAALCO Gabon, SA and DOF Subsea Canada Corp., dated March 17, 2022.
31.1 (a)	Sarbanes-Oxley Section 302 certification of Principal Executive Officer.
31.2 (a)	Sarbanes-Oxley Section 302 certification of Principal Financial Officer.
32.1 (b)	Sarbanes-Oxley Section 906 certification of Principal Executive Officer.
32.2 (b)	Sarbanes-Oxley Section 906 certification of Principal Financial Officer.
101.INS(a)	Inline XBRL Instance Document.
101.SCH(a)	Inline XBRL Taxonomy Schema Document.
101.CAL(a)	Inline XBRL Calculation Linkbase Document.
101.DEF(a)	Inline XBRL Definition Linkbase Document.
101.LAB(a)	Inline XBRL Label Linkbase Document.
101.PRE(a)	Inline XBRL Presentation Linkbase Document.
104	Cover Page Interactive Data File (Formatted as Inline XBRL and contained in Exhibit 101).

(a) Filed herewith

(b) Furnished herewith

* Management contract or compensatory plan or arrangement.

** Information in this exhibit (indicated by asterisks) is confidential and has been omitted pursuant to Item 601(b)(10) of Regulation S-K. Additionally, exhibits and schedules have been omitted pursuant to Item 601(a)(5) of Regulation S-K. A copy of any omitted exhibit or schedule will be furnished supplementally to the SEC or its staff upon request.

SIGNATURE

Pursuant to 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/ Ronald Bain
Ronald Bain
Chief Financial Officer
(Principal Financial Officer)

Dated: May 3, 2022

Agreement for the provision of Subsea Construction and Installation
Services

VAALCO GABON SA

and

DOF SUBSEA CANADA CORP.

17 March 2022

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THIS CONTRACT is dated 17 March 2022 and made between:

(1) **VAALCO GABON SA**, a company incorporated in the Gabonese Republic and having its registered office at Zone Industrielle OPRAG – Nouveau Port, the Gabonese Republic (the "**COMPANY**"); and

(2) **DOF SUBSEA CANADA CORP.**, a company having its registered office at 26 Allston St Suite 2 Mount Pearl, NL, A1N 0A4 Canada (the "**CONTRACTOR**", and together with the **COMPANY**, the "**PARTIES**" and individually a "**PARTY**").

WHEREAS:

- 1) The **COMPANY** wishes that certain **WORK** shall be carried out, all as described in the **CONTRACT**; and
- 2) The **CONTRACTOR** wishes to carry out the **WORK** in accordance with the terms of the **CONTRACT**.

NOW:

The **PARTIES** hereby agree as follows:

- 1) All capitalised words and expressions shall have the meanings assigned to them in the **CONTRACT**.
- 2) The following Sections shall be deemed to form and be read and construed as part of the **CONTRACT**:
 1. Section I Remuneration;
 2. Section II Scope of Work and Base Programme;
 3. Section III Health, Safety and Environment;
 4. Section IV Documents and Drawings;
 5. Section V Materials, Services and Facilities to be provided by the **COMPANY**;
 6. Section VI **CONTRACTOR**'s Plans;
 7. Section VII Schedule of Key Dates;
 8. Section VIII Responsibility Matrix;
 9. Section IX Code of Business Conduct and Ethics;
 10. Section X COVID Protocols;
 11. Section XI Form of Guarantee; and
 12. Section XII Insurances.

The Sections shall be read as one document the contents of which, in the event of ambiguity or contradiction between Sections, shall be given precedence in the order listed.

- 3) In accordance with the terms and conditions of the **CONTRACT**, the **CONTRACTOR** shall perform and complete the **WORK** in consideration for which the **COMPANY** shall pay the **CONTRACTOR** the sums due in accordance with the **CONTRACT**.
- 4) The terms and conditions of the **CONTRACT** shall apply from the **EFFECTIVE DATE OF COMMENCEMENT OF THE CONTRACT**.
- 5) The **CONTRACTOR** shall perform the **WORK** in conformity with the **SCHEDULE OF KEY DATES** and achieve **COMPLETION** by the **SCHEDULED COMPLETION DATE**.

1. DEFINITIONS

The following definitions shall be used for the purpose of interpreting the CONTRACT. Further definitions not contained in this Clause 1 shall apply to the Section in which they are stated and subsequent Sections.

1.1 "ABC PROGRAMME" means an anti-bribery and corruption policy and any related procedures as amended, varied or supplemented from time to time, which (without limitation) may include policies, procedures and controls relating to recording of financial transactions; anti-bribery and corruption risk assessment and mitigation; training of personnel; whistle blowing facilities; due diligence on third party engagements/contracts; gifts and hospitality, promotional expenditures, sponsorship and charitable donations; and promoting and monitoring compliance.

1.2 "AFFILIATE" means any subsidiary or parent or holding company of any company or any other subsidiary of such parent or holding company. For the purpose of this definition, "subsidiary" and "holding company" shall have the meanings assigned to them under Section 1159 and Schedule 6 of the Companies Act 2006, and a company shall be treated, for the purposes only of the membership requirement contained in subsections 1159(1)(b) and (c), as a member of another company even if its shares in that other company are registered in the name of (a) another person (or its nominee) whether by way of security or in connection with the taking of security or (b) its nominee.

1.3 "APPLICABLE ANTI-BRIBERY LAWS" means any laws, regulations and other legally binding measures relating to bribery, corruption or similar activities of (i) the United Kingdom, including the Bribery Act 2010; (ii) the United States of America including, to the extent applicable to either PARTY, the Foreign Corrupt Practices Act 1977; and (iii) any country or countries in which any of the obligations of the CONTRACT are to be or are performed.

1.4 "APPLICABLE CODES AND STANDARDS" means:

- (a) the codes and standards referred to in the CONTRACT, together with any codes, standards, or requirements addressed in any APPLICABLE LAWS;
- (b) all requirements of a CLASSIFICATION SOCIETY from time to time; and
- (c) the terms of the CONTRACT,

all of which shall collectively govern the performance of the WORK under the CONTRACT. In the event of any inconsistency or conflict between APPLICABLE CODES AND STANDARDS, the strictest requirement shall govern, unless the COMPANY instructs otherwise in writing.

1.5 "APPLICABLE LAWS" means all international (including region-wide), national, federal, state, provincial and local laws including statutes, decrees, edicts, codes, orders, judgments, judicial decisions, rules, ordinances, proclamations, by-laws, regulations, and executive orders of, and the terms of any licenses, leases, rights of way, PERMIT, or authorisations issued by, any international (including region-wide), national, federal, state, provincial or local or other duty constituted GOVERNMENTAL AUTHORITY that are applicable to the WORK, the WORKSITE, the VESSEL and the persons in relation to whom the term is used.

1.6 "BANK ACCOUNT" means the account with the following details:

1.7 "BASE PROGRAMME" means the initial workplan set out in Section II – Scope of Work and Base Programme.

1.8 "CLASSIFICATION SOCIETY" means DNV, the American Bureau of Shipping, Nippon Kaiji Kyokai (ClassNK), Lloyd's Register, or such other body as may from time to time act as the provider of relevant technical and classification services in connection with the VESSEL and the operations contemplated in the CONTRACT.

- 1.9 "CODE OF BUSINESS CONDUCT AND ETHICS" means the COMPANY's code of business conduct and ethics set out in Section 1.9 of the Code of Business Conduct and Ethics.
- 1.10 "COMPANY GROUP" means the COMPANY, its CO-VENTURERS, its and their respective AFFILIATES, its and their respective contractors and subcontractors of any tier, and its and their respective directors, officers and employees (including agency personnel), but shall not include any member of the CONTRACTOR GROUP.
- 1.11 "COMPANY REPRESENTATIVE" means James Waithman.
- 1.12 "COMPETENT AUTHORITY" means (i) any person having legal, executive and/or regulatory authority and/or enforcement powers (including any public body or authority responsible for the investigation and/or prosecution of criminal offences) over either or both of the PARTIES or any of their AFFILIATES providing services in connection with the CONTRACT; and/or (ii) any court of law or tribunal with jurisdiction over either or both of the PARTIES or any of their AFFILIATES providing services in connection with the CONTRACT.
- 1.13 "COMPLETION" means completion of the whole of the WORK in accordance with Clause 27.
- 1.14 "COMPLETION CERTIFICATE" means the certificate issued pursuant to Clause 27.2 in respect of the whole or the relevant part of the WORK.
- 1.15 "COMPLETION DATE" means the date shown on the COMPLETION CERTIFICATE on which the whole or the relevant part of the WORK was actually completed.
- 1.16 "CONTRACT" shall mean the terms of this agreement.
- 1.17 "CONTRACTOR GROUP" means the CONTRACTOR, its SUBCONTRACTORS, its and their AFFILIATES, its and their respective directors, officers and employees (including agency personnel), but shall not include any member of the COMPANY GROUP. "CONTRACTOR GROUP" shall also mean CONTRACTOR's subcontractors (of any tier) which are performing WORK offshore or at any fabrication yard or construction site, their AFFILIATES, their directors, officers and employees (including agency personnel).
- 1.18 "CONTRACTOR REPRESENTATIVE" means Dave Burt (Project Manager).
- 1.19 "CO-VENTURER" means any other entity with whom the COMPANY is or may be from time to time a party to a joint operating agreement relating to the operations for which the WORK is being performed, the successors in interest of such CO-VENTURER or the assignees of any interest of such CO-VENTURER along with any other person with an interest in the WORKSITE, which in each case at the date of the CONTRACT means the COMPANY, Addax Petroleum Holdings Ltd, PetroEnergy Resources Corporation and Tullow Oil Gabon SA, and "CO-VENTURERS" shall mean all of them.
- 1.20 "CONSEQUENTIAL LOSS" has the meaning given in Clause 24.
- 1.21 "CUMULATIVE DEFECTS CORRECTION PERIOD" means the period of thirty six (36) months from COMPLETION of the WORK.
- 1.22 "DAILY RATE" shall mean the sum set out as such in Section I – Remuneration.
- 1.23 "DATASITE" means the Sharefile datasite hosted by the COMPANY at the following link:
https://vaalco.sharepoint.com/sites/EXT_VAALCO_Engineering.
- 1.24 "DEFECTS CORRECTION PERIOD" means, commencing on the date specified on the COMPLETION CERTIFICATE in respect of completion of the relevant part of the WORK:
- (a) for the relevant part or whole of the WORK as appropriate, twenty-four (24) months; and
 - (b) for WORK which is reformed, rectified or replaced, twelve (12) months commencing on the date upon which such performance, rectification or replacement was completed in accordance with the CONTRACT,

provided that such periods shall not, in aggregate, exceed the CUMULATIVE DEFECTS CORRECTION PERIOD.

- 1.25 "DEMOBILIZATION FEE" shall mean the sum set out as such in Section I – Remuneration.
- 1.26 "DOWNTIME PERIOD" has the meaning given in Clause 35.4.
- 1.27 "EFFECTIVE DATE OF COMMENCEMENT OF THE CONTRACT" means the date on the first page of the CONTRACT .
- 1.28 "ENVIRONMENTAL LAW" means all international (including region-wide), national, federal, state, provincial and local laws including statutes, decrees, edicts, codes, orders, judgments, judicial decisions, rules, ordinances, proclamations, by-laws, regulations and executive orders pertaining to prevention of pollution, protection of the environment (including natural resources), remediation of contamination or restoration of environmental quality, or occupational health and workplace safety, that apply with respect to any obligation or activities related to the CONTRACT.
- 1.29 "FIELD" shall mean the Etame Marin Block, offshore the Republic of Gabon, the rights in respect of which are granted to the CO-VENTURERS pursuant to the Etame Marin Exploration and Production Sharing Contract (amended, varied or supplemented from time to time).
- 1.30 "FLEXIBLE LAY EQUIPMENT" shall mean the pipelay spread which shall include, at a minimum, the equipment indicated in Section 1.0 of SECTION VIII – CONTRACTOR'S Plans, and, in particular, the equipment listed in Section 1.8 thereof.
- 1.31 "FLEXIBLE PIPE REELS" shall mean the four (4) reels of flexible pipe to be received at the Shepherd Offshore Group facility, Newcastle upon Tyne, England.
- 1.32 "FORCE MAJEURE DAILY RATE" shall mean the sum set out as such in Section I – Remuneration.
- 1.33 "FORCE MAJEURE DAILY RATE REDUCED CREW" shall mean the sum set out as such in Section I – Remuneration.
- 1.34 "GABON GOVERNMENT" means the Government of the Gabonese Republic or any ministry, bureau, agency, department, office or other organisation of such Government or any local GOVERNMENTAL AUTHORITY of the Gabonese Republic that has jurisdiction or authority over the WORKSITE.
- 1.35 "GOVERNMENTAL AUTHORITY" means the government of any country, province, region, state, or territory, or any political subdivision thereof, claiming, having, or exercising jurisdiction over the COMPANY, any member of the CONTRACTOR GROUP, any WORKSITE, the WORK or the GABON GOVERNMENT and including all agencies, instrumentalities, and political subdivisions of, and entities controlled or commissioned by, any such government; any judicial, executive, legislative, administrative or regulatory body of any government or political subdivision thereof; and any official of any of the foregoing.
- 1.36 "HAZARDOUS MATERIALS" means:
- (a) petroleum or petroleum products and any fractions or derivatives thereof, natural or synthetic gas and any fractions or derivatives thereof (including condensate), asbestos and polychlorinated biphenyls;
 - (b) any substances defined as or included in the definition of "hazardous wastes", "hazardous materials", "hazardous substances", "extremely hazardous substances", "restricted hazardous wastes", "special wastes", "toxic substances", "toxic chemicals", "toxic pollutants", "contaminants" or "pollutants" or words of similar import under any ENVIRONMENTAL LAW;
 - (c) radioactive materials, substances and waste; and
 - (d) any other substance the handling, disposal, storage and/or transportation of, or exposure to, which is regulated under any ENVIRONMENTAL LAW.
- 1.37 "INDEMNIFIED PROPERTY" means permanent oil and gas production facilities and pipelines not owned, hired, leased or otherwise provided by the COMPANY GROUP provided the same are within the boundaries of the FIELD.

- 1.38 "INSTALLATION AID(S) / ROV TOOLING" means equipment, appurtenances and/or ancillary items to be identified by the COMPANY and the CONTRACTOR and provided by the CONTRACTOR in accordance with Section I – Remuneration for use on the VESSEL, but not included in the KEY DEDICATED EQUIPMENT listed in Section VI – CONTRACTOR's Plans, to aid in the execution of the WORK.
- 1.39 "INTELLECTUAL PROPERTY" means patents, utility models, rights to inventions, copyright and neighbouring and related rights, moral rights, trade-marks and service marks, business names and domain names, rights in get-up and trade dress, goodwill and the right to sue for passing off, rights in designs, rights in computer software, database rights, rights to use, and protect the confidentiality of, confidential information (including KNOW-HOW) and all other intellectual property rights, in each case whether registered or unregistered and including all applications and rights to apply for and be granted, renewals or extensions of, and rights to claim priority from, such rights and all similar or equivalent rights or forms of protection which subsist or will subsist now or in the future in any part of the world.
- 1.40 "INVOICE ADDRESS" means VAALCO Gabon SA, B.P 1335, Port Gentil, Gabon.
- 1.41 "JOB SPECIFICATION" means the requirements set out in Clause 40 and Section II – Scope of Work and Base Programme and Section IV – Documents and Drawings of the CONTRACT.
- 1.42 "KEY DEDICATED EQUIPMENT" means all or any of the following as the context requires, each of which is to be reflected in Section VI – CONTRACTOR's Plans to the extent necessary:
- (a) the VESSEL;
 - (b) the FLEXIBLE LAY EQUIPMENT;
 - (c) the ROVS; and/or
 - (d) the SURVEY EQUIPMENT.
- 1.43 "KEY PERSONNEL" means those personnel named as such in Section 2.0 of Section VI – CONTRACTOR's Plans.
- 1.44 "KNOW-HOW" means techniques, methods, skills comprised within technical information, data, notes, reports, specifications, formulae, drawings, manuals, component lists, instructions, descriptions, and other knowledge of a secret and confidential nature.
- 1.45 "LATEST TIME FOR RECEIPT OF INVOICES AFTER COMPLETION" means the date that is ninety (90) days after the COMPLETION DATE .
- 1.46 "MARINE AND PROJECT CREW" shall mean the individuals identified in Sections 2.2 and 2.3 of Section VI – CONTRACTOR's Plans.
- 1.47 "MILESTONE DATE" means, without prejudice to the SCHEDULE OF KEY DATES, any critical path date represented in the PROJECT SCHEDULE.
- 1.48 "MOBILIZATION DATE" shall mean 3 July 2022.
- 1.49 "MOBILIZATION LOCATION" shall mean the quayside at the Shepherd Offshore Group facility, Newcastle upon Tyne, England.
- 1.50 "OCCURRENCE" shall mean one loss, accident, disaster or casualty or series of losses, accidents, disasters or casualties arising out of one event.
- 1.51 "PERMANENT WORK" means the property of the COMPANY arising from the WORK.
- 1.52 "PERMIT" means any valid waiver, certificate, approval, consent, licence, exemption, permission, authorisation or similar order or authorisation from any GOVERNMENTAL AUTHORITY required to be maintained in connection with the WORK or the WORKSITE.

- 1.53 "PROGRAMME" means the detailed work plan for carrying out the WORK which shall be prepared by the CONTRACTOR and which the COMPANY has approved as the current detailed work plan that the CONTRACTOR shall utilise in the performance of the WORK in accordance with Clause 10.
- 1.54 "PROJECT MANAGEMENT AND ENGINEERING FEE" shall mean the sum set out as such in Section I – Remuneration.
- 1.55 "PROJECT SCHEDULE" means the logical sequence of activities to plan, execute and complete the WORK specifying MILESTONE DATES for critical events (without prejudice to the SCHEDULE OF KEY DATES) as to achieve COMPLETION with minimal disruption and production downtime to ongoing operations on the Etame field and/or the FPSO Petróleo Nautipa, in accordance with the SCHEDULE OF KEY DATES and Clause 10.
- 1.56 "REASONABLE AND PRUDENT CONTRACTOR" means a reasonable and prudent contractor operating in the same or similar business as the CONTRACTOR acting in a way that is consistent with good and prudent petroleum industry practices generally followed in the international petroleum industry under similar circumstances.
- 1.57 "RECOVERY SCHEDULE" means the revised PROJECT SCHEDULE addressing the measures proposed by the CONTRACTOR to avoid any likely delay and mitigate it to the maximum practicable extent.
- 1.58 "RESPONSIBILITY MATRIX" means the matrix of the responsibilities of the COMPANY and the CONTRACTOR, as set out in Section VIII – Responsibility Matrix.
- 1.59 "RESTRICTIONS TO FREE AND UNRESTRICTED ACCESS" means a restriction on free and unrestricted access for the CONTRACTOR to any part of the WORKSITE due to any of the following:
- (a) ongoing operations on, or in the vicinity of, the Etame field and/or the FPSO Petróleo Nautipa (including work required to unhook the moorings and/or production systems related to the FPSO Petróleo Nautipa);
 - (b) ongoing or imminent offloading of produced hydrocarbons from the FPSO Petróleo Nautipa at the Etame field; or
 - (c) ongoing or imminent drilling or associated activity on the Etame field or any proximate target or discovery.
- 1.60 "RISK ASSESSMENT" means an assessment of all project-specific HS&E risks, including a project-specific Hazard Identification (HAZID) and project-specific Hazard and Operability Analysis (HAZOP), as further detailed in Section VIII – Responsibility Matrix.
- 1.61 "ROVS" shall mean the equipment indicated in Section 1.0 of SECTION VI – CONTRACTOR'S OBLIGATIONS, and, in particular, the equipment listed in Section 1.3 and Section 1.8 thereof.
- 1.62 "SCHEDULED COMPLETION DATE" means the date by which the CONTRACTOR is required to achieve COMPLETION, which at the EFFECTIVE DATE OF COMMENCEMENT OF THE CONTRACT shall be 30 September 2022.
- 1.63 "SCHEDULE OF KEY DATES" means the schedule of events and associated dates set out in Section VII – Schedule of Key Dates, together with amendments to any or all of such dates as may be made from time to time in accordance with Clause 13.
- 1.64 "SCOPE OF WORK" means the scope of work set out in Section II – Scope of Work and Base Programme.
- 1.65 "STANDBY RATE" shall mean the sum set out as such in Section I – Remuneration.
- 1.66 "SUBCONTRACT" means any contract between the CONTRACTOR and any permitted party (other than the COMPANY or any employees of the CONTRACTOR) for the performance of any part of the WORK.
- 1.67 "SUBCONTRACTOR" means any party (other than the CONTRACTOR) to a SUBCONTRACT.

- 1.68 "SURVEY EQUIPMENT" shall mean the following survey spread which shall include, at a minimum, the equipment indicated in Section 1.0 of SECTION VI – CONTRACTOR's Plans, and, in particular, the equipment listed in Section 1.7 thereof.
- 1.69 "SUSPENSION DAILY RATE" shall mean the sum set out as such in Section I – Remuneration.
- 1.70 "SUSPENSION PERIOD" means the period commencing with the suspension of payments to the CONTRACTOR under Clause 3.5(a) and ending after a period of five (5) days.
- 1.71 "TESTING REQUIREMENTS" shall mean the clearing of annuluses and leak testing on all equipment installed during the performance of the WORK.
- 1.72 "TECHNICAL INFORMATION" means all such information provided by or caused to be provided by the COMPANY pursuant to the CONTRACT and via the DATASITE (provided that "TECHNICAL INFORMATION" shall not include any information provided by or caused to be provided by the CONTRACTOR pursuant to the CONTRACT or any other contract between the COMPANY and the CONTRACTOR).
- 1.73 "VARIATION" means both:
- (a) an instruction to the CONTRACTOR in accordance with Clause 13.1; and
 - (b) an adjustment to the SCHEDULE OF KEY DATES and the relevant sums set out in Section I – Remuneration to which the CONTRACTOR is entitled under the CONTRACT.
- 1.74 "VESSEL" shall mean either the *VESSEL 1* or the *VESSEL 2*, as notified to the COMPANY by the CONTRACTOR pursuant to Clause 4.17.
- 1.75 "WORK" means all work that the CONTRACTOR is required to carry out in accordance with the provisions of the CONTRACT, including the provision of all materials, services and equipment to be rendered in accordance with the CONTRACT.
- 1.76 "WORKSITE" means the lands, waters and other places on, under, in or through which the WORK is to be performed including offshore installations, floating construction equipment, vessels (including the area covered by approved anchor patterns or within a distance of 2,000 metres from any part of the PERMANENT WORK, whatever is the greater), design offices, workshops and places where equipment, materials or supplies are being obtained, stored or used for the purposes of the CONTRACT.
- 1.77 "ZERO RATE" shall mean the sum set out as such in Section I – Remuneration.
- 2. INTERPRETATION**
- 2.1 All instructions, notices, agreements, authorisations, approvals and acknowledgements shall be in writing. All such documentation together with all correspondence and other documents shall be in the English language.
- Nevertheless, if for any reason it is considered necessary by the COMPANY to give an instruction to the CONTRACTOR orally in the first instance, the CONTRACTOR shall comply with such instruction. Any such oral instruction shall be confirmed in writing within twenty-four (24) hours, provided that, if the CONTRACTOR confirms in writing any such oral instruction which is not contradicted in writing by the COMPANY without undue delay, it shall be deemed to be an instruction in writing by the COMPANY.
- 2.2 Any reference to statute, statutory provision or statutory instrument shall include any re-enactment or amendment thereof for the time being in force.
- 2.3 Unless the context otherwise requires, words importing the singular shall include the plural, and words importing the masculine gender shall include the feminine and neuter genders, and vice versa.

2.4 All references to "day" or "days" shall mean calendar days and all references to "months" shall mean consecutive calendar months according to the Gregorian Calendar.

2.5 The words "include", "includes", "including", "inclusive of" shall mean "including but not limited to".

3. COMPANY AND CONTRACTOR REPRESENTATIVES

3.1 General

- (a) The COMPANY REPRESENTATIVE and the CONTRACTOR REPRESENTATIVE, or delegates appointed in accordance with the provisions of this Clause 3, shall be readily available to enable both PARTIES to discharge their obligations under the CONTRACT.
- (b) The COMPANY REPRESENTATIVE and any person authorised by him shall have access at all reasonable times to the WORKSITE and the CONTRACTOR shall afford every facility for and every assistance in obtaining the right of access.

3.2 Company Representative

- (a) Subject to the proviso, the COMPANY REPRESENTATIVE has the authority to commit the COMPANY in respect of all matters under the CONTRACT and, subject to any delegation of such authority which shall be notified to the CONTRACTOR in writing, shall be responsible for issuing to and receiving from the CONTRACTOR all notices, information, instructions and decisions, provided that the COMPANY REPRESENTATIVE shall, acting alone, only be authorized to commit the COMPANY in respect of any matter having a monetary value of less than ***** United States Dollars (*****) (or equivalent in another currency) and in respect of any matter having a monetary value equal to or in excess of ***** United States Dollars (*****) (or equivalent in another currency) the COMPANY's VP International Operations shall be required to countersign or confirm (as the case may be) to signify the COMPANY's intention to be bound.
- (b) By notice to the CONTRACTOR, the COMPANY REPRESENTATIVE may at any time delegate any of his authority to any nominated deputy. Such notice shall specify the precise authority of any such deputy and shall be sent to the CONTRACTOR REPRESENTATIVE.
- (c) The COMPANY may change the COMPANY REPRESENTATIVE at any time and shall notify the CONTRACTOR of any change.
- (d) Except as expressly stated in the CONTRACT, the COMPANY REPRESENTATIVE has no powers to amend the CONTRACT or to relieve the CONTRACTOR from any of its obligations under the CONTRACT.

3.3 Contractor Representative

- (a) The CONTRACTOR REPRESENTATIVE has the authority to commit the CONTRACTOR to any course of action within the rights and obligations of the CONTRACTOR under the CONTRACT and, subject to any delegation of such authority, shall be responsible for issuing to and receiving from the COMPANY all notices, information, instructions and decisions.
- (b) The CONTRACTOR REPRESENTATIVE may delegate any of his authority to any nominated deputy, the terms of such delegation being subject to the prior approval of the COMPANY which shall not be unreasonably withheld or delayed.
- (c) The CONTRACTOR shall not change the CONTRACTOR REPRESENTATIVE or any nominated deputy without cause without the prior approval of the COMPANY which shall not unreasonably be withheld or delayed.
- (d) The CONTRACTOR REPRESENTATIVE has no powers to amend the CONTRACT.

4. CONTRACTOR'S GENERAL OBLIGATIONS

- 4.1 The CONTRACTOR shall provide all management, supervision, personnel, materials and equipment (except materials and equipment specified to be provided by the COMPANY), plant, consumables, facilities, vessels (including the VESSEL) and all other things whether of a temporary or permanent nature, so far as the necessity for providing the same is specified in or reasonably to be inferred from the CONTRACT including pursuant to the RESPONSIBILITY MATRIX.
- 4.2 The CONTRACTOR shall carry out all of its obligations under the CONTRACT and shall execute the WORK with all due care and diligence and with the skill to be expected of a reputable contractor experienced in the types of work to be carried out under the CONTRACT. The CONTRACTOR warrants that the WORK shall be fit for the purposes specified in the CONTRACT or, where no such purpose is specified, fit for its ordinary purpose. The foregoing warranty shall be in lieu of all other warranties whether oral, written, expressed, implied or statutory and CONTRACTOR makes no other warranty as to fitness for purpose.
- 4.3 The CONTRACTOR shall carry out all necessary engineering and design to safely execute the WORK in accordance with the SCHEDULE OF KEY DATES. Except as expressly specified in the CONTRACT including pursuant to the RESPONSIBILITY MATRIX, the CONTRACTOR shall not be responsible for the design of any part of the PERMANENT WORK.
- However, for the avoidance of doubt, where the CONTRACTOR is so responsible (including pursuant to the RESPONSIBILITY MATRIX) such WORK undertaken shall be in accordance with Clause 4.2.
- 4.4 Without prejudice to Clause 10.6, except to the extent that it may be legally or physically impossible or create a hazard to safety the CONTRACTOR shall comply with the COMPANY's reasonable written instructions as they apply to the scope of WORK agreed under the CONTRACT. However, for the sake of clarity, the COMPANY shall have no direction or control over the CONTRACTOR GROUP in the performance of the WORK except pursuant to Clause 10.6.
- Subject to Clause 13 and Clause 10.6 and to the compliance by the CONTRACTOR with this Clause 4, the COMPANY shall issue a VARIATION if the CONTRACTOR can show that it has suffered direct delay and/or incurred direct additional cost as a result of any instruction issued under this Clause 4.4 provided that any such alleged delay and/or additional cost is not already set out or reflected in, or contemplated by, the BASE PROGRAMME and/or the PROGRAMME.
- 4.5 Without prejudice to Clause 10, the CONTRACTOR shall by 15 April 2022 develop a PROGRAMME and PROJECT SCHEDULE for carrying out the WORK in accordance with the SCHEDULE OF KEY DATES, for review and approval by the COMPANY. Through this PROGRAMME, the CONTRACTOR shall diligently and continuously monitor the progress of the WORK and maintain an updated and accurate version of the PROJECT SCHEDULE so as to be aware at all times of potential and actual deviations from the original PROJECT SCHEDULE. Each updated version of the PROJECT SCHEDULE shall specifically track all usage of float originally available within the PROJECT SCHEDULE. Should, at any time during the performance of the WORK, an updated PROJECT SCHEDULE show that any activity in the original PROJECT SCHEDULE is, or is likely to be, delayed or prolonged such that any MILESTONE DATE (or any of the SCHEDULE OF KEY DATES) will not be met, the CONTRACTOR shall present a RECOVERY SCHEDULE addressing the measures proposed by the CONTRACTOR to avoid the delay or mitigate it to the maximum practicable extent, and the COMPANY shall review and shall (in its absolute and sole discretion) be required to approve the RECOVERY SCHEDULE.
- 4.6 Until the time the WORK is completed (as evidenced by the COMPLETION CERTIFICATE), the CONTRACTOR shall be responsible for all costs and expenses of the handling, disposal and redemption of, in accordance with all APPLICABLE LAWS and APPLICABLE CODES AND STANDARDS, any HAZARDOUS MATERIALS that in the course of the CONTRACTOR's performance of the WORK is brought or will be brought onto or generated at the WORKSITE by the CONTRACTOR.
- 4.7 The CONTRACTOR shall develop a project specific Health, Safety and Environment (H&E) Plan, that ensures that the WORK is performed in accordance with the latest ISO 140001 requirements and Section III – Health, Safety and Environment.
- 4.8 The CONTRACTOR shall develop a project specific quality plan that provides all quality control, quality surveillance, quality assurance and other services required to ensure that the WORK is performed in accordance with ISO 9001:2015 and Clause

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- 4.9 The CONTRACTOR shall develop a project specific RISK ASSESSMENT for the WORK.
- 4.10 Materials and equipment or parts thereof provided by the CONTRACTOR for which there is no detailed specification included in the CONTRACT shall be new or, subject to the COMPANY's approval, as new, of good quality and workmanship and fit for the intended purpose where a purpose is defined in the CONTRACT or, where no such purpose is defined, fit for its ordinary purpose.
- 4.11 The CONTRACTOR shall maintain complete and accurate records of all WORK, including a complete set of "as-built" documents and prepare and submit to the COMPANY the reports and other information required by the CONTRACT or otherwise reasonably requested by the COMPANY.
- 4.12 In order to ensure that performance and completion of the WORK are not delayed or impeded the CONTRACTOR shall be responsible for the timely compliance with all matters referred to in this Clause 4 (insofar as the same represents an obligation of the CONTRACTOR) and, where provided for elsewhere in the CONTRACT, for the timely request of COMPANY provided materials and equipment.
- 4.13 (a) During the carrying out of the WORK, upon notice, the CONTRACTOR shall permit reasonable access to the COMPANY or any member of the COMPANY GROUP to the WORKSITE as necessary to perform any work for the COMPANY.
- (b) During the carrying out of the WORK the COMPANY may engage other contractors in connection with its operations at the WORKSITE. The CONTRACTOR shall take all necessary steps to coordinate, liaise and cooperate with the COMPANY's other contractors performing any work at the WORKSITE and provide on a timely basis any information to such other contractors as they reasonably require in relation to the WORKSITE.
- (c) Subject to Clauses 13 and 10.6 and to the compliance by the CONTRACTOR with this Clause 4, the COMPANY shall issue a VARIATION if the CONTRACTOR can show that in compliance with Clause 4(b) the CONTRACTOR has suffered direct delay and/or incurred direct cost that could not reasonably have been foreseen by an experienced contractor provided that any such alleged delay and/or cost is not already set out or reflected in, or contemplated by, the BASE PROGRAMME and/or the PROGRAMME.
- 4.14 The CONTRACTOR shall, and procure that any SUBCONTRACTOR permitted to be engaged pursuant to the CONTRACT shall, at its and their cost ensure that all persons it or they (as the case may be) intend to board the VESSEL to fulfil the WORK and perform the CONTRACTOR's obligations pursuant to the CONTRACT (in each case, directly and/or indirectly) are fully vaccinated, in accordance with World Health Organization guidelines, against the novel coronavirus disease (also known as COVID-19). In particular and without prejudice to the generality of the foregoing:
- (a) the CONTRACTOR is at all times to ensure that all personnel aboard the VESSEL, including MARINE AND PROJECT CREW and SUBCONTRACTORS and COMPANY personnel, are to have received a negative result from a PCR or equivalent test prior to arrival in Gabonese waters;
- (b) the CONTRACTOR is at all times to ensure that all personnel used in relation to the WORK, including all MARINE AND PROJECT CREW and SUBCONTRACTORS, have received a negative result from a PCR or equivalent test prior to boarding the VESSEL (at any time); and
- (c) the CONTRACTOR is at all times to ensure that the CONTRACTOR's COVID Protocols, as set out in Section X - COVID Protocols and/or provided by the CONTRACTOR under the RESPONSIBILITY MATRIX are to ensure (and thereafter monitor) that any personnel visiting the VESSEL or interacting with personnel ordinarily aboard the VESSEL (for example, but without limitation, stevedores at the quayside) have first received a negative result from a PCR or equivalent test.

Any failure to comply with this Clause 4.14 (or the direct or indirect impact thereof) will not constitute "force majeure" for the purposes of Clause 14 and the CONTRACTOR will not be entitled to any form of relief for the purposes of any provision set out in Clause 35. For each day on which the VESSEL is not able to work as a result of a positive result/s from a PCR or

equivalent test the CONTRACTOR will be ZERO RATE. However, if the VESSEL is not able to work as a result of positive result/s from a PCR or equivalent test and such positive result/s from a PCR or equivalent test are not due to a failure by the CONTRACTOR to comply with this Clause 4.14 then the FORCE MAJEURE DAILY RATE will apply.

Irrespective of the cause of the VESSEL not being able to work as a result of a positive result/s from a PCR or equivalent test, the CONTRACTOR will, and will procure that each SUBCONTRACTOR will, use its best reasonable endeavours to progress the WORK notwithstanding that any personnel aboard the VESSEL have received a positive result/s from a PCR or equivalent test.

Both COMPANY and CONTRACTOR shall abide by the terms of both COMPANY's and CONTRACTOR's COVID Protocols as set out in Section X - COVID Protocols and as updated from time to time (provided the same are provided to the other reasonably in advance of the same coming into effect).

In no circumstances will the COMPANY be directly or indirectly liable for any costs of the CONTRACTOR or any SUBCONTRACTOR in complying with the vaccination and testing requirements set out in this Clause 4.14 and/or the CONTRACTOR's compliance with its own COVID Protocols as set out in Section X - COVID Protocols. Any quarantine requirements imposed upon the CONTRACTOR by the COMPANY or the GABON GOVERNMENT which are in excess of, or more onerous than, a quarantine period of three (3) days shall be for the COMPANY's account. The CONTRACTOR will ensure that all persons entering and exiting quarantine will have received a negative result/s from a PCR or equivalent test.

4.15 Notwithstanding any other provision of the CONTRACT, the CONTRACTOR shall use all reasonable endeavours to procure all goods and services from Gabon and only if such goods and services are not available in Gabon at competitive prices (by reference to total landed cost) shall the CONTRACTOR procure such goods and services from outside of Gabon.

4.16 The CONTRACTOR shall attend, host and facilitate meetings regarding the status of the performance of the WORK, including daily operational meetings once the WORK at the WORKSITE has commenced, and in which it will raise any pending issues that may give rise to a request for a VARIATION pursuant to Clause 13.

4.17 The CONTRACTOR shall identify each element of the KEY DEDICATED EQUIPMENT (excluding the VESSEL) to be used for the WORK and this shall (if not already proposed and agreed prior to the date of the CONTRACT), not later than 20 March 2022 (if not already proposed prior to the EFFECTIVE DATE OF COMMENCEMENT OF THE CONTRACT) be proposed to the COMPANY for review and approval and, subject to the COMPANY's approval, will be included (or deemed included) in Section VI – CONTRACTOR'S Plans. The CONTRACTOR shall identify the VESSEL and notify the COMPANY in respect of the same by 20 March 2022 (if not already proposed prior to the EFFECTIVE DATE OF COMMENCEMENT OF THE CONTRACT) after which such vessel shall constitute the "VESSEL" for the purposes of the CONTRACT.

INSTALLATION AID(S) / ROV TOOLING will be identified following the EFFECTIVE DATE OF COMMENCEMENT OF THE CONTRACT and agreed between the COMPANY and the CONTRACTOR as they are discovered and or revealed during the Engineering and Planning Phase of the WORK.

4.18 Without prejudice to Clause 21, the CONTRACTOR shall ensure that every aspect of, and all operations connected with, the performance of the WORK are carried out so as not to damage any of the riser systems or field infrastructure owned, hired, leased or otherwise used or provided by the COMPANY GROUP.

4.19 The (i) CONTRACTOR will at all times in respect of mobilizing and demobilizing the VESSEL to/from the customs cleared location in the Gabonese Republic, provide all necessary fuel and lubricants for the VESSEL and equipment (including the KEY DEDICATED EQUIPMENT) and (ii) without prejudice to Clause 4.1, the COMPANY will at all other times (not being in respect of mobilizing and demobilizing the VESSEL to/from the customs cleared location in the Gabonese Republic) provide all necessary fuel and lubricants for the VESSEL and equipment (including the KEY DEDICATED EQUIPMENT).

4.20 MOBILIZATION DATE and MOBILIZATION LOCATION

The VESSEL will arrive at the MOBILIZATION LOCATION on or before the MOBILIZATION DATE. Upon arrival at the MOBILIZATION LOCATION the VESSEL will have cleared customs in the United Kingdom and be ready to load the FLEXIBLE

PIPE REELS and commence direct transit to the FIELD or the agreed customs clearance location in the Gabonese Republic.

5. RESPONSIBILITY FOR COMPANY PROVIDED ITEMS

- 5.1 The COMPANY shall provide the materials and equipment as specified in Section V - Materials, Services and Facilities to be provided by the COMPANY. Dates of delivery and methods of delivery shall be as specified in that Section.
- 5.2 Without prejudice to the provisions of Clause 21.2, but subject to the remainder of the CONTRACT, the CONTRACTOR shall be responsible for (i) receiving, unloading and handling such items when delivered to the CONTRACTOR or (ii) collecting, loading and handling such items it is required to collect, load and handle pursuant to the CONTRACT. The CONTRACTOR shall visually inspect all such items and check all supporting documentation and shall notify the COMPANY of any discrepancy or damage that is without prejudice to Clauses 5.3, 12.2 and 40.5) reasonably detectable upon visual inspection (the CONTRACTOR acting as a REASONABLE AND PRUDENT CONTRACTOR) within three (3) working days of receipt or collection or such other period as may from time to time be agreed. Receipt or collection of all such items shall be recorded in writing. In the absence of any notification of discrepancy or damage such items shall be deemed to have been delivered or collected in a complete and undamaged state to the extent that any discrepancy or damage could have been reasonably detectable upon visual inspection (the CONTRACTOR acting as a REASONABLE AND PRUDENT CONTRACTOR). The CONTRACTOR shall not however be liable for any latent defects in any such items.
- 5.3 The CONTRACTOR shall carry out all special tests and inspections on materials and equipment supplied by the COMPANY (whether or not the same are delivered by the COMPANY or collected by the CONTRACTOR) which are specified in the JOB SPECIFICATION and shall notify the COMPANY of the results of such tests and inspections.
- 5.4 The CONTRACTOR shall maintain in a form agreed by the PARTIES adequate records of materials and equipment provided by the COMPANY (whether or not the same are delivered by the COMPANY or collected by the CONTRACTOR) and provide a regular weekly inventory to show the use of all materials and equipment received or collected and the balance of materials and equipment unused at all times, in accordance with any relevant provisions of the CONTRACT.
- 5.5 The CONTRACTOR shall be responsible for providing suitable and safe storage for materials and equipment provided by the COMPANY to the CONTRACTOR for the WORK (including the FLEXIBLE PIPE REELS, and whether or not (i) the same are delivered by the COMPANY or collected by the CONTRACTOR and (ii) such storage is aboard the VESSEL, at the quayside or in transit) and shall comply with any particular storage requirements set out in the JOB SPECIFICATION. Notwithstanding the provisions of Clause 21.2 but subject to the provisions of Clause 23 and without prejudice to any other right or remedy of the COMPANY pursuant to the CONTRACT or otherwise, the CONTRACTOR shall make good any loss or damage to such materials and equipment (including the FLEXIBLE PIPE REELS) which may occur whilst in the care, custody or control of the CONTRACTOR (including as a result of carrying out the WORK, aboard the VESSEL, at the quayside or in transit) which arises as a result of the negligence of any member of the CONTRACTOR GROUP.
- 5.6 The CONTRACTOR shall notify the COMPANY of all unused or surplus materials or equipment provided by the COMPANY (whether or not the same are delivered by the COMPANY or collected by the CONTRACTOR) in accordance with any relevant provisions of the CONTRACT. The COMPANY shall authorise a VARIATION in accordance with Clause 13, in relation to the disposal of any such surplus.

6. CONTRACTOR TO INFORM ITSELF

- 6.1 The CONTRACTOR shall be deemed to have satisfied itself, before entering into the CONTRACT, based on the information provided to it by the COMPANY (upon the accuracy and sufficiency of which the CONTRACTOR shall be entitled to rely provided the same is provided to the CONTRACTOR pursuant to the DATASITE from time to time) as to the extent and nature of the WORK including the services, personnel, materials and equipment, plant, consumables and facilities required for the WORK, the correctness and sufficiency of the rates and prices stated in Section I - Remuneration, general and local conditions including seabed and subsoil conditions (so far as practicable and having taken into account any information in connection therewith which may have been provided by the COMPANY), climatic, sea, other water and weather conditions, and all other matters which could affect progress or performance of the WORK. All information to be provided to the CONTRACTOR by the COMPANY for the purposes of this CONTRACT shall be shared via the DATASITE.

6.2 If during the execution of the WORK the CONTRACTOR encounters seabed and/or subsoil conditions, which conditions could not reasonably have been foreseen by a contractor experienced in the types of work to be carried out under the CONTRACT or which differs from the information provided by the COMPANY, due account having been taken of the TECHNICAL INFORMATION, the COMPANY shall, subject to the CONTRACTOR having given prior notice in accordance with the provisions of Clause 13, authorise a VARIATION if the CONTRACTOR can show that it has suffered direct delay and/or incurred direct additional cost as a direct result of encountering such seabed and/or subsoil conditions and has taken all reasonable steps to mitigate or avoid the impact of such unforeseen conditions provided that any such alleged delay and/or additional cost is not already set out or reflected in, or contemplated by, the BASE PROGRAMME and/or the PROGRAMME.

Such VARIATION shall be evaluated using the rates and prices included in the CONTRACT or, in the absence of suitable rates and prices, on the basis of actual additional costs incurred by the CONTRACTOR as a result of encountering such conditions.

6.3 Any failure by the CONTRACTOR to take account of matters which affect the WORK will not relieve the CONTRACTOR from its obligations under the CONTRACT.

7. CONTRACTOR TO INFORM COMPANY/ COMPANY TO INFORM CONTRACTOR

7.1 The CONTRACTOR shall perform a thorough review of the TECHNICAL INFORMATION in accordance with Section 6.1 Documents and Drawings and notify the COMPANY without undue delay of all things which in the opinion of the CONTRACTOR (acting reasonably) appear to be errors, deficiencies, omissions, contradictions or ambiguities in the TECHNICAL INFORMATION or conflicts with applicable law so that such issue may be efficiently amended or rectified. The COMPANY shall review these items and issue the necessary instructions before the CONTRACTOR proceeds with any part of the WORK affected. Subject to the provisions of Clause 13, the COMPANY shall issue a VARIATION if the CONTRACTOR can show that it has suffered direct delay and/or incurred direct additional cost as a result of any such instruction provided that any such alleged delay and/or additional cost is not already set out or reflected in, or contemplated by, the BASE PROGRAMME and/or the PROGRAMME.

7.2 In addition to the requirements of Section III - Health, Safety and Environment and the provisions of Clause 39, the CONTRACTOR shall notify the COMPANY without delay of any accidents which occur in connection with the carrying out of the WORK.

The CONTRACTOR shall also notify the COMPANY of any other incidents which occur which might affect the carrying out of the WORK or the CONTRACT.

7.3 The CONTRACTOR shall notify the COMPANY immediately of any proposed or actual stoppages of work, industrial disputes or other matters affecting or likely to affect the carrying out or completion of the WORK.

7.4 The COMPANY shall as soon as reasonably practicable provide to the CONTRACTOR all information affecting the WORK which the CONTRACTOR reasonably requires and requests from the COMPANY in order to properly perform the WORK in accordance with the CONTRACT (including pursuant to the RESPONSIBILITY MATRIX).

8. ASSIGNMENT, SUBCONTRACTING and GUARANTEE

8.1 Assignment

- (a) The COMPANY is entitled to assign the CONTRACT or any part of it or any benefit or interest in or under it to any CO-VENTURER or AFFILIATE of the COMPANY. In addition the COMPANY may make any such assignment to any other third party but only with the prior agreement of the CONTRACTOR which shall not unreasonably be withheld or delayed.
- (b) The CONTRACTOR undertakes that, in the event of any assignment described above, it will execute without delay a formal assignment of interest in the CONTRACT to the relevant party, to be effective upon the written assumption

by the assignee of all obligations of the COMPANY under the CONTRACT.

- (c) The CONTRACTOR shall not assign either the CONTRACT or any part of it nor any benefit or interest in or under it without the prior approval of the COMPANY.

8.2 Subcontracting and KEY DEDICATED EQUIPMENT

- (a) The CONTRACTOR shall not:

- (i) subcontract the whole of the WORK;
- (ii) subcontract any part of the WORK; or
- (iii) change, amend or replace any of the KEY DEDICATED EQUIPMENT provided that the notification of the VESSEL to the COMPANY pursuant to Clause 4.17 shall not constitute a change, amendment or replacement of the VESSEL so long as the vessel used is either the VESSEL 1 or the VESSEL 2),

in each case, without the prior approval of the COMPANY provided that in the case of (i) and (ii) the prior approval of the COMPANY shall only be required where the value of said subcontract exceeds *****.

In the absence of such approval the CONTRACTOR shall not be entitled to change amend or replace any element of the KEY DEDICATED EQUIPMENT used for the WORK. In no event shall the CONTRACTOR use any other vessel in relation to the WORK other than either the VESSEL 1 or the VESSEL 2 and, after the notification of the VESSEL in accordance with Clause 4.17, the CONTRACTOR shall not be entitled to alternate between the VESSEL 1 or the VESSEL 2.

- (b) The CONTRACTOR shall perform all necessary due diligence on each proposed SUBCONTRACTOR (if any) to ensure their ability to perform their contractual obligations and to comply with all APPLICABLE LAWS and APPLICABLE CODES AND STANDARDS.
- (c) Before entering into any subcontract or SUBCONTRACT that requires approval under Clause 8.2, the COMPANY shall be given an adequate opportunity to review the form of SUBCONTRACT, the choice of SUBCONTRACTOR, the part of the WORK included in the SUBCONTRACT and any other relevant details requested by the COMPANY.

Where the COMPANY will be required to reimburse to the CONTRACTOR the sum paid to the SUBCONTRACTOR, any procedure for award of such SUBCONTRACTS included in the RESPONSIBILITY MATRIX shall be followed and the COMPANY shall be entitled to review all the relevant aspects of the SUBCONTRACT.

- (d) No SUBCONTRACT shall bind or purport to bind the COMPANY or the CO-VENTURERS. Nevertheless the CONTRACTOR shall ensure that any SUBCONTRACTOR shall be bound by and observe the provisions of the CONTRACT in so far as they apply to the SUBCONTRACT.

Each SUBCONTRACT shall expressly provide for the CONTRACTOR's unconditional right of assignment of the SUBCONTRACT to the COMPANY in the event that the COMPANY terminates the CONTRACT or the WORK pursuant to Clauses 29.1(b) or (c).

- (e) The CONTRACTOR shall be responsible for all work, acts, omissions and defaults of any SUBCONTRACTOR as fully as if they were work, acts, omissions or defaults of the CONTRACTOR.
- (f) The CONTRACTOR shall diligently manage permitted SUBCONTRACTORS, including (i) taking prompt corrective actions without undue delay in the event of potential delay in provision of materials or other resources; (ii) the immediate replacement of any SUBCONTRACTOR which fails to perform its contractual obligations or comply with all APPLICABLE LAWS and APPLICABLE CODES AND STANDARDS where such failure has not been cured within five (5) days of notification of same by the COMPANY; and/or (iii) the timely payment of SUBCONTRACTORS in

accordance with the respective subcontracts except in the event of disputed invoice amounts.

- (g) The CONTRACTOR shall use reasonable commercial efforts to negotiate guarantees, warranties, delivery schedules and performance requirements with all permitted SUBCONTRACTORS so that all subcontracts are fully consistent with the CONTRACT.
- (h) In the event that the COMPANY requires relevant permitted SUBCONTRACTORS to provide ongoing support to the COMPANY, subsequent to their performance under the CONTRACT, in relation to their contribution to the WORK, if requested, CONTRACTOR may assist where it is reasonably and commercially able to do so.

8.3 Upon signature of the CONTRACT the CONTRACTOR shall (if it has not already done so prior to the signature of the CONTRACT) procure the issue to the COMPANY of a parent company guarantee in the form set out in Section XI - Form of Guarantee by an entity with a credit standing being to the satisfaction of the COMPANY (acting in its sole discretion). Upon any permitted assignment of the CONTRACT by the CONTRACTOR, the CONTRACTOR shall as a condition of the effectiveness of such assignment furnish to the COMPANY (or shall procure the provision of) a replacement guarantee from the ultimate parent company of the proposed assignee (if different to the ultimate parent company of the CONTRACTOR or such other entity as the COMPANY has approved in relation to the parent company guarantee provided or procured upon signature of the CONTRACT), provided that the COMPANY shall be entitled not to approve such proposed assignment in its sole discretion, including as a result of the credit standing of the proposed guarantor not being to the satisfaction of the COMPANY (acting in its sole discretion).

9. CONTRACTOR PERSONNEL

- 9.1 The CONTRACTOR undertakes to provide sufficient personnel at all times to ensure performance and completion of the WORK in accordance with the provisions of the CONTRACT.
- 9.2 All personnel employed on the WORK shall, for the work which they are required to perform, be competent, properly qualified, skilled and experienced in accordance with good industry practice. The CONTRACTOR shall verify all relevant qualifications of such personnel.
- 9.3 The CONTRACTOR shall identify KEY PERSONNEL in the CONTRACTOR'S organization for the WORK, which shall be included in Section 9.4 of the CONTRACTOR'S Plans, for COMPANY review.
- 9.4 The KEY PERSONNEL shall be provided by the CONTRACTOR and shall not be replaced without the prior approval of the COMPANY. Any replacement shall work with the person to be replaced for a reasonable handover period.
- 9.5 The CONTRACTOR shall ensure that the KEY PERSONNEL and supervisory personnel of the CONTRACTOR and SUBCONTRACTORS shall read, write and speak fluent English. The CONTRACTOR shall ensure that all documentation (including policies and procedures, whether set out in the Sections or not) issued or entered into pursuant to the CONTRACT are in the English language. Where any documentation is available in a language other than the English language, the English language version of the text shall govern and prevail over any non-English text.
- 9.6 The CONTRACTOR shall make its own arrangements for the engagement of personnel, local or otherwise, and, save in so far as the CONTRACT otherwise provides, for their payment and onshore transport, housing, maintenance and board and lodging.
- 9.7 The CONTRACTOR shall be as responsible for any WORK performed by any agency personnel and by any other person provided by the CONTRACTOR in connection with the WORK as if the WORK was performed by the employees of the CONTRACTOR.
- 9.8 The CONTRACTOR shall ensure that all employees of the CONTRACTOR and any SUBCONTRACTOR engaged in the performance of the WORK comply with APPLICABLE LAW including immigration laws and where required are in possession of a valid work permit for the duration of the CONTRACT. When requested, details of such work permits shall be submitted to the COMPANY prior to the employee being engaged in the WORK.

- 9.9 The COMPANY may instruct the CONTRACTOR to remove from the WORKSITE any person engaged in any part of the WORK who in the reasonable opinion of the COMPANY is:
- (a) incompetent or negligent in the performance of his duties; or
 - (b) engaged in activities which are contrary or detrimental to the interests of the COMPANY; or
 - (c) not conforming with relevant safety procedures described in Section III - Health, Safety and Environment or persists in any conduct likely to be prejudicial to safety, health or the environment.

Any such person shall be removed forthwith from the WORKSITE. Any person removed for any of the above reasons shall not be engaged again in the WORK or on any other work of the COMPANY without the prior approval of the COMPANY.

The CONTRACTOR shall provide a suitable replacement for any such person within twenty four (24) hours or such longer time as may be agreed by the COMPANY.

10. PROGRAMME

- 10.1 The CONTRACTOR shall be responsible for the programming of the WORK and subject to Clause 10.6, for independently controlling its progress.

The CONTRACTOR will, on and from the date of the CONTRACT and in accordance with the SCOPE OF WORK and the SCHEDULE OF KEY DATES, carry out the BASE PROGRAMME. In carrying out the BASE PROGRAMME the CONTRACTOR shall produce a detailed work plan, including a proposed PROJECT SCHEDULE for approval by the COMPANY, which complies with any requirements set out in the CONTRACT, providing for performance and completion of the WORK in accordance with the SCHEDULE OF KEY DATES. Where necessary, the detailed work plan may also include the CONTRACTOR's proposed variation of the SCHEDULE OF KEY DATES (provided such proposed revisions do not relate to the BASE PROGRAMME). Unless the COMPANY requires otherwise, the detailed work program will include the elements of the BASE PROGRAMME set out at paragraph 1 of Section II – Scope of Work and Base Programme.

- 10.2 The CONTRACTOR shall submit the detailed work plan referred to in Clause 10.1, together with full supporting details, to the COMPANY for review. Within ten (10) days after receipt of the detailed work plan referred to in Clause 10.1, together with full supporting details, the COMPANY shall either:

(a) accept the detailed work plan referred to in Clause 10.1 and approve the same in writing; or

- (b) notify the CONTRACTOR of how and in what respect the detailed work plan referred to in Clause 10.1 is insufficient in achieving the performance and completion of the WORK in accordance with the SCHEDULE OF KEY DATES.

If the COMPANY delivers to the CONTRACTOR a notice in accordance with Clause 10.2(b), the CONTRACTOR shall address all matters raised by the COMPANY, after which it may deliver a further detailed work plan referred to in Clause 10.1, together with full supporting details, and the procedure set out in Clause 10.2 shall be repeated until the COMPANY accepts the detailed work plan referred to in Clause 10.1.

When approved by the COMPANY such work plan shall become the PROGRAMME.

- 10.3 The CONTRACTOR shall use the PROGRAMME as the basis for progress reporting, scheduling, forecasting and controlling performance of the WORK.

- 10.4 In order to take account of VARIATIONS and actual progress of the WORK, the CONTRACTOR shall continually update its detailed work plan and supporting details and submit them daily to the COMPANY for review in accordance with Clause 4. Once a revised work plan has been approved by the COMPANY it shall become the PROGRAMME, there being only one (1)

PROGRAMME at any particular time.

- 10.5 If for any reason which does not entitle the CONTRACTOR to a VARIATION the rate of progress of the WORK is at any time demonstrated by the COMPANY to be too slow to ensure performance and completion in accordance with the SCHEDULE OF KEY DATES, the COMPANY shall notify the CONTRACTOR and the CONTRACTOR shall thereupon inform the COMPANY of its proposals and take such steps as are necessary to expedite progress so as to complete the WORK or such part of the WORK in accordance with the SCHEDULE OF KEY DATES.
- 10.6 The COMPANY shall be entitled to instruct the CONTRACTOR to carry out (i) any element of the WORK forming part of the BASE PROGRAMME and/or the PROGRAMME and/or (ii) any element of the RESPONSIBILITY MATRIX forming part of the BASE PROGRAMME and/or the PROGRAMME, in each case in any order, sequence or phasing as the COMPANY sees fit from time to time and in its absolute and sole discretion.

11. TECHNICAL INFORMATION

- 11.1 The COMPANY shall provide TECHNICAL INFORMATION on the accuracy and sufficiency of which the CONTRACTOR shall be entitled to rely, in accordance with Section IV - Documents and Drawings or as provided elsewhere in the CONTRACT and may during the progress of the WORK issue to the CONTRACTOR (via the DATASITE) such modified or additional TECHNICAL INFORMATION as may be necessary for the proper carrying out and completion of the WORK and the CONTRACTOR shall comply with the same.
- 11.2 The CONTRACTOR shall give adequate notice of any further TECHNICAL INFORMATION that may reasonably be required for the proper carrying out and completion of the WORK in accordance with the SCHEDULE OF KEY DATES.
- 11.3 Where the CONTRACTOR is required to produce sketches, drawings, calculations, reports, recommendations and the like, or the preparation of such is necessary for the proper carrying out and completion of the WORK, the CONTRACTOR shall submit all such documents to the COMPANY as may be requested by the COMPANY, for review and comment. The COMPANY shall be afforded the time specified in the CONTRACT (or if no time is specified a reasonable time) to carry out such review so that progress of the WORK is not delayed.
- 11.4 The CONTRACTOR shall maintain at the WORKSITE a complete set of all relevant TECHNICAL INFORMATION together with all relevant documents and drawings provided by the CONTRACTOR for the purposes of the WORK. Such information shall be made available to the COMPANY REPRESENTATIVE or any other person authorised by him at all reasonable times.
- 11.5 The CONTRACTOR shall carry out checks on the TECHNICAL INFORMATION, however the CONTRACTOR's scope of checks shall be limited to those which are ordinarily carried out by, and within the skillset of, an engineering and installation contractor acting as a REASONABLE AND PRUDENT CONTRACTOR. The COMPANY shall not be responsible for either (i) any additional cost and/or delay that results from the CONTRACTOR's omission to complete such checks promptly and properly or (ii) any liability in respect of the TECHNICAL INFORMATION.
- 11.6 When requested by the COMPANY the CONTRACTOR shall, following COMPLETION or termination of all of the WORK or the CONTRACT, return all copies of TECHNICAL INFORMATION to the COMPANY. Notwithstanding the above, the CONTRACTOR may retain one (1) copy of such documents while admitting that the COMPANY has title to all such documents.

12. INSPECTION AND TESTING

- 12.1 The CONTRACTOR shall provide samples of materials before such materials are incorporated into the WORK where the provision of such samples is provided for in the CONTRACT.

Similarly the CONTRACTOR shall also provide samples not specified in the CONTRACT but requested by the COMPANY, and in such case such samples shall be at the expense of the COMPANY unless the requirement for such samples arises as a

result of default on the part of the CONTRACTOR.

- 12.2 The CONTRACTOR shall carry out all tests and inspections detailed in the CONTRACT (including the TESTING REQUIREMENTS). If the COMPANY so requires, the CONTRACTOR shall inspect, test or retest any materials or equipment provided by the CONTRACTOR in order to confirm that the requirements of the CONTRACT are met. The CONTRACTOR shall supply the COMPANY with certified copies of test records and inspection reports as soon as they become available.

The COMPANY has the right, but not the obligation, to witness any test or inspection carried out by the CONTRACTOR. The CONTRACTOR shall notify the COMPANY in adequate time in order that the COMPANY may exercise this right.

The COMPANY has the right, but not the obligation, to inspect, test and examine all things provided by the CONTRACTOR for the purposes of the WORK, including materials and equipment, together with all documentation relating thereto.

- 12.3 No part of the WORK shall be put out of view or covered up without the consent of the COMPANY. The CONTRACTOR shall provide reasonable notice to the COMPANY in order to permit the inspection of any part of the WORK which is about to be put out of view or covered up. The COMPANY shall consider the request for consent without undue delay.

Notwithstanding the foregoing, the COMPANY shall have the right at any time to require the CONTRACTOR to uncover or open up any part of the WORK and to reinstate such uncovered or open part following inspection and testing by the COMPANY.

- 12.4 The COMPANY shall have the right to reject any part of the WORK or rework which does not comply with any requirement or requirements of the CONTRACT, including faulty workmanship, services, materials or equipment. Upon receiving notice of rejection the CONTRACTOR shall immediately commence to reperform, repair or replace the defective part of the WORK and shall carry out such inspections and/or tests on other parts of the WORK as the COMPANY may require to ensure that there are no similar parts of the WORK that fail to comply with the requirements of the CONTRACT.

- 12.5 Where reperformance, repair, replacement, uncovering, reinstating, testing and inspection are additional to the requirements of the CONTRACT and are not the result of failure by the CONTRACTOR to conform with the CONTRACT on some other similar part of the WORK and do not reveal failure to comply with the CONTRACT, such WORK shall be at the expense of the COMPANY.

- 12.6 Neither failure on the part of the COMPANY to inspect the WORK or witness or test or to discover defects nor failure to reject work performed by the CONTRACTOR which is not in accordance with the CONTRACT shall relieve the CONTRACTOR from any liability or obligation under the CONTRACT.

- 12.7 In case of default on the part of the CONTRACTOR in carrying out its obligations under Clause 12.4, the COMPANY, having given prior notice to the CONTRACTOR, shall be entitled to undertake the CONTRACTOR's responsibilities in this respect. The COMPANY shall be entitled to recover from the CONTRACTOR all direct and documented costs reasonably incurred by the COMPANY in carrying out such responsibilities which shall in no event exceed ***** United States Dollars (*****).

13. VARIATIONS

- 13.1 Right of the COMPANY to issue instructions

- (a) The COMPANY has the right, subject to the CONTRACTOR's other existing contractual commitments and without prejudice to Clause 10.6, to issue instructions to the CONTRACTOR at any time to do any of the following:
- (i) make any revision to the WORK which may include additions, omissions, substitutions and changes in quality, form, character, kind, position, dimension, level or line and changes in any method of construction specified by the COMPANY;
 - (ii) revise elements of the WORK already completed in accordance with the CONTRACT;

- (iii) after commencement of the WORK, accelerate the WORK or any part thereof in order to recover all or part of any delay in respect of which the CONTRACTOR would otherwise have been entitled to a revision to the SCHEDULE OF KEY DATES in accordance with Clause 13.5; and
 - (iv) reprogramme the WORK and reschedule its resource within the limits of practicality in order to complete the WORK or any part thereof in accordance with any amendment to the SCHEDULE OF KEY DATES the COMPANY may require;
- (b) An instruction under Clause 13.1(a) will constitute a VARIATION. When required by the COMPANY on receipt of any such VARIATION, the CONTRACTOR shall proceed immediately as instructed to the extent that the amount of any adjustment to the sums set out in Section I – Remuneration and/or SCHEDULE OF KEY DATES has been determined and mutually agreed, such agreement not being unreasonably withheld by the CONTRACTOR;
- (c) Notwithstanding the provisions of Clause 13.1(b), any instruction given by the COMPANY under Clause 13.1(a) requiring the CONTRACTOR to perform work within 500 metres of any permanent oil and gas production facilities and pipelines not owned, hired, leased or otherwise provided by the CONTRACTOR GROUP, where such are not identified in the CONTRACT under the provisions of Clause 21.2(d) or which extend beyond any of the FPSO Petróleo Nautipa (and associated mooring system/s), the Borr Norve (and associated mooring system/s), the FSO Cap Diamant (and associated mooring system/s) or the platforms on the Etame field (being the Etame platform, the Avouma platform, the Ebouri platform and/or the SEENT platform) (and in each case any associated flexibles, umbilicals, flowlines, Christmas trees or manifolds), will constitute a VARIATION, save that the CONTRACTOR shall not be obliged to proceed as instructed until the COMPANY and the CONTRACTOR have agreed the following terms in respect of said VARIATION, namely;
- (i) amount of any adjustment to the sums set out in Section I – Remuneration; and/or
 - (ii) specific amendment to the CONTRACT (if any is required) for the COMPANY providing an indemnity to the CONTRACTOR GROUP in respect of Clause 21.2(d); and/or
 - (iii) specific amendment to the CONTRACT for the COMPANY limiting the CONTRACTOR'S liability in respect of Clause 21.2(d).

13.2 VARIATIONS Generally

- (a) Prior to instructing or authorising any VARIATION, the COMPANY shall require the CONTRACTOR to submit estimates as described in Clause 13.4.
- (b) The sums set out in Section I – Remuneration and/or SCHEDULE OF KEY DATES shall be subject to adjustment only as a result of a VARIATION.
- (c) The CONTRACTOR shall not be entitled to receive a VARIATION to cover any instruction, decision or act of the COMPANY which may be made or given in order to ensure that the CONTRACTOR complies with any of its obligations under the CONTRACT.
- (d) A VARIATION shall in no way affect the rights or obligations of the PARTIES except as expressly provided in that VARIATION. Any VARIATION shall be governed by all the provisions of the CONTRACT.

13.3 CONTRACTOR'S Right to Request a VARIATION

- (a) Subject to and excluding any occurrence arising as a result of the operation of Clause 10.6 or any occurrence set out or reflected in, or contemplated by, the BASE PROGRAMME, if the CONTRACTOR considers that an occurrence has taken place for which it is entitled to receive a VARIATION, the CONTRACTOR, before proceeding with any work affected by such occurrence, shall request without delay in writing that the COMPANY issue a VARIATION. Any such request shall include details of the alleged occurrence including any relevant dates and the Clause or Clauses of the CONTRACT under which the CONTRACTOR considers itself to be entitled to a VARIATION. Such occurrences shall

include the following:

- (i) an instruction from the COMPANY, whether contained in drawings or specifications issued by the COMPANY or not, which in the opinion of the CONTRACTOR (acting reasonably) constitutes a revision to the WORK;
 - (ii) matters arising under any Clause of the CONTRACT including Clause 13.6 in respect of which it is specifically stated that a VARIATION will be authorised by the COMPANY.
- (b) If the CONTRACTOR fails to submit requests for VARIATIONS in accordance with Clause 13.3(a) when it considers or should reasonably have considered that an occurrence has taken place for which it is entitled to receive a VARIATION and/or fails to provide supporting estimates in accordance with Clause 13.4, the CONTRACTOR shall, at the sole discretion of the COMPANY, forfeit any right to receive such VARIATIONS and any rights concerning adjustment to the sums set out in Section I – Remuneration and/or SCHEDULE OF KEY DATES.
- (c) The COMPANY shall within ten (10) days of having received a valid request for a VARIATION and the supporting estimates give notice to the CONTRACTOR stating:
- (i) that the proposed VARIATION or part thereof is accepted in principle in which case the COMPANY will issue such VARIATION; and/or
 - (ii) that what is requested or part thereof is included in the obligations undertaken by the CONTRACTOR under the terms of the CONTRACT (including under the BASE PROGRAMME) and that the request is accordingly rejected; and/or
 - (iii) that the request or part thereof is rejected for other stated reasons.

Should the CONTRACTOR wish to pursue any request for a VARIATION or part thereof which has been rejected by the COMPANY it shall proceed in accordance with the provisions of Clause 13.7.

For the avoidance of doubt, this Clause 13.3 shall not apply in respect of any matter forming part of the BASE PROGRAMME nor the SCHEDULE OF KEY DATES as it relates to the BASE PROGRAMME.

13.4 CONTRACTOR'S Estimates

Within ten (10) days of having been requested by the COMPANY in accordance with Clause 13.2(a) or the CONTRACTOR having requested a VARIATION in accordance with Clause 13.3(a), or such longer time as the COMPANY shall agree where reasonable for any specific VARIATION, the CONTRACTOR shall submit to the COMPANY fully detailed estimates prepared on a basis as directed by the COMPANY.

Such estimates shall include:

- (i) a description of the work to be varied under the VARIATION;
- (ii) a detailed schedule for the execution of the VARIATION showing the resources to be employed;
- (iii) the effect (if any) on the sums set out in Section I – Remuneration;
- (iv) the effect (if any) on the PROGRAMME and SCHEDULE OF KEY DATES.

13.5 Adjustments to the sums set out in Section I – Remuneration and SCHEDULE OF KEY DATES

Adjustments to the sums set out in Section I – Remuneration and SCHEDULE OF KEY DATES relating to any VARIATION shall be made as follows:

Wherever possible the effect (if any) of a VARIATION on the sums set out in Section I – Remuneration and SCHEDULE OF

KEY DATES shall be agreed before the instruction is issued or before work starts, using the estimates prepared by the CONTRACTOR in accordance with Clause 13.4.

Failing agreement on the basis of the CONTRACTOR's estimate, the COMPANY and CONTRACTOR shall use their reasonable efforts to determine the effects of VARIATIONS in accordance with the following principles:

- (a) where work is of a similar nature and carried out under similar conditions to work priced in the CONTRACT it shall be valued at the appropriate rates and prices included in the CONTRACT.

In the event that rates and prices for delay and/or adjustments to the SCHEDULE OF KEY DATES are included in Section I – Remuneration, then such rates and prices shall be used where appropriate;

- (b) where work is not of a similar nature or is not carried out under similar conditions to work priced in the CONTRACT or there are no appropriate rates or prices in the CONTRACT then a fair valuation shall be made;
- (c) with respect to effect on the SCHEDULE OF KEY DATES a fair and reasonable adjustment shall be made taking into account all relevant factors including any acceleration instructed under Clause 13.1(a).

Except insofar as the CONTRACTOR can demonstrate that adjustments (including nil adjustments) to the sums set out in Section I – Remuneration and/or SCHEDULE OF KEY DATES determined for a VARIATION are incorrect due to factors which could not have been foreseen by the CONTRACTOR at the time of such determination, any such adjustments shall not be subject to renegotiation and shall be deemed to include any cumulative effect of the VARIATION and the determined effect of any and all other previously authorised VARIATIONS on the sums set out in Section I – Remuneration and the SCHEDULE OF KEY DATES.

Should factors arise which could not have been foreseen as described, no alteration shall be made to any agreed VARIATION but a new VARIATION shall be issued to deal with any additional effects of such factors.

13.6 VARIATIONS in respect of delay and/or additional cost

The COMPANY shall authorise a VARIATION if the CONTRACTOR can show that it has suffered direct delay and/or incurred direct cost as a direct result of any of the following provided that any such alleged delay and/or additional cost is not already set out or reflected in, or contemplated by, the BASE PROGRAMME and/or the PROGRAMME:

- (a) failure of the COMPANY to comply with relevant CONTRACT provisions in respect of drawings and/or specifications and/or other information;
- (b) failure of the COMPANY to comply with relevant CONTRACT provisions in respect of Section VII - Materials, Services and Facilities to be provided by the COMPANY;
- (c) information supplied by the COMPANY for which the COMPANY is liable under the terms of the CONTRACT and which is incorrect, provided the CONTRACTOR has complied with its obligations under Clause 7.1;
- (d) subject to any RESTRICTIONS TO FREE AND UNRESTRICTED ACCESS, failure by the COMPANY to provide free and unrestricted access for the CONTRACTOR to any part of the WORKSITE;
- (e) any period of suspension not arising from a default on the part of the CONTRACTOR (provided that any such VARIATION shall apply only in respect of the SCHEDULE OF KEY DATES and direct and reasonably incurred costs and shall not apply so as to vary any element of Section I – Remuneration).

Under any such VARIATION and notwithstanding the provisions of Clause 13.5(a), the CONTRACTOR will be entitled to such adjustments to the sums set out in Section I – Remuneration and SCHEDULE OF KEY DATES as are fair and reasonable taking into account all relevant factors including the following:

- (i) without prejudice to Clause 10.6, any acceleration ordered by the COMPANY to overcome all or part of any delay in accordance with Clause 13.1(a);
- (ii) that the CONTRACTOR is entitled to recover necessary direct additional cost which includes any necessary additional overheads but not profit.

In the event that specific rates and prices for delay and/or extension to the SCHEDULE OF KEY DATES are included in Section I - Remuneration, then such rates and prices shall be used where appropriate to evaluate any adjustment to the sums set out in Section I - Remuneration under the provisions of this Clause 13.6 and shall be deemed to represent direct additional cost to the CONTRACTOR as defined herein.

13.7 Disputed VARIATIONS

- (a) Subject to and excluding any occurrence arising as a result of the operation of Clause 10.6 or any occurrence set out or reflected in, or contemplated by, the BASE PROGRAMM, if at any time the CONTRACTOR intends to claim any adjustment to the sums set out in Section I - Remuneration and/or SCHEDULE OF KEY DATES additional to that previously determined by the COMPANY for a VARIATION issued by the COMPANY or requested by the CONTRACTOR, the CONTRACTOR shall give notice in writing of such intention without delay after the happening of the events giving rise to such claim.

Such events shall include the following:

- (i) rejection by the COMPANY of a request for a VARIATION made by the CONTRACTOR;
- (ii) any VARIATION where effect on the sums set out in Section I - Remuneration and/or SCHEDULE OF KEY DATES cannot be determined at the time.

Upon the happening of such events the CONTRACTOR shall keep such contemporary records as may reasonably be necessary to support any claim it may subsequently wish to make.

- (b) Upon receipt by the COMPANY of any such notice of claim, and without necessarily admitting any liability, the COMPANY may instruct the CONTRACTOR to keep such contemporary records or further contemporary records as the case may be as are reasonable and may be material to the claim of which notice has been received and the CONTRACTOR shall keep such records, copies of which shall be supplied to the COMPANY as and when the COMPANY may direct.
- (c) The CONTRACTOR shall send to the COMPANY at the end of every month an account giving particulars, as full and detailed as possible, of all such claims.
- (d) If the CONTRACTOR does not give notices and/or does not submit records and accounts in accordance with the provisions of Clauses 13.7(a), 13.7(b) and 13.7(c) the CONTRACTOR shall, at the sole discretion of the COMPANY, forfeit any right to receive any adjustment to the sums set out in Section I - Remuneration and/or SCHEDULE OF KEY DATES in respect of any such claims.
- (e) Where any matter in respect to adjustments to the sums set out in Section I - Remuneration and/or SCHEDULE OF KEY DATES has not been finalised, and without prejudice to the rights of either PARTY, the COMPANY having taken into account the relevant provisions of the CONTRACT and all other relevant factors, will make such adjustments as it considers to be fair and reasonable. The COMPANY will inform the CONTRACTOR of decisions reached in this respect and will make appropriate payments in accordance with such decisions.

13.8 Discretionary Provision

If the CONTRACTOR has forfeited the right to receive any VARIATION under the provisions of Clause 13.3 (b) and/or 13.7 (d) in respect of any occurrence which it considers would otherwise have entitled it to receive a VARIATION, the CONTRACTOR shall nevertheless have the option at any time to discuss such matters with the COMPANY. The COMPANY

shall, at its sole discretion, decide whether to issue a VARIATION in respect of any such matters.

14. FORCE MAJEURE

14.1 Neither PARTY shall be responsible for any failure to fulfil any term or condition of the CONTRACT if and to the extent that fulfilment has been delayed or temporarily prevented by a force majeure occurrence, as hereunder defined, which has been notified in accordance with Clause 14.3 and which is beyond the control and without the fault or negligence of the PARTY affected and which, by the exercise of reasonable diligence, the said PARTY is unable to provide against.

14.2 For the purposes of the CONTRACT and to the extent they meet the conditions set out in Clause 14.1 above, the following occurrences may be force majeure:

- (a) Riot, war, invasion, act of foreign enemies, hostilities (whether war be declared or not), acts of terrorism, civil war, rebellion, revolution, insurrection of military or usurped power;
- (b) Ionising radiations or contamination by radio-activity from any nuclear fuel or from any nuclear waste from the combustion of nuclear fuel or radio-active, toxic, explosive or other hazardous properties of any explosive nuclear assembly or nuclear component thereof;
- (c) Pressure waves caused by aircraft or other aerial devices travelling at sonic or supersonic speeds;
- (d) Earthquake, flood, fire, explosion and/or other natural physical disaster, but excluding weather conditions as such, regardless of severity;
- (e) Strikes at a national or regional level or industrial disputes at a national or regional level, or strikes or industrial disputes by labour not employed by the affected PARTY, its subcontractors or its suppliers and which affect a substantial or essential portion of the WORK (provided that any strikes (or similar) ongoing at the date of the CONTRACT shall not be force majeure); and
- (f) Maritime or aviation disasters,

provided that events which shall not constitute force majeure include the following: (a) economic hardship; (b) changes in market conditions; (c) late delivery or failure of equipment provided by any of the members of the CONTRACTOR GROUP for performance of the WORK; (d) labour availability or strikes; (e) late delivery or shortage of materials, consumables, equipment, or utilities; (f) adverse climatic conditions (including rain, snow, wind, temperature, and other weather conditions), tides, and seasons, regardless of the magnitude, severity, duration or frequency of such climatic conditions (other than catastrophic storms or floods, named tropical storms, tornadoes, hurricanes, typhoons, cyclones, or tsunamis, as set forth above); (g) non-performance or delay by any of the members of the CONTRACTOR GROUP, unless such non-performance or delay is caused by force majeure; (h) a lack of, or inability to access, financial resources; or (i) pandemic, epidemic known and recognized by the World Health Organization at the date of the CONTRACT (including the novel coronavirus disease (also known as COVID-19) (or any direct or indirect variant or derivative thereof)) or any action required to be taken as a result of policies, procedures or actions required by local, national or regional governments or authorities as a result of an epidemic or pandemic.

14.3 In the event of a force majeure occurrence, the PARTY that is or may be delayed in performing the CONTRACT shall notify the other PARTY without delay giving the full particulars thereof and shall use all reasonable endeavours to remedy the situation without delay.

14.4 If either PARTY is delayed in performing the CONTRACT by a force majeure occurrence, the SCHEDULE OF KEY DATES but not terms set out in Section I – Remuneration, except as otherwise expressly provided in the CONTRACT, shall be adjusted in accordance with Clause 13 and Clause 14.6.

14.5 Following notification of a force majeure occurrence in accordance with Clause 14.3, the PARTIES shall meet without delay with a view to agreeing a mutually acceptable course of action to minimise any effects of such occurrence.

Subject to the provisions of this Clause 14, the COMPANY may instruct the CONTRACTOR to remain on stand-by at the WORKSITE in which event the CONTRACTOR shall be entitled to payment at the STANDBY RATE. If the COMPANY does not elect to retain the CONTRACTOR on stand-by at the WORKSITE or, having elected to retain the CONTRACTOR, the delay due to force majeure exceeds sixty (60) days or (ii) the force majeure is continuing on 1 December 2022 (whichever of (i) or (ii) is the earlier), then subject to Clause 14.6, the CONTRACTOR may leave the WORKSITE in order to fulfil any obligations it may have under other contracts.

During any period in which a force majeure event applies or is ongoing, the FORCE MAJEURE DAILY RATE will apply, provided always that the CONTRACTOR shall use all reasonable endeavours to reduce the crew on the VESSEL such that the FORCE MAJEURE DAILY RATE REDUCED CREW shall apply during any period in which a force majeure event applies or is ongoing.

- 14.6 Upon cessation of any force majeure occurrence the CONTRACTOR shall prepare a revised PROGRAMME to include for rescheduling of the WORK so as to minimise the effects of the delay. Providing however that if, in accordance with Clause 14.5, the CONTRACTOR has left the WORKSITE as a result of such occurrence, the CONTRACTOR may allow in such revised PROGRAMME any necessary time for completion of any operations on which it is engaged at the date of cessation of the force majeure occurrence.

Having made due allowance for any instruction to accelerate the WORK given in accordance with Clause 13, the COMPANY shall authorise a VARIATION to adjust the SCHEDULE OF KEY DATES in order to take into account any remaining effects of such delay.

15. SUSPENSION

- 15.1 The COMPANY shall have the right, by notice to the CONTRACTOR, to suspend the WORK or any part thereof to the extent detailed in the notice, for any of the following reasons:

- (a) subject only to Clause 15.3, in the event of some default on the part of the CONTRACTOR; or
- (b) in the event that suspension is necessary for the proper execution or safety of the WORK, or persons; or
- (c) to suit the convenience of the COMPANY; or
- (d) in the event a DOWNTIME PERIOD arises.

During a period of suspension under Clauses 15.1(a) - (c) (inclusive) the SUSPENSION DAILY RATE will apply.

- 15.2 Upon receipt of any such notice, the CONTRACTOR shall, unless instructed otherwise:

- (a) discontinue the WORK or the part of the WORK detailed in the notice, on the date and to the extent specified; and
- (b) properly protect and secure the WORK as required by the COMPANY.

- 15.3 In the event of default on the part of the CONTRACTOR and before the issue by the COMPANY of a notice to suspend the WORK or any part thereof the COMPANY shall give notice of default to the CONTRACTOR giving details of such default. If the CONTRACTOR, within three (3) days of receipt of such notice, does not commence and thereafter continuously proceed with action satisfactory to the COMPANY to remedy such default the COMPANY may issue a notice of suspension in accordance with the provisions of Clause 15.1.

- 15.4 Unless the suspension arises as a result of default on the part of the CONTRACTOR, the SCHEDULE OF KEY DATES shall be adjusted in accordance with Clause 13.

- 15.5 If suspension results solely from a default on the part of the CONTRACTOR, any additional direct and documented costs reasonably incurred by the COMPANY as a direct result shall be recoverable by the COMPANY from the CONTRACTOR which shall in no event exceed ***** United States Dollars (*****).
- 15.6 The COMPANY may, by further notice, instruct the CONTRACTOR to resume the WORK to the extent specified. If the suspension was made under Clause 15.1(c), such resumption of WORK will be subject to the CONTRACTOR's other existing contractual commitments.
- 15.7 In the event of any suspension, the PARTIES shall meet at not more than seven (7) day intervals with a view to agreeing a mutually acceptable course of action during the suspension.
- 15.8 If the period of any suspension not arising as a result of default on the part of the CONTRACTOR exceeds the period of fifteen (15) days, the CONTRACTOR may serve a notice on the COMPANY requiring permission within two (2) days from the receipt of such notice to proceed with the WORK or that part thereof subject to suspension. If within the said two (2) days the COMPANY does not grant such permission the CONTRACTOR, by a further notice, may (but is not bound to) elect to treat the suspension as either:
- (a) where it affects part only of the WORK, an omission of such part under Clause 13; or
 - (b) where it affects the whole of the WORK, termination in accordance with Clause 29.1(a).

16. TERMS OF PAYMENT

- 16.1 For the performance and completion of the WORK, the COMPANY shall pay or cause to be paid to the CONTRACTOR the amounts provided in Section I – Remuneration at the times and in the manner specified in Section I – Remuneration and in this Clause 16.
- 16.2 Except where it is expressly provided that the COMPANY shall carry out an obligation under the CONTRACT at its own cost, all things to be supplied or performed by the CONTRACTOR under the CONTRACT shall be deemed to be included in the rates and prices included in Section I - Remuneration.
- 16.3 The CONTRACTOR shall submit to the COMPANY an invoice within thirty (30) days after the end of such stages as are specified in, and showing the amount calculated in accordance with, Section I - Remuneration.
- 16.4 All payments contemplated under the CONTRACT are inclusive of all applicable taxes for which the CONTRACTOR is responsible as provided under Clause 17, but payable free and clear of any withholding or deduction for or on account of any taxes (a "Tax Deduction") unless such Tax Deduction is required by law. In the case of the application of any such Tax Deduction, the amount payable by the COMPANY shall be increased to an amount which (after making any Tax Deduction) leaves an amount equal to the payment which would have been due under Section I – Remuneration if no Tax Deduction had been required. If the COMPANY is required to make a Tax Deduction, it shall make that Tax Deduction and any payment to a tax authority required in connection with that Tax Deduction within the time allowed and in the minimum amount required by law. The CONTRACTOR will comply with all applicable invoicing requirements regarding the charging and accounting of all taxes.
- 16.5 Accompanying any invoice submitted by the CONTRACTOR after COMPLETION shall be a schedule of all items for which, in the opinion of the CONTRACTOR (acting reasonably), payment is due under the CONTRACT but for which, at the date of issue of the said invoice, payment in part or in full has not been received. Such items shall be limited to those for which previous notification has been given by the CONTRACTOR to the COMPANY pursuant to Clauses 13.3 and 13.7. The schedule shall include estimates of cost against each item fully supported by necessary documentation as described in Clauses 13.4 and 13.7.

Following COMPLETION, the CONTRACTOR shall not be entitled to receive any payment on any invoice received by the COMPANY after the LATEST TIME FOR RECEIPT OF INVOICES AFTER COMPLETION. Nevertheless the COMPANY may, at its sole discretion, make payment against any such invoice.

- 16.6 Each invoice shall show separately the individual amounts under each of the headings in Section I - Remuneration, and shall quote the COMPANY Contract Reference Number, Title and such other details as may be specified in the CONTRACT.
- The invoice prepared by the CONTRACTOR shall be in USD and in accordance with Clause 16.4 and, where relevant, be sent to the COMPANY together with supporting vouchers and receipts. Notwithstanding any other provision of the CONTRACT, (i) all invoices issued pursuant to the CONTRACT are to be hand delivered to the COMPANY at the INVOICE ADDRESS, with an electronic version of the invoice to be sent to apayable@vaalco.com with a copy to gabonprojects@vaalco.com and (ii) invoices only submitted by email or other electronic means will not be processed and will not be deemed received.
- 16.7 Within thirty (30) days from receipt of a correctly delivered (in accordance with Clause 16.6), correctly prepared and adequately supported invoice by the COMPANY, the COMPANY shall make payment of the due amount into the BANK ACCOUNT of the CONTRACTOR or as otherwise notified by the CONTRACTOR (provided that the COMPANY shall first approve the same in writing, acting reasonably taking account of its internal and external "know your client" obligations as well as the restrictions imposed under the Foreign Exchange Regulation No. 02/18 / CEMAC / UMAC / CM from time to time in force, and in the absence of agreement as to the account to which to make payment the COMPANY will accrue all payables until such time as it is able, acting reasonably taking account of its internal and external "know your client" obligations as well as the restrictions imposed under the Foreign Exchange Regulation No. 02/18 / CEMAC / UMAC / CM from time to time in force to make payment to a proposed account or accounts).
- 16.8 If the COMPANY disputes any items on any invoice in whole or in part or if the invoice is prepared or submitted incorrectly in any respect, the COMPANY shall notify the CONTRACTOR of the reasons and request the CONTRACTOR to issue a credit note for the unaccepted part or whole of the invoice as applicable. Upon receipt of such credit note the COMPANY shall be obliged to pay the undisputed part of a disputed invoice.
- If any other dispute connected with the CONTRACT exists between the PARTIES the COMPANY may withhold from any money which becomes payable under the CONTRACT the amount which is the subject of the dispute. The COMPANY shall not be entitled to withhold monies due to the CONTRACTOR under any other contracts with the COMPANY as set off against disputes under the CONTRACT, nor shall it be entitled to withhold monies due under the CONTRACT as set off against disputes under any other contract.
- On settlement of any dispute the CONTRACTOR shall submit an invoice for sums due and the COMPANY shall make the appropriate payment in accordance with the provisions of Clause 16.7 and Clause 16.10 where applicable.
- The COMPANY shall be entitled to withhold or set off against any sums on any invoice where entitled to do so pursuant to Clause 35.4.
- 16.9 Neither the presentation nor payment or non-payment of an individual invoice shall constitute a settlement of a dispute, an accord and satisfaction, a remedy of account stated, or otherwise waive or affect the rights of the PARTIES hereunder.
- In particular the COMPANY may correct or modify any sum previously paid in any or all of the following circumstances:
- (a) any such sum was incorrect;
 - (b) any such sum was not properly payable to the CONTRACTOR;
 - (c) any work in respect of which payment has been made and which does not comply with the terms of the CONTRACT.
- 16.10 Interest shall be payable for late payment of correctly prepared and supported invoices. The amount of interest payable shall be based on the then current annual Bank of England 'Base Rate' plus ***** percent (*****%) per annum and shall be calculated pro rata on a daily basis. In the absence of such percentage, the amount of interest payable shall be based on the then current annual Bank of England 'Base Rate' plus ***** percent (*****%) per annum and shall be calculated pro rata on a daily basis. Interest shall run from the date on which the sum in question becomes due for payment in accordance with the provisions of Clause 16.7 until the date on which actual payment is made. Any such interest to be

claimed by the CONTRACTOR shall be invoiced separately and within ten (10) working days of payment of the invoice to which the interest relates. Payment of the invoice claiming interest shall be in accordance with the provisions of Clause 16.7 hereof.

- 16.11 If the COMPANY at any time incurs costs which, under the provisions of the CONTRACT, the COMPANY is entitled to recover from the CONTRACTOR, the COMPANY may invoice the CONTRACTOR for such costs provided always that the COMPANY may deduct the amount of such costs from any amount due, or that may become due to the CONTRACTOR under the CONTRACT.

The CONTRACTOR shall pay the COMPANY within thirty (30) days of receipt of invoice any sums outstanding after such deduction.

- 16.12 For the purposes of Clause 16.11 and elsewhere in the CONTRACT, wherever a PARTY is entitled to recover from the other PARTY any costs incurred, then the amount of such costs shall be the amount of all claims, losses, damages, charges, disbursements, costs (including amounts paid to third parties), overheads and expenses directly resulting from the matter in question, but no element of profit.

17. TAXES

- 17.1 The CONTRACTOR shall in accordance with the provisions of Clause 20, except as may otherwise be provided in (i) Section I - Remuneration, (ii) any applicable double tax treaty and (iii) Clause 16.4 be responsible for:

- (a) the payment of all taxes, duties, levies, charges and contributions (and any interest or penalties thereon) for which the CONTRACTOR is liable as imposed by the GABON GOVERNMENT or any appropriate GOVERNMENTAL AUTHORITY wheresoever located, whether or not they are calculated by reference to the wages, salaries, benefits or expenses and other remuneration paid directly or indirectly to persons engaged or employed by the CONTRACTOR; and
- (b) the payment of all taxes, duties, levies, charges and contributions (and any interest or penalties thereon) including income, profits, corporation taxes and taxes on capital gains, turnover and added value taxes for which the CONTRACTOR is liable, whether arising in the Gabonese Republic, its territorial waters, its continental shelf or elsewhere, now or hereafter levied or imposed by the GABON GOVERNMENT or any appropriate GOVERNMENTAL AUTHORITY wheresoever located, arising from the CONTRACT; and
- (c) compliance with all statutory obligations to make deductions on account of tax (other than withholding tax) and remit the required amounts to the GABON GOVERNMENT or any appropriate GOVERNMENTAL AUTHORITY wheresoever located, including income tax, employee-related taxes (including social security costs, levies and contributions) whether or not they are measured by the wages, salaries or other remuneration or benefits paid to persons employed by the CONTRACTOR, or persons providing services in connection with the CONTRACT to the CONTRACTOR, and the imposition of a similar obligation upon all SUBCONTRACTORS or any other persons employed by them or providing services to them in connection with the CONTRACT; and
- (d) ensuring that any SUBCONTRACTOR or any other person employed, or providing services on or in connection with the CONTRACT shall comply with this Clause 17.

- 17.2 For the avoidance of doubt, the COMPANY shall be responsible for all customs, excise and similar importation taxes and duties in connection with the importation of any goods and vessels into the Republic of Gabon. The COMPANY shall, in accordance with the provisions of Clause 20 and without prejudice to Clause 16.4 and 16.6, be responsible for compliance with all statutory obligations to remit required amounts to the GABON GOVERNMENT or any appropriate GOVERNMENTAL AUTHORITY wheresoever located in connection with the CONTRACT. If relevant, the COMPANY shall provide the CONTRACTOR with evidence of any sums remitted to the GABON GOVERNMENT or any appropriate GOVERNMENTAL AUTHORITY wheresoever located in connection with the CONTRACT (including in relation to a Tax Deduction) in due format (whenever the form is set out in APPLICABLE LAWS), or otherwise in a form reasonably satisfactory to the CONTRACTOR,

and in sufficient time to allow the CONTRACTOR to comply with APPLICABLE LAWS or to implement procedures for claiming of a refund or offset of such sums withheld. In the event of the COMPANY making a Tax Deduction and a related increased payment under Clause 16.4, if the CONTRACTOR determines that it has obtained any tax refund or credit/offset in connection with that Tax Deduction or increased payment, the CONTRACTOR shall account to the COMPANY for an amount which the CONTRACTOR determines will leave it (after that payment) in the same position after-tax and after deducting the expenses incurred in claiming such tax refund or credit as it would have been in had the Tax Deduction not be required to be made, within ten (10) days of receipt (whether the same is received via cash payment, credit or similar).

- 17.3 The PARTIES shall supply all such information, in connection with activities under the CONTRACT, as is necessary to enable the other to comply with the lawful demands for such information by the GABON GOVERNMENT or any appropriate GOVERNMENTAL AUTHORITY wheresoever located.
- 17.4 The CONTRACTOR shall save, indemnify, defend and hold harmless the COMPANY against all levies, charges, contributions and taxes of the type referred to in this Clause 17 (for the avoidance of doubt not including a Tax Deduction made or required to be made pursuant to Clause 16.4) and any interest or penalty thereon which may be assessed by the GABON GOVERNMENT or any appropriate GOVERNMENTAL AUTHORITY wheresoever located on the CONTRACTOR GROUP in connection with the CONTRACT and from all costs reasonably incurred in connection therewith.
- 17.5 If the COMPANY receives a notice requiring it to pay any levies, charges, contributions or taxes of the types referred to in this Clause 17 and/or any interest or penalty thereon whether with respect to the CONTRACTOR, any SUBCONTRACTOR, their respective AFFILIATES or any other person employed by the CONTRACTOR or any SUBCONTRACTOR or providing any services to the CONTRACTOR or any SUBCONTRACTOR on or in connection with the CONTRACT, the COMPANY shall forthwith notify the CONTRACTOR who shall work with the COMPANY to make all reasonable endeavours to make any valid appeal against such payment. If the COMPANY is ultimately required to make such payment, the COMPANY may recover from the CONTRACTOR any such sums and all costs reasonably incurred in connection therewith and the CONTRACTOR shall within thirty (30) days of receiving written notice from the COMPANY pay to the COMPANY any such sum or the COMPANY shall be entitled to deduct such sums from any monies due to the CONTRACTOR.
- 17.6 The COMPANY shall save, indemnify, defend and hold harmless the CONTRACTOR against all levies, charges, contributions and taxes of the type referred to in this Clause 17 and any interest or penalty thereon which may be assessed by the GABON GOVERNMENT or any appropriate GOVERNMENTAL AUTHORITY wheresoever located on the COMPANY in connection with the CONTRACT and from all costs incurred in connection therewith, other than those taxes and other matters referred to above which the provisions of this Clause 17 allow the COMPANY to recover from the CONTRACTOR.

18. OWNERSHIP

- 18.1 Subject to Clauses 18.2 and 18.3, title to unregistrable INTELLECTUAL PROPERTY rights in and ownership of all things created under or arising out of the CONTRACT, including drawings, specifications, calculations, other documents, computer tapes, discs and other essential recording matter, materials and work shall vest in the COMPANY as soon as the preparation, production or creation thereof commences.
- 18.2 All rights of title to unregistrable INTELLECTUAL PROPERTY in and ownership of any such items developed by the CONTRACTOR outside the CONTRACT shall remain with the CONTRACTOR.
- 18.3 Except as provided in Clause 18.6, all rights of title to unregistrable INTELLECTUAL PROPERTY in and ownership of any such items which the CONTRACTOR provides in relation to the WORK and which is merely supplemented, enhanced, modified or adapted in the course of the WORK shall remain with the CONTRACTOR.
- 18.4 Notwithstanding Clauses 18.2 and 18.3 the CONTRACTOR, from the EFFECTIVE DATE OF COMMENCEMENT OF THE CONTRACT, grants the COMPANY and its AFFILIATES and its CO- VENTUREES a royalty free, exclusive, non-transferable license to use such technical information, including software, provided by the CONTRACTOR, for the life of the PERMANENT WORK solely to the extent necessary to enjoy the WORK delivered under this CONTRACT. Such right shall not be sub-licensed.

- 19.4 Except as provided in Clause 19.1, Clause 19.2 and Clause 19.3, where any registrable INTELLECTUAL PROPERTY right in any country in the world arises out of the WORK and is invented during the term of the CONTRACT, such rights shall jointly vest in the COMPANY and the relevant member of the CONTRACTOR GROUP (as applicable).
- 19.5 Where under Clause 19.4 a right vests in one of the PARTIES absolutely, such PARTY may at its sole discretion give the other PARTY and its AFFILIATES and its CO- VENTURERS a royalty free, exclusive and non-transferable licence to use such right which shall not be sub-licensed.
- 19.6 Where under Clause 19.4 a right vests in the PARTIES jointly, then the PARTIES shall unless otherwise agreed in writing jointly file a patent or other registration application in that joint right.
- 19.7 The CONTRACTOR shall save, indemnify, defend and hold harmless each member of the COMPANY GROUP from all claims, losses, damages, costs (including legal costs), expenses and liabilities of every kind and nature for, or arising out of, any alleged infringement of any INTELLECTUAL PROPERTY right arising out of or in connection with the performance of the obligations of the CONTRACTOR under the CONTRACT except where such infringement necessarily arises from the TECHNICAL INFORMATION and/or the COMPANY's instructions. However, the CONTRACTOR shall use its reasonable endeavours to identify any infringement in the TECHNICAL INFORMATION and/or the COMPANY's instructions of any INTELLECTUAL PROPERTY right, and should the CONTRACTOR become aware of such infringement or possible infringement then the CONTRACTOR shall inform the COMPANY immediately.
- 19.8 The COMPANY shall save, indemnify, defend and hold harmless each member of the CONTRACTOR GROUP from all claims, losses, damages, costs (including legal costs), expenses and liabilities of every kind and nature for, or arising out of, any alleged infringement of any INTELLECTUAL PROPERTY right arising out of or in connection with the performance of the obligations of the COMPANY under the CONTRACT or the use by the CONTRACTOR of TECHNICAL INFORMATION or materials or equipment supplied by the COMPANY.

20. LAWS AND REGULATIONS

- 20.1 The CONTRACTOR shall comply with all APPLICABLE LAWS of any governmental or regulatory body having jurisdiction over the WORK and/or the WORKSITE. The CONTRACTOR shall supply to the COMPANY all reasonably necessary or requested supporting documentation in evidence of conformance with Clauses 20.1 of the CONTRACT.
- 20.2 The CONTRACTOR shall (and shall procure that each member of the CONTRACTOR GROUP shall) obtain, maintain, and comply with all required licenses, permits, consents, approvals, registrations, and other authorisations which are necessary for the performance of the ordinary business of the CONTRACTOR GROUP. All other project specific licenses, permits, consents, approvals, registrations or other authorisations shall be for the time and account of the COMPANY. The CONTRACTOR hereby warrants that it has all licenses, permits, consents, approvals, registrations, and other authorisations which are necessary for the performance of the ordinary business of the CONTRACTOR GROUP.
- 20.3 Should changes in any APPLICABLE LAWS including any change in interpretation of the same by a COMPETENT AUTHORITY have for any such change or change in interpretation within the actual knowledge of either PARTY, which either PARTY could reasonably have been expected to know or which was in the reasonable contemplation of either of the PARTIES, in each case prior to or at the EFFECTIVE DATE OF COMMENCEMENT OF THE CONTRACT, or after the EFFECTIVE DATE OF COMMENCEMENT OF THE CONTRACT, result in a direct and material increase or decrease in the cost to the CONTRACTOR of performing the WORK, then the terms set out in Section I – Remuneration shall be adjusted only as may be agreed between the PARTIES.

21. INDEMNITIES

- 21.1 The CONTRACTOR shall be responsible for and shall save, indemnify, defend and hold harmless each member of the COMPANY GROUP from and against all claims, losses, damages, costs (including legal costs) expenses and liabilities in respect of:

- (a) loss of or damage to property of the CONTRACTOR GROUP whether owned, hired, leased or otherwise provided by the CONTRACTOR GROUP arising from, relating to or in connection with the performance, non-performance, or misperformance of the CONTRACT;
 - (b) personal injury including death or disease to any personnel of the CONTRACTOR GROUP arising from, relating to or in connection with the performance, non-performance or misperformance of the CONTRACT; and
 - (c) subject to any other express provisions of the CONTRACT, personal injury including death or disease or loss of or damage to the property of any third party to the extent that any such injury, loss or damage is caused by the negligence or breach of duty (whether statutory or otherwise) of the CONTRACTOR GROUP. For the purposes of this Clause 21.1(c) "third party" means any party which is not a member of the COMPANY GROUP or CONTRACTOR GROUP.
- 21.2 The COMPANY shall be responsible for and shall save, indemnify, defend and hold harmless each member of the CONTRACTOR GROUP from and against all claims, losses, damages, costs (including legal costs) expenses and liabilities in respect of:
- (a) loss of or damage to property of the COMPANY GROUP whether:
 - (i) owned by the COMPANY GROUP (save for that in respect of Clause 5.2, this Clause 21.2 shall be subject to the remainder of the CONTRACT); or
 - (ii) hired, leased or otherwise obtained under arrangements with financial institutions by the COMPANY GROUP,
 which is located at the WORKSITE arising from, relating to or in connection with the performance, non-performance or misperformance of the CONTRACT, but excluding the PERMANENT WORK to which Clause 23.1 shall apply;
 - (b) personal injury including death or disease to any personnel of the COMPANY GROUP arising from, relating to or in connection with the performance, non-performance or misperformance of the CONTRACT;
 - (c) subject to any other express provisions of the CONTRACT, personal injury including death or disease or loss of or damage to the property of any third party to the extent that any such injury, loss or damage is caused by the negligence or breach of duty (whether statutory or otherwise) of the COMPANY GROUP. For the purposes of this Clause 21.2(c) "third party" means any party which is not a member of the CONTRACTOR GROUP or COMPANY GROUP; and
 - (d) loss of or damage to such INDEMNIFIED PROPERTY and CONSEQUENTIAL LOSS arising therefrom where such loss or damage is arising from, relating to, or in connection with the performance, non-performance or misperformance of the CONTRACT. The provisions of this Clause 21.2(d) shall apply only to such INDEMNIFIED PROPERTY where the VESSEL is at the time directly engaged in the construction or installation of the PERMANENT WORK or is within the FIELD (subject to the exclusion that follows) but not while the VESSEL is in transit to or from the FIELD nor when the VESSEL is in the FIELD after the COMPLETION DATE. The provisions of this Clause 21.2(d) shall apply notwithstanding the provisions of Clause 21.1(c).
- 21.3 Except as provided by Clause 21.1(a), Clause 21.1(b) and Clause 21.4, the COMPANY shall save, indemnify, defend and hold harmless each member of the CONTRACTOR GROUP from and against any claim of whatsoever nature arising from pollution emanating from the well, the reservoir or from any property of the COMPANY GROUP or from any third party property described in Clause 21.2(d) arising from, relating to or in connection with the performance, non-performance or misperformance of the CONTRACT.
- 21.4 Except as provided by Clause 21.2(a) and Clause 21.2(b), the CONTRACTOR shall save, indemnify, defend and hold harmless each member of the COMPANY GROUP from and against any claim of whatsoever nature arising from pollution occurring on the premises of the CONTRACTOR GROUP or originating from the property and equipment of the CONTRACTOR GROUP (including marine vessels) arising from, relating to or in connection with the performance, non-performance or misperformance of the CONTRACT.

- 21.5(a) Subject to Clause 21.5(b) below, the CONTRACTOR shall be responsible for the recovery or removal and when appropriate the marking or lighting of (i) any wreck or debris arising from or relating to the performance of the WORK or (ii) the property, equipment, vessels or any part thereof provided by the CONTRACTOR GROUP in relation to the CONTRACT in each case, when required by law, GOVERNMENTAL AUTHORITY, or where such wreck or debris is a hazard to fishing or navigation and shall, except as provided for in Clause 21.2 and Clause 21.3, save, indemnify, defend and hold harmless each member of the COMPANY GROUP in respect of all claims, liabilities, costs (including legal costs), damages or expenses arising out of such wreck or debris, whether or not the negligence or breach of duty (whether statutory or otherwise) of the COMPANY GROUP caused or contributed to such wreck or debris.

Regarding (i), the CONTRACTOR's liability shall be limited to ***** United States Dollars (*****) in aggregate.

- 21.5(b) Notwithstanding the provisions of Clause 21.1, where property provided by the CONTRACTOR GROUP is lost overboard during transportation by the COMPANY to the offshore worksite, and the COMPANY elects to, or is required by law GOVERNMENTAL AUTHORITY to recover or remove or mark or light any wreck or debris of such property, the COMPANY shall, except as hereinafter provided, save, indemnify, defend and hold harmless each member of the CONTRACTOR GROUP from and against any claim of whatever nature relating to the costs of such recovery, removal, marking or lighting. Provided, however, that the foregoing indemnity and hold harmless shall not apply to the extent that the recovery, removal, marking or lighting arises as a result of the negligence or breach of duty (whether statutory or otherwise) of the CONTRACTOR GROUP.
- 21.6 All exclusions and indemnities given under this Clause 21 (save for those under Clauses 21.1(c), 21.2(c) and 21.5(b)) shall apply irrespective of cause and notwithstanding the negligence or breach of duty (whether statutory or otherwise) of the indemnified party or any other entity or party and shall apply irrespective of any claim in tort, under contract or otherwise at law.
- 21.7 If either PARTY becomes aware of any incident likely to give rise to a claim under the above indemnities, it shall notify the other and both PARTIES shall co-operate fully in investigating the incident.
- 21.8 Where applicable and if requested by the CONTRACTOR in writing, the COMPANY shall make available to the CONTRACTOR details of its other contractors to be present at the WORKSITE.
- 21.9 The indemnities given by the PARTIES under the CONTRACT are full and primary, and shall apply irrespective of whether the indemnified party has, or has not, insurance in place relating to any claims, losses, damages or costs in respect of the subject matter of any indemnity given under the CONTRACT.
- 21.10 Each PARTY expressly agrees that the indemnities set out in this Clause 21 do not extend to criminal sanctions imposed upon it, arising from, relating to or in connection with the performance, non-performance or misperformance of the CONTRACT. To the fullest extent permitted by APPLICABLE LAWS the COMPANY shall at all times indemnify, protect, defend and hold harmless each member of the CONTRACTOR GROUP against the imposition of fines, fees, orders or restitution or penalties where the event that led to its or their imposition arises out of the negligence or other legal fault or liability of any member of the COMPANY GROUP. To the fullest extent permitted by APPLICABLE LAW the CONTRACTOR shall at all times indemnify, protect, defend and hold harmless each member of the COMPANY GROUP against the imposition of fines, fees, orders or restitution or penalties where the event that led to its or their imposition arises out of the negligence or other legal fault or liability of any member of the CONTRACTOR GROUP.

22. INSURANCE BY CONTRACTOR

- 22.1 The CONTRACTOR shall arrange as a minimum the insurances set out in this Clause 22 and ensure that they are in full force and effect throughout the life of the CONTRACT. All such insurances shall be placed with reputable and substantial insurers, satisfactory to the COMPANY, and shall for all insurances (including insurances provided by SUBCONTRACTORS) other than Employers' Liability Insurance/Workmen's Compensation, to the extent of the liabilities assumed by the CONTRACTOR under the CONTRACT, include the COMPANY, CO-VENTURERS and its and their respective AFFILIATES as co-insureds. All insurances required under this Clause 22 shall be endorsed to provide that underwriters waive any rights of recourse,

including in particular subrogation rights, against the COMPANY, CO-VENTURERS and its and their respective AFFILIATES in relation to the CONTRACT to the extent of the liabilities assumed by the CONTRACTOR under the CONTRACT. Such insurances shall also, where possible, provide that the COMPANY shall be given not less than thirty (30) days' notice of cancellation of or material change to cover. The provisions of this Clause 22 shall in no way limit the liability of the CONTRACTOR under the CONTRACT.

22.2 The insurances required to be effected under Clause 22.1 shall be as follows (to the extent that they are relevant to the WORK):

- (a) Employers' Liability and/or (where the jurisdiction of where the WORK is to be performed or under which the employees are employed requires the same) Workmen's Compensation Insurance covering personal injury to or death of the employees of the CONTRACTOR engaged in the performance of the WORK to the greater of either the minimum value required by any applicable legislation including extended cover (where required) for working offshore or the sum of *****;
- (b) General Third Party Liability Insurance for any incident or series of incidents covering the operations of the CONTRACTOR in the performance of the CONTRACT, in an amount not less than *****;
- (c) Third Party and Passenger Liability Insurance and other motor insurance as required by applicable jurisdiction;
- (d) Marine Hull and Machinery Insurance including war risk coverage and, to the extent not provided in (e) below, collision liability and removal of Wreck/Debris in respect of all vessels used by CONTRACTOR GROUP in the performance of the WORK in an amount not less than the full market value of the VESSEL, and up to 50% of this amount for removal of Wreck/Debris;
- (e) Protection and Indemnity Insurance including wreck and debris removal and oil pollution liability in respect of all vessels, craft or floating equipment owned, leased or hired by the CONTRACTOR GROUP in the performance of the WORK in amounts not less than *****; and
- (f) to the extent not covered by (e) above (and without prejudice to the obligation or cover limit therein), Oil Pollution Insurance for any incident or series of incidents covering the operations of the CONTRACTOR in the performance of the CONTRACT, in an amount not less than *****.

22.3 The CONTRACTOR shall supply the COMPANY with evidence of such insurances on demand in any event not later than thirty (30) days prior to the commencement of the WORK. All deductibles applicable to the CONTRACTOR's insurances shall be for the sole account of the CONTRACTOR.

22.4 The CONTRACTOR shall procure that SUBCONTRACTORS are insured to appropriate levels as may be relevant to their work.

22.5 All deductibles applicable to the insurances shall be for the sole account of the CONTRACTOR.

22.6 All insurances listed in this Clause 22 shall be compliant with the CIMA code.

23. CARE OF THE PERMANENT WORK AND INSURANCE

23.1 Subject to the provisions of Clause 23.2, but without prejudice to the CONTRACTOR's other obligations under the CONTRACT and at law, the CONTRACTOR shall be responsible for the PERMANENT WORK from the EFFECTIVE DATE OF COMMENCEMENT OF THE CONTRACT until the COMPLETION DATE of the relevant part of the PERMANENT WORK, at which date or dates responsibility shall pass to the COMPANY. Before the said COMPLETION DATE, in the event of loss or damage to the PERMANENT WORK caused by the negligence of any member of the CONTRACTOR GROUP, the CONTRACTOR shall, if instructed by the COMPANY, reconstruct, repair or replace the same.

The COMPANY shall save, defend, indemnify and hold harmless the CONTRACTOR GROUP from and against any loss of or damage to the PERMANENT WORK caused by the negligence of any member of the CONTRACTOR GROUP, irrespective of

cause, save that the CONTRACTOR shall be liable for such loss of or damage to the PERMANENT WORK caused by the negligence of any member of the CONTRACTOR GROUP up to ***** US Dollars (*****) in aggregate per OCCURRENCE.

23.2 Notwithstanding Clause 23.1, the CONTRACTOR shall not be liable for loss or damage to the PERMANENT WORK which is occasioned:

- (a) by War Risks as defined in the London Market Standard Fire Policy, or Nuclear Risks as defined in the London Market Standard Nuclear Exclusion Clause; and/or
- (b) by any negligent act or omission of the COMPANY GROUP; and/or
- (c) by a force majeure occurrence as defined in Clause 14 hereof; and/or
- (d) by any act or omission of a third party.

In the event of loss or damage to the PERMANENT WORK being occasioned by any of the foregoing before the COMPLETION DATE, the CONTRACTOR shall, if instructed by the COMPANY, reconstruct, repair or replace the same, and the COMPANY shall issue a VARIATION in accordance with Clause 13 in respect of such reconstruction, repair or replacement.

23.3 The COMPANY shall arrange Construction All Risks Insurance, a summary of which (including deductibles) is set out in Section XI- Insurances to come into effect not later than 31 May 2022. Liability for deductibles payable under such insurance relative to the WORK shall be for the account of the CONTRACTOR but the size of such deductibles shall not be increased without the prior consent of the CONTRACTOR. The COMPANY agrees that the insurance shall be properly placed and be maintained on the same terms for the benefit of the CONTRACTOR GROUP for a period of the duration of the CONTRACT.

Construction All Risks Insurance shall include as a minimum the following requirements:

- (a) it shall name the CONTRACTOR GROUP members as additional insureds and shall be primary to the CONTRACTOR GROUP's other insurances;
- (b) it shall provide sufficient limitations to keep covered the entire scope of the WORK, including temporary items, throughout the entire duration of the WORK as per the CONTRACT and including the DEFECTS CORRECTION PERIOD and the discovery period and with reasonable deductibles regarding the scope of the WORK.

The COMPANY shall provide the CONTRACTOR with a copy of the Construction All Risks Insurance policy. The COMPANY shall submit to the CONTRACTOR at its earliest convenience the Construction All Risks Insurance policy cover note and conditions, including evidence on full subscription thereof.

Notwithstanding any other provision to the contrary in the CONTRACT, liability of the CONTRACTOR GROUP for any loss of or damage to the PERMANENT WORKS shall be strictly limited to loss or damage caused by the negligence of any member of the CONTRACTOR GROUP and in no event will it exceed in aggregate the sum of ***** US Dollars (*****) per OCCURRENCE.

23.4 The insurances arranged under Clause 23.3 shall include the CONTRACTOR, SUBCONTRACTORS and its and their respective AFFILIATES as additional assureds and shall be endorsed to require the underwriters to waive any rights of recourse including in particular subrogation rights against the CONTRACTOR, SUBCONTRACTORS and its and their respective AFFILIATES. Such insurance shall provide that the CONTRACTOR shall be given not less than thirty (30) days' notice of cancellation of or material change to cover.

24. CONSEQUENTIAL LOSS

For the purposes of the CONTRACT the expression CONSEQUENTIAL LOSS means:

- (a) consequential or indirect loss under English law; and
- (b) loss and/or deferral of production, loss of product, loss of use, loss of revenue, profit or anticipated profit (if any), in each case whether direct or indirect to the extent that these are not included in (a), and whether or not foreseeable at the EFFECTIVE DATE OF COMMENCEMENT OF THE CONTRACT.

Notwithstanding any provision to the contrary elsewhere in the CONTRACT and except to the extent of any agreed liquidated damages (including any predetermined termination fees) provided for in the CONTRACT, the COMPANY shall save, indemnify, defend and hold harmless each member of the CONTRACTOR GROUP from the COMPANY GROUP's own CONSEQUENTIAL LOSS and the CONTRACTOR shall save, indemnify, defend and hold harmless each member of the COMPANY GROUP from the CONTRACTOR GROUP's own CONSEQUENTIAL LOSS, arising from, relating to or in connection with the performance, non-performance or misperformance of the CONTRACT.

All exclusions and indemnities given under this Clause 24 shall apply irrespective of cause and notwithstanding the negligence or breach of duty (whether statutory or otherwise) of the indemnified party or any other entity or party and shall apply irrespective of any claim in tort, under contract or otherwise at law.

25. CONFIDENTIALITY

25.1 The CONTRACTOR shall at no time without the prior written agreement of the COMPANY either:

- (a) make any publicity releases or announcements concerning the subject matter of the CONTRACT; or
- (b) except as may be necessary to enable the CONTRACTOR to perform its obligations under the CONTRACT, use, reproduce, copy, disclose to, place at the disposal of or use on behalf of any third party or enable any third party to use, peruse or copy any information including drawings, data, and computer software which:
 - (i) is provided to the CONTRACTOR by or on behalf of the COMPANY, the CO-VENTURERS or its or their AFFILIATES in or in relation to the CONTRACT; or
 - (ii) vests in the COMPANY in accordance with the CONTRACT; or
 - (iii) the CONTRACTOR prepares in connection with the WORK.

25.2 The provisions of Clause 25.1 shall not apply to information which:

- (a) is part of the public domain; or
- (b) was in the possession of the CONTRACTOR prior to award of the CONTRACT and which was not subject to any obligation of confidentiality owed to the COMPANY; or
- (c) was received from a third party whose possession is lawful and who is under no obligation not to disclose; or
- (d) is required to be disclosed in order to comply with the requirements of any law, rule or regulation of any governmental or regulatory body having jurisdiction over the WORK or the CONTRACTOR, or of any relevant stock exchange; or
- (e) is used or disclosed by the CONTRACTOR five (5) years or more after COMPLETION.

25.3 The CONTRACTOR shall ensure that the provisions of this Clause 25 are incorporated in any SUBCONTRACT and that the officers, employees and agents of the CONTRACTOR and of the SUBCONTRACTORS comply with the same.

25.4 All information provided by the CONTRACTOR which the CONTRACTOR wishes to remain confidential shall be clearly marked as confidential provided, however, that any such information relating to the CONTRACTOR's pricing and trade secrets shall always be treated as confidential by the COMPANY without the necessity on the part of the CONTRACTOR to clearly mark as such. In respect of such confidential information, the COMPANY shall be entitled to:

- (a) disclose to and authorise use by the COMPANY GROUP; and
- (b) disclose pursuant to any statutory or other legal requirement;
- (c) subject to the CONTRACTOR's prior consent, which shall not be unreasonably withheld or delayed, disclose to and authorise use by third parties to the extent necessary for the execution and maintenance of the project and/or structure and/or facility in connection with which the WORK is to be performed; and
- (d) disclose the same to the bona fide direct or indirect acquirer of shares in the COMPANY or an interest in the Etame field, offshore Gabon.

Notwithstanding the above, the COMPANY shall, and shall ensure that its officers, employees and agents shall, take all reasonable measures to protect confidential information of the CONTRACTOR concerning or arising from the CONTRACT for a period of five (5) years from the EFFECTIVE DATE OF COMMENCEMENT OF THE CONTRACT. For the avoidance of doubt, the provisions of this Clause 25.4 shall not apply to information which vests in the COMPANY in accordance with the CONTRACT.

26. CUSTOMS PROCEDURES

26.1 When and where applicable and/or appropriate :

- (a) the COMPANY shall be responsible for the customs clearance into the Gabonese Republic of the VESSEL, the other elements of the KEY DEDICATED EQUIPMENT and all other ancillary equipment necessary to carry out the WORK;
- (b) the COMPANY shall be responsible for the Marine Merchant Introduction and/or other chartering formalities applying to the VESSEL, the other elements of the KEY DEDICATED EQUIPMENT and all other ancillary equipment necessary to carry out the WORK entering the Gabonese Republic;
- (c) the COMPANY shall be responsible for compliance with the laws and regulations of the Gabonese Republic in respect of the importation into the Gabonese Republic of the VESSEL, the other elements of the KEY DEDICATED EQUIPMENT and all other ancillary equipment necessary to carry out the WORK;
- (d) the CONTRACTOR will promptly provide the COMPANY with all necessary support requested by the COMPANY so as to enable the COMPANY to comply with its obligations pursuant to Clauses 26.1(a) – (c);
- (e) the CONTRACTOR will provide the COMPANY with all necessary documentation and information in order to allow the COMPANY to comply with its obligations under Clauses 26.1(a) – (c). Any such documentation or information shall be provided promptly and will be accurate in all respects. Where such documentation or information is inaccurate the CONTRACTOR shall save, indemnify, defend and hold harmless the COMPANY from and against all claims, losses, damages, costs (including legal costs), expenses and liabilities of every kind and nature relating to such inaccurate documentation or information;
- (e) the CONTRACTOR will appoint an agent or intermediary (duly authorised to act in the Gabonese Republic) to conduct the day-to-day management of the VESSEL, the other elements of the KEY DEDICATED EQUIPMENT and all other ancillary equipment necessary to carry out the WORK (including husbandry, visas required for the crew (including the MARINE AND PROJECT CREW and KEY PERSONNEL), crew change formalities, the handling or disposal of domestic waste and the provision of catering services); and

- (f) the CONTRACTOR will prepare and provide to the COMPANY full documentation to show and certify all information regarding items subject to customs control, including the origin, customs status and customs commodity code number as may be necessary for the COMPANY to minimise or nullify the effect of customs duty on such items.

26.2 The CONTRACTOR shall pay and make payment at such times when due and payable, all import/export taxes and duties on materials, goods, tools, equipment and supplies required to be furnished by the CONTRACTOR under the CONTRACT and imported or exported by the CONTRACTOR. The CONTRACTOR will be responsible for ensuring that it holds the necessary import/export licences issued by the relevant authorities prior to the commencement of the WORK. For the sake of clarity the obligation set out in this Clause 26.6 shall not apply to items free-issued by the COMPANY GROUP under the CONTRACT (which shall be the sole responsibility of the COMPANY and for the COMPANY's account).

27. COMPLETION

27.1 When the CONTRACTOR considers that the whole or any part of the WORK (or where the COMPANY has terminated the whole of the WORK or the CONTRACT under Clause 29.1(a)) has been substantially completed and has satisfactorily passed any final test that may be prescribed in the CONTRACT, the CONTRACTOR shall so notify the COMPANY and request the issue of a COMPLETION CERTIFICATE.

27.2 The COMPANY shall as soon as reasonably practicable and in any case within thirty (30) days of receipt of such notice either:

- (a) issue to the CONTRACTOR a COMPLETION CERTIFICATE in respect of the whole or the relevant part of the WORK; or
- (b) notify the CONTRACTOR of any defects in the WORK or the relevant part of the WORK, arising from any default of the CONTRACTOR,

save that where the WORK involves provision of a vessel(s) by the CONTRACTOR, the COMPANY shall respond to the CONTRACTOR as above within seven (7) days following completion of all required testing during which time the VESSEL shall remain on-hire at the STANDBY RATE.

27.3 Any notice issued under Clause 27.2(b) shall include details of the specific nature of each defect and shall specify the part or parts of the CONTRACT containing the obligations which the CONTRACTOR has failed to meet.

The CONTRACTOR shall on receipt of any such notice, promptly correct all defects. When it has completed such correction it shall notify the COMPANY in accordance with Clause 27.1.

28. DEFECTS CORRECTION

28.1 The CONTRACTOR warrants and guarantees that (i) it has performed and shall perform the WORK in accordance with the provisions of the CONTRACT and (ii) the BASE PROGRAMME and/or the PROGRAMME (as the case may be) can and will be carried out in their entirety and completed prior to or on the SCHEDULED COMPLETION DATE. For the sake of clarity the CONTRACTOR shall not be liable for any failure to complete the WORK by the SCHEDULED COMPLETION DATE which is due to reasons or delays which are beyond the reasonable control of the CONTRACTOR GROUP provided that each member of the CONTRACTOR GROUP has at all times acted as a REASONABLE AND PRUDENT CONTRACTOR.

28.2 If the COMPANY notifies the CONTRACTOR of any defects in the WORK prior to or subsequent to the COMPLETION DATE in accordance with Clause 27 hereof and within the relevant DEFECTS CORRECTION PERIOD, the CONTRACTOR shall, subject to the operational requirements of the COMPANY and to the provisions of Clause 28.3, carry out all works necessary to correct any defects in the WORK arising from any default of the CONTRACTOR GROUP at its sole cost and expense. For the sake of clarity this obligation shall not apply to any items free-issued to the CONTRACTOR by the COMPANY GROUP for use during the performance of the WORK or incorporation into the WORK and risk for these items

shall remain with the COMPANY at all times provided that (i) the CONTRACTOR has at all times complied with the terms of the CONTRACT and (ii) each member of the CONTRACTOR GROUP has at all times acted as a REASONABLE AND PRUDENT CONTRACTOR.

of the WORK is reperfomed, rectified or replaced by the CONTRACTOR under the provisions of this Clause 28, this Clause 28 shall apply to the portion so reperfomed, rectified or replaced provided that the time taken shall not exceed the CUMULATIVE DEFECTS CORRECTION PERIOD. Such period as otherwise agreed by the PARTIES in their discretion taking into consideration the nature and extent of the defect. The relevant DEFECTS CORRECTION PERIOD shall commence on the date upon which such reperformance, rectification or replacement was completed in accordance with the CONTRACT provided that the time taken shall not exceed the CUMULATIVE DEFECTS CORRECTION PERIOD.

The correction of any defects in the WORK shall be governed solely by the provisions of this Clause 28.

- 28.3 In cases where the CONTRACTOR is unwilling or unable to perform work necessary to correct defects in a time which is reasonable in all the circumstances, the COMPANY may decide that the carrying out by the CONTRACTOR of work necessary to correct defects will be prejudicial to its interests. In such cases the COMPANY may undertake the CONTRACTOR's responsibilities described in Clause 28.2. The COMPANY shall notify the CONTRACTOR in such cases and shall be entitled to recover from the CONTRACTOR all additional direct and documented costs reasonably incurred by the COMPANY as a direct result of carrying out such responsibilities which shall in no event exceed ***** United States Dollars (*****).
- 28.4 For the purpose of Clauses 28.2 and 28.3 the CONTRACTOR GROUP shall not be liable to the COMPANY for the costs of any items which are specified in the CONTRACT to be provided by the COMPANY.
- 28.5 Notwithstanding the provisions of Clauses 28.2 and 28.3, the CONTRACTOR shall not be liable for:
- (a) the costs of routine maintenance of the PERMANENT WORK; or
 - (b) the costs of correcting any such defects which result from the following:
 - (i) incorrect operation by the COMPANY;
 - (ii) the reasonable actions of the CONTRACTOR in relying on TECHNICAL INFORMATION, subject always to Clause 11.5;
 - (iii) actual operating conditions being different from those specified in the CONTRACT or in any VARIATIONS;
 - (iv) defects in materials or equipment supplied by the COMPANY which could not reasonably have been discovered by the CONTRACTOR;
 - (v) fair wear and tear; or
 - (vi) work carried out by the COMPANY GROUP or third parties under Clause 28.3 including any defects in that work.

29. TERMINATION

- 29.1 The COMPANY shall have the right by giving notice to terminate all or any part of the WORK (in which case the BASE PROGRAMME and/or the PROGRAMME will be adjusted accordingly to remove the part of the WORK terminated) or the CONTRACT at such time or times as the COMPANY may consider necessary for any or all of the following reasons:
- (a) to suit the convenience of the COMPANY; or
 - (b) subject only to Clause 29.2, in the event of any default on the part of the CONTRACTOR (including a failure to provide

the parent company guarantee under Clause 8.3); or

(c) in respect of the CONTRACTOR, in the event:

- (i) an order is made, or a meeting is called to pass a resolution, for the winding up (except for the purposes of amalgamation or reconstruction), administration, appointment of a receiver or similar procedure;
- (ii) a receiver, administrative receiver, administrator, provisional liquidator, liquidator or similar official is appointed or notice of the proposed appointment of any of the foregoing is given to any party;
- (iii) provided that the same has or will have a material impact on the performance of the WORK, a voluntary arrangement or scheme of arrangement is proposed, or negotiations are commenced, or a composition, compromise, assignment or arrangement, is entered into with one or more of its creditors with a view to rescheduling any of its indebtedness (because of actual or anticipated financial difficulties);
- (iv) any equivalent act or thing is done or suffered under any applicable or analogous law in any jurisdiction; or

(d) pursuant to Clause 35.1.

29.2 In the event of default on the part of the CONTRACTOR and before the issue by the COMPANY of an order of termination of all or any part of the WORK or the CONTRACT, the COMPANY shall give notice of default to the CONTRACTOR giving the details of such default. If the CONTRACTOR within three (3) days of receipt of such notice does not commence and thereafter continuously proceed with action satisfactory to the COMPANY to remedy such default the COMPANY may issue a notice of termination in accordance with the provisions of Clause 29.1.

29.3 In the event of the COMPANY giving the CONTRACTOR notice of termination of all or any part of the WORK or the CONTRACT, such notice shall become effective on the date specified therein (or in the absence of any specified date at the date of receipt of the notice) whereupon the CONTRACTOR shall immediately:

- (a) cease performance of the WORK or such part thereof as may be specified in the notice;
- (b) allow the COMPANY or its nominee full right of access to the WORKSITE to remove and/or take over the WORK or the relevant part of the WORK so far completed together with all materials and equipment which are the property of the COMPANY;
- (c) in the event of termination under Clauses 29.1(b) or (c) only, assign to the COMPANY, or its nominee, to the extent desired by the COMPANY all or the relevant parts of the rights, titles, liabilities and SUBCONTRACTS relating to the WORK which the CONTRACTOR may have acquired or entered into; and
- (d) except as required under Clause 29.3(b), remove all the equipment or materials of the CONTRACTOR from the immediate area in which the WORK or the relevant part thereof is being performed unless otherwise instructed by the COMPANY.

Within thirty (30) days of the effective date of termination, the CONTRACTOR shall deliver to the COMPANY all the relevant parts of the TECHNICAL INFORMATION and originals, copies and reproductions of all drawings, specifications, requisitions, calculations, programme listings, erection plans, schedules, computer tapes, discs and other essential recording matter and all other data and documents prepared by the CONTRACTOR or any SUBCONTRACTOR.

Notwithstanding the above the CONTRACTOR may retain one (1) copy of any such documents while admitting that the COMPANY has title to all such documents.

In the event of termination under Clause 29.1(b) or 29.1(c) the COMPANY shall have the right to obtain completion of the WORK or the relevant part of the WORK by other contractors at COMPANY's risk.

29.4 Strictly in the event of termination under Clause 29.1(a), the CONTRACTOR shall be entitled to (i) payment as set out in

Section I - Remuneration for the part of the WORK performed in accordance with the CONTRACT together with such other payments and fees as may be set out in that Section I - Remuneration, (ii) where applicable, such reasonable documented costs incurred by the CONTRACTOR as a direct result of termination, (iii) the sum (if any) which represents the balance between such sums already paid or accrued prior to notice of termination and the sum that is equal to forty-five (45) days multiplied by the DAILY RATE, (iv) the DEMOBILIZATION FEE (if applicable), and (v) reimbursement for such items provided or to be provided by the CONTRACTOR to the COMPANY provided that A) the same have been acquired or committed prior to notice of termination under Clause 29.1(a), (B) the same are expressly contemplated by and approved in accordance with the CONTRACT and C) the COMPANY's liability to reimburse shall not exceed ***** United States Dollars (***** in aggregate unless the CONTRACTOR has prior written approval from the COMPANY to exceed such amount.

- 29.5 In the event of termination of part of the WORK in accordance with Clause 29.1(b) the CONTRACTOR shall be entitled to payment only as set out in Section I - Remuneration for the part of the WORK performed in accordance with the CONTRACT and in respect of that part of the WORK which remains unexpired. Any additional costs reasonably incurred by the COMPANY as a direct result of such termination shall be recoverable from the CONTRACTOR.
- 29.6 In the event of termination of all of the WORK or the CONTRACT in accordance with Clause 29.1(b) or Clause 29.1(c) the following conditions shall apply:
- (a) the CONTRACTOR shall cease to be entitled to receive any money or monies on account of the CONTRACT until the expiration of the DEFECTS CORRECTION PERIOD specified in Clause 28 (assuming that the COMPLETION DATE in respect of the whole of the WORK would have been the date specified in the SCHEDULE OF KEY DATES) and thereafter until the costs of COMPLETION and all other costs arising as a result of the CONTRACTOR's default or other events giving rise to the termination have been finally ascertained;
 - (b) thereafter and subject to any deductions that may be made under the provisions of the CONTRACT the CONTRACTOR shall be entitled to payment only as set out in Section I - Remuneration for the part of the WORK completed in accordance with the CONTRACT up to the date of termination; and
 - (c) any additional costs reasonably incurred by the COMPANY as a direct result of the CONTRACTOR's default or other events giving rise to termination shall be recoverable from the CONTRACTOR.
- 29.7 In the event of termination of all or any part of the WORK the whole of the CONTRACT shall remain in full force and effect in connection with the performance of the part of the WORK which has not been terminated.
- 29.8 In the event of termination of:
- (a) part of the WORK in accordance with Clause 29.1(b) or Clause 35.1, as well as an adjustment to the BASE PROGRAMME and/or the PROGRAMME pursuant to Clause 29.1 or 35.1 (as the case may be) to remove the part of the WORK terminated, the forty-five (45) day period referred to in Section I - Remuneration and Clause 29.4 will be reduced on a day-for-day basis corresponding to each element of the WORK terminated/adjustment made to the BASE PROGRAMME and/or the PROGRAMME; or
 - (b) the CONTRACT in accordance with Clause 29.1(b) or Clause 35.1, the COMPANY shall not be required to pay any sum whatsoever to the CONTRACTOR in respect of the forty-five (45) day period referred to in Section I - Remuneration and Clause 29.4.

30. AUDIT AND STORAGE OF DOCUMENTS

- 30.1 During the course of the WORK and for a period ending two (2) years after COMPLETION, the COMPANY or its duly authorised representative shall have the right to audit at all reasonable times and, upon request and in respect of anything that is reasonably required by the COMPANY as it relates specifically to the performance of the WORK take copies of the CONTRACTOR's records (howsoever stored), books, personnel records, accounts, correspondence, memoranda, receipts, vouchers and other papers of every kind relating to:

- (a) all invoiced charges made by the CONTRACTOR on the COMPANY; and
- (b) any provision of the CONTRACT under which the CONTRACTOR has obligations the performance of which is capable of being verified by audit.

In this respect the COMPANY shall not be entitled to investigate the make up of rates and lump sums included in the CONTRACT.

- 30.2 The CONTRACTOR shall co-operate fully with the COMPANY and/or its representatives in the carrying out of any audit required by the COMPANY. The COMPANY will conduct any audit in a manner which will keep to a reasonable minimum any inconvenience to the CONTRACTOR.
- 30.3 The CONTRACTOR shall obtain equivalent rights of audit to those specified above from all SUBCONTRACTORS and will cause such rights to extend to the COMPANY.
- 30.4 The PARTIES shall keep all documents and data, howsoever stored, related to the CONTRACT for a period of six (6) years after COMPLETION.

31. LIENS

- 31.1 The CONTRACTOR shall not claim any lien or attachment on the WORK or on any property of the COMPANY in the possession of the CONTRACTOR or at the WORKSITE. The COMPANY shall not claim any lien on any property of the CONTRACTOR GROUP.
- 31.2 Without prejudice to any other provisions of this Clause 31, the CONTRACTOR shall save, indemnify, defend and hold harmless the COMPANY from and against all liens or attachments by any SUBCONTRACTORS in connection with or arising out of the CONTRACT. COMPANY shall save, indemnify, defend and hold harmless the CONTRACTOR from and against all liens or attachments by any member of the COMPANY GROUP in connection with or arising out of the CONTRACT.
- 31.3 The CONTRACTOR shall immediately notify the COMPANY of any possible lien or attachment which may affect the WORK or any part thereof.
- 31.4 If at any time there is evidence of any lien or attachment to which, if established, the COMPANY or its property might be subjected, whether made by any persons against the CONTRACTOR or made by any SUBCONTRACTOR against the COMPANY, then the COMPANY shall have the right to withhold and/or set off or otherwise recover from the CONTRACTOR such sum of money as will fully indemnify the COMPANY against any such lien or attachment.
- 31.5 Before withholding any payment due to the CONTRACTOR in accordance with Clause 31.4, the COMPANY shall give to the CONTRACTOR a reasonable opportunity to demonstrate that the purported lien or attachment is either unenforceable or is covered by the provisions of a security to the reasonable satisfaction of the COMPANY.
- 31.6 For the purpose of this Clause 31 reference to the COMPANY shall include the CO-VENTURERS and its and their AFFILIATES and references to the CONTRACTOR shall include its AFFILIATES.

32. BUSINESS ETHICS

- 32.1 Both PARTIES shall uphold the highest standards of business ethics in the performance of the CONTRACT. Honesty, fairness and integrity shall be paramount principles in the dealings between the PARTIES.
- 32.2 Neither PARTY shall knowingly involve itself in any business in connection with, or use information arising from, the CONTRACT, in any manner which conflicts with the interests of the other party.
- 32.3 At all times the CONTRACTOR will, and will procure that any SUBCONTRACTOR, any subcontractors (of any tier) of a

SUBCONTRACTOR and its and their personnel employed on the WORK or KEY PERSONNEL or their respective directors, officers and employees (including agency personnel) will, at all times comply with the CODE OF BUSINESS CONDUCT AND ETHICS.

33. ANTI-BRIBERY AND CORRUPTION

- 33.1 Each PARTY warrants and represents that in negotiating and concluding the CONTRACT it has complied, and in performing its obligations under the CONTRACT it has complied and shall comply, with all APPLICABLE ANTI-BRIBERY LAWS.
- 33.2 The CONTRACTOR warrants that it has an ABC PROGRAMME setting out adequate procedures to comply with APPLICABLE ANTI-BRIBERY LAWS and that it will comply with such ABC PROGRAMME in respect of the CONTRACT.
- 33.3 In addition and subject to Clause 30, on provision of no less than thirty (30) days' formal notice, the COMPANY or its duly authorised representatives shall have the right to audit, at its own cost, the existence, content and implementation of the CONTRACTOR's ABC PROGRAMME, but such right shall not include access to documents that are legally privileged or were created for the purpose of an on-going internal investigation.
- 33.4 Subject to any APPLICABLE LAWS, and subject to a request by a COMPETENT AUTHORITY not to notify, each PARTY shall notify the other in writing immediately upon whichever is the earlier of:
- (a) becoming aware of any investigation or proceedings initiated by a COMPETENT AUTHORITY relating to an alleged breach of APPLICABLE ANTI-BRIBERY LAWS by either PARTY or any member of its GROUP in connection with the CONTRACT; or
 - (b) having a reasonable belief that either PARTY or any member of its GROUP may have breached APPLICABLE ANTI-BRIBERY LAWS in connection with the CONTRACT.

The affected PARTY shall use reasonable efforts to keep the other PARTY informed as to the progress and findings of such investigation or proceedings, the details of any measures being undertaken by the affected PARTY to respond to the alleged or potential breach and the remedial measures that are being or will be implemented to prevent such conduct in the future.

- 33.5
- (a) Subject to the remaining provisions of this Clause 33.5, if the COMPANY has a reasonable belief that the CONTRACTOR has breached Clause 33.1, the COMPANY may give formal notice of its intention to suspend payments under the CONTRACT to the CONTRACTOR giving the basis of such reasonable belief. If within seven (7) days of receipt of such formal notice the CONTRACTOR neither responds with information reasonably satisfactory to the COMPANY to refute such belief nor commences and continues with action reasonably satisfactory to the COMPANY to remedy such suspected breach of Clause 33.1, the COMPANY may, by the provision of formal notice, suspend with immediate effect any payments due under Section I – Remuneration without liability.
 - (b) The COMPANY shall not be entitled to suspend payment for sums due under Section I – Remuneration for any part of the WORK performed in accordance with the CONTRACT that the CONTRACTOR can reasonably substantiate as not being connected with the suspected breach.
 - (c) In the event of any such suspension, the COMPANY and the CONTRACTOR shall meet at not more than seven (7) day intervals with a view to agreeing an appropriate course of action during the period of suspension.
 - (d) On expiration of the SUSPENSION PERIOD, the COMPANY shall, unless otherwise agreed, either:
 - (i) within thirty (30) days make full payment of any sums retained pursuant to this Clause 33.5 which are otherwise due; or
 - (ii) if its reasonable belief remains, within thirty (30) days serve formal notice that the CONTRACT is terminated pursuant to this provision.

- 33.6 In the event of termination in accordance with Clause 33.5(d)(ii) the following conditions shall apply:
- (a) subject to the remaining provisions of this Clause 33.6, the CONTRACT is deemed to have been terminated in accordance with Clause 29.1(b), but Clause 29.2 is not applicable;
 - (b) subject to paragraph (c), the CONTRACTOR shall be entitled to payment only as set out in Section I – Remuneration for WORK completed in accordance with the CONTRACT up to the date of termination;
 - (c) the CONTRACTOR shall not be entitled to payment for any sums connected with the possible breach of APPLICABLE ANTI-BRIBERY LAWS (including those retained under Clause 33.5(a));
 - (d) subject to the COMPANY being able to evidence that a breach of Clause 33.1 has occurred, the COMPANY shall be entitled to receive from CONTRACTOR any additional costs reasonably incurred by the COMPANY as a result of a breach by the CONTRACTOR;
 - (e) payment shall be made to the CONTRACTOR within thirty (30) days of the date of termination of the CONTRACT;
 - (f) provided that the COMPANY had a reasonable belief at the time of issuing the termination notice that the CONTRACTOR breached APPLICABLE ANTI-BRIBERY LAWS, the COMPANY shall not be in breach of the CONTRACT in issuing a termination notice even if it transpires that the CONTRACTOR is not in breach of APPLICABLE ANTI-BRIBERY LAWS; and
 - (g) notwithstanding any other provision of the CONTRACT, if at a subsequent date it is determined or agreed that the CONTRACTOR did not breach Clause 33.1, the CONTRACTOR shall be entitled to payment for all sums retained under Clause 33.6(c) (including those retained under Clause 33.5(a)).

34. GENERAL LEGAL PROVISIONS

34.1 Waiver

None of the terms and conditions of the CONTRACT shall be considered to be waived by either PARTY unless a waiver is given in writing by one PARTY to the other. No failure on the part of either PARTY to enforce any of the terms and conditions of the CONTRACT shall constitute a waiver of such terms.

34.2 Retention of Rights

Subject to the provisions of Clauses 21, 24 and 36, unless otherwise specifically stated in the CONTRACT, both PARTIES shall retain all rights and remedies, both under the CONTRACT and at law, which either may have against the other.

The CONTRACTOR shall not be relieved from any liability or obligation under the CONTRACT by any review, approval, authorisation, acknowledgement or the like, by the COMPANY.

34.3 CONTRACTOR'S AFFILIATES

Any limitation of liability given by the COMPANY to the CONTRACTOR under the CONTRACT shall include the AFFILIATES of the CONTRACTOR.

34.4 Independence of the CONTRACTOR

The CONTRACTOR shall act as an independent contractor with respect to the WORK and shall exercise control, supervision, management and direction as to the method and manner of obtaining the results required by the COMPANY.

34.5 Proper Law and Language

The CONTRACT, and any dispute, controversy, proceedings or claim of whatever nature arising out of or in any way relating to the CONTRACT or its existence, validity, formation or termination (including any non-contractual disputes or claims) shall be governed and construed in accordance with English Law.

The ruling language of the CONTRACT shall be the English Language.

34.6 Notices

Subject to the proviso, all formal notices in respect of the CONTRACT shall be given in writing and delivered by hand, by e-mail with documented read receipt, by fax or by first class post to the relevant address specified below and copied to such other office or offices of the PARTIES as shall from time to time be nominated by them in writing to the other. The addresses for the service of notices are:

(i) COMPANY:

VAALCO Gabon SA
9800 Richmond Avenue – Suite 700
Houston, Texas 77042 USA
Attention: Chief Executive Officer
Email: *****
Fax number: *****

With copy to:
Attention: General Counsel
Email: *****

Attention: Gabon Projects
Email: *****

(ii) CONTRACTOR:

Address: DOF Subsea Canada Corp., 26 Allston Street, Mount Pearl, NL, A1N 0A4 Canada
Attention: *****
Email: *****

Provided that email shall not be a valid method of serving documentation in respect of a DISPUTE under Clause 37.

Such notices shall be effective:

- (a) if delivered by hand, at the time of delivery;
- (b) if sent by fax, on the first working day at the recipient address following the date of sending;
- (c) if sent by first class post, forty eight (48) hours after the time of posting.

Subject to any specific administrative instructions agreed between the PARTIES, any standard business correspondence associated with the CONTRACT and/or the WORK may be sent by either e-mail, fax or letter.

34.7 Status of COMPANY

The COMPANY enters into the CONTRACT for itself and as agent for and on behalf of the other CO- VENTURERS. Without prejudice to the provisions of Clause 38 and notwithstanding the above:

- (a) the CONTRACTOR agrees to look only to the COMPANY for the due performance of the CONTRACT and nothing contained in the CONTRACT will impose any liability upon, or entitle the CONTRACTOR to commence any proceedings against, any CO-VENTURER other than the COMPANY; and
- (b) the COMPANY is entitled to enforce the CONTRACT on behalf of all CO-VENTURERS as well as for itself. For that purpose the COMPANY may commence proceedings in its own name to enforce all obligations and liabilities of the CONTRACTOR and to make any claim which any CO-VENTURER may have against the CONTRACTOR; and
- (c) all losses, damages, costs (including legal costs) and expenses recoverable by the COMPANY pursuant to the CONTRACT or otherwise shall include the losses, damages, costs (including legal costs) and expenses of the COMPANY's CO-VENTURERS and its and their respective AFFILIATES except that such losses, damages, costs (including legal costs) and expenses shall be subject to the same limitations or exclusions of liability as are applicable to either PARTY under the CONTRACT. For the avoidance of doubt any and all limitations of the CONTRACTOR's liability set out in the CONTRACT shall represent the aggregate cumulative limitation of the liability of the CONTRACTOR to the COMPANY, its CO-VENTURERS and its and their respective AFFILIATES.

34.8 Entire Agreement

The CONTRACT constitutes the entire agreement between the PARTIES with respect to the WORK and supersedes all prior negotiations, representations or agreements related to the CONTRACT, either written or oral. No amendments to the CONTRACT shall be effective unless evidenced in writing and signed by the PARTIES.

34.9 Mitigation of Loss

Both PARTIES shall take all reasonable steps to mitigate any loss resulting from any breach of CONTRACT by the other PARTY.

34.10 Invalidity and Severability

If any provision of the CONTRACT shall be found by any court or administrative body of competent jurisdiction to be invalid or unenforceable, the invalidity or unenforceability shall not affect the other provisions of the CONTRACT and all provisions not affected by such invalidity or unenforceability shall remain in full force and effect. The PARTIES agree to attempt to substitute, for any invalid or unenforceable provision, a valid or enforceable provision which achieves to the greatest possible extent, the economic, legal and commercial objectives of the invalid or unenforceable provision.

35. LIQUIDATED DAMAGES, WAITING ON WEATHER and DOWNTIME

Liquidated Damages

- 35.1 If the CONTRACTOR fails to mobilize the VESSEL to the MOBILIZATION LOCATION having cleared customs in the United Kingdom and being ready to load the FLEXIBLE PIPE REELS and commence direct transit to the FIELD or the agreed customs clearance location in the Gabonese Republic) on or prior to the MOBILIZATION DATE, the CONTRACTOR shall be liable to the COMPANY for the sum of ***** United States Dollars (***** in respect of each and every full day (being twenty-four (24) consecutive hours) which passes after 23:59 London time on the MOBILIZATION DATE that the VESSEL has not mobilized to the MOBILIZATION LOCATION (having cleared customs in the United Kingdom and being ready to load the FLEXIBLE PIPE REELS and commence direct transit to the FIELD or the agreed customs clearance location in the Gabonese Republic) to a maximum amount of ***** United State Dollars (*****). If following the passage of ten (10) days (being ten (10) periods of twenty-four (24) consecutive hours after 23:59 London time on the MOBILIZATION DATE) the VESSEL has not mobilized to the MOBILIZATION LOCATION having cleared customs in the United Kingdom and being ready to load the FLEXIBLE PIPE REELS and commence direct transit to the FIELD or the agreed customs clearance location in the Gabonese Republic) the COMPANY will have the option, but not the obligation, to terminate all or any part of the WORK (in which case the BASE PROGRAMME and/or the PROGRAMME will be adjusted accordingly to remove the part of the WORK terminated) or the CONTRACT the event of termination by the COMPANY pursuant to this Clause 35.1, the COMPANY shall not be liable to pay the CONTRACTOR any sums whatsoever under the CONTRACT on and from notice of

termination (whether or not the same are due) and the CONTRACTOR hereby irrevocably waives any claim it might have (whether actual, accrued or contingent) in respect of any sums due under the CONTRACT. Termination pursuant to this Clause 35.1 shall not constitute termination to suit the convenience of the COMPANY for the purposes of Clause 29.4.

35.2 Payment of sums pursuant to Clause 35.1 and/or the exercise by the COMPANY of its right to terminate all or any part of the WORK or the CONTRACT under Clause 35.1 shall be the sole and exclusive remedy of the COMPANY in the event of CONTRACTOR's failure to mobilize the VESSEL to the MOBILIZATION LOCATION having cleared customs in the United Kingdom and being ready to load the FLEXIBLE PIPE REELS and commence direct transit to the FIELD or the agreed customs clearance location in the Gabonese Republic) on or prior to the MOBILIZATION DATE. However, payment of sums pursuant to Clause 35.1 shall not relieve the CONTRACTOR of its obligation to perform the CONTRACT (provided the COMPANY has not exercised its right to terminate all or any part of the WORK or the CONTRACT under Clause 35.1) and shall not limit the CONTRACTOR's liability with respect to any other provision of the CONTRACT.

35.3 Waiting on Weather

In the event that the CONTRACTOR is "waiting on weather", determined by reference to the wave radar on-board the VESSEL (to which the CONTRACTOR will grant the COMPANY or any person whom the COMPANY directs unencumbered real-time access to other available reputable weather reports/data, the STANDBY RATE shall apply for such period of time, on an hour-by-hour basis, until the CONTRACTOR is no longer "waiting on weather". The SCHEDULE OF KEY DATES shall be adjusted accordingly in respect of any such delay.

The CONTRACTOR's Master, at all times acting reasonably and in accordance with the standards expected in the international maritime industry, is ultimately responsible for the safe operation of the VESSEL (including Dynamic Positioning station keeping, deck crane lift, Reel Operation and ROV Launch and Recovery) with respect to "waiting on weather".

35.4 Downtime

If at any time during the term of the CONTRACT the CONTRACTOR is unable to progress with any part of the BASE PROGRAMME and/or the PROGRAMME (as the case may be) due to any KEY DEDICATED EQUIPMENT failing to be operational (whether as a result of breakdown or a lack of operating capacity (including the availability of operatives to operate such KEY DEDICATED EQUIPMENT)) a cumulative (and not consecutive) period of forty-eight (48) hours, the ZERO RATE will apply for such period of time, on an hour-by-hour basis, on and from the forty-ninth (49th) cumulative hour to and including the time at which the CONTRACTOR is again able to carry out, and actually recommences, the work in accordance with the BASE PROGRAMME and/or the PROGRAMME (as the case may be) in accordance with the CONTRACT (a "DOWNTIME PERIOD"). Provided that in calculating the cumulative (and not consecutive) period of forty-eight (48) hours referred to in this Clause 35.4, there shall be disregarded for these purposes the following:

- (a) in respect of the ROVS, a period of two (2) hours in each twenty-four (24) hour period for the purposes of preventative maintenance only; and/or
- (b) in respect of the FLEXIBLE LAY EQUIPMENT, a period of two (2) hours in each twenty-four (24) hour period for the purposes of preventative maintenance only.

Provided that (i) such periods (calculated as an aggregate across the ROVS and FLEXIBLE LAY EQUIPMENT, and not individually per the ROVS and FLEXIBLE LAY EQUIPMENT) will accumulate if not used in the period on and from the time at which WORK commences in-FIELD, subject to a once off cap of twelve (12) hours (such that any periods beyond twelve (12) hours will not continue to accrue after the time at which the cap has been met, irrespective of whether or not at that time the accumulated period was twelve (12) hours), and (ii) the CONTRACTOR shall use its best endeavours to carry out such preventative maintenance on the ROVS and the FLEXIBLE LAY EQUIPMENT at the same time so as to minimize disruption.

The CONTRACTOR shall not be entitled to request a VARIATION under Clause 13.3 as a result of the operation of this Clause 35.4.

36. LIMITATIONS OF LIABILITY

36.1 Limitation of Liability

(a) Limitation before COMPLETION

Subject to the CONTRACTOR having used all reasonable endeavours to complete the WORK and to comply with all of its obligations under the CONTRACT, the CONTRACTOR's total cumulative liability to the COMPANY, including any liability arising as a result of suspension under Clause 15 and termination under Clause 29, arising out of or related to the performance of the CONTRACT shall be limited to the sum of ***** United States Dollars (*****).

(b) Limitation after COMPLETION and up to the end of the relevant DEFECTS CORRECTION PERIOD

After COMPLETION, the CONTRACTOR's total cumulative liability to the COMPANY arising out of or related to the performance of the CONTRACT shall be limited to ***** United States Dollars (*****).

Provided that the limitations in (a) and (b) above shall not apply to any liabilities assumed, or any indemnity given, by the CONTRACTOR under Clauses 17, 19, 22, 26 and 31 or to any indemnity given by the CONTRACTOR under Clause 21 and shall not apply to any costs arising from any cause of action of the COMPANY notified to the CONTRACTOR before COMPLETION, in each case in respect of the period before, on or from the relevant DEFECTS CORRECTION PERIOD.

36.2 Limitation Period

The CONTRACTOR's liability under the CONTRACT shall cease at the end of the CUMULATIVE DEFECTS CORRECTION PERIOD, provided, however, that the provisions of this Clause 36.2 shall not apply to any liabilities assumed, or any indemnity given, by the CONTRACTOR under 17, 19, 22, 26 and 31 or to any indemnity given by the CONTRACTOR under Clause 21.

36.3 Extent of exclusion or limitation of liability

Any exclusion or limitation of liability under the CONTRACT shall exclude or limit such liability not only in contract but also in tort or otherwise at law.

36.4 Aggregate Limitation of Liability

Notwithstanding anything to the contrary, but save in respect of any liabilities assumed, or any indemnity given, by the CONTRACTOR under Clauses 17, 19, 22, 26 and 31 or to any indemnity given by the CONTRACTOR under Clause 21, the PARTIES herein agree that the CONTRACTOR's maximum aggregate liability to the COMPANY arising out of or in connection with the CONTRACT or its implementation, whether resulting from negligence or breach of duty of any kind, shall not exceed ***** United States Dollars (*****). in the aggregate.

37. RESOLUTION OF DISPUTES

37.1 Any dispute, controversy, proceedings or claim of whatever nature arising out of or in any way relating to the CONTRACT or its existence, validity, formation or termination (including any non-contractual disputes or claims) ("DISPUTE") shall be finally resolved by arbitration under the London Court of International Arbitration ("LCIA") Arbitration Rules ("Rules"), which Rules are deemed to be incorporated by reference into this Clause 37.

37.2 The tribunal shall consist of three (3) arbitrators, one (1) each to be nominated by the claimant and respondent respectively and the third arbitrator to be nominated by the two (2) arbitrators nominated by the respective parties to the DISPUTE. The two persons nominated by the parties to the DISPUTE shall, within fourteen (14) days of the second of them confirming to the LCIA that he/she is willing and able to accept appointment, nominate a third arbitrator who shall act as presiding arbitrator of the arbitral tribunal. If no such nomination is made within that time limit, the LCIA Court shall select and appoint the presiding arbitrator of the arbitral tribunal.

- 37.3 The seat, or legal place, of arbitration shall be London, United Kingdom.
- 37.4 The language to be used in the arbitral proceedings shall be English.
- 37.5 Any costs, fees or taxes incidental to enforcing any award shall to such extent as is permitted by law be charged against the party resisting such enforcement.
- 37.6 The parties to the Dispute shall keep confidential all matters relating to the arbitration proceedings. Confidentiality also extends to the arbitral award, except where its disclosure is necessary for purposes of implementation and enforcement or to the extent otherwise permitted by the CONTRACT.
- 37.7 The parties to the DISPUTE agree that an award awarded in any proceedings commenced under this clause shall be conclusive and binding on it and may be enforced in any courts to the jurisdiction of which the parties to the DISPUTE are or may be subject by a suit upon such judgment.
- 37.8 Any party to the DISPUTE may apply at any time to a court of competent jurisdiction for interim or conservatory measures of relief, including injunction, attachment, or conservation orders. The parties to the DISPUTE agree that seeking and obtaining such court-ordered interim measures shall not waive the right to arbitration or impair the effectiveness of this arbitration agreement or its enforceability.
- 37.9 Where any claim or counter claim in connection with or arising out of the CONTRACT is made, the PARTY making the claim or counter claim shall ensure that such claim or counter claim contains, without limitation, the following information:
- (a) a clear summary of the facts on which the claim or counter claim is based;
 - (b) the basis on which the claim or counter claim is made, including the principal contractual terms and/or statutory terms relied on;
 - (c) the nature of the relief claimed; and
 - (d) where a claim or counter claim has been made previously and rejected by the other PARTY, and the PARTY making the claim or counter claim is able to identify the reason(s) for such rejection, the grounds of belief as to why the claim or counter claim was wrongly rejected.
- 37.10 Whilst any matter or matters are in dispute, the CONTRACTOR shall proceed with the execution and completion of the WORK and both the PARTIES shall comply with all the provisions of the CONTRACT.

38. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT

- 38.1 Subject to Clause 38.3, the parties intend that no provision of the CONTRACT shall, by virtue of the Contracts (Rights of Third Parties) Act 1999 ("the Act") confer any benefit on, nor be enforceable by any person who is not a PARTY to the CONTRACT.
- 38.2 For the purposes of this Clause 38, "THIRD PARTY" means any member of the COMPANY GROUP (other than the COMPANY) or CONTRACTOR GROUP (other than the CONTRACTOR).
- 38.3 Subject to the remaining provisions of the CONTRACT,
- (a) Clause 19.7, Clause 19.8, Clause 21, Clause 22, Clause 24 are intended to be enforceable by a THIRD PARTY; and
 - (b) Clause 34.3 is intended to be enforceable by the AFFILIATES of the CONTRACTOR,

by virtue of the Act.

- 38.4 Notwithstanding Clause 38.3, the CONTRACT may be rescinded, amended or varied by the PARTIES without notice to or the consent of any THIRD PARTY even if, as a result, that THIRD PARTY's right to enforce a term of the CONTRACT may be varied or extinguished.
- 38.5 The rights of any THIRD PARTY under Clause 38.3 shall be subject to the following:-
- (a) any claim, or reliance on any term of the CONTRACT, by a THIRD PARTY shall be notified in writing in accordance with the requirements of Clause 21.7 and Clause 34.6 by such THIRD PARTY as soon as such THIRD PARTY becomes aware that an event is likely to give rise to such a claim and such notification shall contain the following information as a minimum:
 - (i) details of the occurrence giving rise to the claim; and
 - (ii) the right relied upon by the THIRD PARTY under the CONTRACT;
 - (b) the provisions of Clause 37 shall apply in respect of any claim by a THIRD PARTY in that the relevant parties agree to resolve any dispute between them in a prompt and amicable manner by adopting the provisions of Clause 37; and
 - (c) the THIRD PARTY's written agreement to submit irrevocably to the jurisdiction of the English Courts in respect of all matters relating to such rights.
- 38.6 In enforcing any right to which it is entitled by virtue of the Act and the provisions of the CONTRACT, the remedies of a THIRD PARTY shall be limited to damages.
- 38.7 A THIRD PARTY shall not be entitled to assign any benefit or right conferred on it under the CONTRACT by virtue of the Act.

39. HEALTH, SAFETY AND ENVIRONMENT

- 39.1 The COMPANY places prime importance on health, safety and environment (hereinafter "HS&E") issues and requires that the CONTRACTOR GROUP subscribes to and actively pursues the highest standards of HS&E performance.
- 39.2 The CONTRACTOR shall take full responsibility for the adequacy, stability and safety of all its operations and methods necessary for the performance of the WORK and shall keep strictly to the provisions of Section II – Health, Safety and Environment. The CONTRACTOR shall collaborate with the COMPANY in establishing HS&E interface arrangements and the production of a HS&E interface document.
- 39.3 Failure to meet the requirements of Section III – Health, Safety and Environment or to satisfy the COMPANY's reasonable requirements with regard to the control of HS&E risks in any material respect will be regarded as due cause for the COMPANY giving notice to terminate all or any part of the WORK or the CONTRACT in accordance with Clause 29.1(b).
- 39.4 The CONTRACTOR shall co-operate with the COMPANY in providing an appropriate response to any emergency occurring at the WORKSITE and shall immediately take such action as may be necessary to protect life and make safe property where such is in imminent peril.
- 39.5 The CONTRACTOR shall provide necessary HS&E support services to the COMPANY (such as utilities, security, first aid, safety orientations, onsite transport, and other support facilities and services) during site visits.

40. QUALITY MANAGEMENT and JOB SPECIFICATION

- 40.1 The CONTRACTOR shall have developed and documented and shall implement and maintain (continuously) a workable

and duly functioning quality management system conforming to the latest published version of the ISO 9001 standard or an equivalent standard which is accepted on an individual basis by the COMPANY. In proposing SUBCONTRACTORS, the CONTRACTOR shall ensure that each proposed SUBCONTRACTOR has quality management systems that are of a similar standard.

- 40.2 The CONTRACTOR shall, based on the quality management system referred to in Clause 40.1 above, produce, document, maintain and operate a quality plan (in accordance with the latest version of ISO 10005 or an equivalent standard acceptable to the COMPANY) as required by the COMPANY for all WORK. Such quality plan shall specifically address the WORK and how it is to be performed in order to meet the requirements of the CONTRACT, and shall include or refer to all applicable policies, procedures, activities, qualifications, resources, and other matters relevant to the WORK, including any applicable COMPANY specifications and requirements and any specific to particular locations at which WORK is to be performed. The CONTRACTOR shall submit the quality plan to the COMPANY within thirty (30) days of the date of the CONTRACT. The procedures:
- (a) may be either standard CONTRACTOR procedures or procedures specific to the WORK, but in any case must adequately describe the processes and actions taken to manage the WORK;
 - (b) as progressively issued and updated, shall address applicable COMPANY specifications and requirements, including any specific to particular locations at which WORK is to be performed; and
 - (c) shall be subject to approval by the COMPANY and thereafter be implemented by the CONTRACTOR before WORK is commenced and during the continuance of the WORK.
- 40.3 The CONTRACTOR shall submit to the COMPANY, and keep updated throughout the term of the CONTRACT, controlled electronic versions of the quality manual, the quality plan, and the audit plan.
- 40.4 The CONTRACTOR shall implement a management of change (MOC) system and promptly inform the COMPANY of changes in organizational structure, responsibilities, activities, resources, SUBCONTRACTORS, and events that could have a material influence on the CONTRACTOR's quality management system or the WORK during the term of the CONTRACT.
- 40.5 The CONTRACTOR shall carry out, as part of the WORK, appropriate quality control, inspections, tests, quality surveillance, and quality assurance activities to satisfy itself and the COMPANY that the WORK conforms to all requirements of the CONTRACT. The COMPANY shall have the right to make its own inspections and tests to verify that all WORK is being properly performed and to reject and require rectification of any WORK not conforming to the requirements of the CONTRACT. The CONTRACTOR shall provide reasonable assistance requested by the COMPANY for the carrying out of such inspections and tests.
- 40.6 Any inspection or lack of inspection by the COMPANY shall not in any manner relieve the CONTRACTOR of any of its liabilities or obligations regarding the WORK.
- 40.7 The CONTRACTOR shall take account of and comply with all information, specifications and guidance provided by the COMPANY in the DATASITE from time to time, including in respect of the handling and storage of the FLEXIBLE PIPE REE (including aboard the VESSEL, at the quayside or in transit). The CONTRACTOR shall at all times act as a REASONABLE AND PRUDENT CONTRACTOR.

Signed by _____)
for and on behalf of VAALCO GABON S.A.)
)

Director

Signed by _____)
for and on behalf of DOF SUBSEA CANADA)
CORP.)

Director

**SECTION I
REMUNERATION**

Without prejudice to the provisions of the CONTRACT, all operational and capital cost throughout the life of the CONTRACT are to be covered by the following rates (which are exclusive of any applicable withholding imposed by the GABON GOVERNMENT) respect of the following events with respect to the VESSEL used:

VESSEL 1

· MOBILIZATION FEE (Lump Sum) ¹ :	*****
· DEMOBILIZATION FEE (Lump Sum) ² :	*****
· PROJECT MANAGEMENT AND ENGINEERING FEE (LUMP SUM):	*****
· DAILY RATE ³ :	*****
· STANDBY RATE ⁴ :	*****
· SUSPENSION DAILY RATE:	*****
· FORCE MAJEURE DAILY RATE:	*****
· FORCE MAJEURE DAILY RATE REDUCED CREW:	*****
· CREW CHANGE FEE ⁵ :	*****
· ADDITIONAL CREW CHANGE FEE (per Event) ⁶ :	*****
· ZERO RATE ⁷ :	*****
· INSTALLATION AIDS/ROV TOOLING PROCUREMENT:	*****
· Victualling in excess of six (6) COMPANY personnel onboard the VESSEL:	***** per person per day

Note 1: MOBILIZATION FEE is inclusive of:

- Mobilization of FLEXIBLE LAY EQUIPMENT onto VESSEL at Peterhead, UK, including Dock services and Port Fees.
 - VESSEL transit to MOBILIZATION LOCATION (inclusive of all fuel and lubricants). Fuel price based on ***** per cubic meter (m³). Should the actual fuel price at time of purchase by CONTRACTOR for VESSEL vary by 5% more or less than the base price of *****/ m³, then CONTRACTOR will invoice and be reimbursed for any additional costs for fuel purchase.
 - FLEXIBLE PIPE REEL load out and sea-fastening at MOBILIZATION LOCATION up to the PROJECT SCHEDULE allocated duration of three (3) cumulative / consecutive days.
 - Buoyancy Module load out and sea-fastening (3 x 40ft containers and 1 x 20ft container) at MOBILIZATION LOCATION
 - KEY DEDICATED EQUIPMENT mobilization/installation on-board VESSEL (including additional ROV tooling to be defined/agreed following the EFFECTIVE DATE OF COMMENCEMENT OF THE CONTRACT)
 - MARINE AND PROJECT CREW mobilization (including KEY DEDICATED EQUIPMENT personnel)
 - All costs for VESSEL and KEY DEDICATED EQUIPMENT KEY PERSONNEL MOBILIZATION
 - VESSEL transit from MOBILIZATION LOCATION to Gabon – Arrival at Sea Buoy for importation (inclusive of all fuel and lubricants)
-

MOBILIZATION FEE is exclusive of:

- Dock services and Port Fees at MOBILIZATION LOCATION
- Any VESSEL time at the MOBILIZATION LOCATION beyond the allocated three (3) days included in the PROJECT SCHEDULE allocated as part of the MOBILIZATION FEE.
- Customs/Port Agency Services, Security, Dock services and Port Fees applicable in Gabon
- Unless otherwise provided in Clause 4.14, COVID Compliance cost (Personnel wages, Tests, Housing and Subsistence) above CONTRACTOR's current COVID policy applicable at the time of mobilization (or as specified in Section X – COVID Protocols)
- INSTALLATION AIDS Design / Sourcing and mobilization (to be defined/agreed following the EFFECTIVE DATE OF COMMENCEMENT OF THE CONTRACT)
- VESSEL hardening and/or security for the VESSEL and MARINE AND PROJECT CREW for this Work.
- Unless otherwise provided in the RESPONSIBILITY MATRIX, costs for securing visas for VESSEL and MARINE AND PROJECT CREW (including KEY DEDICATED EQUIPMENT personnel)

Note 2: DEMOBILIZATION FEE is inclusive of:

- VESSEL transit from Gabon (inclusive of all fuel and lubricants)
- FLEXIBLE PIPE REELS return and offload at MOBILIZATION LOCATION in Newcastle upon Tyne, England
- KEY DEDICATED EQUIPMENT demobilization/removal from VESSEL
- MARINE AND PROJECT CREW demobilization (including KEY DEDICATED EQUIPMENT personnel)

DEMOBILIZATION FEE is exclusive of:

- Custom/Port Agency Services, Security, Dock services and Port Fees applicable in Gabon
- Dock services and Port Fees at MOBILIZATION LOCATION
- Costs for demobilizing / returning INSTALLATION AIDS and/or ROV tooling to be defined/agreed following the EFFECTIVE DATE OF COMMENCEMENT OF THE CONTRACT.

Note 3: DAILY RATE is applicable during:

- VESSEL local mobilization at quayside or Sea Buoy in Gabon following Customs Clearance
- Transit between to/from FIELD
- All In-FIELD operations
- Fuel (EXCLUDED)

DAILY RATE is inclusive of:

- KEY DEDICATED EQUIPMENT and SUBCONTRACTORS
- MARINE AND PROJECT CREW

DAILY RATE is exclusive of:

- Fuel and Bunkering Services
- INSTALLATION AIDS and/or ROV tooling to be defined/agreed following the EFFECTIVE DATE OF COMMENCEMENT OF THE CONTRACT
- Custom/Port Agency Services, Security, Dock services and Port Fees applicable in Gabon
- Any Materials not part of VESSEL inventory for Handling, Lifting, Seafastening of COMPANY Materials.

Note 4: STANDBY RATE is applicable during:

- VESSEL Time at the MOBILIZATION LOCATION beyond the allocated three (3) days included in the PROJECT SCHEDULE allocated as part of the MOBILIZATION FEE.
 - Vessel importation and exportation in Gabon (COMPANY responsibility)
 - Wating on Weather (under Clause 35.3)
 - Crew changes, restocking and/or refuelling
 - Fuel (EXCLUDED)
-

STANDBY RATE is inclusive of:

- KEY DEDICATED EQUIPMENT and SUBCONTRACTORS
- MARINE AND PROJECT CREW

STANDBY RATE is exclusive of:

- Fuel and Bunkering Services
- INSTALLATION AIDS and/or ROV tooling to be defined/agreed following the EFFECTIVE DATE OF COMMENCEMENT OF THE CONTRACT
- Dock services and Port Fees, Customs/Port Agency Services, Security, Dock services and Port Fees applicable in Gabon

Note 5: CREW CHANGE FEE includes all costs for VESSEL and KEY DEDICATED EQUIPMENT and KEY PERSONNEL and crew changes/crew rotations following MOBILIZATION during performance of the WORK prior to 12 October 2022. Specifically, all costs are included for two (2) crew change events (personnel wages, travel cost to/from Port Gentil, Gabon). As a basis, regular rotations for the Marine Crew are set for every 28 days for European staff and 90 days for Asian staff. Costs for any additional crew changes/crew rotations required and mutually agreed or those occurring on or after 12 October 2022 would be as per the ADDITIONAL CREW CHANGE FEE.

Note 6: ADDITIONAL CREW CHANGE FEE includes all costs for VESSEL and KEY DEDICATED EQUIPMENT and KEY PERSONNEL and crew changes/crew rotations occurring on or after 12 October 2022 or as otherwise mutually agreed. Specifically, all costs are included for one (1) crew change events (personnel wages, travel cost to/from Port Gentil, Gabon). As a basis, regular rotations for the Marine Crew are set for every 28 days for European staff and 90 days for Asian staff.

Note 7: "ZERO RATE" means the hourly rate for the VESSEL VESSEL 1.

VESSEL 2

- MOBILIZATION FEE (Lump Sum)¹: *****
- DEMOBILIZATION FEE (Lump Sum)²: *****
- PROJECT MANAGEMENT AND ENGINEERING FEE (LUMP SUM): *****
- DAILY RATE³: *****
- STANDBY RATE⁴: *****
- SUSPENSION DAILY RATE: *****
- FORCE MAJEURE DAILY RATE: *****
- FORCE MAJEURE DAILY RATE REDUCED CREW: *****
- CREW CHANGE FEE⁵: *****
- ADDITIONAL CREW CHANGE FEE (per Event)⁶: *****
- ZERO RATE⁷: *****
- INSTALLATION AIDS/ROV TOOLING PROCUREMENT: *****
- Virtualising in excess of six (6) COMPANY personnel onboard the VESSEL: ***** per person per day

Note 1: MOBILIZATION FEE is inclusive of:

- Mobilization of FLEXIBLE LAY EQUIPMENT onto VESSEL at Peterhead, UK, including Dock services and Port Fees.
- VESSEL transit to MOBILIZATION LOCATION (inclusive of all fuel and lubricants). Fuel price based on ***** per cubic meter (m³). Should the actual fuel price at time of purchase by CONTRACTOR for VESSEL vary by *****% more or less than the base price of *****/ m³, then CONTRACTOR will invoice and be reimbursed for any additional costs for fuel purchase.
- FLEXIBLE PIPE REEL load out and sea-fastening at MOBILIZATION LOCATION up to the PROJECT SCHEDULE allocated duration of three (3) cumulative / consecutive days.
- Buoyancy Module load out and sea-fastening (3 x 40ft containers and 1 x 20ft container) at MOBILIZATION LOCATION
- KEY DEDICATED EQUIPMENT mobilization/installation on-board VESSEL (including additional ROV tooling to be defined/agreed following the EFFECTIVE DATE OF COMMENCEMENT OF THE CONTRACT)
- MARINE AND PROJECT CREW mobilization (including KEY DEDICATED EQUIPMENT personnel)
- All costs for VESSEL and KEY DEDICATED EQUIPMENT KEY PERSONNEL MOBILIZATION
- VESSEL transit from MOBILIZATION LOCATION Republic of Gabon – Arrival at Sea Buoy for importation (inclusive of all fuel and lubricants)

MOBILIZATION FEE is exclusive of:

- Dock services and Port Fees at MOBILIZATION LOCATION
 - Any VESSEL time at the MOBILIZATION LOCATION beyond the allocated three (3) days included in the PROJECT SCHEDULE allocated as part of the MOBILIZATION FEE.
 - Customs/Port Agency Services, Security, Dock services and Port Fees applicable in Gabon
 - Unless otherwise provided in Clause 4.14, COVID Compliance cost (Personnel wages, Tests, Housing and Subsistence) above CONTRACTOR's current COVID policy applicable at the time of mobilization (or as specified in Section X – COVID Protocols)
-

- INSTALLATION AIDS Design / Sourcing and mobilization (to be defined/agreed following the EFFECTIVE DATE OF COMMENCEMENT OF THE CONTRACT)
- VESSEL hardening and/or security for the VESSEL and MARINE AND PROJECT CREW for this Work.
- Unless otherwise provided in the RESPONSIBILITY MATRIX, costs for securing visas for VESSEL MARINE AND PROJECT CREW (including KEY DEDICATED EQUIPMENT personnel)

Note 2: DEMOBILIZATION FEE is inclusive of:

- VESSEL transit from Gabon (inclusive of all fuel and lubricants)
- FLEXIBLE PIPE REELS return and offload at MOBILIZATION LOCATION in Newcastle upon Tyne, England
- KEY DEDICATED EQUIPMENT demobilization/removal from VESSEL
- MARINE AND PROJECT CREW demobilization (including KEY DEDICATED EQUIPMENT personnel)

DEMOBILIZATION FEE is exclusive of:

- Custom/Port Agency Services, Security, Dock services and Port Fees applicable in Gabon
- Dock services and Port Fees at MOBILIZATION LOCATION
- Costs for demobilizing / returning INSTALLATION AIDS and/or ROV tooling to be defined/agreed following the EFFECTIVE DATE OF COMMENCEMENT OF THE CONTRACT.

Note 3: DAILY RATE is applicable during:

- VESSEL local mobilization at quayside or Sea Buoy in Gabon following Customs Clearance
- Transit between to/from FIELD
- All In-FIELD operations
- Fuel (EXCLUDED)

DAILY RATE is inclusive of:

- KEY DEDICATED EQUIPMENT and SUBCONTRACTORS
- MARINE AND PROJECT CREW

DAILY RATE is exclusive of:

- Fuel and Bunkering Services
- INSTALLATION AIDS and/or ROV tooling to be defined/agreed following the EFFECTIVE DATE OF COMMENCEMENT OF THE CONTRACT
- Any Materials not part of VESSEL inventory for Handling, Lifting, Seafastening of COMPANY Materials.

Note 4: STANDBY RATE is applicable during:

- VESSEL Time at the MOBILIZATION LOCATION beyond the allocated three (3) days included in the PROJECT SCHEDULE allocated as part of the MOBILIZATION FEE.
- Vessel importation and exportation in Gabon (COMPANY responsibility)
- Wating on Weather (Ref. 35.3)
- Crew changes, restocking and/or refuelling
- any time required, beyond a maximum of three (3) days per trip, for the VESSEL to transit to and from the quayside in the Republic of Gabon or another mutually agreed location for the purposes of offloading and/or loading of the FLEXIBLE PIPE REELS after having reached Arrival at Sea Buoy, Republic of Gabon (as referred to in Note 1) and/or for the purposes of offloading and/or loading of the reels on which flexible pipe was provided.
- Fuel (EXCLUDED)

STANDBY RATE is inclusive of:

- KEY DEDICATED EQUIPMENT and SUBCONTRACTORS
- MARINE AND PROJECT CREW

STANDBY RATE is exclusive of:

- Fuel and Bunkering Services
- INSTALLATION AIDS and/or ROV tooling to be defined/agreed following the EFFECTIVE DATE OF COMMENCEMENT OF THE CONTRACT
- Dock services and Port Fees, Customs/Port Agency Services, Security, Dock services and Port Fees applicable in Gabon

Note 5: CREW CHANGE FEE includes all costs for VESSEL and KEY DEDICATED EQUIPMENT and KEY PERSONNEL and crew changes/crew rotations following MOBILIZATION during performance of the WORK prior to 12 October 2022. Specifically, all costs are included for two (2) crew change events (personnel wages, travel cost to/from Port Gentil, Gabon). As a basis, regular rotations for the Marine Crew are set for every 28 days for European staff and 90 days for Asian staff. Costs for any additional crew changes/crew rotations required and mutually agreed or those occurring on or after 12 October 2022 would be as per the ADDITIONAL CREW CHANGE FEE.

Note 6: ADDITIONAL CREW CHANGE FEE includes all costs for VESSEL and KEY DEDICATED EQUIPMENT and KEY PERSONNEL and crew changes/crew rotations occurring on or after 12 October 2022 or as otherwise mutually agreed. Specifically, all costs are included for two (2) crew change events (personnel wages, travel cost to/from Port Gentil, Gabon). As a basis, regular rotations for the Marine Crew are set for every 28 days for European staff and 90 days for Asian staff.

Note 7: "ZERO RATE" means the hourly rate for the VESSEL/VESSEL 2, including in respect of all time required, up to a maximum of three (3) days per trip, for the VESSEL to transit to and from the quayside in the Republic of Gabon or another mutually agreed location for the purposes of offloading and/or loading of the FLEXIBLE PIPE REELS after having reached Arrival at Sea Buoy, Republic of Gabon (as referred to in Note 1) and/or for the purposes of offloading and/or loading of the reels on which flexible pipe was provided.

Subject to Clause 29.8, irrespective of the content of the BASE PROGRAMME and/or PROGRAMME, the COMPANY shall pay to the CONTRACTOR, in accordance with the terms of the CONTRACT, a sum that represents forty-five (45) days at the DAILY RATE.

SECTION II
SCOPE of WORK and BASE PROGRAMME

SECTION III
HEALTH, SAFETY AND ENVIRONMENT

SECTION IV
DOCUMENTS AND DRAWINGS

SECTION V
MATERIALS, SERVICES AND FACILITIES TO BE PROVIDED BY THE COMPANY

SECTION VI
CONTRACTOR'S PLANS

SECTION VII
SCHEDULE OF KEY DATES

SECTION VIII
RESPONSIBILITY MATRIX

SECTION IX
CODE OF BUSINESS CONDUCT AND ETHICS

SECTION X
COVID PROTOCOLS

Deed of Guarantee and Indemnity

DOF SUBSEA AS

and

VAALCO GABON SA

in respect of the Agreement for the provision of Subsea
Construction and Installation Services

_____ 2022

THIS DEED OF GUARANTEE AND INDEMNITY is made as a deed on _____ 2022

BETWEEN:

- (1) **DOF Subsea AS**, a company incorporated in Norway and having its principal office at Thormøhlensgate 53 C, 5006 Bergen, Norway (the "**Guarantor**"); and
- (2) **VAALCO Gabon SA**, a company incorporated in the Gabonese Republic and having its registered office at Zone Industrielle OPRAG – Nouveau Port, the Gabonese Republic (the "**Beneficiary**"),

each a "**Party**" and together the "**Parties**".

RECITALS

- (A) The Beneficiary has, on the same date as this Deed of Guarantee and Indemnity, entered into an Agreement with DOF Subsea Canada Corp. (**Contractor**) for the provision of Subsea Construction and Installation Services (**Contract**).
- (B) The Beneficiary has agreed to enter into the Contract subject to the Guarantor agreeing to enter into this Deed of Guarantee and Indemnity in respect of the Guaranteed Obligations as set out in clause 2.
- (C) The Guarantor is the parent company of the Contractor and has agreed (it being in its best commercial interests to do so) to enter into this Deed of Guarantee and Indemnity in respect of the Guaranteed Obligations.

THE PARTIES AGREE AS FOLLOWS:

1. INTERPRETATION

- 1.1 In this Deed of Guarantee and Indemnity, unless otherwise defined or provided for in this Deed of Guarantee and Indemnity, words and expressions shall have the following meanings:

"**Affiliate**" shall have the meaning given to it in the Contract;

"**Applicable Anti-Bribery Laws**" shall have the meaning given to it in the Contract;

"**Applicable Laws**" shall have the meaning given to it in the Contract;

"**Bank of England Base Rate**" means the Bank of England's base rate as published from time to time;

"**Business Day**" means a day throughout which banks are open for business in New York, London and the Gabonese Republic;

"**Contract**" has the meaning given to it in Recital (A);

"**Default Rate**" means the current annual Bank of England Base Rate plus three (3)%; and

"**Guaranteed Obligations**" has the meaning given in clause 2.

- 1.2 In this Deed of Guarantee and Indemnity, unless otherwise specified:

- (a) clause headings shall not affect the interpretation of this Deed of Guarantee and Indemnity;

- (b) a reference to a "company" shall include any company, corporation or other body corporate, wherever and however incorporated or established, a partnership, a joint venture and unincorporated association;

- (c) the words "include", "includes", "including" "inclusive of" shall mean "including but not limited to";

- (d) a "person" includes any person, individual, company, firm, corporation, government, state or agency of a state or any undertaking (whether or not having separate legal personality and irrespective of the jurisdiction in or under the law of which it was incorporated or exists);
- (e) reference to "clauses" are to clauses of this Deed of Guarantee and Indemnity;
- (f) "writing" means typed text or legible manuscript text (including by e-mail);
- (g) words denoting the singular shall include the plural and vice versa and words denoting any gender shall include all genders;
- (h) reference to a legal or regulatory provision or standard is to be construed as a reference to that legal or regulatory provision or standard as the same may have been amended or re-enacted before the date of this Deed of Guarantee and Indemnity;
- (i) reference to any statute, statutory instrument, regulation, by-law or other requirement of English law and to any English legal term for any action, remedy, method of judicial proceeding, legal document, legal status, procedure, court, official or any legal concept or doctrine or other expression shall in respect of any jurisdiction other than England be deemed to include that which most nearly approximates in that jurisdiction to the English term;
- (j) a reference to a statute or statutory provision shall include all subordinate legislation made as at the date of this Deed of Guarantee and Indemnity under that statute or statutory provision;
- (k) reference to the time of day is reference to time in London, England;
- (l) unless the context otherwise requires, references to documents and agreements shall be construed as references to those documents or agreements as may have been or are amended, supplemented, novated or superseded from time to time; and
- (m) a reference to a Party shall include that Party's successors and permitted assigns.

2. **GUARANTEE**

- 2.1 The Guarantor (as a primary obligor and not merely as a surety) at the request of the Beneficiary hereby irrevocably and unconditionally guarantees to the Beneficiary:
 - (a) the due and punctual performance and observance by the Contractor of all of its obligations under the Contract; and
 - (b) the due and punctual payment to the Beneficiary by the Contractor of all amounts which the Contractor is or shall become obliged to pay to the Beneficiary under the Contract,(together the **Guaranteed Obligations**).
 - 2.2 If the Contractor fails to pay or perform in full and on time any of the Guaranteed Obligations, the Guarantor irrevocably and unconditionally undertakes that it shall immediately on demand pay or perform the Guaranteed Obligations as if it were the principal obligor.
 - 2.3 The Guarantor irrevocably and unconditionally agrees with the Beneficiary that, if for any reason, any amount claimed under this Deed of Guarantee and Indemnity is not recoverable on the basis of a guarantee, the Guarantor will be liable as a primary obligor to indemnify the Beneficiary against any cost, loss, or liability incurred by the Beneficiary as a result of the Contractor failing to pay or carry out any of the Guaranteed Obligations, provided the
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amount payable by the Guarantor under this Deed of Guarantee and Indemnity will not exceed the amount it would have had to pay if the amount claimed had been recoverable on the basis of a guarantee.

- 2.4 The provisions of this Deed of Guarantee and Indemnity shall not be interpreted or construed in a way so as to impose on the Guarantor the obligation to pay to the Beneficiary an amount greater than the amount owed by the Contractor to the Beneficiary under the terms of the Contract. The liability of the Contractor under the Contract shall be automatically reduced by any amount paid by the Guarantor to the Beneficiary pursuant to this Deed of Guarantee and Indemnity.

3. MATTERS NOT TO REDUCE THE GUARANTOR'S LIABILITY

- 3.1 If any purported obligation or liability of the Contractor under the Contract which, if valid, would have been the subject of this Deed of Guarantee and Indemnity is not or ceases to be valid or enforceable on any ground whatsoever (whether or not known to the Beneficiary or the Contractor) (including any defect in or want of powers of the Contractor or irregular exercise thereof or lack of authority by any person apparently authorised to act on behalf of the Contractor or any legal or other limitation (whether under the Limitation Act 1980 or otherwise), disability, incapacity or any change in the constitution of or any amalgamation, reconstruction or liquidation of the Contractor), the Guarantor shall nevertheless be liable in respect of that purported obligation or liability as if the same were fully valid and enforceable and as if the Guarantor were the principal debtor in respect thereof. The Guarantor hereby agrees to indemnify, defend and hold the Beneficiary harmless in accordance with the terms of this Deed of Guarantee and Indemnity against all damages, losses, costs and expenses arising from any failure of the Contractor to carry out any such purported obligation or liability by reason of it not being or ceasing to be valid or enforceable.
- 3.2 The obligations and liabilities of the Guarantor in respect of the Guaranteed Obligations shall not in any way be affected nor shall this Deed of Guarantee and Indemnity be discharged or diminished by reason of any of the following (whether or not known to the Guarantor or the Beneficiary):
- (a) any time, consent, waiver or release being given by the Beneficiary to the Contractor or to any surety, or by any other indulgence or concession granted by the Beneficiary to the Contractor or to any surety in respect of (or any variation or waiver of) any of the Guaranteed Obligations or any obligations of any surety (whether the same be made with the Guarantor's consent or not);
 - (b) any termination, amendment, variation, replacement, restatement or supplement of or to the Contract or any of the Guaranteed Obligations;
 - (c) the taking, holding, variation, compromise, renewal, non-enforcement, release or refusal or neglect to perfect or enforce any right, remedies or securities against the Contractor or any other person;
 - (d) any present or future guarantee, indemnity or security being or becoming wholly or partially void, voidable or unenforceable on any ground whatsoever;
 - (e) the insolvency, bankruptcy, liquidation, administration, winding-up, dissolution, receivership, incapacity, amalgamation, reconstruction, re-organisation or any analogous proceedings relating to the Contractor or the Guarantor;
 - (f) any claim or enforcement of payment from the Contractor or any other person;
 - (g) any change in the status, function, constitution or ownership of the Contractor, the Guarantor or the Beneficiary;
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- (h) any invalidity, illegality, unenforceability, irregularity or frustration of any actual or purported obligation of the Contractor or any other person in connection with the Guaranteed Obligations; or
- (i) any other act, omission, event, circumstance, matter or thing which, but for this provision, might operate to release or otherwise exonerate the Guarantor from any of its obligations under this Deed of Guarantee and Indemnity or affect or prejudice any of the rights, powers or remedies conferred upon the Beneficiary under this Deed of Guarantee and Indemnity or by law.

4. NO COMPETITION

4.1 Until all the Guaranteed Obligations have been irrevocably paid, discharged or satisfied in full, the Guarantor will not exercise any rights which it may have:

- (a) to be subrogated to or otherwise entitled to share in, any security or monies held, received or receivable by the Beneficiary or to claim any right of contribution in relation to any payment made by the Guarantor under this Deed of Guarantee and Indemnity;
- (b) to exercise or enforce any of its rights of subrogation and indemnity against the Contractor;
- (c) following a claim being made on the Guarantor, to claim any set-off or counterclaim against the Contractor; and
- (d) to claim or prove in a liquidation or other insolvency proceeding of the Contractor in competition with the Beneficiary.

4.2 If the Guarantor receives any benefit, payment or distribution in relation to such rights it shall hold that benefit, payment or distribution on trust for the Beneficiary and shall promptly pay or transfer the same to the Beneficiary or as the Beneficiary may direct.

5. DISCHARGE TO BE CONDITIONAL

Any release, discharge or settlement between the Guarantor and the Beneficiary shall be conditional upon no security, disposition or payment to the Beneficiary by the Contractor or any other person in respect of the Guaranteed Obligations being void, set aside or ordered to be refunded pursuant to any enactment or law in relation to bankruptcy, liquidation or insolvency (or its equivalent in any relevant jurisdiction) or for any reason whatever, and if such condition shall not be fulfilled the Beneficiary shall be entitled to enforce this Deed of Guarantee and Indemnity as if such release, discharge or settlement had not occurred and any such payment had not been made.

6. ENFORCEMENT

The Beneficiary shall not be obliged before exercising or enforcing any of its rights, powers or remedies conferred upon it by this Deed of Guarantee and Indemnity or by law:

- 6.1 to take any action or obtain any judgement in any court or tribunal against the Contractor or any other person;
 - 6.2 to make or file any claim or proof in connection with the bankruptcy, liquidation, administration or insolvency (or its equivalent in any relevant jurisdiction) of the Contractor or any other person;
 - 6.3 to make, enforce or seek to enforce any claim, right or remedy against the Contractor or any other person under any security or other document, agreement or arrangement; or
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6.4 to enforce against and/or realise (or seek so to do) any security that it may have in respect of all or any part of the Guaranteed Obligations.

7. REPRESENTATIONS AND WARRANTIES

The Guarantor hereby represents and warrants to the Beneficiary as at the date of this Deed of Guarantee and Indemnity:

- (a) the execution, delivery and performance of this Deed of Guarantee and Indemnity, have been duly and validly authorised by the Guarantor;
 - (b) the signing of this Deed of Guarantee and Indemnity by the Guarantor and the performance of its obligations under this Deed of Guarantee and Indemnity shall not contravene or constitute a breach of or default under any provision contained in any agreement or instrument to which it is a party or by which it is bound nor will it result in a breach of any provision of its memorandum or articles of association or equivalent constitutional documents nor will it result in a breach of any order, judgment or decree of any court or governmental, administrative, judicial or regulatory body, authority or organisation or any law to which it is a party or by which it is bound;
 - (c) the Guarantor is duly organised, validly existing and in good standing under the laws of Norway. The Guarantor has all requisite power and authority to execute and deliver this Deed of Guarantee and Indemnity and to perform its obligations hereunder;
 - (d) the Guarantor is not for statutory purposes deemed to be unable to pay its debts nor is it unable to pay its debt as they become due;
 - (e) no order has been served on the Guarantor and no resolution has been passed for the winding-up or dissolution of the Guarantor; the Guarantor is not in administration and no steps have been taken to place the Guarantor into administration (including the filing of any notice of intention to appoint an administrator over the Guarantor); the Guarantor is not subject to a company voluntary arrangement and no such arrangement has been proposed nor is the Guarantor subject to a scheme of arrangement and no such scheme has been proposed; save for a voluntary ongoing restructuring process involving the wider DOF ASA Group, no receiver (whether statutory or contractual) has been appointed to the Guarantor or any of its assets; the Guarantor is not in administrative receivership and has not suspended payments on any of its debts, nor entered into any compromises with any or all of its creditors;
 - (f) all consents, permissions, approvals and agreements of its shareholders, lenders or any third parties which are necessary or desirable for it to obtain in order to enter into and perform this Deed of Guarantee and Indemnity in accordance with its terms have been unconditionally obtained in writing and have been disclosed in writing to the Beneficiary; and
 - (g) the Guarantor, its Affiliates, its personnel and its subcontractors have not made, offered, authorized, requested, received, or accepted and will not make, offer, or authorize, request, receive or accept with respect to the matters which are the subject of this Guarantee and Indemnity or the Contract, any payment, gift, promise or other advantage, whether directly or indirectly through any person or entity, to or for the use or benefit of any public official or any political party or any political party official or candidate for office, or any other person where such payment, gift, promise or advantage would violate: (a) any Applicable Laws, including any Applicable Anti-Bribery Laws or (b) the laws of the country of incorporation of such entity or such entity's ultimate parent company or of the principal place of business of such ultimate parent company. The Guarantor has instituted, maintained and monitored policies and procedures designed to ensure, and which are reasonably expected to continue to ensure, continued compliance with applicable anti-bribery and corruption laws.
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8. **CONTINUING AND ADDITIONAL SECURITY**

- 8.1 This Deed of Guarantee and Indemnity is a continuing security and shall remain in full force and effect until all the Guaranteed Obligations and the indemnity obligations have been discharged or satisfied in full notwithstanding any intermediate payment or discharge by the Guarantor of the Guaranteed Obligations or the liquidation or other incapacity or any change in the constitution or name of the Contractor or of the Guarantor or any settlement of account or other matter or thing whatsoever.
- 8.2 This Deed of Guarantee and Indemnity is in addition to and shall not merge with or otherwise prejudice or affect or be prejudiced by any other right, remedy, guarantee, indemnity or security and may be enforced without first having recourse to the same or any other bill, note, mortgage, charge, pledge or lien now or hereafter held by or available to the Beneficiary.

9. **PAYMENTS AND WITHHOLDINGS**

- 9.1 Subject to clause 2.4, all payments to be made by the Guarantor under the Deed of Guarantee and Indemnity shall be made in immediately available cleared funds, without any deduction or set-off or counterclaim and free and clear of and without deduction for or on account of any taxes, levies, imports, duties, charges, fees and withholdings of any nature now or hereafter imposed by any governmental, fiscal or other authority save as required by law or regulation which is binding on the Guarantor. If the Guarantor is required by law or regulation to make any such deduction, it will pay to the Beneficiary such additional amounts as are necessary to ensure receipt by the Beneficiary of the full amount which that party would have received but for the deduction. The Guarantor shall promptly deliver or procure delivery to the Beneficiary of all receipts issued to it evidencing each deduction or withholding which it has made.
- 9.2 If the Guarantor fails to pay any sum payable under this Deed of Guarantee and Indemnity within fifteen (15) Business Days of receipt of a demand for payment, the Guarantor shall pay an amount equivalent to interest on such sum for the period from and including the date the demand for such amount was received up to the date of actual payment (both before and after judgment) at the Default Rate which shall accrue from day to day and be compounded monthly and shall be paid by the Guarantor on demand.

10. **WAIVER**

- 10.1 No failure or delay by the Beneficiary in exercising any right, power or privilege under this Deed of Guarantee and Indemnity or by law shall operate as a waiver of that right, power or privilege nor shall any single or partial exercise of any right, power or privilege preclude any other further exercise thereof or the exercise of any other right, power or privilege.
- 10.2 A waiver given or consent granted by the Beneficiary under this Deed of Guarantee and Indemnity will be effective only if given in writing and then only in the instance and for the purpose for which it is given.
- 10.3 The Beneficiary may release or compromise the liability of, or grant time or any other indulgence without compromising or affecting the liability of the Guarantor.
- 10.4 The powers which this Deed of Guarantee and Indemnity confers on the Beneficiary are cumulative, without prejudice to any rights or remedies provided by law and may be exercised as often as the Beneficiary thinks appropriate.

11. **SEVERANCE**

Each provision of this Deed of Guarantee and Indemnity is severable and distinct from the others and, if any such provision shall in whole or in part be held to any extent to be invalid, illegal or unenforceable in any respect under any enactment or rule of law, that provision

or part shall to that extent be deemed not to form part of this Deed of Guarantee and Indemnity and the validity, legality and enforceability of the remainder of this Deed of Guarantee and Indemnity shall not be affected or impaired in any way.

12. **CONTINUATION OF DEED OF GUARANTEE AND INDEMNITY**

This Deed of Guarantee and Indemnity shall remain in full force and effect notwithstanding any amendments, variations, replacements or supplements from time to time to the Contract.

13. **ASSIGNMENT**

13.1 No Party shall be entitled to assign, transfer, encumber, sub-contract, delegate, declare a trust over or deal in any other manner with any or all of its rights and obligations under this Deed of Guarantee and Indemnity without the prior written consent of the other Party.

13.2 This Deed of Guarantee and Indemnity shall enure to the benefit of and be binding upon the respective successors and permitted assigns of the parties.

14. **ENFORCEMENT COSTS**

The Guarantor hereby agrees to indemnify, defend and hold harmless (save insofar as otherwise indemnified under this Deed of Guarantee and Indemnity) the Beneficiary on demand against all losses, actions, claims, costs, charges, expenses and liabilities incurred or sustained by the Beneficiary in any enforcement or attempted enforcement of this Deed of Guarantee and Indemnity or occasioned by any breach by the Guarantor of any of the covenants or obligations to the Beneficiary under this Deed of Guarantee and Indemnity.

15. **NOTICES**

15.1 Except as otherwise provided in this Deed of Guarantee and Indemnity, any notice, demand or other communication given or made under or in connection with the matters contemplated by this Deed of Guarantee and Indemnity shall be in writing, in the English language and must be:

- (a) delivered by hand;
- (b) delivered by internationally recognised courier with tracked delivery; or
- (c) sent by email, with the notice attached in PDF format,

to:

in the case of the Beneficiary:

Address

VAALCO Gabon SA
9800 Richmond Avenue – Suite 700
Houston, Texas 77042 USA

Email Address

Attention

in the case of the Guarantor:

Address

Thormøhlensgate 53 C, 5006 Bergen,
Norway

Email Address

Attention

and shall be deemed to have been duly given or made as follows:

- (a) if delivered by hand or by courier, upon delivery at the address of the relevant Party; and

- (b) if sent by email, on the date sent if such date is a Business Day (in the country to which the notice is sent). If the date sent is not a Business Day, notice shall be deemed effectively given on the first Business Day after the notice is sent. Notice will not be deemed given by email where the sender receives an automated server response that the intended recipient has not received the email,

provided that if, in accordance with the above provisions, any such notice, demand or other communication would otherwise be deemed to be given or made after 5.00 p.m. on a Business Day such notice, demand or other communication shall be deemed to be given or made at 9.00 a.m. on the next Business Day.

- 15.2 In proving the giving of a notice it shall be sufficient to prove that delivery in person was made or that the envelope containing the notice was properly addressed and posted or that the email was properly addressed and transmitted and no notice of failure of delivery was received by the sender, as the case may be.

- 15.3 A Party may notify the other Parties to this Deed of Guarantee and Indemnity of a change to its name, relevant addressee or address for the purposes of clause 15 provided that such notification shall only be effective on:

- (a) the date specified in the notification as the date on which the change is to take place; or
(b) if no date is specified or the date specified is less than five (5) Business Days after the date on which notice is given, the date falling five (5) Business Days after notice of any such change has been given.

16. **CURRENCY**

All payments to be made under this Deed of Guarantee and Indemnity shall be made in the currency in which the Guaranteed Obligations were expressed to be payable.

17. **AMENDMENT**

A variation of this Deed of Guarantee and Indemnity shall be in writing and executed as a deed by or on behalf of each Party.

18. **THIRD PARTY RIGHTS**

The Parties confirm that no term of this Deed of Guarantee and Indemnity is enforceable under the Contracts (Rights of Third Parties) Act 1999 by a person who is not a Party to this Deed of Guarantee and Indemnity.

The Parties may amend, vary or terminate this Deed of Guarantee and Indemnity in such a way as may affect any rights or benefits of any third party which are directly enforceable against the Parties under the Contracts (Rights of Third Parties) Act 1999 without the consent of such third party.

Any third party entitled pursuant to the Contracts (Rights of Third Parties) Act 1999 to enforce any rights or benefits conferred on it by this Deed of Guarantee and Indemnity may not veto any amendment, variation or termination of this Deed of Guarantee and Indemnity which is proposed by the Parties and which may affect the rights or benefits of the third party.

19. **CERTIFICATES CONCLUSIVE**

A certificate, determination, notification or opinion of the Beneficiary as to any amount payable under this Deed of Guarantee and Indemnity will be conclusive and binding on the Guarantor except in the case of fraud or manifest error.

20. **COUNTERPARTS**

This Deed of Guarantee and Indemnity may be executed in any number of counterparts, each of which is an original and which together have the same effect as if each party had signed the same document, provided, however, that none of the counterparts will be effective until both parties have executed a counterpart thereof. Each counterpart shall constitute an original of this Deed of Guarantee and Indemnity but all the counterparts together shall constitute one and the same agreement.

21. **GOVERNING LAW AND ARBITRATION**

21.1 This Deed of Guarantee and Indemnity shall be governed by and construed in accordance with English law.

21.2 Any dispute, controversy, proceedings or claim of whatever nature arising out of or in connection with this Deed of Guarantee and Indemnity, including any question regarding its existence, validity, formation or termination (including any non-contractual disputes or claims) (**Dispute**), shall be referred to and finally resolved by arbitration in London in accordance with the rules of the London Court of International Arbitration (**LCIA**) for the time being in force, which rules are deemed to be incorporated by reference into this clause 21.

21.3 The tribunal shall consist of three (3) arbitrators, one (1) each to be nominated by the claimant and respondent respectively and the third arbitrator to be nominated by the two (2) arbitrators nominated by the respective parties to the Dispute. The two persons nominated by the parties to the Dispute shall, within fourteen (14) days of the second of them confirming to the LCIA that he/she is willing and able to accept appointment, nominate a third arbitrator who shall act as presiding arbitrator of the arbitral tribunal. If no such nomination is made within that time limit, the LCIA shall select and appoint the presiding arbitrator of the arbitral tribunal.

21.4 The seat, or legal place, of arbitration shall be London, United Kingdom.

21.5 The language to be used in the arbitral proceedings shall be English.

21.6 Any costs, fees or taxes incidental to enforcing any award shall to such extent as is permitted by law be charged against the party resisting such enforcement.

21.7 The parties to the Dispute shall keep confidential all matters relating to the arbitration proceedings. Confidentiality also extends to the arbitral award, except where its disclosure is necessary for the purposes of implementation and enforcement or to the extent otherwise permitted by this Deed of Indemnity and Guarantee.

21.8 The parties to the Dispute agree that an award awarded in any proceedings commenced under this clause 21 shall be conclusive and binding on it and may be enforced in any courts to the jurisdiction of which the parties to the Dispute are or may be subject by a suit upon such judgment.

21.9 Any party to the Dispute may apply at any time to a court of competent jurisdiction for interim or conservatory measures of relief, including injunction, attachment or conservation orders. The parties to the Dispute agree that seeking and obtaining such court-ordered interim measures shall not waive the right to arbitration or impair the effectiveness of this arbitration agreement or its enforceability.

IN WITNESS whereof the Guarantor and the Beneficiary have executed and delivered this Deed of Guarantee and Indemnity as a deed the day and year first above written.

Executed as a deed by)
VAALCO Gabon SA)
acting by:)

.....

Director

.....

Director

Executed as a deed for and on behalf of)
DOF Subsea AS)
acting by:)

.....

Director

.....

Director

SECTION XII
INSURANCES

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO
EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, George W.M. Maxwell, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of VAALCO Energy, Inc.;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2022

/s/ George W.M. Maxwell
George W.M. Maxwell

Chief Executive Officer

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Ronald Bain, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of VAALCO Energy, Inc.;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2022

/s/ Ronald Bain
Ronald Bain
Chief Financial Officer
(Principal Financial Officer)

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

In connection with the Quarterly Report of VAALCO Energy, Inc. (the "Company") on Form 10-Q for the quarterly period ended March 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, George W.M. Maxwell, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Dated: May 3, 2022

/s/ George W.M. Maxwell

George W.M. Maxwell, Chief Executive Officer

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

In connection with the Quarterly Report of VAALCO Energy, Inc. (the "Company") on Form 10-Q for the quarterly period ended March 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ronald Bain, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Dated: May 3, 2022

/s/Ronald Bain

Ronald Bain, Chief Financial Officer
(Principal Financial Officer)
