

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

FORM 10-KSB

(Mark One)

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

For the fiscal year ended December 31, 2000

OR

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

For the transition period from to

Commission file number 0-20928

VAALCO Energy, Inc.
(Name of small business issuer in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

77027
(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
-----	-----
	None

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

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

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

Check if there is no disclosure of delinquent filers in response to Item
405 of Regulation S-B contained in this form, and no disclosure will be
contained, to the best of registrant's knowledge, in definitive proxy or
information statements incorporated by reference in Part III of this Form 10-
KSB or any amendment to this Form 10-KSB ☒.

The registrant's revenues for the fiscal year ended December 31, 2000 were
\$1,279,465.

The aggregate market value of the voting and non-voting common equity of
the registrant held by non-affiliates, as of March 26, 2001 was \$7,735,438
based upon the closing price as of such date.

As of March 26, 2001, there were outstanding 20,744,569 shares of Common
Stock, \$.10 par value per share, of the registrant.

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

Transitional Small Business Disclosure Format: Yes ☐ No ☒.

VAALCO ENERGY, INC.

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PART I

Item 1. Business

Background

VAALCO Energy, Inc., a Delaware corporation, is a Houston-based independent energy company principally engaged in the acquisition, exploration, development and production of crude oil and natural gas. As used herein, the terms "Company" and "VAALCO" mean VAALCO Energy, Inc. and its subsidiaries, unless the context otherwise requires. VAALCO owns producing properties and conducts exploration activities as operator of consortiums internationally in the Philippines and Gabon. Domestically, the Company has interests in the Texas Gulf Coast area.

On April 21, 1998, VAALCO merged with 1818 Oil Corp. in exchange for 10,000 shares of Convertible Preferred Stock, Series A. The Preferred Stock is convertible into 27.5 million shares of VAALCO, \$0.10 par value per share, Common Stock. As a result of the voting control 1818 Oil Corp.'s shareholder obtained in the transaction, the 1818 Oil Corp. acquisition was accounted for as a reverse acquisition, and 1818 Oil Corp. is the acquiring entity for accounting purposes. The assets of 1818 Oil Corp. at closing consisted of certain exploration assets with book values of \$2.8 million and \$12.6 million in cash.

VAALCO's Philippine subsidiaries include Alcorn (Philippines) Inc., Alcorn (Production) Philippines Inc. and Altisima Energy, Inc. VAALCO's Gabon subsidiaries are VAALCO Gabon (Etame), Inc., VAALCO Production (Gabon), Inc. and VAALCO Energy (Gabon), Inc. VAALCO Energy (USA), Inc. holds interests in certain properties located in the United States.

Recent Developments

In January 2001, the Company acquired a 65% interest in the Etame Block offshore Gabon, West Africa from Western Atlas Afrique, Ltd. a subsidiary of Baker Hughes. Consideration for the acquisition was \$1.0 million in cash and a future net profits interest in the event the existing discoveries on the block are developed. The Company resold 52.5% of the interest held by Western Atlas Afrique to two companies for \$1 million and their proportionate assumption of the future net profits interest. The Company now holds a 30.35% interest in the Etame Block and is operator of the 3,073 square kilometer concession.

The Company made a Gamba sandstone discovery on the Etame concession in 1998, which tested approximately 3,700 barrels of oil per day on a 32/64's inch choke. In January 1999, the Company completed the drilling of the Etame 2V well, which delineated the oil water contact for the discovery. Because the Gamba reservoir lies below a layer of salt and is structurally complex, during 1999 and the first half of 2000, a seismic reprocessing effort was performed to better map the Gamba reservoir. Based on the seismic reprocessing effort, the Company drilled a third well, the Etame 3V well, on the discovery during the first quarter of 2001. The well found pay in the Gamba sandstone approximately 1.2 kilometers away from the Etame 1 well. In addition, pay was found in the Dentale sandstones below the Gamba. A total of 34 meters of gross pay interval was encountered in the Etame 3V well. As a result of the successful delineation well, the consortium is analyzing development options and intends to pursue development of the field. Additional wells will be required to maximize field production.

Effective June 30, 2000, the Company elected to withdraw from Hunt Overseas Exploration Company L.P. ("Hunt"). The Company formerly held a 7.5% limited partnership interest in Hunt. The Company's obligations under the partnership were to contribute up to \$22.5 million for its share of the exploration phase of the partnership, \$22.3 million of which had been funded as of June 30, 2000. In addition, if Hunt discovered oil, the Company may have been required to contribute an additional \$7.5 million to fund the appraisal of the discovery. As a result of withdrawing from the Hunt venture, Hunt released certain funds in escrow totaling \$8.4 million and reimbursed the Company \$1.3 million for its share of net working capital in the partnership as of June 30, 2000.

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The Company has elected to terminate its joint venture with Paramount Petroleum, Inc., which focused on domestic onshore prospects in Mississippi, Alabama and Louisiana. The Company will receive its proportionate 93.75% interest in kind in all remaining prospects within the joint venture on April 1, 2001, unless the prospects are sold to industry for drilling prior to that time.

General

The Company's strategy is to increase reserves and production in a cost-effective manner through a program that balances lower risk exploratory and development drilling on VAALCO's domestic acreage with high potential international prospects. Internationally, financial exposure and political risk are mitigated through alliances with experienced industry partners who fund the majority of required capital.

International

The Company's international strategy is to pursue selected opportunities that are characterized by reasonable entry costs, favorable economic terms, high reserve potential relative to capital expenditures and the availability of existing technical data that may be further developed using current technology. The Company believes that it has unique management and technical expertise in identifying international opportunities and establishing favorable operating relationships with host governments and local partners familiar with the local practices and infrastructure. The Company owns producing properties and conducts exploration activities as operator of consortium internationally in the Philippines and Gabon.

Domestic

The Company's domestic strategy is to build near-term cash flows through focused acquisition of domestic properties that have significant exploration or future development potential. Recognizing that international operations are subject to greater social, economic and political volatility, the Company seeks to build a stable domestic production and reserve base that will permit the Company to continue to participate in more high-risk international projects with greater reserve potential.

The Company has a new discovery in Brazos County, Texas, which flowed 178 BOPD and 1.0 MMcf per day upon completion in the Georgetown and Budda formations in January 2001. The Company has a 25% interest in the discovery well, and a 30% interest in four offset locations, which have been leased.

Customers

Substantially all of the Company's crude oil and natural gas is sold at the well head at posted or indexed prices under short-term contracts, as is customary in the industry. For the year ended December 31, 2000, two purchasers of the Company's crude oil accounted for essentially all of the Company's total crude oil sales. The Company markets its crude oil share in the Philippines under an agreement with SeaOil Corporation, a local Philippines refiner ("SeaOil") and Caltex. While the loss of these buyers might have a material effect on the Company in the near term, management believes that the Company would be able to obtain other customers for its crude oil.

Employees

As of December 31, 2000, the Company had 24 full-time employees, 17 of which were located in the Philippines. The Company is not subject to any collective bargaining agreements and believes its relations with its employees are satisfactory.

Competition

The oil and gas industry is highly competitive. Competition is particularly intense with respect to acquisitions of desirable oil and gas reserves. There is also competition for the acquisition of oil and gas leases

suitable for exploration and the hiring of experienced personnel. Competition also exists with other industries in supplying the energy needs of consumers. In addition, the producing, processing and marketing of oil and gas is affected by a number of factors beyond the control of the Company, the effects of which cannot be accurately predicted.

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

Environmental Regulations

General

The Company's activities are subject to federal, state and local laws and regulations governing environmental quality and pollution control. Although no assurances can be made, the Company believes that, absent the occurrence of an extraordinary event, compliance with existing federal, state and local laws, rules and regulations regulating the release of materials in the environment or otherwise relating to the protection of the environment will not have a material effect upon the Company's capital expenditures, earnings or competitive position with respect to its existing assets and operations. The Company cannot predict what effect additional regulation or legislation, enforcement policies thereunder, and claims for damages to property, employees, other persons and the environment resulting from the Company's operations could have on its activities.

Solid and Hazardous Waste

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

The Company generates wastes, including hazardous wastes, that are subject to the Federal Resource Conservation and Recovery Act and comparable state statutes. The Environmental Protection Agency has limited the disposal options for certain hazardous wastes and is considering adoption of stricter disposal standards for nonhazardous wastes. Furthermore, it is possible that certain wastes currently exempt from treatment as "hazardous wastes" generated by the Company's oil and gas operations may in the future be designated as "hazardous wastes" under the Federal Resource Conservation and Recovery Act or other applicable statutes and, therefore, may be subject to more rigorous and costly disposal requirements.

Superfund

The Comprehensive Environmental Response, Compensation and Liability Act, also known as the "Superfund" law, imposes liability, without regard to fault or the legality of the original conduct, on certain classes of persons with respect to the release of a "hazardous substance" into the environment. These persons include the owner and operator of a site and persons that disposed or arranged for the disposal of the hazardous substances found at a site. Superfund also authorizes the Environmental Protection Agency and, in some cases,

third parties to take actions in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs of such action. Neither the Company nor its predecessors has been designated as a potentially responsible party by the Environmental Protection Agency under Superfund with respect to any such site.

Air Emissions

The Company's operations are subject to local, state and federal

regulations for the control of emissions from sources of air pollution. Administrative enforcement actions for failure to comply strictly with air regulations or permits are generally resolved by payment of monetary fines and correction of any identified deficiencies. Alternatively, regulatory agencies could require the Company to forego construction or operation of certain air emission sources. The Company believes that in such case it would have enough permitted or permittable capacity to continue our operations without a material adverse effect on any particular producing field.

Risk Factors

Volatility of Oil and Gas Prices and Markets

The Company's revenues, cash flow, profitability and future rate of growth are substantially dependent upon prevailing prices for oil and gas. The Company's ability to borrow funds and to obtain additional capital on attractive terms is also substantially dependent on oil and gas prices. The Company's production in the Philippines is from mature offshore fields with high production costs. The Company's margin on sales from these fields (the price received for oil less the production costs for the oil) is lower than the margin on oil production from many other areas. As a result, the profitability of the Company's production in the Philippines is affected more by changes in prices than production located in other areas. Historically, oil and gas prices and markets have been volatile and are likely to continue to be volatile in the future. Prices for oil and gas are subject to wide fluctuations in response to relatively minor changes in supply of and demand for oil and gas, market uncertainty and a variety of additional factors that are beyond the control of the Company. These factors include international political conditions, the domestic and foreign supply of oil and gas, the level of consumer demand, weather conditions, domestic and foreign governmental regulations, the price and availability of alternative fuels and overall economic conditions. In addition, various factors, including the availability and capacity of gas gathering systems and pipelines, the effect of federal, state and foreign regulation of production and transportation, general economic conditions, changes in supply due to drilling by other producers and changes in demand may adversely affect the Company's ability to market its oil and gas production. Any significant decline in the price of oil or gas would adversely affect the Company's revenues, operating income, cash flows and borrowing capacity and may require a reduction in the carrying value of the Company's oil and gas properties and its planned level of capital expenditures.

Replacement of Reserves

The Company's future success depends upon its ability to find, develop or acquire additional oil and gas reserves that are economically recoverable. Except to the extent that the Company conducts successful exploration or development activities or acquires properties containing proved reserves, the estimated net proved reserves of the Company will generally decline as reserves are produced. There can be no assurance that the Company's planned development and exploration projects and acquisition activities will result in significant additional reserves or that the Company will have continuing success drilling productive wells at economic finding costs. The drilling of oil and gas wells involves a high degree of risk, especially the risk of dry holes or of wells that are not sufficiently productive to provide an economic return on the capital expended to drill the wells. In addition, the Company's drilling operations may be curtailed, delayed or canceled as a result of numerous factors, including title problems, weather conditions, political instability, economic/currency imbalances, compliance with governmental requirements or delays in the delivery of equipment and availability of drilling rigs. Certain of the Company's oil and gas properties are operated by third parties or may be subject

to operating committees controlled by national oil companies and, as a result, the Company has limited control over the nature and timing of exploration and development of such properties or the manner in which operations are conducted on such properties.

Substantial Capital Requirements

The Company makes, and will continue to make, substantial capital expenditures for the acquisition, exploitation, development, exploration and production of oil and gas reserves. Historically, the Company has financed these expenditures primarily with cash flow from operations, asset sales, and private sales of equity. The Company believes that it will have sufficient capital to finance planned capital expenditures through 2001.

At year-end 2000, the Company had invested \$3.0 million in the Paramount joint venture, of which, approximately \$1.6 million has been impaired as of December 31, 2000.

Drilling Risks

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

Operating Hazards and Uninsured Risks

The oil and gas business involves a variety of operating risks, including fire, explosions, blow-outs, pipe failure, casing collapse, abnormally pressured formations and environmental hazards such as oil spills, gas leaks, ruptures and discharges of toxic gases, the occurrence of any of which could result in substantial losses to the Company due to injury and loss of life, severe damage to and destruction of property, natural resources and equipment, pollution and other environmental damage, clean-up responsibilities, regulatory investigation and penalties and suspension of operations. The Company's production facilities are also subject to hazards inherent in marine operations, such as capsizing, sinking, grounding, collision and damage from severe weather conditions. The relatively deep offshore drilling conducted by the Company overseas involves increased drilling risks of high pressures and mechanical difficulties, including stuck pipe, collapsed casing and separated cable. The impact that any of these risks may have upon the Company is increased due to the low number of producing properties owned by the Company. The Company and operators of properties in which it has an interest maintain insurance against some, but not all, potential risks; however, there can be no assurance that such insurance will be adequate to cover any losses or exposure for liability. The occurrence of a significant unfavorable event not fully covered by insurance could have a material adverse effect on the Company's financial condition and results of operations. Furthermore, the Company cannot predict whether insurance will continue to be available at a reasonable cost or at all.

Uncertainties in Estimating Reserves and Future Net Cash Flows

There are numerous uncertainties inherent in estimating quantities of proved oil and gas reserves, including many factors beyond the control of the Company. Reserve engineering is a subjective process of estimating the underground accumulations of oil and gas that cannot be measured in an exact manner. The estimates in this document are based on various assumptions required by the Commission, including unescalated prices and costs and capital expenditures, and, therefore, are inherently imprecise indications of future net revenues. Actual future production, revenues, taxes, operating expenses, development expenditures and quantities of recoverable oil and

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gas reserves may vary substantially from those assumed in the estimates. Any significant variance in these assumptions could materially affect the estimated quantity and value of reserves set forth in this document. In addition, the Company's reserves may be subject to downward or upward revision based upon production history, results of future development, availability of funds to acquire additional reserves, prevailing oil and gas prices and other factors. Moreover, the calculation of the estimated present value of the future net revenue using a 10% discount rate as required by the Commission is not necessarily the most appropriate discount factor based on interest rates in effect from time to time and risks associated with the Company's reserves or the oil and gas industry in general.

It is also possible that reserve engineers may make different estimates of reserves and future net revenues based on the same available data. In calculating reserves on a BOE basis, gas was converted to oil at the ratio of six Mcf of gas to one Bbl of oil. While this conversion ratio approximates the energy equivalent of oil and gas on a Btu basis, it may not represent the relative prices received by the Company on the sale of its oil and gas production.

The estimated future net revenues attributable to the Company's net proved reserves are prepared in accordance with Commission guidelines, and are not intended to reflect the fair market value of the Company's reserves. In accordance with the rules of the Commission, the Company's reserve estimates are prepared using period end prices received for oil and gas. Future reductions in prices below those prevailing at year-end 2000 would result in the estimated quantities and present values of the Company's reserves being reduced.

A substantial portion of the Company's proved reserves are or will be subject to service contracts, production sharing contracts and other

arrangements. The quantity of oil and gas the Company will ultimately receive under these arrangements will differ based on numerous factors, including the price of oil and gas, production rates, production costs, cost recovery provisions and local tax and royalty regimes. Changes in many of these factors do not affect estimates of U.S. reserves in the same way they affect estimates of proved reserves in foreign jurisdictions, or will have a different effect on reserves in foreign countries than in the United States. As a result, proved reserves in foreign jurisdictions may not be comparable to proved reserve estimates in the United States.

Foreign Operations

The Company's international assets and operations are subject to various political, economic and other uncertainties, including, among other things, the risks of war, expropriation, nationalization, renegotiation or nullification of existing contracts, taxation policies, foreign exchange restrictions, changing political conditions, international monetary fluctuations, currency controls and foreign governmental regulations that favor or require the awarding of drilling contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. In addition, if a dispute arises with foreign operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons, especially foreign oil ministries and national oil companies, to the jurisdiction of the United States.

The Company's private ownership of oil and gas reserves under oil and gas leases in the United States differs distinctly from its ownership of foreign oil and gas properties. In the foreign countries in which the Company does business, the state generally retains ownership of the minerals and consequently retains control of (and in many cases, participates in) the exploration and production of hydrocarbon reserves. Accordingly, operations outside the United States may be materially affected by host governments through royalty payments, export taxes and regulations, surcharges, value added taxes, production bonuses and other charges.

Certain of the Company's producing properties are located offshore Palawan Island in the Philippines, and, consequently, a portion of the Company's assets is subject to regulation by the government of the Philippines. Although there has been unrest and uncertainty in the Philippines, to date, the country's Office of Energy Affairs has been largely unaffected by political changes. The Company has operated in the Philippines since 1985 and

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believes that it has good relations with the current Philippine government. However, there can be no assurance that present or future administrations or governmental regulations in the Philippines will not materially adversely affect the operations or cash flows of the Company.

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

Control by 1818 Fund

In connection with the 1818 Oil Corp. merger, the Company issued to the 1818 Fund Common Stock and Preferred Stock which votes as a class with the Common Stock on an as converted basis, representing approximately 65% of the outstanding voting power of the Company on an as converted basis (excluding options and warrants). In addition, the terms of the Preferred Stock acquired by the 1818 Fund provide that while the Preferred Stock is outstanding, the holders of Preferred Stock voting together as a class are entitled to elect three directors of the Company. Accordingly, the 1818 Fund is able to control all matters submitted to a vote of the stockholders of the Company, including the election of directors.

In connection with the 1818 Oil Corp. merger, the Company made certain changes to its bylaws which require that at least a majority of the directors constituting the entire board of directors, which majority must include at least one of the directors elected by the holders of Preferred Stock, approve each of the following transactions effected by either the Company or, as applicable, any subsidiary of the Company, any issuance of or agreement to issue any equity securities, including securities convertible into or exchangeable for such equity securities (other than issuances pursuant to an employee benefit plan); the declaration of any dividend; the incurrence, assumption of or refinancing of indebtedness; the adoption of any employee stock option or similar plan; entering into employment or consulting agreements with annual compensation exceeding \$100,000; any merger or consolidation; the sale, conveyance, exchange or transfer of the voting stock

or all or substantially all of the assets; the sale or other disposition to another person, or purchase, lease or other acquisition from another person, of any material assets, rights or properties; certain expenditures in excess of \$300,000; the formation of any entity that is not wholly-owned by the Company; material changes in accounting methods or policies; any amendment, modification or restatement of the certificate of incorporation or bylaws; the settlement of any claim or other action against the Company or subsidiary in an amount in excess of \$50,000; approval or amendment of the annual operating budget; any other action which is not in the ordinary course of business; and the agreement to take any of the foregoing actions. Accordingly, none of the foregoing actions can be taken by the Company without the approval of at least one director designated by the holders of the Preferred Stock.

Environmental and Other Regulations

The laws and regulations of the United States, Philippines and Gabon regulate the Company's business. These laws and governmental regulations, which cover matters including drilling operations, taxation and environmental protection, may be changed from time to time in response to economic or political conditions. See "Foreign Operations."

The Company's domestic operations are subject to numerous laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. The Company's domestic operations could result in liability for personal injuries, property damage, oil spills, discharge of hazardous materials, remediation and clean-up costs and other environmental damages. In addition, the Company could be liable for environmental damages caused by previous property owners. As a result, substantial liabilities to third parties or governmental entities may be incurred; the payment of which could have a material adverse effect on the Company's financial condition, results of operations and liquidity. The Company maintains insurance

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coverage for its operations, including limited coverage for sudden environmental damages, but does not believe that insurance coverage for environmental damages that occur over time is available at a reasonable cost. Moreover, the Company does not believe that insurance coverage for the full potential liability that could be caused by sudden environmental damages is available at a reasonable cost. Accordingly, the Company may be subject to liability or may lose substantial portions of its properties in the event of certain environmental damages. The Company could incur substantial costs to comply with environmental laws and regulations.

A substantial portion of the Company's producing properties are located offshore. The costs to abandon offshore wells may be substantial. For financial accounting purposes the Company accrues a per BOE charge over the life of a field to cover such abandonment costs. No assurances can be given that such reserves will be sufficient to cover such costs in the future as they are incurred.

The Oil Pollution Act of 1990 imposes a variety of regulations on "responsible parties" related to the prevention of oil spills. The implementation of new, or the modification of existing, environmental laws or regulations, including regulations promulgated pursuant to the Oil Pollution Act of 1990, could have a material adverse impact on the Company.

The recent trend toward stricter standards in environmental legislation and regulation in the U.S. is likely to continue. If such legislation were enacted, it could have a significant impact on the operating costs of the Company, as well as the oil and gas industry in general.

In addition, while the Company believes that it is currently in compliance with environmental laws and regulations applicable to the Company's operations in the Philippines, Gabon and the U.S., no assurances can be given that the Company will be able to continue to comply with such environmental laws and regulations without incurring substantial costs.

Acquisition Risks

The Company intends to acquire oil and gas properties. Although the Company performs a review of the acquired properties that it believes is consistent with industry practices, such reviews are inherently incomplete. It generally is not feasible to review in depth every individual property involved in each acquisition. Ordinarily, the Company will focus its due diligence efforts on the higher valued properties and will sample the remainder. However, even an in-depth review of all properties and records may not necessarily reveal existing or potential problems nor will it permit a buyer to become sufficiently familiar with the properties to assess fully their deficiencies and capabilities. Inspections may not be performed on every well, and structural or environmental problems, such as ground water contamination, are not necessarily observable even when an inspection is undertaken. The Company may be required to assume preclosing liabilities, including environmental liabilities, and may acquire interests in properties on an "as is" basis.

There can be no assurance that the Company's acquisitions will be successful.

Reliance on Key Personnel

The Company is highly dependent upon its executive officers and key employees, particularly Messrs. Gerry, Walston and Scheirman. The unexpected loss of the services of any of these individuals could have a detrimental effect on the Company. The Company does not maintain key man life insurance on any of its employees.

Forward-Looking Information and Risk Factors

This report includes "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"). All statements other than statements of historical fact included in this Report (and the exhibits hereto), including without limitation, statements regarding the Company's financial position and estimated quantities and net

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present values of reserves, are forward looking statements. The Company can give no assurances that the assumptions upon which such statements are based will prove to have been correct. Important factors that could cause actual results to differ materially from the Company's expectations ("Cautionary Statements") are disclosed in the section "Risk Factors," elsewhere herein and in other periodic reports filed under the Exchange Act, which are herein incorporated by reference. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified by the Cautionary Statements.

Item 2. Properties

Gabon

VAALCO has an interest in one offshore block in Gabon, the Etame Block. Interest in the block vests in a production-sharing contract entered into by the Company's subsidiary VAALCO (Gabon) Etame, Inc., providing for two three-year terms, which commenced in July 1995. The Company elected to extend the contract into the second three-year term during 1998. At December 31, 2000, VAALCO owned a 17.85% interest in the production-sharing contract covering the Etame Block. In January 2001, VAALCO increased its interest in the Etame Block to 30.35%

Etame Block

The Etame Block is a 3,073 square kilometer block acquired in July 1995, containing the Etame discovery drilled by the Company and two former Gulf Oil Company discoveries, the North and South Tchibala discoveries. These discoveries consist of subsalt reservoirs that lie in approximately 250 feet of water depth, 20 miles offshore. The Company and its partners undertook an obligation to the Government of Gabon to obtain and process seismic data and to drill one commitment well on the Etame block over the three-year primary term of the license. In April 1998, a participation agreement was entered into with Western Atlas Afrique, Ltd. ("Western Atlas"), a subsidiary of Baker Hughes, to conduct a 320 square kilometer seismic survey at Western Atlas' sole cost and to pay a disproportionate 80% of the cost, up to \$4.7 million, of the first commitment well. In return for these payments, Western Atlas earned a 65% interest in the production-sharing contract. In June 1998, Western Atlas completed the above-mentioned acquisition of seismic data over the property. This data was processed, and the Company drilled the commitment well, the Etame No. 1 well, in June 1998 resulting in a 3,700 BOPD Gamba sandstone discovery on the block. Completion of the Etame No. 1 well satisfied all of the Company's obligations to the Government of Gabon under the primary three-year term of the contract.

During 1998, the consortium of companies owning the Etame Block production sharing contract agreed to renew the production sharing contract for three additional years, thereby taking on a commitment to drill two additional exploration wells and to perform a 3-D seismic reprocessing. A delineation well, the Etame 2V well, was drilled in January 1999 and encountered additional oil pay in the Gamba sandstone, however the well encountered the Gamba sandstone lower than expected. The Consortium elected to reprocess the 3-D seismic data prior to drilling additional delineation wells. The second exploration commitment well, the Etame 3V was drilled to further delineate the Etame discovery in February, 2001. The well successfully encountered Gamba sandstone pay updip from the Etame 1 well. In addition the well encountered pay in the Dentale sandstone formation immediately below the Gamba. As a result of the successful drilling of the Etame 3V well, the consortium is currently pursuing development options to bring the Etame structure on line. The Etame 4V well is planned for the second quarter of 2001, and assuming suitable production facilities can be sourced, including a floating production, storage and offloading system ("FPSO") the Etame field could be brought on production during 2002.

Philippines

The Company has an interest in two service contracts in the Philippines. Service Contract No. 14 covers 158,000 offshore acres and Service Contract No. 6 covers 131,000 offshore acres. The Company produces the Nido and Matinloc fields with a total gross production for 2000 of approximately 415,000 barrels or 1,137 BOPD.

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Nido Field

This field is covered by Service Contract No. 14 and has four producing wells. These wells have been producing since 1979, and through the year ended December 31, 2000 had produced an aggregate of approximately 17.3 MMBbls of oil. The field is produced using the cyclic method under which the field is shut in for a period of time (generally 60 days) and then opened up to produce (generally four to five days). During 2000, the four wells in the field produced at an equivalent rate of 510 BOPD compared to 108 BOPD in 1999 when demand for oil in Asia was low. The Company has an approximate 22.1% working interest and an approximate 17.4% net revenue interest in the field.

Matinloc Field

This field is located within the contract area covered by Service Contract No. 14 and has three producing wells. The field had produced an aggregate production of approximately 10.3 MMBbls from 1982 through 1991. Production was suspended from the field in 1991 until it was reactivated in 1995. At December 31, 2000 the field had produced an aggregate of 11.3 MMBbls. During 2000, the field produced approximately 213 MBbls or 584 BOPD. The Company has an approximate 38.1% working interest and an approximate 26.8% net revenue interest in the field. Other production was obtained from the North Matinloc field, which is an extension to the Matinloc field. This field produced 16 MBbls or 43 BOPD from one well during 2000. The Company has an approximate 45.4% working interest and an approximate 40.3% net revenue interest in the North Matinloc field

Galoc Field

This field is located within the contract area covered by Service Contract No. 14 and is currently not producing. Four wells have been drilled in this field, of which one well in 1,150 feet of water has undergone a long-term testing program. The Galoc reservoir is made up of a sandstone turbidite fan sequence that was deposited on top of the Lower Miocene limestone in a deep-water environment. Previous wells tested in excess of 5,000 BOPD. The Galoc field is one of the areas being studied extensively for the potential to drill an additional delineation well in the field.

Domestic Properties

Brazos County Prospects

The Company participated in the drilling of a horizontal well in the Buda and Georgetown formations during 2000. The well was a successful discovery and came on line producing 172 BOPD and 1.0 MMcf per day. The Company has a 25% interest in the well. Subsequently the working interest group has leased four offset locations to the discovery well and plans to commence drilling the first offset location in the first quarter of 2001. The Company has a 30% working interest in the offset locations under lease.

Goliad County, Texas

VAAICO owns an interest in approximately 1,000 acres located immediately west of the Goliad town site. The acreage consists of approximately 70 leases and is located within an area of the Wilcox trend that has recently seen a considerable amount of leasing, 3-D seismic and drilling activity. In January 1998, a farm out agreement was entered into with an industry partner over 1,000 acres of its Goliad acreage whereby the Company recovered its lease costs and assigned a 75% working interest to its partner. The Company owns certain overriding royalties and a 25% working interest in the acreage. The leases expire in 2001.

Other Domestic Properties

The Company owns an interest in 640 acres (224 net acres) in Dimmit County on which a horizontal gas well was drilled in 1999 to the Georgetown formation and placed on production in 2000. The Company also owns certain non-operated interests in the Vermilion and Ship Shoal areas of the Gulf of Mexico, which

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accounted for no significant production during the year ended December 31, 2000. No capital expenditures are anticipated in 2001 for these properties.

The Company participates in a joint venture with Paramount Petroleum, Inc.

to conduct exploration activities primarily in the onshore Gulf Coast area, including Alabama, Mississippi and Louisiana. During 2000, the Company agreed to wind up the joint venture effective April 1, 2001, at which time the Company will take over its 93.75% interest in all prospects not sold by the joint venture. The Company has production from two small gas discoveries drilled by the joint venture.

Aggregate Production

Additional production data (net to the Company) for all of the Company's operations for the years 2000 and 1999 are as follows:

Company Owned Production

<TABLE>

<CAPTION>

	Year Ended December 31,					
	2000			1999		
	BOE(1)	Bbl	Mcf	BOE(1)	Bbl	Mcf
	<C>	<C>	<C>	<C>	<C>	<C>
Average Daily Production (Oil in BOPD, gas in MCFD).....	262	255	44	251	249	13
Average Sales Price (\$/unit) (2).....	\$13.97	\$13.76	\$3.51	\$9.04	\$9.00	\$2.26
Average Production Cost (\$/unit).....	\$ 5.04	\$ 5.04	\$0.84	6.03	6.03	1.00

</TABLE>

- - - - -

- (1) BOE is barrels of oil equivalent with 6 Mcf of gas equal to 1 Bbl of oil.
(2) Oil prices are primarily from the Philippines properties where a formula for transportation costs is netted from the sales price.

Reserve Information

A reserve report as of December 31, 2000 has been opined on by Netherland Sewell & Associates, independent petroleum engineers. There have been no estimates of total proved net oil or gas reserves filed with or included in reports to any federal authority or agency other than the Commission since the beginning of the last fiscal year. All of the reserves are located in the Philippines. There are no reserve estimates for the U.S. properties or for the Etame discovery in Gabon, pending further delineation drilling. (See "Item 1-- BACKGROUND" regarding the merger with 1818 Oil Corp.)

<TABLE>

<CAPTION>

	As of	
	December 31,	
	2000	1999
	<C>	<C>
Crude Oil		
Proved Developed Reserves (MBbls).....	686	661
Proved Undeveloped Reserves (MBbls).....	--	--
Total Proved Reserves (MBbls).....	686	661
Standardized measure of discounted future net cash flows at 10% (in thousands).....	\$2,702	\$2,823

</TABLE>

The standardized measure of discounted cash flows does not include the costs of abandoning the Company's non-producing properties.

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

assumed in these estimates. The standardized measure of discounted future net cash flow should not be construed as the current market value of the estimated oil and natural gas reserves attributable to the Company's properties. The information set forth in the foregoing tables includes revisions for certain reserve estimates attributable to proved properties included in the preceding

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

In accordance with the guidelines of the Commission, the Company's estimates of future net cash flow from the Company's properties and the present value thereof are made using oil and natural gas contract prices in effect as of year end and are held constant throughout the life of the properties except where such guidelines permit alternate treatment, including the use of fixed and determinable contractual price escalations. The contract price as of December 31, 2000 was \$11.69 per Bbl of oil for Matinloc and \$11.09 per Bbl for Nido. See "Financial Statements and Supplementary Data" for certain additional information concerning the proved reserves of the Company.

Drilling History

The Company drilled or participated in the drilling of four wells for the period ended December 31, 2000.

<TABLE>

<CAPTION>

2000 Wells Drilled -----	United States				International			
	Gross		Net		Gross		Net	
	2000	1999	2000	1999	2000	1999	2000	1999
	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Exploration Wells								
Productive.....	1.0	1.0	0.25	0.35	0.00	1.0	0.00	0.18
Dry.....	1.0	3.0	0.20	0.93	2.00	1.0	0.15	0.08
Total Wells.....	2.0	4.0	0.45	1.28	2.00	2.0	0.15	0.26
	===	===	====	====	=====	===	=====	=====

</TABLE>

Acreage and Productive Wells

Below is the total acreage under lease and the total number of productive oil and gas wells of the Company as of December 31, 2000:

<TABLE>

<CAPTION>

	United States		International	
	Gross	Net(1)	Gross	Net(1)
	(In thousands)			
	<C>	<C>	<C>	<C>
Developed acreage.....	11.0	0.8	14.7	4.6
Undeveloped acreage.....	2.0	0.6	1,041.1	233.9
Productive gas wells.....	2	0.4	--	--
Productive oil wells.....	6	0.6	7	2.2

</TABLE>

- - - - -

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

Office Space

The Company leases its offices in Houston, Texas (approximately 8,000 square feet) and in Manila, The Republic of the Philippines (approximately 3,000 square feet), which management believes are suitable and adequate for the Company's operations.

Item 3. Legal Proceedings

The Company is currently not a party to any material litigation.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Market for Common Equity and Related Stockholder Matters

General

The Company's Common Stock trades on the OTC Bulletin Board. The following table sets forth the range of high and low sales prices of the Common Stock for the periods indicated. The prices represent adjusted prices between dealers, do not include retail markups, markdowns or commissions and do not necessarily represent actual transactions. As of December 31, 2000 there were approximately 100 holders of record of the Company's Common Stock.

<TABLE>
<CAPTION>

Period	High	Low
-----	-----	-----
<S>	<C>	<C>
1999:		
First Quarter.....	\$1.09	\$0.25
Second Quarter.....	0.56	0.34
Third Quarter.....	0.63	0.44
Fourth Quarter.....	0.75	0.44
2000:		
First Quarter.....	\$0.63	\$0.25
Second Quarter.....	0.34	0.19
Third Quarter.....	0.47	0.22
Fourth Quarter.....	0.51	0.16
2001:		
First Quarter (through March 26, 2001).....	\$0.68	\$0.28

</TABLE>

On March 26, 2001, the last reported sale price of the Common Stock on the OTC Bulletin Board was \$0.61 per share.

Dividends

The Company has not paid cash dividends and does not anticipate paying cash dividends on the Common Stock in the foreseeable future.

Item 6. Management's Discussion and Analysis or Plan of Operations

Introduction

The Company's results of operations are dependent upon the difference between prices received for its oil and gas production and the costs to find and produce such oil and gas. Oil and gas prices have been and are expected in the future to be volatile and subject to fluctuations based on a number of factors beyond the control of the Company. The Company's production in the Philippines is from mature offshore fields with high production costs. The Company's margin on sales from these fields (the price received for oil less the production costs for the oil) is lower than the margin on oil production from many other areas. As a result, the profitability of the Company's production in the Philippines is affected more by changes in oil prices than production located in other areas.

The Company's results of operations are also affected by currency exchange rates. While oil sales are denominated in U.S. dollars, operating costs are predominately denominated in pesos. An increase in the exchange rate of pesos to the dollar will have the effect of increasing operating costs while a decrease in the exchange rate will reduce operating costs.

A substantial portion of the Company's oil production is located offshore of the Philippines. The Company produces into barges, which transport the oil to market. Due to weather and other factors, the Company's production is generally highest during the first and fourth quarters of the year.

The Company uses the successful efforts method to account for its investment in oil and gas properties whereby costs of productive wells, developmental dry holes and productive leases are capitalized and amortized using the units-of-production method based on estimated net proved reserves. The costs of development wells are capitalized but charged to expense if and when the well is determined to be unsuccessful. Geological and geophysical costs and the costs of carrying and retaining undeveloped properties are expensed as incurred.

Capital Resources and Liquidity

Historically, the Company's primary source of capital resources has been from cash flows from operations, private sales of equity, borrowings and purchase money debt. In 1999 and 2000, the Company's primary uses of capital have been to fund its exploration operations.

The Company produces oil from the Matinloc and Nido fields in the South China Sea, the Philippines. During the year ended December 31, 2000, total production from the fields was approximately 415,000 gross barrels of oil. Substantially all of the Company's crude oil and natural gas is sold at the well head at posted or index prices under short-term contracts, as is customary in the industry. The Company markets its share of crude oil under

agreements with Seoail and Caltex, both local Philippines refiners. While the loss of these buyers might have a material effect on the Company in the near term, management believes that the Company would be able to obtain other customers for its crude oil.

At year-end 2000, the Company had invested \$3.0 million in the Paramount joint venture of which \$1.6 million has been impaired as of December 31, 2000. The Company has elected to terminate the joint venture effective April 1, 2001 unless otherwise extended. The Company will receive its proportionate 93.75% interest in kind in all remaining prospects within the joint venture on April 1, 2001, unless the prospects are sold to industry for drilling prior to that time

Effective June 30, 2000 the Company elected to withdraw from Hunt Overseas Exploration Company L.P. ("Hunt"). The Company formerly held a 7.5% limited partnership interest in Hunt. The Company's obligations under the partnership were to contribute up to \$22.5 million for its share of the exploration phase of the partnership, \$22.3 million of which had been funded as of June 30, 2000. In addition, if Hunt discovered oil, the Company may have been required to contribute an additional \$7.5 million to fund the appraisal of the discovery. As a result of withdrawing from the Hunt venture, Hunt released certain funds in escrow totaling \$8.4 million and reimbursed the Company \$1.3 million for its share of net working capital in the partnership as of June 30, 2000.

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

During 2001, the Company anticipates that it will make capital expenditures on oil and gas properties of approximately \$4.0 million, primarily in Gabon. This amount may increase if the Etame field in Gabon is approved for development. The Company will seek outside funds for the development of the Etame field. The anticipated capital expenditures exclude potential acquisitions. Other than the funding required to develop the Etame field, which will be sourced from outside the Company, the Company believes the cash on hand at December 31, 2000 will be sufficient to fund the Company's capital budget through 2001.

Results of Operations

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

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

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Cash Flows

Net cash provided by operating activities for 2000 was \$10.5 million, as compared to net cash provided by operating activities of \$1.1 million in 1999. Net cash provided by operations in 2000 included \$9.3 million from funds taken out of escrow. Net cash provided by operations in 1999 included \$7.6 million from funds in escrow, which was offset by settlement of \$1.4 million of accounts payable and \$4.2 million of accounts with partners.

Net cash used in investing activities for 2000 was \$0.9 million, as compared to net cash used in investing activities of \$4.8 million in 1999. Cash used in investments in unconsolidated entities resulted from \$1.7 million in contributions to Hunt partially offset by a \$1.3 million reimbursement to the Company upon its withdrawal from the Hunt partnership. The net investment total for 2000 was \$0.4 million, as compared to \$3.1 million invested in unconsolidated entities in 1999. Exploration expenses of \$0.3 million were incurred in 2000 versus \$1.5 million in 1999. Additions to property and equipment of \$0.3 million in 2000 and 1999 occurred in domestic properties and in Gabon.

No net cash was provided by or used for financing activities for 2000 or 1999.

Revenues

Total oil and gas sales for 2000 were \$1.3 million as compared to \$0.8 for 1999. The 2000 and 1999 revenues primarily occurred from operations in the Philippines. Production volumes increased in 2000 in the Philippines due to higher volumes from the Nido field. The Company produced the Nido and Matinloc fields at approximately 1,137 BOPD in 2000 versus 860 BOPD in 1999.

Operating Costs and Expenses

Production expenses for 2000 were \$0.5 million as compared to \$0.6 for 1999. In 1999, production expense included the cost of an underwater platform inspection at the Matinloc field.

Exploration costs for 2000 were \$0.9 million as compared to \$1.5 million for 1999. 2000 exploration expenses included costs for dry holes in Texas as well as expiring exploration acreage of \$0.2 million. In 1999, the company drilled unsuccessful exploration wells in Texas and Alabama, and incurred charges associated with expiring exploration acreage of \$0.7 million. In addition, 1999 exploration costs included \$0.3 million of seismic reprocessing expense associated with Gabon.

Depreciation, depletion and amortization of properties for 2000 and 1999 was \$10 and \$14 thousand respectively.

General and administrative expenses for 2000 were \$1.9 million as compared to \$1.9 million for 1999.

Operating Loss

Operating loss for 2000 was \$2.0 million as compared to a \$3.0 million operating loss for 1999 reflecting higher revenues and lower exploration costs in 2000 versus 1999.

Other Income (Expense)

Interest income for 2000 was \$0.6 million compared to \$0.8 million in 1999. Both the 2000 and 1999 amounts represent interest earned and accrued on cash balances and funds in escrow.

Equity loss in unconsolidated entities for 2000 was \$3.2 million compared to \$3.8 million in 1999. Expenses associated with the Paramount exploration effort and Hunt accounted for the losses in both 2000 and 1999. The Company exited the Hunt Partnership in June 2000.

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Other, net was a loss of \$37 thousand in 2000 compared to a loss of \$0.4 million in 1999. In 1999, the Company took a \$0.2 million abandonment liability accrual associated with an interest in Service Contract No. 14, which was reassigned to it by a local company.

In 2000, the Company recognized an income tax benefit of \$30 thousand associated with activity in the Philippines. In 1999, the Company incurred \$0.2 million in income taxes associated with foreign exchange movements in the Philippines, all of which was deferred.

Net Loss

Net loss attributable to common stockholders for 2000 was \$4.6 million as compared to a net loss of \$6.6 million in 1999. The 2000 and 1999 net losses resulted from exploration expenses internationally as well as domestically.

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Item 7. Financial Statements and Supplementary Data

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of VAALCO Energy, Inc. and Subsidiaries:

We have audited the consolidated balance sheets of VAALCO Energy, Inc. and its subsidiaries ("VAALCO") as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of VAALCO's management. Our responsibility is to express an opinion on the financial statements based on our audits.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of VAALCO as of December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted

in the United States of America.

Deloitte & Touche LLP

Houston, Texas
March 26, 2001

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VAALCO ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars, except par value amounts)

<TABLE>

<CAPTION>

	As of December	
	31,	
	2000	1999
ASSETS		
<S>	<C>	<C>
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 12,440	\$ 2,925
Funds in escrow.....	751	108
Receivables:		
Trade.....	237	411
Other.....	153	131
Materials and supplies, net of allowance for inventory obsolescence of \$5.....	329	332
Prepaid expenses and other.....	24	24
Total current assets.....	13,934	3,931
PROPERTY AND EQUIPMENT-SUCCESSFUL EFFORTS METHOD		
Wells, platforms and other production facilities.....	1,154	1,331
Undeveloped acreage.....	555	703
Work in progress.....	2,268	2,331
Equipment and other.....	65	64
	4,042	4,429
Accumulated depreciation, depletion and amortization.....	(850)	(840)
Net property and equipment.....	3,192	3,589
OTHER ASSETS:		
Funds in escrow.....	--	9,966
Investment in unconsolidated entities.....	1,448	4,197
Deferred tax asset.....	410	370
Other long-term assets.....	57	35
TOTAL.....	\$ 19,041	\$ 22,088
	=====	=====

<CAPTION>

LIABILITIES AND STOCKHOLDERS' EQUITY

<S>	<C>	<C>
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities.....	\$ 463	\$ 609
Accounts with partners.....	2,047	403
Income taxes payable.....	10	--
Total current liabilities.....	2,520	1,012
MINORITY INTEREST.....	13	12
FUTURE ABANDONMENT COSTS.....	3,294	3,297
Total liabilities.....	5,827	4,321
COMMITMENTS AND CONTINGENCIES (Note 9)		
STOCKHOLDERS' EQUITY		
Preferred stock, \$25 par value, 500,000 authorized shares; 10,000 shares issued and outstanding in 2000 and 1999, respectively	250	250
Common stock, \$.10 par value, 100,000,000 authorized shares; 20,749,964 shares issued of which 5,395 are in the treasury in 2000 and 1999.....	2,075	2,075
Additional paid-in capital.....	41,215	41,215
Accumulated deficit.....	(30,314)	(25,761)
Less treasury stock, at cost.....	(12)	(12)
Total stockholders' equity.....	13,214	17,767
TOTAL.....	\$ 19,041	\$ 22,088
	=====	=====

</TABLE>

See notes to consolidated financial statements.

18

VAALCO ENERGY, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED OPERATIONS

(in thousands of dollars, except per share amounts)

<TABLE>

<CAPTION>

	Year Ended December 31,	
	2000	1999
<S>	<C>	<C>
REVENUES:		
Oil and gas sales.....	\$ 1,279	\$ 824
Gain on sales of assets.....	--	70
Total revenues.....	1,279	894
OPERATING COSTS AND EXPENSES:		
Production expense.....	483	553
Exploration expense.....	910	1,488
Depreciation, depletion and amortization.....	10	14
General and administrative expenses.....	1,905	1,877
Total operating costs and expenses.....	3,308	3,932
OPERATING LOSS.....	(2,029)	(3,038)
OTHER INCOME (EXPENSE):		
Interest income.....	638	849
Equity loss in unconsolidated entities.....	(3,155)	(3,802)
Other, net.....	(37)	(418)
Total other expense.....	(2,554)	(3,371)
LOSS BEFORE TAXES.....	(4,583)	(6,409)
Income tax expense (benefit).....	(30)	163
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS.....	\$ (4,553)	\$ (6,572)
BASIC LOSS PER COMMON SHARE.....	\$ (0.22)	\$ (0.32)
DILUTED LOSS PER COMMON SHARE.....	\$ (0.22)	\$ (0.32)
BASIC AND DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING.....	20,745	20,745

</TABLE>

See notes to consolidated financial statements.

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VAALCO ENERGY, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

(in thousands of dollars, except share data)

<TABLE>

<CAPTION>

	Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Treasury	Total
	Shares	Amount	Shares	Amount	Capital	Deficit	Stock	Stockholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at January 1,								
1999.....	10,000	\$250	20,749,964	\$2,075	\$41,215	\$ (19,189)	\$ (12)	\$24,339
Net Loss.....	--	--	--	--	--	(6,572)	--	(6,572)
Balance at December 31,								
1999.....	10,000	\$250	20,749,964	\$2,075	\$41,215	\$ (25,761)	\$ (12)	\$17,767
Net Loss.....	--	--	--	--	--	(4,553)	--	(4,553)
Balance at December 31,								

2000.....	10,000	\$250	20,749,964	\$2,075	\$41,215	\$ (30,314)	\$ (12)	\$13,214
	=====	=====	=====	=====	=====	=====	=====	=====

</TABLE>

See notes to consolidated financial statements.

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VAALCO ENERGY, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED CASH FLOWS

(in thousands of dollars)

<TABLE>

<CAPTION>

	Year Ended December 31,	
	2000	1999
	-----	-----
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss.....	\$ (4,553)	\$ (6,572)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation, depletion and amortization.....	10	14
Equity loss in unconsolidated entities.....	3,155	3,802
Provision for deferred income taxes.....	(40)	163
Abandonment reserve.....	(3)	80
Exploration expense.....	905	1,488
Change in assets and liabilities that provided (used) cash:		
Funds in escrow.....	9,323	7,574
Trade receivables.....	174	(100)
Other receivables.....	(22)	204
Materials and supplies.....	3	(6)
Prepaid expenses and other.....	--	1
Accounts payable and accrued liabilities.....	(146)	(1,432)
Accounts with partners.....	1,644	(4,164)
Income taxes payable.....	10	--
	-----	-----
Net cash provided by operating activities.....	10,460	1,052
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Exploration expense.....	(281)	(1,488)
Investment in unconsolidated entities.....	(406)	(3,050)
Additions to property and equipment.....	(296)	(272)
Disposals of property and equipment.....	59	
Other--net.....	(21)	12
	-----	-----
Net cash used in investing activities.....	(945)	(4,798)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital contributions.....	--	--
Proceeds from the issuance of common stock.....	--	--
	-----	-----
Net cash provided by financing activities.....	--	--
	-----	-----
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	9,515	(3,746)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD.....	2,925	6,671
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD.....	\$12,440	\$ 2,925
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Non-cash items:.....	\$ --	\$ --

</TABLE>

See notes to consolidated financial statements.

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VAALCO ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

(in thousands of dollars, unless otherwise indicated)

1. ORGANIZATION

VAALCO Energy, Inc., a Delaware corporation, is a Houston-based independent energy company principally engaged in the acquisition, exploration,

development and production of crude oil and natural gas. As used herein, the terms "Company" and "VAALCO" mean VAALCO Energy, Inc. and its subsidiaries, unless the context otherwise requires. VAALCO owns producing properties and conducts exploration activities as operator of consortium internationally in the Philippines and Gabon. Domestically, the Company has interests in the Texas Gulf Coast area.

VAALCO's subsidiaries include Alcorn (Philippines) Inc. and Alcorn (Production) Philippines Inc., VAALCO Gabon (Etame), Inc., VAALCO Production (Gabon), Inc., VAALCO Energy (Gabon), Inc., VAALCO Energy (USA), Inc. and 1818 Oil Corp.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Cash and Cash Equivalents--For purposes of the consolidated statement of cash flows, the Company and its subsidiaries consider all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. For the years ended December 31, 2000 and 1999, no payments were made for income taxes or for interest.

Funds in Escrow--Current amounts represent an escrow associated with the sale of a portion of the Etame Block (\$715) which closed in January 2001 funds for abandonment of certain Gulf of Mexico properties (\$36). Prior year funds in escrow represented amounts for Hunt (\$9,996) and funds for abandonment costs relating to certain Gulf of Mexico properties (\$108).

Inventory Valuation--Materials and supplies are valued at the lower of cost, determined by the weighted-average method, or market.

Income Taxes--The Company records taxes on income in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes". Under SFAS No. 109, deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (b) operating loss and tax credit carryforwards.

The Company calculates current and deferred income taxes on separate company basis. Deferred income taxes are recognized for future tax consequences of differences between the tax basis of assets and liabilities and their financial reporting amounts at year-end.

Property and Equipment--The subsidiaries follow the successful efforts method of accounting for exploration and development costs. Under this method, exploration costs, other than the cost of exploratory wells, are charged to expense as incurred. Exploratory well costs are initially capitalized until a determination as to whether proved reserves have been discovered. If an exploratory well is deemed to not have found proved reserves, the associated costs are expensed at that time. All development costs, including developmental dry hole

VAALCO ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

(in thousands of dollars, unless otherwise indicated)

costs, are capitalized. Provisions for impairment of undeveloped oil and gas leases are based on periodic evaluations and other factors. The Company recognizes gains for the sale of developed properties based upon an allocation of property costs between the interest sold and the interest retained based on the fair value of those interests.

The Company reviews its oil and gas properties for impairment whenever events or changes in circumstances indicate that the carrying amount of such properties may not be recoverable. When it is determined that an oil and gas property's estimated future net cash flows will not be sufficient to recover its carrying amount, an impairment charge must be recorded to reduce the carrying amount of the asset to its estimated fair value. For years ending December 31, 2000 and 1999, no impairments were recognized.

Depletion of wells, platforms and other production facilities are provided on a field basis under the unit-of-production method based upon estimates of proved developed reserves. Provision for estimated abandonment costs, including platform dismantlement and site restoration, is included in depreciation, depletion and amortization expense on a unit-of-production

basis. Provision for depreciation of other property is made primarily on a straight-line basis over the estimated useful life of the property. The annual rates of depreciation are as follows:

<TABLE>	
<S>	<C>
Office and miscellaneous equipment.....	3-5 years
Leasehold improvements.....	8-12 years
</TABLE>	

In connection with the annual estimate of the Company's oil and gas reserves for the fiscal year ended December 31, 2000, the Company's independent petroleum engineers estimated proved oil reserves at December 31, 2000 to be 0.7 million barrels, all of which are classified as proved developed, net to the Company. The Company had no gas reserves at December 31, 2000. The proved developed reserves relate to the Company's Philippine operations.

During 1999, the Company was reassigned a 2.6% interest in Block C of Service Contract No. 14 from a local company in consideration of an unpaid note receivable. (The Company had previously fully reserved the note receivable in 1996). Consequently, the Company recorded \$816 of Property, Plant and Equipment attributable to these assets based on prior investments and \$816 of Accumulated Depreciation, Depletion and Amortization since no proven reserves were reacquired. Due to the non-cash nature of the acquisition, these amounts have no effect on the Statement of Consolidated Cash Flows.

Investments--The Company invests funds in escrow and excess cash in certificates of deposit and commercial paper issued by banks with maturities typically not exceeding 90 days.

At December 31, 2000, the Company accounted for its investments in unconsolidated entities under the equity method.

At December 31, 2000, the investment in unconsolidated entities was valued at fair value using methods determined in good faith by management after consideration of all relevant information, including, current financial information and restrictions on dispositions. The values assigned to the investments do not necessarily represent the amount which might ultimately be realized upon the sale or other disposition, since such amounts depend on future circumstances and cannot reasonably be determined until actual liquidation occurs. However, because of the inherent uncertainty of such valuations, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the difference could be material.

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VAALCO ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

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Foreign Exchange Transactions--For financial reporting purposes, the subsidiaries use the United States dollar as their functional currency. Monetary assets and liabilities denominated in foreign currency are translated to U.S. dollars at the rate of exchange in effect at the balance sheet date, and items of income and expense are translated at average monthly rates. Nonmonetary assets and liabilities are translated at the exchange rate in effect at the time such assets were acquired and such liabilities were incurred. Gains and losses on foreign currency transactions are included in income currently and were insignificant during each of 2000 and 1999.

Accounts With Partners--Accounts with partners represent cash calls due or excess cash calls paid by the partners for exploration, development and production expenditures made by the following subsidiaries of the Company: APPI-14, APPI-6, and VAALCO Gabon (Eteme), Inc.

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

Fair Value of Financial Instruments--The Company's financial instruments consist primarily of cash, trade accounts and note receivables and trade payables. The book values of cash, trade receivables, and trade payables are representative of their respective fair values due to the short-term maturity of these instruments. The book value of the Company's note receivable instruments are considered to approximate the fair value, as the interest rates are adjusted based on rates currently in effect.

Risks and Uncertainties--The Company's interests are located overseas in

certain offshore areas of the Philippines and Gabon.

Substantially all of the Company's crude oil and natural gas is sold at the well head at posted or index prices under short-term contracts, as is customary in the industry. For the year ended December 31, 2000 two purchasers of the Company's crude oil accounted for essentially all of the Company's total crude oil sales. The Company markets its crude oil share under agreements with SeaOil and Caltex, both local Philippines refiners. While the loss of these buyers might have a material effect on the Company in the near term, management believes that the Company would be able to obtain other customers for its crude oil.

Estimates of oil and gas values as made in the financial statements require extensive judgments and are generally less precise than other estimates made in connection with financial disclosures. Assigning monetary values to such estimates does not reduce the subjectivity and changing nature of such estimates of value. The information set forth herein is therefore subjective and, since judgments are involved, may not be comparable to estimates of value made by other companies. The Company considers its estimates to be reasonable; however, due to inherent uncertainties and the limited nature of data, estimates are imprecise and subject to change over time as additional information become available.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" which was amended in June 1999 by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities--Deferral of the Effective Date of FASB Statement No. 133" and in June 2000 by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities". SFAS No. 133, as amended, is effective for derivative instruments and hedging activities that require an entity to recognize all derivatives as an asset or liability measured at its fair value. Depending on the intended use of the derivative, changes in its fair value will be reported in the period of change as either a component of earnings or a component of comprehensive income. Retroactive application to periods prior to adoption is not allowed. The Company adopted SFAS No. 133, as amended, effective January 1, 2001. The adoption had no

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VAALCO ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

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effect on the Company's financial position or results of operations as all existing contracts either do not meet the definition of a derivative or qualify for the normal purchases and sales exemption. The Company does not currently engage in hedging activities.

Use of Estimates in Financial Statement Preparation--The preparation of financial statements in conformity with generally accepted accounting principles requires estimates and assumptions that affect the reported amounts of assets and liabilities as well as certain disclosures. The Company's financial statements include amounts that are based on management's best estimates and judgments. Actual results could differ from those estimates.

Reclassifications--Certain amounts from 1999 have been reclassified to conform to the 2000 presentation.

3. INVESTMENT IN UNCONSOLIDATED ENTITIES

At December 31, 2000 and December 31, 1999, VAALCO had the following investments:

<S>	December 31, December 31,	
	2000	1999

<C>		
Investment in Hunt.....	\$ --	\$2,439
Investment in VAALCO Exploration LLC.....	1,448	1,758
	-----	-----
	\$1,448	\$4,197
	=====	=====

</TABLE>

Investment in Hunt represented a \$30 million limited partnership interest in Hunt Overseas Exploration Company L.P., a \$350 million partnership, giving the Company a 7.5% interest in the assets of the partnership. Cash investments were made to Hunt during 1999 totaling approximately \$2.5 million. Investment was recorded under the equity method. Effective June 30, 2000 the Company

elected to withdraw from Hunt Overseas Exploration Company L.P. ("Hunt"). As a result of withdrawing from the Hunt venture, Hunt released certain funds in escrow totaling \$8.4 million and reimbursed the Company \$1.3 million for its share of net working capital in the partnership as of June 30, 2000.

Investment in VAALCO Exploration LLC represents a 50/50 membership interest shared by VAALCO Energy, Inc. and Robert Schneeflock of Paramount Petroleum in VAALCO Exploration LLC. VAALCO Exploration was formed to conduct exploration activities primarily in the onshore Gulf Coast area, including Alabama, Mississippi and Louisiana. VAALCO and Schneeflock have contributed capital interests of 93.75% and 6.25%, respectively. Net Profit is allocated first based on contributed capital interests up to the aggregate amount of Net Loss allocated and thereafter based on membership interest of 50/50. Net Loss is allocated first based on membership interest up to the aggregate amount of Net Profit allocated and thereafter based on contributed capital interest. VAALCO has invested \$3.0 million to fund overhead, leases, seismic and other amounts in connection with the business. The Company records the investment under the equity method as VAALCO's membership interest is 50% and neither party has a majority voting interest. Investment value at December 31, 2000 and 1999 was \$1.4 and \$1.8 million respectively. The Company elected to terminate its participation in the venture effective April 1, 2001.

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VAALCO ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

(in thousands of dollars, unless otherwise indicated)

The following summarizes the aggregated financial information for all investments owned by VAALCO, which were accounted for under the equity method as of December 31, 1999 and 2000 respectively:

<TABLE>

<CAPTION>

	December 31, 2000	December 31, 1999
	-----	-----
	(in thousands)	(in thousands)
<S>	<C>	<C>
Balance Sheet:		
Current assets.....	\$ 311	\$ 23,807
Oil and gas property.....	1,226	30,431
Other assets.....	17	19
Owner's equity.....	1,544	44,353
Statement of Earnings:		
Revenue.....	\$ 215	\$ 1,544
	=====	=====
Gross profit.....	\$ (156)	\$ (34,424)
	=====	=====
Net loss.....	\$ (330)	\$ (34,978)
	=====	=====
VAALCO's share of net loss.....	\$ (310)	\$ (3,802)
	=====	=====

</TABLE>

December 31, 2000 figures do not include the results of the Hunt Partnership as the Company withdrew from the partnership in June 2000. The Company took a writedown of \$2,845 thousand dollars associated with the Hunt Partnership in 2000. December 31, 1999 figures include both figures for both the Hunt Partnership and VAALCO Exploration LLC.

4. ACCRUED LIABILITIES

<TABLE>

<CAPTION>

	December 31,	
	2000	1999
	-----	-----
<S>	<C>	<C>
Other.....	\$ 87	\$ 129

</TABLE>

5. STOCKHOLDERS' EQUITY

The following discussion of shares under option incorporates options granted by the predecessor VAALCO. These obligations were assumed by the Company pursuant to the merger.

In 1993, an officer and director of the Company was granted options to

purchase 75,000 shares of Common Stock of the Company, and was also granted 75,000 stock appreciation rights ("SARs"), all at an exercise price of \$10.25 per share. One-third of such options and SAR's vested at the end of each of the three years of the contract term, and are exercisable for five years from the date of vesting. As of December 31, 2000, the options and SAR's were completely vested, 25,000 of the options had expired, and none of the options and SAR's had been exercised. In 1996, additional options were granted to this officer and director for 1,000,000 shares of the Common Stock of the Company at exercise prices of \$0.375 per share for 400,000 shares, \$0.50 for 300,000 shares and \$1.00 for 300,000 shares. The options vest over a term of three years and may be exercised for five years from the vesting date. As of December 31, 2000, the options were completely vested. None of the options had been exercised as of December 31, 2000.

In 1996, a former officer of the Company was granted warrants to purchase shares of the Company's Common Stock. The warrants have a remaining term expiring August 31, 2003 and consist of the right to

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VAALCO ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

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purchase 250,000 shares of Common Stock at an exercise price of \$0.50 per share; 250,000 shares of Common Stock at an exercise price of \$2.50 per share; 250,000 shares of Common Stock at an exercise price of \$5.00 per share; and 250,000 shares of Common Stock at an exercise price of \$7.50 per share. None of the warrants had been exercised as of December 31, 2000.

In 1997, another officer of the Company was granted options to purchase 1,000,000 shares at \$0.625 per share, vesting 500,000 shares at August 1, 1997 and 500,000 shares at August 1, 1998. None of the options had been exercised as of December 31, 2000.

An investment banking firm was granted 345,325 warrants to purchase the Company's Common Stock on July 31, 1997 in connection with the private placement of Common Stock. The warrants have a term of five years from the date of issuance and consist of the right to purchase shares at \$1.00 per share. The same investment banking firm was granted 100,000 warrants to purchase the Company's Common Stock on April 1, 1998 in connection with the private placement of Common Stock. The warrants have a term of five years from the date of issuance and consist of the right to purchase shares at \$2.00 per share. None of the warrants had been exercised as of December 31, 2000.

On November 29, and December 15, 2000, options to purchase a total of 600,000 shares were granted at \$0.30 per share to two technical representatives of the Company. The options have a term of five years from the date of issuance. These options vest six months after issuance.

Information with respect to the Company's stock options are as follows:

<TABLE>

<CAPTION>

	Vested Options/ Warrants Exercisable	Shares Under Option	Weighted Average Exercise Price
<S>	<C>	<C>	<C>
Balance, December 31, 1998.....	3,520,325	3,520,325	\$1.82
Forfeited.....	25,000	25,000	10.25
Balance, December 31, 1999.....	3,495,325	3,495,325	\$1.76
Granted.....		600,000	0.30
Forfeited.....	25,000	25,000	10.25
Balance, December 31, 2000.....	3,470,325	4,070,325	\$1.49

</TABLE>

The following table summarizes information about stock options outstanding as of December 31, 2000:

<TABLE>

<CAPTION>

Range of Exercise Prices	Number Outstanding At 12/31/00	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable At 12/31/00	Weighted- Average Exercise Price
-----	-----	-----	-----	-----	-----

<S>	<C>	<C>	<C>	<C>	<C>
\$0.375 to 1.00.....	3,195,325	2.42 years	\$0.59	2,595,325	\$0.65
1.01 to 2.50.....	350,000	2.55 years	2.36	350,000	2.36
2.51 to 5.00.....	250,000	2.67 years	5.00	250,000	5.00
5.01 to 10.25.....	275,000	2.44 years	7.75	275,000	7.75
\$0.375 to 10.25.....	4,070,325	2.02 years	\$1.49	3,470,325	\$1.70

SFAS No. 123, "Accounting for Stock-Based Compensation" encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value as determined by

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VAALCO ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

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generally recognized option pricing models such as the Black-Scholes model or the binomial model. Because of the inexact and subjective nature of deriving non-freely traded employee stock option values using these methods, the Company has adopted the disclosure-only provisions of SFAS No. 123 and continues to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

The provision of SFAS No. 123 had no material effect for 2000.

The Company follows SFAS No. 128--"Earnings per Share," which establishes the requirements for presenting earnings per share ("EPS"). SFAS No. 128 requires the presentations of "basic" and "diluted" EPS on the face of the income statement.

The following schedule is presented as a reconciliation of the numerators and denominators of basic and diluted earnings per share computations.

<TABLE>
<CAPTION>

	For the Year Ended December 31, 2000		
	Per-Share Amount	Net Loss (Numerator)	Shares (Denominator)
<S>	<C>	<C>	<C>
Basic EPS			
Net loss attributable to common Shareholders.....	\$ (0.22)	\$ (4,553)	20,745
Effect of Diluted Securities			
Common stock options.....	--	--	--
	-----	-----	-----
Diluted EPS			
Net loss attributable to common shareholders.....	\$ (0.22)	\$ (4,553)	20,745
	=====	=====	=====

<CAPTION>

	For the Year Ended December 31, 1999		
	Per-Share Amount	Net Loss (Numerator)	Shares (Denominator)
<S>	<C>	<C>	<C>
Basic EPS			
Net loss attributable to common shareholders.....	\$ (0.32)	\$ (6,572)	20,745
Effect of Diluted Securities			
Common stock options.....	--	--	--
	-----	-----	-----
Diluted EPS			
Net loss attributable to common shareholders.....	\$ (0.32)	\$ (6,572)	20,745
	=====	=====	=====

</TABLE>

Options excluded from the above calculation, as they are anti-dilutive, are 4,070,325 and 3,495,325 for 2000 and 1999, respectively.

VAALCO ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

(in thousands of dollars, unless otherwise indicated)

6. INCOME TAXES

The Company and its domestic subsidiaries file a consolidated United States income tax return. Certain subsidiaries' operations are also subject to Philippine income taxes.

Provision (benefit) for income taxes consists of the following:

<TABLE>
<CAPTION>

	Year Ended December 31,	
	2000	1999
	-----	-----
<S>	<C>	<C>
U.S. federal:		
Current.....	\$ --	\$ --
Deferred.....	--	--
Philippine:		
Current.....	10	--
Deferred.....	(40)	163
	-----	-----
Total.....	\$ (30)	\$163
	=====	=====

</TABLE>

The primary differences between the financial statement and tax bases of assets and liabilities at December 31, 2000 and 1999 are as follows:

<TABLE>
<CAPTION>

	Year Ended December 31,	
	2000	1999
	-----	-----
<S>	<C>	<C>
Deferred Tax Liabilities:		
Unrealized foreign exchange gain.....	\$ 225	\$ 265
	-----	-----
Deferred Tax Assets:		
Reserves not currently deductible.....	1,044	1,044
Operating loss carryforwards.....	15,234	13,742
Alternative minimum tax credit carryover.....	635	635
Minimum corporate income tax.....	12	--
Other assets.....	227	284
	-----	-----
	17,152	15,705
Valuation allowance.....	16,517	15,070
	-----	-----
	635	635
	-----	-----
Net deferred tax asset.....	\$ 410	\$ 370
	=====	=====

</TABLE>

Pretax income (loss) is comprised of the following:

<TABLE>
<CAPTION>

	Year Ended December 31,	
	2000	1999
	-----	-----
<S>	<C>	<C>
United States.....	\$ (4,514)	\$ (5,545)
Foreign (Philippine/Gabon).....	(39)	(864)
	-----	-----
	\$ (4,553)	\$ (6,409)
	=====	=====

</TABLE>

VAALCO ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

(in thousands of dollars, unless otherwise indicated)

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

<TABLE>

<CAPTION>

Year
ended
December
31,

2000 1999

<C> <C>
(35)% (35)%
(1)% 3 %
(36)% (32)%

<S>

Statutory income tax rate.....

Effective income tax rate.....

</TABLE>

At December 31, 2000, the Company and its subsidiaries had no foreign tax credit ("FTC") carryforwards for United States tax purposes.

At December 31, 2000, the Company and its subsidiaries had net operating loss ("NOL") carryforwards of approximately \$42.7 million for United States income tax purposes. A full valuation allowance has been provided against this NOL. Due to previous ownership changes, Internal Revenue Code section 382 will limit future utilization of the net operating loss carryforwards.

At December 31, 2000, the Company was subject to federal taxes only, with no allocations made to state and local taxes.

7. RELATED-PARTY TRANSACTIONS

The 1818 Fund entered into a guaranty and covenant agreement with Hunt under which the 1818 Fund is contingently liable to Hunt in the amount of undrawn cash commitments of 1818 Oil of \$9,374 as of December 31, 1999. The guaranty and covenant was released when the Company withdrew from the partnership in June 2000.

Other long term assets included \$40,166 in notes due from employees at December 31, 2000.

8. COMMITMENTS AND CONTINGENCIES

At December 21, 2000 the Company owned a 17.85% interest in a block offshore Gabon, the Etame Block. In January 2000, the Company increased its interest in the Etame Block to 30.35%. The block contains the recent Etame discovery as well as previous discoveries that the Company is currently evaluating to determine their commercial viability. The Company and its partners undertook an obligation to the Government of Gabon to obtain and process seismic data and to drill one commitment well on the Etame Block over the three-year term of the license. In April 1998, a participation agreement was entered into with Western Atlas Afrique, Ltd. ("Western Atlas"), a subsidiary of Western Atlas International, Inc., to conduct a 320 square kilometer seismic survey at Western Atlas' sole cost and to pay a disproportionate 80% of the cost, up to \$4.7 million, of the first commitment well. In return for these payments, Western Atlas earned a 65% interest in the production-sharing contract. In June 1998, Western Atlas completed the above-mentioned acquisition of seismic data over the property. This data was processed, and the Company drilled the commitment well, the Etame No. 1 well, in June 1998 resulting in a 3,700 BOPD Gamba sandstone discovery on the block. Completion of the Etame No. 1 well satisfied all of the Company's obligations to the Government of Gabon under the primary three-year term of the contract.

VAALCO ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

(in thousands of dollars, unless otherwise indicated)

During 1998, the consortium of companies owning the Etame Block production sharing contract agreed to renew the production sharing contract for three additional years, thereby taking on a commitment to drill two additional exploration wells and to perform a 3-D seismic reprocessing. A delineation well, the Etame 2V well, was drilled in January 1999 and encountered additional oil pay in the Gamba sandstone, however the well encountered the Gamba sandstone lower than expected. The Company is currently reprocessing the 3-D seismic data prior to drilling additional delineation wells. The Company anticipates drilling at least one additional delineation well in 2000. The Etame 2V counted as the first of the two commitment wells under the three-year contract term extension.

9. SUBSEQUENT EVENT

In January 2001, the Company acquired a 65% interest in the Etame Block offshore Gabon, West Africa from Western Atlas Afrique, Ltd. a subsidiary of Baker Hughes. Consideration for the acquisition was \$1.0 million in cash and a future net profits interest in the event the existing discoveries on the block are developed. The Company resold 52.5% of the interest held by Western Atlas Afrique to two companies for \$1 million and their proportionate assumption of the future net profits interest. The Company now holds a 30.35% interest in the Etame Block and is operator of the 3,073 square kilometer concession.

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VAALCO ENERGY, INC. AND SUBSIDIARIES

SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES

(Unaudited)

(in thousands of dollars, unless otherwise indicated)

The following information is being provided as supplemental information in accordance with certain provisions of SFAS No. 69, "Disclosures about Oil and Gas Producing Activities". The Company's reserves are located offshore of the Republic of the Philippines. The following tables set forth costs incurred, capitalized costs, and results of operations relating to oil and natural gas producing activities for each of the periods. (See "Footnote 1--ORGANIZATION")

Costs Incurred in Oil and Gas Property Acquisition, Exploration and Development Activities

<TABLE>
<CAPTION>

	United States		International	
	2000	1999	2000	1999
<S>	<C>	<C>	<C>	<C>
Costs incurred during the year:				
Exploration(1).....	\$1,278	\$601	\$ 19	\$1,234
Acquisition--unproved.....	13	--	--	--
Total.....	\$1,291	\$601	\$ 19	\$1,234
Company's share of equity method investee's costs incurred(1).....	\$ 18	\$945	\$1,430	\$1,829

</TABLE>

- - - - -

(1) Includes costs which are capitalized or expensed.

In 2000, of the \$905 of United States exploration costs incurred, \$707 was expensed for dry hole costs. In 2000, international exploration costs included \$14 in capitalized costs for Etame as well as \$5 in expensed geophysical costs. In 1999, of the \$601 of U.S. exploration costs incurred, \$220 was expensed for dry hole costs. International exploration costs included capitalized costs in 1999 of \$1,234 for Etame, and \$217 was expensed for geophysical costs. The Company's share of investee's costs was for the Paramount joint venture in the U.S. and Hunt internationally.

Capitalized Costs Relating to Oil and Gas Producing Activities:

<TABLE>
<CAPTION>

	Year Ended December 31,	
	2000	1999
<S>	<C>	<C>
Capitalized costs--		

Unproved properties not being amortized.....	\$2,823	\$3,034
Properties being amortized.....	1,154	1,331
	-----	-----
Total capitalized costs.....	3,977	4,365
Less accumulated depreciation, depletion, and amortization.....	(816)	(816)
	-----	-----
Net capitalized costs.....	\$3,161	\$3,549
	=====	=====
Company's share of equity method investee's net capitalized costs.....	\$4,427	\$4,850
	=====	=====

</TABLE>

The capitalized costs pertain to the Company's producing activities in the Philippines, the Etame discovery and U.S. activities. As a result of the merger with 1818 Oil Corp., \$39.5 million carried by VAALCO in previously fully depleted costs carried in capitalized costs were closed out against the associated accumulated depreciation, depletion and amortization.

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VAALCO ENERGY, INC. AND SUBSIDIARIES

SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES--(Continued)

(Unaudited)

(in thousands of dollars, unless otherwise indicated)

Results of Operations for Oil and Gas Producing Activities:

<TABLE>

<CAPTION>

	United States		International	
	2000	1999	2000	1999
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Crude oil and gas sales.....	\$ 81	\$ 29	\$ 1,198	\$ 795
Production expense.....	(54)	(75)	(428)	(478)
Exploration expense.....	(905)	(1,271)	(5)	--
Depreciation, depletion and amortization.....	--	--	--	--
	-----	-----	-----	-----
Loss before taxes.....	(878)	(1,317)	765	317
Income tax benefit.....		--	30	(163)
	-----	-----	-----	-----
Results from oil and gas producing activities.....	\$ (878)	\$ (1,317)	\$ 795	\$ 154
	=====	=====	=====	=====
Company's share of equity method investee's results of operations.....	\$ (310)	\$ --	\$ (2,845)	\$ (2,185)
	=====	=====	=====	=====

</TABLE>

Proved Reserves

The following tables set forth the net proved reserves of VAALCO Energy, Inc. as of December 31, 2000 and 1999, and the changes therein during the periods then ended.

<TABLE>

<CAPTION>

	Oil (MBbls)

<S>	<C>
PROVED RESERVES:	
BALANCE AT DECEMBER 31, 1998.....	691
Production.....	(91)
Revisions.....	61

BALANCE AT DECEMBER 31, 1999.....	661
Production.....	(92)
Revisions.....	117

BALANCE AT DECEMBER 31, 2000.....	686
	===

<CAPTION>

	Oil (MBbls)

<S>	<C>
PROVED DEVELOPED RESERVES	
Balance at December 31, 1999.....	661

Balance at December 31, 2000..... 686
</TABLE>

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

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VAALCO ENERGY, INC. AND SUBSIDIARIES

SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES--(Continued)

(Unaudited)

(in thousands of dollars, unless otherwise indicated)

Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil Reserves

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

The future cash flows are based on sales prices and costs in existence at the dates of the projections, excluding the interests of the Philippine government and the other consortium members. Future production costs do not include overhead charges allowed under joint operating agreements or headquarters general and administrative overhead expenses. Future development costs include amounts accrued attributable to future abandonment when the wells become uneconomic to produce. The standardized measure of discounted cash flows for 2000 do not include the costs of abandoning the Company's non-producing properties.

<TABLE>
<CAPTION>

	Philippines	
	December 31,	
	2000	1999
<S>	<C>	<C>
Future cash inflows.....	\$7,914	\$7,825
Future production costs.....	(3,327)	(3,086)
Future development costs.....	(1,377)	(1,605)
Future income tax expense.....	--	--
Future net cash flows.....	3,210	3,134
Discount to present value at 10% annual rate.....	508	311
Standardized measure of discounted future net cash flows....	\$2,702	\$2,823

</TABLE>

Future development costs at December 31, 2000 includes \$1,377 for future abandonment costs which have been accrued by the Company. Due to the availability of net operating loss carryforwards, there is no future income tax expense attributable to the Company's reserves.

Changes in Standardized Measure of Discounted Future Net Cash Flows:

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

<TABLE>
<CAPTION>

	December 31,	
	2000	1999
<S>	<C>	<C>
BALANCE AT BEGINNING OF PERIOD.....	\$2,823	\$ 226
Sales of oil and gas, net of production costs.....	(796)	(271)
Net changes in prices and production costs.....	99	2,350
Revisions of previous quantity estimates.....	294	495
Purchase (Sale) of reserves in place, net of taxes.....	--	--
Changes in estimated future development costs.....	--	--
Development costs incurred during the period.....	--	--
Accretion of discount.....	282	23
Net change in income taxes.....	--	--
Change in production rates (timing) and other.....	--	--

BALANCE AT END OF PERIOD.....	\$2,702	\$2,823
	=====	=====

</TABLE>

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VAALCO ENERGY, INC. AND SUBSIDIARIES

SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES--(Continued)

(Unaudited)

(in thousands of dollars, unless otherwise indicated)

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

In accordance with the guidelines of the U.S. Securities and Exchange Commission, the Company's estimates of future net cash flow from the Company's properties and the present value thereof are made using oil and natural gas contract prices in effect as of year end and are held constant throughout the life of the properties except where such guidelines permit alternate treatment, including the use of fixed and determinable contractual price escalations. The contract price as of December 31, 2000 was \$11.69 per Bbl for Matinloc oil and \$11.09 per barrel for Nido oil in the Philippines.

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

Pursuant to the service contracts, the Philippine government receives an allocation of the production from the contract area instead of a royalty. Under the service contracts, the Philippine government does not take actual delivery of its allocated production. Instead, the Company has been authorized to sell the Philippine government's share of production and remit the proceeds to the Philippine government. Under this production sharing scheme, the consortium is permitted a Filipino Participation Incentive Allowance ("FPIA") and a deduction to recover certain costs expended on the development of the contract area of up to 60% of gross revenues from the contract area. The FPIA, a deduction equivalent to 7.5% of project gross revenue, is allowed when Filipino ownership participation in the consortium equals or exceeds 15%, which is the case for Service Contract No. 14. The consortium also receives a production allowance of approximately 50% of the balance of the oil after deducting FPIA and cost recovery oil. The remaining oil is shared 40% by the consortium and 60% by the Philippine government. Under this scheme, the consortium currently receives approximately 90.3% of the oil produced and the Philippine government receives approximately 9.7%. Because the cost recovery account contains over \$200 million, the Company anticipates receiving the maximum 60% of cost oil during the life of the Nido and Matinloc reserves.

Item 8. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

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Item 9. Directors, Executive Officers, Promoters and Control Persons;
Compliance with Section 16(a) of the Exchange Act

Information required by this item will be included in the Company's proxy statement for its 2000 annual meeting, which will be filed with the Commission within 120 days of December 31, 2000, and which is incorporated herein by reference.

Item 10. Executive Compensation

Information required by this item will be included in the Company's proxy statement for its 2000 annual meeting, which will be filed with the Commission within 120 days of December 31, 2000, and which is incorporated herein by reference.

Item 11. Security Ownership of Certain Beneficial Owners and Management

Information required by this item will be included in the Company's proxy statement for its 2000 annual meeting, which will be filed with the Commission within 120 days of December 31, 2000, and which is incorporated herein by reference.

Item 12. Certain Relationships and Related Transactions

Information required by this item will be included in the Company's proxy statement for its 2000 annual meeting, which will be filed with the Commission within 120 days of December 31, 2000, and which is incorporated herein by reference.

Item 13. Exhibits and Reports on Form 8-K

<TABLE>

<C> <S>

2. Plan of acquisition, reorganization , arrangement, liquidation or succession

2.1(a) Stock Acquisition Agreement and Plan of Reorganization dated February 17, 1998 by and among the Company and the 1818 Fund II, L.P.

2.2(c) First Amendment to Stock Acquisition Agreement and Plan of Reorganization, dated April 21, 1998

2.3 Stock Purchase Agreement between Western Atlas International, Inc., as Seller, and VAALCO Gabon (Etame), Inc. as Purchaser, dated January 4, 2001.

2.4 Stock Purchase Agreement between VAALCO Energy, Inc., as Seller and PanAfrican Energy Corporation Ltd., as Purchaser, dated January 15, 2001.

2.5 Share Sale and Purchase Agreement By and Between VAALCO Gabon (Etame), Inc., and Sasol Petroleum International (Pty) Ltd. dated February 5, 2001.

3. Articles of Incorporation and Bylaws

3.1(b) Restated Certificate of Incorporation

3.2(b) Certificate of Amendment to Restated Certificate of Incorporation

3.3(b) Bylaws

3.4(b) Amendment to Bylaws

3.5(c) Designation of Convertible Preferred Stock, Series A

10. Material Contracts

10.1(d) Service Contract No. 6, dated September 1, 1973, among the Petroleum Board of the Republic of the Philippines and Mosbacher Philippines Corporation, et al, as amended.

</TABLE>

<TABLE>

<C> <S>

10.2(d) Operating Agreement, dated January 1, 1975, among Mosbacher Philippines Corporation, Husky (Philippines) Oil, Inc. and Amoco Philippines Petroleum Company.

10.3(d) Service Contract No. 14, dated December 17, 1975, among the Petroleum Board of the Republic of the Philippines and Philippines--Cities

Service, Inc., et al, as amended.

- 10.4(d) Operating Agreement, dated July 17, 1975, among Philippines-Cities Service, Inc., Husky (Philippines) Oil, Inc., Oriental Petroleum and Minerals Corporation, Philippines-Overseas Drilling & Oil Development Corporation, Basic Petroleum and Minerals, Inc., Landoil Resources Corporation, Westrans Petroleum, Inc. and Philippine National Oil Company, as amended.
- 10.5(d) Memorandum of Understanding, dated April 2, 1979, among the Bureau of Energy Development of the Republic of the Philippines and Philippines--Cities Service, Inc., et al.
- 10.6(d) Indemnity Agreement entered into among the Company and certain of its officers and directors listed therein.
- 10.7(e) Exploration and Production Sharing contract between the Republic of Gabon and VAALCO Gabon (Equata), Inc. dated July 7, 1995.
- 10.8(e) Exploration and Production Sharing contract between the Republic of Gabon and VAALCO Gabon (Etame), Inc. dated July 7, 1995.
- 10.9(e) Deed of Assignment and Assumption between VAALCO Gabon (Etame), Inc., VAALCO Energy (Gabon), Inc. and Petrofields Exploration & Development Co., Inc. dated September 28, 1995.
- 10.10(e) Deed of Assignment and Assumption between VAALCO Gabon (Equata), Inc., VAALCO Production (Gabon), Inc. and Petrofields Exploration & Development Co., Inc. dated September 8, 1995.
- 10.11(f) Letter of Intent for Etame Block, Offshore Gabon dated January 22, 1998 between the Company and Western Atlas International, Inc.
- 10.12(f) Farm In Agreement for Service Contract No. 14 Offshore Palawan Island, Philippines dated September 24, 1996 between the Company and SOCDT Production PTY, Ltd.
- 10.13(f) Letter Agreement between the Company and Northstar Interests LLC. dated December 5, 1996.
- 10.14(g) Registration Rights Agreement, dated July 28, 1997, by and among the Company, Jefferies & Company, Inc. and the investors listed therein.
- 10.15(h) Warrant Agreement to Purchase Shares of Common Stock of VAALCO Energy, Inc., dated July 31, 1997, between VAALCO Energy, Inc. and Jefferies & Company, Inc.
- 10.16(c) Registration Rights Agreement among the Company and The 1818 Fund II, L.P., dated April 21, 1998
- 10.17(c) Registration Rights Agreement dated April 21, 1998 by and among the Company, Jefferies & Company, Inc. and the investors listed therein.
- 10.18(i) Assignment Agreement between the Company, members of the Service Contract 14 Consortium and SOCDT dated December 29, 1998
- 10.19 Conveyance of Production Payment from Western Atlas Afrique, Ltd. to Western Atlas International, Inc. dated December 29, 2000.

21.1 Subsidiaries of the Registrant

</TABLE>

- -----

- (a) Filed as an exhibit to the Company's report on Form 8-K filed with the Commission on March 4, 1998 (file no. 000-20928) and hereby incorporated by reference herein.
- (b) Filed as an exhibit to the Company's Registration Statement on Form S-3 filed with the Commission on July 15, 1998 and hereby incorporated by reference herein.
- (c) Filed as an exhibit to the Company's Report on Form 8-K filed with the Commission on May 6, 1998 and hereby incorporated by reference herein.
- (d) Filed as an exhibit to the Company's Form 10 (File No. 0-20928) filed on December 3, 1992, as amended by Amendment No. 1 on Form 8 on January 7, 1993, and by Amendment No. 2 on Form 8 on January 25, 1993, and hereby incorporated by reference herein.

- (e) Filed as an exhibit to the Company's Form 10-QSB for the quarterly period ended September 30, 1995, and hereby incorporated by reference herein.
- (f) Filed as an exhibit to the Company's Form 10-KSB for the annual period ended December 31, 1996, and hereby incorporated by reference herein.
- (g) Filed as an exhibit to the Company's Form 10-QSB for the quarterly period ended June 30, 1997, and hereby incorporated by reference herein.

(h) Filed as an exhibit to the Company's Form 10-KSB for the annual period ended December 31, 1997, and hereby incorporated by reference herein.

(i) Filed as an exhibit to the Company's Form 10-KSB for the annual period ended December 31, 1998, and hereby incorporated by reference herein.

(b) Reports on Form 8-K.

None

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VAALCO ENERGY, INC.
(Registrant)

/s/ W. Russell Scheirman
By _____
W. Russell Scheirman,
President, Chief Financial Officer
and Director

Dated March 30, 2001

In accordance with the Exchange Act, this report has been signed below on the 30th day of March, by the following persons on behalf of the registrant and in the capacities indicated.

<TABLE>
<CAPTION>

Signature -----	Title -----
<S> /s/ Robert L. Gerry, III _____ Robert L. Gerry, III	<C> Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)
/s/ Virgin A. Walston, Jr. _____ Virgil A. Walston, Jr.	Vice Chairman of the Board, Chief Operating Officer and Director
/s/ W. Russell Scheirman _____ W. Russell Scheirman	President, Chief Financial Officer and Director (Principal Financial Officer and Principal Accounting Officer)
/s/ _____ Walter W. Grist	Director
/s/ _____ T. Michael Long	Director
/s/ _____ Arne R. Nielsen	Director
/s/ _____ Lawrence C. Tucker	Director

</TABLE>

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STOCK PURCHASE AGREEMENT

BETWEEN

WESTERN ATLAS INTERNATIONAL, INC.

AS SELLER,

AND

VAALCO GABON (ETAME), INC.

AS PURCHASER,

Dated as of January 4, 2001.

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STOCK PURCHASE AGREEMENT

This Stock Purchase Agreement (this "Agreement"), is dated as of January ____, 2001, by and between Western Atlas International, Inc., a company organized under the laws of Delaware ("Seller"), and VAALCO Gabon (Eteme), Inc., a company organized under the laws of Delaware ("Purchaser"). Seller and Purchaser are sometimes referred to collectively as the "Parties" and individually as a "Party."

RECITALS:

Seller desires to sell and Purchaser desires to purchase all of the issued and outstanding shares (the "Shares") of Western Atlas Afrique, Ltd., a company organized under the laws of Bermuda (the "Company").

NOW, THEREFORE, in consideration of the premises and of the mutual promises, representations, warranties, covenants, conditions and agreements contained herein, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

ARTICLE 1. PURCHASE AND SALE

SECTION 1.1 PURCHASE AND SALE. On the terms and conditions contained in this Agreement, Seller agrees to sell to Purchaser and Purchaser agrees to purchase, accept and pay for the Shares.

SECTION 1.2 CERTAIN DEFINITIONS. As used herein:

(a) "Assets" means all of the Company's right, title, and interest in and to the following:

(i) The Exploration and Production Sharing Contract described in Exhibit A (the "Hydrocarbon Interest"),

(ii) All units that include all or a part of the area subject to the Hydrocarbon Interest (the "Contract Area");

(iii) All presently existing contracts, agreements and instruments to which the Company's interest in the Hydrocarbon Interest is subject, including operating agreements, unitization, pooling and communitization agreements, joint venture agreements, farmin and farmout agreements, exchange agreements, transportation agreements, processing agreements, agreements for the sale and purchase of oil, gas and/or other liquid or gaseous hydrocarbons or any combination thereof ("Hydrocarbons"), all of which are hereinafter collectively referred to as "Contracts", provided that "Contracts" shall not include the Hydrocarbon Interest;

(iv) All easements, permits, licenses, servitudes, rights-of-way, surface leases and other rights appurtenant to, and used or held for use solely in connection with, the Hydrocarbon Interest;

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(v) Equipment, machinery, fixtures and other tangible personal property and improvements located on the Contract Area or used or held for use solely in connection with the operation of the Hydrocarbon Interest (the "Equipment");

(vi) All books, records, data, files, maps and accounting records related solely to the Hydrocarbon Interests, or used or held for use solely in connection with the maintenance or operation thereof, but excluding (i) any books, records, data, files, maps and accounting records licensed from a third Person which are not transferable or cannot be disclosed under the terms of the license in the event of a sale of the Company or for which the license will terminate or a transfer fee or similar payment will be incurred upon a sale of the Company, (ii) any computer software that is proprietary to any Affiliate of the Company, (iii) attorney-client communications with, and work product of, legal counsel for the Company or any Affiliate of the Company other than Contracts and correspondence of such legal counsel with third Persons, including Governmental Authorities, who are not employed by or acting for such Affiliates or counsel for such Affiliates; and (iv) records relating to the sale of the Shares, including bids received from and records of

negotiations with third Persons (the "Excluded Records") (subject to such exclusions, the "Records").

(b) "Affiliate" means, with respect to any Person, a Person that directly or indirectly controls, is controlled by or is under common control with such Person, with control in such context meaning the ability to direct the management or policies of a Person through ownership of voting shares or other securities, pursuant to a written agreement, or otherwise.

(c) "Business Day" means any day other than a Saturday, a Sunday, or a day on which banks are closed for business in Houston, Texas, United States of America.

(d) "Governmental Authority" means any government, including without limitation the governments of the United States of America, Bermuda and Gabon, and/or any political subdivision thereof or therein, including departments, courts, commissions, boards, bureaus, ministries, agencies or other instrumentalities.

(e) "Laws" means all laws, statutes, rules, regulations, ordinances, orders, decrees, requirements, judgments and codes of Governmental Authorities.

(f) "Person" means any individual, corporation, partnership, limited liability company, trust, estate, Governmental Authority or any other entity.

(g) "Tax" means all federal, state, local and foreign taxes, including income tax, surtax, remittance tax, presumptive tax, net worth tax, special contribution, production tax, pipeline transportation tax, value added tax, withholding tax, gross receipts tax, windfall profits tax, profits tax, severance tax, personal property tax, real property tax, sales tax, service tax, transfer tax, use tax, excise tax, premium tax, customs duties, stamp tax, motor vehicle tax, entertainment tax, insurance tax, capital stock tax, franchise tax, occupation tax, payroll tax, employment tax, social security, unemployment tax, disability tax, alternative or add-on minimum tax, estimated tax, and any other assessments, duties, fees, levies or other charges

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imposed by a Governmental Authority together with any interest, fine or penalty thereon, or addition thereto.

ARTICLE 2. CONSIDERATION

The Parties have entered into this Agreement in consideration of the mutual promises contained herein, and other good and valuable consideration.

ARTICLE 3. REPRESENTATIONS AND WARRANTIES OF SELLER

SECTION 3.1 DISCLAIMERS.

(a) Except as and to the extent expressly set forth in this Article 3 or in the certificate of Seller to be delivered pursuant to Section 7.2(c), (i) Seller makes no representations or warranties, express or implied, and (ii) Seller expressly disclaims all liability and responsibility for any representation, warranty, statement or information made or communicated (orally or in writing) to Purchaser or any of its Affiliates, employees, agents, consultants or representatives (including, without limitation, any opinion, information, projection or advice that may have been provided to Purchaser by any officer, director, employee, agent, consultant, representative or advisor of Seller or any of its Affiliates).

(b) EXCEPT AS EXPRESSLY REPRESENTED OTHERWISE IN THIS ARTICLE 3 OR IN THE CERTIFICATE OF SELLER TO BE DELIVERED AT CLOSING PURSUANT TO SECTION 7.2(c), WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, SELLER EXPRESSLY DISCLAIMS ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO (I) TITLE TO ANY OF THE ASSETS, (II) THE CONTENTS, CHARACTER OR NATURE OF ANY DESCRIPTIVE MEMORANDUM, OR ANY REPORT OF ANY PETROLEUM ENGINEERING CONSULTANT, OR ANY GEOLOGICAL OR SEISMIC DATA OR INTERPRETATION, RELATING TO THE ASSETS, (III) THE QUANTITY, QUALITY OR RECOVERABILITY OF PETROLEUM SUBSTANCES IN OR FROM THE ASSETS, (IV) ANY ESTIMATES OF THE VALUE OF THE ASSETS OR FUTURE REVENUES GENERATED BY THE ASSETS, (V) THE PRODUCTION OF PETROLEUM SUBSTANCES FROM THE ASSETS, OR WHETHER PRODUCTION HAS BEEN CONTINUOUS, OR IN PAYING QUANTITIES, (VI) THE MAINTENANCE, REPAIR, CONDITION, QUALITY, SUITABILITY, DESIGN OR MARKETABILITY OF THE ASSETS, OR (VII) ANY OTHER MATERIALS OR INFORMATION THAT MAY HAVE BEEN MADE AVAILABLE OR COMMUNICATED TO PURCHASER OR ITS AFFILIATES, OR ITS OR THEIR EMPLOYEES, AGENTS, CONSULTANTS, REPRESENTATIVES OR ADVISORS IN CONNECTION WITH THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY DISCUSSION OR PRESENTATION RELATING THERETO, AND FURTHER DISCLAIMS ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE OR CONFORMITY TO MODELS OR SAMPLES OF MATERIALS OF ANY EQUIPMENT, IT BEING EXPRESSLY UNDERSTOOD AND AGREED BY THE PARTIES HERETO THAT PURCHASER HAS MADE OR CAUSED TO BE MADE SUCH INSPECTIONS AS PURCHASER DEEMS

(c) Any representation "to the knowledge of Seller" or "to Seller's knowledge" is limited to matters within the actual conscious awareness of Seller's current officers and directors.

(d) Inclusion of a matter on a schedule attached hereto with respect to a representation or warranty that addresses matters having a Material Adverse Effect shall not be deemed an indication that such matter does, or may, have a Material Adverse Effect. Matters may be disclosed on a schedule for purposes of information only. As used herein, "Material Adverse Effect" means a material adverse effect on the ownership, operation or value of the Company or the Assets, taken as a whole; provided, however, that "Material Adverse Effect" shall not include material adverse effects resulting from general changes in Hydrocarbon prices; general changes in industry, economic or political conditions; civil unrest, insurrection or similar disorders; or changes in Laws.

(e) Subject to the foregoing provisions of this Section 3.1, and the other terms and conditions of this Agreement, Seller represents and warrants to Purchaser the matters set out in Sections 3.2 through 3.12.

SECTION 3.2 SELLER.

(a) Existence and Qualification. Seller is a company duly organized and validly existing under the laws of Delaware and is duly qualified to do business as a foreign company in each jurisdiction in which it is required to qualify in order to conduct its business, except where the failure to so qualify would not, individually or in the aggregate, have a Material Adverse Effect.

(b) Power. Seller has the corporate power to enter into and perform this Agreement (and all documents required to be executed and delivered by Seller at Closing) and to consummate the transactions contemplated by this Agreement (and such documents).

(c) Authorization and Enforceability. The execution, delivery and performance of this Agreement (and all documents required to be executed and delivered by Seller at Closing), and the consummation of the transactions contemplated hereby and thereby, have been duly and validly authorized by all necessary corporate action on the part of Seller. This Agreement has been duly executed and delivered by Seller (and all documents required to be executed and delivered by Seller at Closing shall be duly executed and delivered by Seller) and this Agreement constitutes, and at the Closing such documents shall constitute, the valid and binding obligations of Seller, enforceable in accordance with their terms except as such enforceability may be limited by applicable bankruptcy or other similar Laws affecting the rights and remedies of creditors generally as well as to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(d) No Conflicts. The execution, delivery and performance of this Agreement by Seller, and the consummation of the transactions contemplated by this Agreement shall not (i) violate any provision of the certificate of incorporation or bylaws of Seller, (ii) result in default (with due notice or lapse of time or both) or the creation of any lien or encumbrance or give rise to any right of termination, cancellation or acceleration under any material note, bond, mortgage,

indenture, license or agreement to which Seller is a party or by which it is bound, (iii) violate any judgment, order, ruling, or decree applicable to Seller as a party in interest or (iv) violate any Laws applicable to Seller, or any of the Assets, except any matters described in clauses (ii), (iii), or (iv) above which would not have a Material Adverse Effect.

SECTION 3.3 THE COMPANY.

(a) Title to Shares. Seller has good and valid title to the Shares, free and clear of any liens, claims, encumbrances, security interests, options, charges and restrictions of any kind. Assuming Purchaser has the requisite power and authority to be the lawful owner of the Shares, upon delivery to Purchaser at the Closing of certificates representing the Shares, duly endorsed by Seller for transfer to Purchaser, and upon Seller's receipt of any agreed consideration for the transactions contemplated by this Agreement, good and valid title to the Shares shall pass to Purchaser, free and clear of any liens, claims, encumbrances, security interests, options, charges and restrictions of any kind, other than those arising from acts of Purchaser or its Affiliates. Other than this Agreement, the Shares are not subject to any voting agreement or other contract, agreement, arrangement, commitment or understanding, including any such agreement, arrangement, commitment or understanding restricting or otherwise relating to the voting, dividend rights or disposition of the Shares.

(b) Existence and Qualification. The Company is a company duly organized and validly existing under the Laws of Bermuda and is duly qualified to do business as a foreign company in each jurisdiction where it does business, except where the failure to so qualify would not, individually or in the aggregate, have a Material Adverse Effect.

(c) Power. The Company has the corporate power and authority to own, lease or otherwise hold the Assets and conduct its business in the manner presently conducted.

(d) No Conflicts. The consummation of transactions contemplated by this Agreement shall not (i) violate any provision of the certificate of incorporation or bylaws of the Company, (ii) result in default (with due notice or lapse of time or both) or the creation of any lien or encumbrance or give rise to any right of termination, cancellation or acceleration under any material note, bond, mortgage, indenture, license or agreement to which the Company is a party or by which it is bound, (iii) violate any judgment, order, ruling, or decree applicable to the Company as a party in interest, or (iv) violate any Laws applicable to the Company, or any of the Assets.

(e) Charter and Bylaws. Seller has delivered to Purchaser true and complete copies of the charter and by-laws (or equivalent governing instruments), each as amended to the Closing Date, of the Company. The stock certificates and transfer books, and the minute books of the Company (which have been made available for inspection by Purchaser prior to the date hereof) are true, complete and current.

(f) The Shares. The entire authorized capital stock of the Company is the Shares, consisting of 12,000 shares of common stock, par value \$1.00, and all the Shares are duly authorized and validly issued and outstanding, fully paid, non-assessable and not issued in violation of any preemptive rights. Except for the Shares, there are no outstanding shares of

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capital stock or other equity securities of the Company, or any contractual arrangements giving any person a right to receive any benefits or rights similar to the rights enjoyed by or accruing to the holders of any capital stock of the Company. Other than this Agreement, there are no outstanding warrants, options, rights, convertible or exchangeable securities or other commitments pursuant to which Seller or the Company is or may become obligated to issue or sell any shares of capital stock or other equity securities of the Company.

(g) Balance Sheet. The consolidated, unaudited balance sheet (the "Balance Sheet") of the Company as of the Effective Time attached hereto as Schedule 3.3(g) has been prepared from the books and records of the Company in conformity with United States generally accepted accounting principles as published by the Financial Accounting Standards Board (the "Accounting Principles") and fairly presents the financial position of the Company as of the date thereof.

(h) Subsidiaries. Except as disclosed on Schedule 3.3(h), the Company does not directly or indirectly own any capital stock or other equity interest in any Person.

(i) Employees. The Company has no employees and no employee benefit plans. The Company's directors and officers are not directly compensated by the Company.

(j) Company History. The Company was formed by Seller's predecessor in interest in 1997, and since the date of its formation the sole activity of the Company has been to own the Assets, participate under the Hydrocarbon Interest and undertake activities related thereto. The Company does not own any material property (real, personal or mixed) other than the Assets and any bank account balances. The Company is not engaged in and is not otherwise a party to any joint venture, partnership or enterprise other than as directly regards and concerns the Assets.

SECTION 3.4 HYDROCARBON INTEREST.

The Hydrocarbon Interest is in full force and effect, and neither the Company nor, to the knowledge of Seller, any other Person is in default thereunder except as disclosed on Schedule 3.4 and except such defaults as would not, individually or in the aggregate, have a Material Adverse Effect. The Company owns a 65.000% undivided interest in the "Contractor's" rights to the Hydrocarbon Interest free and clear of any liens, mortgages, security interests, charges, pledges or other encumbrances or ownership rights of third Persons of any kind or character except (a) rights of Governmental Authorities in the Republic of Gabon and their assignees under the terms of the Hydrocarbon Interest or the Contracts or applicable Law, (b) preferential rights, similar rights and rights to consent, if any, held by third Persons under the operating agreement or other agreements applicable to the Hydrocarbon Interest as described on Schedule 3.11 and (c) those encumbrances or ownership rights

described on Exhibit A.

SECTION 3.5 LITIGATION.

Except as disclosed on Schedule 3.5, there are no actions, suits or proceedings pending, or to Seller's knowledge threatened in writing, before any Governmental Authority or arbitrator with respect to the Company or the Assets.

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SECTION 3.6 TAXES AND ASSESSMENTS.

Except as disclosed on Schedule 3.6, the Company has filed all Tax returns required to be filed by the Company. Except as disclosed on Schedule 3.6, the Company has withheld and paid all Taxes that were required to be withheld or due and payable by the Company. Except as disclosed on Schedule 3.6, the Company has not received written notice of any threatened or pending claim against the Company from any applicable taxing authority for assessment of Taxes. The Company is not the beneficiary of any extension of time to file any Tax return. The Company has not expressly waived any statute of limitations in respect of Taxes or agreed to an extension of time with respect to a Tax assessment or deficiency. The Company has not received any written notice of a claim made by a tax authority in a jurisdiction where the Company has not filed Tax returns that the Company is or may be subject to taxation in that jurisdiction. The Company has no obligation to pay the Taxes of any other Person as a transferee or successor, by contract or otherwise.

SECTION 3.7 OUTSTANDING CAPITAL COMMITMENTS.

Except as provided in the current approved work program and budget under the joint operating agreement for the Contract Area, or as otherwise disclosed on Schedule 3.7, there are no outstanding AFEs or other commitments to make capital expenditures which are binding on the Company and which Seller reasonably anticipates will individually require expenditures after the Effective Time in excess of fifty thousand U.S. dollars (U.S.\$50,000).

SECTION 3.8 COMPLIANCE WITH LAWS.

To Seller's knowledge, the Company has complied with all applicable Laws, except as disclosed on Schedule 3.6 and except such failures to comply as would not, individually or in the aggregate, have a Material Adverse Effect. Neither the Company, nor the officers or directors of the Company, in any unlawful manner, have offered, paid, promised to pay, or authorized the payment of any money, or offered, given, promised to give, or authorized the paying of anything of value to foreign governmental officials, political parties, political officials or candidates for political office, or to any person while knowing that all or a portion of such money or thing of value would be offered, given or promised, directly or indirectly, to any foreign officials, for the purpose of influencing such foreign officials acting in their official capacity, inducing such foreign officials to do or omit to do any acts in violation of the lawful duty of such foreign officials or securing any improper advantage, in order to assist the Company in obtaining or retaining business for or with, or directing business to, any Person. The Company has complied with all applicable import/export laws and regulations, including obtaining, to the extent required, applicable export license and permits and refraining from participating in illegal boycotts, except such failures to comply as would not, individually or in the aggregate, have a Material Adverse Effect.

SECTION 3.9 CONTRACTS.

Neither the Company, nor to the knowledge of Seller, any other Person is in default under any Contract except as disclosed on Schedule 3.9 and except such defaults as would not, individually or in the aggregate, have a Material Adverse Effect. Except as disclosed on Schedule 3.9, there

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are no Contracts with Affiliates of Seller that will be binding on the Company or the Assets after Closing.

SECTION 3.10 ADVANCE SALE OF PRODUCTION.

The Company is not obligated by virtue of a take or pay payment, advance payment or other similar payment (other than royalties, overriding royalties and similar arrangements established in the Hydrocarbon Interest or reflected on Exhibit A), to deliver Hydrocarbons, or proceeds from the sale thereof, attributable to the Company's interest in the Hydrocarbon Interest at some future time without receiving payment therefor at or after the time of delivery.

SECTION 3.11 CONSENTS AND PREFERENTIAL PURCHASE RIGHTS.

The Hydrocarbon Interest is not subject to any preferential rights to purchase or similar rights or required third Person consents to assignment, which may be applicable to the transactions contemplated by this Agreement, except as set

forth on Schedule 3.11.

SECTION 3.12 LIABILITY FOR BROKERS' FEES.

Purchaser shall not directly or indirectly have any responsibility, liability or expense, as a result of undertakings or agreements of Seller or the Company, for brokerage fees, finder's fees, agent's commissions or other similar forms of compensation to an intermediary in connection with the negotiation, execution or delivery of this Agreement or any agreement or transaction contemplated hereby.

ARTICLE 4. REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser represents and warrants to Seller the following:

SECTION 4.1 EXISTENCE AND QUALIFICATION. Purchaser is a corporation organized, validly existing and in good standing under the laws of Delaware; and Purchaser is duly qualified to do business as a foreign corporation in every jurisdiction in which it is required to qualify in order to conduct its business except where the failure to so qualify would not have a material adverse effect on Purchaser or its properties.

SECTION 4.2 POWER. Purchaser has the corporate power to enter into and perform this Agreement (and all documents required to be executed and delivered by Purchaser at Closing) and to consummate the transactions contemplated by this Agreement (and such documents).

SECTION 4.3 AUTHORIZATION AND ENFORCEABILITY. The execution, delivery and performance of this Agreement (and all documents required to be executed and delivered by Purchaser at Closing), and the consummation of the transactions contemplated hereby and thereby, have been duly and validly authorized by all necessary corporate action on the part of Purchaser. This Agreement has been duly executed and delivered by Purchaser (and all documents required to be executed and delivered by Purchaser at Closing will be duly executed and delivered by Purchaser) and this Agreement constitutes, and at the Closing such documents will constitute, the valid and binding obligations of Purchaser, enforceable in accordance with

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their terms except as such enforceability may be limited by applicable bankruptcy or other similar laws affecting the rights and remedies of creditors generally as well as to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

SECTION 4.4 NO CONFLICTS. The execution, delivery and performance of this Agreement by Purchaser, and the consummation of the transactions contemplated by this Agreement, will not (i) violate any provision of the certificate of incorporation or bylaws of Purchaser, (ii) result in a material default (with due notice or lapse of time or both) or the creation of any lien or encumbrance or give rise to any right of termination, cancellation or acceleration under any material note, bond, mortgage, indenture, license or agreement to which Purchaser is a party or by which it is bound, (iii) violate any judgment, order, ruling, or regulation applicable to Purchaser as a party in interest or (iv) violate any Law applicable to Purchaser or any of its assets, except any matters described in clauses (ii), (iii) or (iv) above which would not have a material adverse effect on Purchaser or its properties.

SECTION 4.5 CONSENTS, APPROVALS OR WAIVERS. The execution, delivery and performance of this Agreement by Purchaser will not be subject to any consent, approval or waiver from any Governmental Authority or other third Person except, as set forth on Schedule 4.5.

SECTION 4.6 LITIGATION. There are no actions, suits or proceedings pending, or to Purchaser's knowledge, threatened in writing before any Governmental Authority or arbitrator or arbitrator against Purchaser or any subsidiary of Purchaser which are reasonably likely to impair materially Purchaser's ability to perform its obligations under this Agreement.

SECTION 4.7 FINANCING. Purchaser has sufficient cash, available lines of credit or other sources of immediately available funds (in United States dollars) to enable it to pay to Seller at the Closing the amount of any agreed cash consideration for the transactions contemplated by this Agreement.

SECTION 4.8 LIABILITY FOR BROKERS' FEES. Seller shall not directly or indirectly have any responsibility, liability or expense, as a result of undertakings or agreements of Purchaser, for brokerage fees, finder's fees, agent's commissions or other similar forms of compensation to an intermediary in connection with the negotiation, execution or delivery of this Agreement or any agreement or transaction contemplated hereby.

ARTICLE 5. COVENANTS OF THE PARTIES

SECTION 5.1 ACCESS. Seller will give Purchaser and its representatives access to the Assets and access to and the right to copy, at

Purchaser's expense, the Records in Seller's and its Affiliates' possession, for the purpose of conducting an investigation of the Assets, but only to the extent that Seller may do so without violating any obligations to any third Person and to the extent that Seller has authority to grant such access without breaching any restriction binding on Seller. Such access by Purchaser shall be limited to Seller's normal business hours, and Purchaser's investigation shall be conducted in a manner that minimizes interference with the operation of the Assets. Unless and until the Closing occurs, Purchaser shall keep all

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information obtained by Purchaser and its representatives from Seller and its representatives with respect to the Company or the Assets, except information that was already in Purchaser's possession (and not subject to any confidentiality restrictions in favor of Seller), confidential and not disclose the same except that Purchaser may disclose such information:

(a) to its Affiliates;

(b) to employees, officers and directors of Purchaser and its Affiliates;

(c) to professional consultants, agents or advisors retained by Purchaser for purposes of evaluating such information;

(d) to Governmental Authorities and third Persons holding preferential rights to purchase or similar rights or rights of consent that may be applicable to the transactions contemplated by this Agreement, as reasonably necessary to obtain waivers of such rights, or such consents;

(e) to the extent disclosure is required by applicable Law or the applicable rules of any stock exchange having jurisdiction over Purchaser or its Affiliates; and

(f) which is acquired independently from a third Person who is not under any obligation of confidentiality to Seller or its Affiliates.

Purchaser shall require any Person to whom information is disclosed under Section 5.1(c) to agree in writing to keep such information confidential for the benefit of Seller. Purchaser shall be responsible for insuring that all Persons to whom it discloses such information under Sections 5.1(a), (b) or (c) keep such information confidential and shall be liable for any breach of that confidentiality obligation by any such discloser.

SECTION 5.2 NOTIFICATION OF BREACHES. Until the Closing,

(a) Purchaser shall notify Seller promptly after Purchaser obtains actual knowledge that any representation or warranty of Seller contained in this Agreement is untrue in any material respect or will be untrue in any material respect as of the Closing Date or that any covenant or agreement to be performed or observed by Seller prior to or on the Closing Date has not been so performed or observed in any material respect.

(b) Seller shall notify Purchaser promptly after Seller obtains actual knowledge that any representation or warranty of Purchaser contained in this Agreement is untrue in any material respect or will be untrue in any material respect as of the Closing Date or that any covenant or agreement to be performed or observed by Purchaser prior to or on the Closing Date has not been so performed or observed in any material respect.

If any of Purchaser's or Seller's representations or warranties is untrue or shall become untrue in any material respect between the date of execution of this Agreement and the Closing Date, or if any of Purchaser's or Seller's covenants or agreements to be performed or observed prior to or on the Closing Date shall not have been so performed or observed in any material respect, but if such breach of representation, warranty, covenant or agreement shall (if curable) be cured by the

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Closing (or, if the Closing does not occur, by the date set forth in Section 9.1), then such breach shall be considered not to have occurred for all purposes of this Agreement.

SECTION 5.3 PUBLIC ANNOUNCEMENTS. Until the Closing, neither Party shall make any press release or other public announcement regarding the existence of this Agreement, the contents hereof or the transactions contemplated hereby without the prior written consent of the other Party; provided, however, the foregoing shall not restrict disclosures by Purchaser or Seller (i) that are required by applicable securities or other Laws or the applicable rules of any stock exchange having jurisdiction over the disclosing Party or its Affiliates or (ii) to Governmental Authorities and third Persons holding preferential rights to purchase or rights of consent that may be applicable to the transactions contemplated by this Agreement, as reasonably necessary to obtain waivers of such rights, or such consents.

SECTION 5.4 OPERATION OF BUSINESS. Except as provided in the current approved work program and budget under the joint operating agreement for the Contract Area, or as otherwise set forth on Schedule 3.7 or Schedule 5.4, until the Closing, Seller will cause the Company to (i) operate its business in the ordinary course, (ii) not, without the prior written consent of Purchaser, which consent shall not be unreasonably conditioned or withheld, commit to any operation reasonably anticipated to require future capital expenditures by the Company in excess of U.S.\$100,000, or terminate, materially amend, execute or extend any material Contracts affecting the Assets, (iii) maintain insurance coverage on the Assets in the amounts and of the types presently in force, (iv) use commercially reasonable efforts to maintain in full force and effect the Hydrocarbon Interest, (v) maintain all material governmental permits and approvals affecting the Assets, and (vi) not transfer, sell, hypothecate, encumber or otherwise dispose of any Assets except for (A) transfers of Assets pursuant to valid third Person exercises of preferential purchase rights or similar rights and (B) sales and dispositions of Equipment made in the ordinary course of business consistent with past practices. Purchaser's approval of any action restricted by this Section 5.4 shall not be unreasonably withheld and shall be considered granted within ten (10) days (unless a shorter time is reasonably required by the circumstances and such shorter time is specified in Seller's notice) of Seller's notice to Purchaser requesting such consent unless Purchaser notifies Seller to the contrary during that period. In the event of an emergency, Seller may take such action as a prudent operator would take and shall notify Purchaser of such action promptly thereafter.

SECTION 5.5 CONDUCT OF THE COMPANY. The Seller shall not permit the Company to do any of the following without the prior written consent of the Purchaser: (i) amend its charter, by-laws or equivalent governing instruments; (ii) issue, redeem or otherwise acquire any shares of its capital stock or issue any option, warrant or right relating to its capital stock or any securities convertible into or exchangeable for any shares of capital stock or declare or pay any dividend (whether in cash, stock, property, or any combination thereof), or declare or pay any stock-split; (iii) incur or assume any liabilities, obligations or indebtedness for borrowed money or guarantee any such liabilities, obligations or indebtedness, other than accounts payable incurred in the ordinary course of business; (iv) lend to any Person (except as set forth in Section 5.5 (ix)) or make an equity investment in any other Person; (v) make any change in any method of accounting or accounting practice or policy other than those required by the Accounting Principles; (vi) acquire by merging or consolidating with, or by purchasing a substantial portion of the assets of, or by any other manner, any business or any corporation, partnership, association

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or other business organization or division thereof; (vii) enter into any lease of real property, except any renewals of existing leases in the ordinary course of business; (viii) enter into any settlement of any issue with respect to any assessment or audit or other administrative or judicial proceeding with respect to Taxes; (ix) make any loan (other than (A) accounts receivable in the ordinary course of business, (B) advances or cash call payments to the operator as required under applicable operating agreements, or (C) advances on behalf of co-owners for costs under applicable operating agreements) to any Person; (x) terminate or voluntarily relinquish any permit, license or other authorization from any Governmental Authority necessary for the conduct of the Company's business or operations or which relates in any way to any Asset or (xi) agree to do any of the foregoing. Purchaser's approval of any action restricted by this Section 5.5 shall not be unreasonably withheld and shall be considered granted within 10 days (unless a shorter time is reasonably required by the circumstances and such shorter time is specified in Seller's notice) of Seller's notice to Purchaser requesting such consent unless Purchaser notifies Seller to the contrary during that period.

SECTION 5.6 INDEMNITY REGARDING ACCESS. Purchaser agrees to indemnify, defend and hold harmless Seller, its Affiliates, and all such Persons' directors, officers, employees, agents and representatives from and against any and all claims, liabilities, losses, costs and expenses (including court costs and reasonable attorneys' fees), including claims (including without limitation contribution or indemnity claims by other owners of the Hydrocarbon Interest), liabilities, losses, costs and expenses attributable to personal injury, death, or property damage, arising out of or relating to access to the Assets prior to the Closing by Purchaser, its Affiliates, or its or their directors, officers, employees, agents or representatives under Section 5.1 hereof (to which Purchaser was not otherwise entitled as a co-owner of the Hydrocarbon Interest), EVEN IF CAUSED IN WHOLE OR IN PART BY THE NEGLIGENCE (WHETHER SOLE, JOINT OR CONCURRENT), STRICT LIABILITY OR OTHER LEGAL FAULT OF ANY INDEMNIFIED PERSON.

SECTION 5.7 CONSENTS AND PREFERENTIAL RIGHTS.

(a) Promptly after the date hereof, Seller shall prepare and send (i) notices to the holders of any required consents to assignment that are set forth on Schedule 3.11 requesting consents to the transactions contemplated by this Agreement and (ii) notices to the holders of any applicable preferential rights to purchase or similar rights that are set forth on Schedule 3.11 in

compliance with the terms of such rights and requesting waivers of such rights. Any preferential purchase right must be exercised subject to all terms and conditions set forth in this Agreement. Seller shall use commercially reasonable efforts to cause such consents to assignment and waivers of preferential rights to purchase or similar rights (or the exercise thereof) to be obtained and delivered prior to Closing, provided that Seller shall not be required to make payments or undertake obligations to or for the benefit of the holders of such rights in order to obtain the required consents and waivers. Purchaser shall cooperate with Seller in seeking to obtain such consents to assignment and waivers of preferential rights and similar rights.

(b) Should any preferential right to purchase any portion of the Assets be exercised prior to Closing, or should any Person holding a right of first opportunity deliver a binding offer on terms more favorable to Seller than the terms of this Agreement, this Agreement shall terminate in accordance with Article 9.

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SECTION 5.8 GOVERNMENTAL REVIEWS. Seller and Purchaser shall each in a timely manner make (a) all required filings, if any, and prepare applications to and conduct negotiations, with each Governmental Authority as to which such filings, applications or negotiations are necessary or appropriate in the consummation of the transactions contemplated hereby and (b) provide such information as the other may reasonably request in order to make such filings, prepare such applications and conduct such negotiations. Each Party shall cooperate with and use all reasonable efforts to assist the other with respect to such filings, applications and negotiations.

SECTION 5.9 FURTHER ASSURANCES. After Closing, Seller and Purchaser each agrees to take such further actions and to execute, acknowledge and deliver all such further documents as are reasonably requested by the other Party for carrying out the purposes of this Agreement or of any document delivered pursuant to this Agreement.

ARTICLE 6. CONDITIONS TO CLOSING

SECTION 6.1 CONDITIONS OF SELLER TO CLOSING. The obligations of Seller to consummate the transactions contemplated by this Agreement are subject, at the option of Seller, to the satisfaction on or prior to Closing of each of the following conditions:

(a) Representations. The representations and warranties of Purchaser set forth in Article 4 shall be true and correct in all material respects as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing Date (other than representations and warranties that refer to a specific date, which need only be true and correct on and as of such specified date);

(b) Performance. Purchaser shall have performed and observed, in all material respects, all covenants and agreements to be performed or observed by it under this Agreement prior to or on the Closing Date;

(c) No Action. On the Closing Date, no suit, action, or other proceeding (excluding any such matter initiated by Seller or any of its Affiliates) shall be pending or threatened before any Governmental Authority or body of competent jurisdiction seeking to enjoin or restrain the consummation of the transactions contemplated by this Agreement or recover substantial damages from Seller or any Affiliate of Seller resulting therefrom; and

(d) Consents and Waivers. All necessary consents and approvals required from Governmental Authorities and all material consents and approvals required from other third Persons for the consummation of the transactions contemplated by this Agreement shall have been granted, and all preferential purchase rights, rights of first opportunity and similar rights with respect to such transactions shall have been waived, expired without exercise, or, in the case of rights of first opportunity, resulted in an offer which was properly rejected by Seller or the Company, as applicable.

SECTION 6.2 CONDITIONS OF PURCHASER TO CLOSING. The obligations of Purchaser to consummate the transactions contemplated by this Agreement are subject, at the option of Purchaser, to the satisfaction on or prior to Closing of each of the following conditions:

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(a) Representations. The representations and warranties of Seller set forth in Article 3 shall be true and correct as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing Date (other than representations and warranties that refer to a specified date, which need only be true and correct on and as of such specified date), except for such breaches, if any, as would not have a Material Adverse Effect;

(b) Performance. Seller shall have performed and observed, in all material respects, all covenants and agreements to be performed or observed by

it under this Agreement prior to or on the Closing Date;

(c) No Action. On the Closing Date, no suit, action, or other proceeding (excluding any such matter initiated by Purchaser or any of its Affiliates) shall be pending or threatened before any Governmental Authority or body of competent jurisdiction seeking to enjoin or restrain the consummation of the transactions contemplated by this Agreement or recover substantial damages from Purchaser or any Affiliate of Purchaser resulting therefrom;

(d) Consents and Waivers. All necessary consents and approvals required from Governmental Authorities and all material consents and approvals required from other third Persons for the consummation of the transactions contemplated by this Agreement shall have been granted, and all preferential purchase rights, rights of first opportunity and similar rights with respect to such transactions shall have been waived, expired without exercise, or, in the case of rights of first opportunity, resulted in an offer which was properly rejected by Seller or the Company, as applicable; and

(e) Material Adverse Change. There shall have been no material adverse changes since the Effective Time in the business, operations, assets or condition of the Company, taken as a whole, except as may have resulted from general changes in Hydrocarbon prices; general changes in industry, economic or political conditions; civil unrest, insurrection or similar disorders; or changes in Laws.

ARTICLE 7. CLOSING

SECTION 7.1 TIME AND PLACE OF CLOSING. The consummation of the purchase and sale of the Shares contemplated by this Agreement (the "Closing") shall, unless otherwise agreed to in writing by Purchaser and Seller, take place at the offices of Baker Botts L.L.P. located at 910 Louisiana Street, Houston, Texas, at 10:00 a.m., local time, on January __, 2001 or if all conditions in Article 6 to be satisfied prior to Closing have not yet been satisfied or waived, as soon thereafter as such conditions have been satisfied or waived, subject to the provisions of Article 9. The date on which the Closing occurs is referred to herein as the "Closing Date."

SECTION 7.2 OBLIGATIONS OF SELLER AT CLOSING. At the Closing, upon the terms and subject to the conditions of this Agreement, and subject to the simultaneous performance by Purchaser of its obligations pursuant to Section 7.3, Seller shall deliver or cause to be delivered to Purchaser, among other things, the following:

(a) A duly executed share transfer form for transfer of the Shares to Purchaser;

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(b) Resignations of the directors and officers of the Company;

(c) A certificate duly executed by an authorized corporate officer of Seller, dated as of the Closing, certifying on behalf of Seller that the conditions set forth in Sections 6.2(a) and 6.2(b) have been fulfilled; and

(d) A certificate duly executed by the secretary or any assistant secretary of Seller, dated as of the Closing, (i) attaching and certifying on behalf of Seller complete and correct copies of (A) the certificate of incorporation and the bylaws of Seller, each as in effect as of the Closing, (B) the resolutions of the Board of Directors of Seller authorizing the execution, delivery, and performance by Seller of this Agreement and the consummation of the transactions contemplated hereby, and (C) any required approval by the stockholders of Seller of this Agreement and the transactions contemplated hereby and (ii) certifying on behalf of Seller the incumbency of each officer of Seller executing this Agreement or any document delivered in connection with the Closing.

SECTION 7.3 OBLIGATIONS OF PURCHASER AT CLOSING. At the Closing, upon the terms and subject to the conditions of this Agreement, and subject to the simultaneous performance by Seller of its obligations pursuant to Section 7.2, Purchaser shall deliver or cause to be delivered to Seller, among other things, the following:

(a) A wire transfer of any agreed cash consideration in same-day funds;

(b) A certificate by an authorized corporate officer of Purchaser, dated as of the Closing, certifying on behalf of Purchaser that the conditions set forth in Sections 6.1(a) and 6.1(b) have been fulfilled; and

(c) A certificate duly executed by the secretary or any assistant secretary of Purchaser, dated as of the Closing, (i) attaching and certifying on behalf of Purchaser complete and correct copies of (A) the certificate of incorporation and the bylaws of Purchaser, each as in effect as of the Closing, (B) the resolutions of the Board of Directors of Purchaser authorizing the execution, delivery, and performance by Purchaser of this Agreement and the

consummation of the transactions contemplated hereby, and (C) any required approval by the stockholders of Purchaser of this Agreement and the transactions contemplated hereby and (ii) certifying on behalf of Purchaser the incumbency of each officer of Purchaser executing this Agreement or any document delivered in connection with the Closing.

SECTION 7.4 CASUALTY OR CONDEMNATION LOSS. If, after the date of this Agreement but prior to Closing Date, any portion of the Assets is destroyed by fire or other casualty or is expropriated or taken in condemnation or under right of eminent domain, Purchaser shall nevertheless be required to close and Seller shall elect by written notice to Purchaser prior to Closing either (i) to cause the Assets affected by any casualty to be repaired or restored, at Seller's sole cost, as promptly as reasonably practicable (which work may extend after the Closing Date), or (ii) to indemnify Purchaser through a document reasonably acceptable to Seller and Purchaser against any costs or expenses that Purchaser reasonably incurs to repair the Assets subject to any casualty. In each case, Seller shall retain all rights to insurance and other claims against third parties with respect to the casualty or taking except to the extent the

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Parties otherwise agree in writing. Notwithstanding the preceding, if the loss caused by such casualty or taking exceeds U.S. \$500,000, either Party may, by notice to the other at least one (1) Business Day prior to Closing, elect to terminate this Agreement under Section 9.1.

ARTICLE 8. TAX MATTERS

SECTION 8.1 LIABILITY FOR TAXES.

(a) Seller shall be liable for, and shall indemnify and hold harmless Purchaser and the Company from and against, any Taxes imposed on or incurred by the Company and attributable to any taxable period ending prior to 12:01 a.m. local time on October 1, 2000 (the "Effective Time"), and the portion, determined as described in Section 8.1(c), of any such Taxes for any taxable period beginning prior to the Effective Time and ending after the Effective Time which is allocable to the portion of such period occurring prior to the Effective Time (the "Pre-Effective Time Period").

(b) Purchaser shall be liable for, and shall indemnify and hold harmless Seller and its Affiliates from and against, any Taxes imposed on or incurred by the Company and attributable to any taxable period beginning on or after the Effective Time, and the portion, determined as described in Section 8.1(c), of any such Taxes for any taxable period beginning prior to the Effective Time and ending after the Effective Time which is allocable to the portion of such period occurring on or after the Effective Time (the "Post-Effective Time Period").

(c) Whenever it is necessary for purposes of this Agreement to determine the portion of any Taxes of or with respect to the Company for a taxable period beginning prior to and ending after the Effective Time which is allocable to the Pre-Effective Time Period or the Post-Effective Time Period, the determination shall be made (i) in the case of property, ad valorem or similar Taxes (which are not based on or measured by production), by allocating all such Taxes on a per diem basis, (ii) in the case of franchise, capital or similar Taxes (which are not based on or measured by income or profit), by allocating all such Taxes on a per diem basis, and (iii) in the case of other Taxes, by assuming that each of the Pre-Effective Time Period and the Post-Effective Time Period constitutes a separate taxable period and by taking into account the actual taxable events occurring during each such period.

(d) Any claim for indemnification under this Section 8.1 shall, except to the extent otherwise provided in this Article 8, be resolved in accordance with the procedures described in Section 10.2.

SECTION 8.2 PREPARATION AND FILING OF TAX RETURNS.

(a) With respect to each Tax return for, by or with respect to the Company, Purchaser shall cause such Tax return to be prepared, shall cause to be included in such Tax return all items of income, gain, loss, deduction and credit or other items (collectively, "Tax Items") required to be included therein, and shall cause the Company to file timely such Tax return with the appropriate taxing authority and shall (subject to any right of indemnification under Section 8.1) pay timely the amount of Taxes shown to be due on such Tax return, provided that any Tax returns required to be filed before Closing but not yet filed shall be filed as promptly as practicable, but in any event within sixty (60) days after Closing. No Tax return for

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any taxable period which includes any period occurring prior to the Effective Time shall be filed without the prior written consent of Seller, such consent not to be unreasonably withheld. Purchaser shall submit to Seller a draft copy of any such Tax return for Seller's review at least thirty (30) days before the

date on which Purchaser plans to file such return and shall furnish a final copy of any such Tax return within thirty (30) days after filing.

(b) Notwithstanding Section 8.2(a), Seller or its Affiliates will file any United States Internal Revenue Service Form 5471 for the Company which they are required to file by applicable Law.

SECTION 8.3 ALLOCATION ARRANGEMENTS. Effective as of the Closing Date, any tax indemnity, sharing, allocation or similar agreement or arrangement that may be in effect prior to the Closing Date between or among the Seller and the Company, shall be extinguished in full, and any liabilities or rights existing under any such agreement or arrangement shall cease to exist and shall no longer be enforceable.

SECTION 8.4 ACCESS TO INFORMATION.

(a) Seller and Seller's Affiliates shall grant to Purchaser (or its designees) access at all reasonable times to all of the information, books and records relating to the Company within the possession of Seller or Seller's Affiliates (including without limitation work papers and correspondence with taxing authorities), and shall afford Purchaser (or its designees) the right (at Purchaser's expense) to take extracts therefrom and to make copies thereof, to the extent reasonably necessary to permit Purchaser (or its designees) to prepare Tax returns, to conduct negotiations with Tax authorities, and to implement the provisions of, or to investigate or defend any claims between the Parties arising under, this Agreement.

(b) Purchaser shall grant to Seller (or its designees) access at all reasonable times to all of the information, books and records relating to the Company within the possession of Purchaser or the Company (including without limitation work papers and correspondence with taxing authorities), and shall afford Seller (or its designees) the right (at Seller's expense) to take extracts therefrom and to make copies thereof, to the extent reasonably necessary to permit Seller (or its designees) to prepare Tax returns, to conduct negotiations with Tax authorities, and to implement the provisions of, or to investigate or defend any claims between the Parties arising under, this Agreement.

(c) Each of the Parties hereto will preserve and retain all schedules, work papers and other documents relating to any Tax returns of or with respect to the Company or to any claims, audits or other proceedings affecting the Company until the expiration of the statute of limitations (including extensions) applicable to the taxable period to which such documents relate or until the final determination of any controversy with respect to such taxable period, and until the final determination of any payments that may be required with respect to such taxable period under this Agreement.

SECTION 8.5 TAX PROCEEDINGS. In the event Purchaser, the Company, or any of their Affiliates receives notice of any examination, claim, adjustment or other proceeding with respect to the liability of the Company for Taxes for any taxable period for which Seller is or

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may be liable under Section 8.1, Purchaser shall, within ten (10) days, notify Seller in writing thereof and Seller shall be entitled, at its expense, to control or settle the contest of such examination, claim, adjustment or other proceeding. Seller and Purchaser shall cooperate with each other, and with their respective Affiliates, and will consult with each other in the settlement of any proceeding described in this Section 8.5 that could affect the other. Purchaser will provide, or cause to be provided, to Seller and its Affiliates necessary authorizations, including powers of attorney, to control any such proceeding.

SECTION 8.6 REFUNDS. Purchaser agrees to pay to Seller any refund (whether by payment, credit, offset or otherwise, and together with any interest thereon) received after the Closing by Purchaser or its Affiliates, including the Company, in respect of any Taxes for which Seller is liable under Section 8.1. Purchaser shall cooperate with Seller and its Affiliates in order to take all necessary steps to claim any such refund. Any such refund received by Purchaser or its Affiliates or the Company shall be paid to Seller within thirty (30) days after such refund is received.

SECTION 8.7 CONFLICT. In the event of a conflict between the provisions of this Article 8 and any other provision of this Agreement, this Article 8 shall control.

ARTICLE 9. TERMINATION

SECTION 9.1 TERMINATION. This Agreement may be terminated at any time prior to Closing: (i) by the mutual prior written consent of Seller and Purchaser; or (ii) by either Seller or Purchaser, if Closing has not occurred on or before March 1, 2001, provided, however, that no Party shall be entitled to terminate this Agreement under this Section 9.1(ii) if the Closing has failed to occur because such Party negligently or willfully failed to perform or observe in any material respect its covenants and agreements hereunder. This Agreement

shall also terminate in the circumstances described in Section 5.7(b).

SECTION 9.2 EFFECT OF TERMINATION. If this Agreement is terminated pursuant to Section 9.1, this Agreement shall become void and of no further force or effect (except for the provisions of Sections 3.12, 4.8, 5.3, 5.6, 11.4, 11.8, 11.9, 11.16 and 11.17 and the confidentiality obligation in Section 5.1, all of which shall continue in full force and effect). Notwithstanding anything to the contrary in this Agreement, the termination of this Agreement under Section 9.1(ii) shall not relieve any Party from liability (including liability for consequential damages) for any willful or negligent failure to perform or observe in any material respect any of its agreements or covenants contained herein that are to be performed or observed at or prior to Closing. In the event this Agreement terminates under Section 9.1(ii) and any Party has willfully or negligently failed to perform or observe in any material respect any of its agreements or covenants contained herein which are to be performed at or prior to Closing, then the other Party shall be entitled to all remedies available at law or in equity and shall be entitled to recover court costs and attorneys' fees in addition to any other relief to which such Party may be entitled.

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ARTICLE 10. INDEMNIFICATION; LIMITATIONS

SECTION 10.1 INDEMNIFICATION.

(a) From and after Closing, Purchaser shall indemnify, defend and hold harmless Seller from and against all Damages incurred or suffered by Seller

(i) caused by or arising out of or resulting from the ownership, use or operation of the Assets, whether before or after the Effective Time or the Closing Date,

(ii) caused by or arising out of or resulting from Purchaser's breach of any of Purchaser's covenants or agreements contained in Article 5, or

(iii) caused by or arising out of or resulting from any breach of any representation or warranty made by Purchaser contained in Article 4 of this Agreement or in the certificate delivered by Purchaser at Closing pursuant to Section 7.3(b),

EVEN IF SUCH DAMAGES ARE CAUSED IN WHOLE OR IN PART BY THE NEGLIGENCE (WHETHER SOLE, JOINT OR CONCURRENT), STRICT LIABILITY OR OTHER LEGAL FAULT OF ANY INDEMNIFIED PERSON, but excepting Damages to the extent caused by the gross negligence or willful misconduct of such Indemnified Person and further excepting in each case Damages against which Seller would be required to indemnify Purchaser under Section 10.1(b) at the time the claim notice is presented by Purchaser.

(b) From and after Closing, Seller shall indemnify, defend and hold harmless Purchaser against and from all Damages incurred or suffered by Purchaser

(i) attributable to or arising out of the Company's obligations and liabilities with respect to the actions, suits or proceedings, if any, set forth on Schedule 3.5;

(ii) caused by or arising out of or resulting from Seller's breach of any of Seller's covenants or agreements contained in Article 5, or

(iii) caused by or arising out of or resulting from any breach of any representation or warranty made by Seller contained in Article 3 of this Agreement, or in the certificate delivered by Seller at Closing pursuant to Section 7.2(c),

EVEN IF SUCH DAMAGES ARE CAUSED IN WHOLE OR IN PART BY THE NEGLIGENCE (WHETHER SOLE, JOINT OR CONCURRENT), STRICT LIABILITY OR OTHER LEGAL FAULT OF ANY INDEMNIFIED PERSON, but excepting Damages to the extent caused by the gross negligence or willful misconduct of such Indemnified Person.

(c) Notwithstanding anything to the contrary contained in this Agreement, this Section 10.1 contains the Parties' exclusive remedy against each other with respect to breaches of the representations, warranties, covenants and agreements of the Parties contained in Articles 3, 4 and 5 (excluding Section 5.6, which shall be separately enforceable by Seller pursuant to whatever rights and remedies are available to it outside of this Article 10) and the affirmations of such representations, warranties, covenants and agreements contained in the certificate delivered by each Party at Closing pursuant to Sections 7.2(c) or 7.3(b), as applicable. From and after Closing, except for the remedies contained in this Section 10.1, and any other remedies available to the Parties at law or in equity for breaches of provisions of this Agreement other than Articles 3, 4 and 5 (excluding Section 5.6), Seller and Purchaser each releases, remises and forever

discharges the other and its Affiliates and all such Persons' stockholders, officers, directors, employees, agents, advisors and representatives from any and all suits, legal or administrative proceedings, claims, demands, damages, losses, costs, liabilities, interest, or causes of action whatsoever, in law or in equity, known or unknown, which such Parties might now or subsequently may have, based on, relating to or arising out of this Agreement or the Company's ownership, use or operation of the Assets, including without limitation any rights under insurance policies issued or underwritten by the other Party or any of its Affiliates and any rights under agreements between the Company and the Seller or any other Affiliate of the Company, EVEN IF CAUSED IN WHOLE OR IN PART BY THE NEGLIGENCE (WHETHER SOLE, JOINT OR CONCURRENT), STRICT LIABILITY OR OTHER LEGAL FAULT OF ANY RELEASED PERSON, but excepting suits, legal or administrative proceedings, claims, demands, damages, losses, costs, liabilities, interest or causes of action caused by the gross negligence or willful misconduct of such released Person and further excepting any existing contractual rights under service contracts entered into in the ordinary course of business between the Company and Affiliates of the Company relating to the provision of geological, geophysical, engineering or well services.

(d) "Damages", for purposes of this Article 10, shall mean the amount of any actual liability, loss, cost, expense, claim, award or judgment incurred or suffered by any Indemnified Person arising out of or resulting from the indemnified matter, whether attributable to personal injury or death, property damage, contract claims, torts or otherwise including reasonable fees and expenses of attorneys, consultants, accountants or other agents and experts reasonably incident to matters indemnified against, and the costs of investigation and/or monitoring of such matters, and the costs of enforcement of the indemnity; provided, however, that Purchaser and Seller shall not be entitled to indemnification under this Section 10.1 for, and "Damages" shall not include, (i) loss of profits or other consequential damages suffered by the Party claiming indemnification, or any punitive damages, or (ii) any liability, loss, cost, expense, claim, award or judgment to the extent resulting from or increased by the actions or omissions of any Indemnified Person after the Closing Date.

(e) The indemnity to which each Party is entitled under this Section 10.1 shall be for the benefit of and extend to such Party's present and former Affiliates, and its and their respective directors, officers, employees, and agents. Any claim for indemnity under this Section 10.1 by any such Affiliate, director, officer, employee or agent must be brought and administered by the applicable Party to this Agreement. No Indemnified Person other than Seller and Purchaser shall have any rights against either Seller or Purchaser under the terms of this Section 10.1 except as may be exercised on its behalf by Purchaser or Seller, as applicable, pursuant to this Section 10.1(e). Each of Seller and Purchaser may elect to exercise or not exercise indemnification rights under this Section on behalf of the other Indemnified Persons affiliated with it in its sole discretion and shall have no liability to any such other Indemnified Person for any action or inaction under this Section.

(f) Purchaser and Seller agree that any remediation activities undertaken with respect to any claimed Damages relating to a breach of Seller's representation and warranty pursuant to Section 3.8 or any Claim related to environmental matters covered by such representation and warranty, whether conducted by Purchaser or Seller, shall be reasonable in extent and cost effective and shall not be designed or implemented in such a manner as to exceed what is required to cause a condition to be brought into compliance with applicable Laws.

SECTION 10.2 INDEMNIFICATION ACTIONS.

(a) All claims for indemnification under Section 10.1 shall be asserted and resolved as follows: For purposes of this Article 10, the term "Indemnifying Person" when used in connection with particular Damages shall mean the Person having an obligation to indemnify another Person or Persons with respect to such Damages pursuant to this Article 10, and the term "Indemnified Person" when used in connection with particular Damages shall mean a Person having the right to be indemnified with respect to such Damages pursuant to this Article 10.

(b) To make claim for indemnification under Section 10.1, subject to Section 10.1(e), an Indemnified Person shall notify the Indemnifying Person of its claim, including the specific details of and specific basis under this Agreement for its claim (the "Claim Notice"). In the event that the claim for indemnification is based upon a claim by a third Person against the Indemnified Person (a "Claim"), the Indemnified Person shall provide its Claim Notice promptly after the Indemnified Person has actual knowledge of the Claim and shall enclose a copy of all papers (if any) served with respect to the Claim; provided that the failure of any Indemnified Person to give notice of a Claim as provided in this Section 10.2 shall not relieve the Indemnifying Person of its obligations under Section 10.1 except to the extent such failure results in insufficient time being available to permit the Indemnifying Person to

effectively defend against the Claim or otherwise prejudices the Indemnifying Person's ability to defend against the Claim. In the event that the claim for indemnification is based upon an inaccuracy or breach of a representation, warranty, covenant or agreement, the Claim Notice shall specify the representation, warranty, covenant or agreement that was inaccurate or breached.

(c) In the case of a claim for indemnification based upon a Claim, the Indemnifying Person shall have thirty (30) days from its receipt of the Claim Notice to notify the Indemnified Person whether it admits or denies its liability to defend the Indemnified Person against such Claim under this Article 10. If the Indemnifying Person does not notify the Indemnified Person within such thirty (30) day period regarding whether the Indemnifying Person admits or denies its liability to defend the Indemnified Person, the Damages for which the Indemnified Person is seeking indemnity shall be conclusively deemed a liability of the Indemnifying Person hereunder. The Indemnified Person is authorized, prior to and during such thirty (30) day period, to file any motion, answer or other pleading that it shall deem necessary or appropriate to protect its interests or those of the Indemnifying Person and that is not prejudicial to the Indemnifying Person.

(d) If the Indemnifying Person admits its liability to indemnify the Indemnified Person, it shall have the right and obligation to diligently defend, at its sole cost and expense, the Claim. The Indemnifying Person shall have full control of such defense and proceedings, including any compromise or settlement thereof. If requested by the Indemnifying Person, the Indemnified Person agrees to cooperate in contesting any Claim which the Indemnifying Person elects to contest (provided, however, that the Indemnified Person shall not be required to bring any counterclaim or cross-complaint against any Person). The Indemnified Person may participate in, but not control, any defense or settlement of any Claim controlled by the Indemnifying Person pursuant to this Section 10.2(d). An Indemnifying Person shall not, without the written consent of the Indemnified Person, settle any Claim or consent to the entry of any judgment with respect thereto that (i) does not result in a final resolution of the Indemnified

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Person's liability with respect to the Claim (including, in the case of a settlement, an unconditional written release of the Indemnified Person from all liability in respect of such Claim) or (ii) may materially and adversely affect the Indemnified Person (other than as a result of money damages covered by the indemnity).

(e) If the Indemnifying Person does not admit its liability to indemnify the Indemnified Person or admits its liability but fails to diligently defend or settle the Claim, then the Indemnified Person shall have the right to defend against the Claim (at the sole cost and expense of the Indemnifying Person, if the Indemnified Person is entitled to indemnification hereunder), with counsel of the Indemnified Person's choosing, subject to the right of the Indemnifying Person to admit its liability to indemnify the Indemnified Person and assume the defense of the Claim at any time prior to settlement or final determination thereof. If the Indemnifying Person has not yet admitted its liability to indemnify the Indemnified Person, the Indemnified Person shall send written notice to the Indemnifying Person of any proposed settlement and the Indemnifying Person shall have the option for ten (10) days following receipt of such notice to (i) admit in writing its liability for indemnification with respect to such Claim and (ii) if liability is so admitted, assume the defense of the Claim, including the power to reject the proposed settlement. If the Indemnified Person settles any Claim over the objection of the Indemnifying Person after the Indemnifying Person has timely admitted its liability for indemnification in writing and assumed the defense of the Claim, the Indemnified Person shall be deemed to have waived any right to indemnity therefor.

(f) In the case of a claim for indemnification not based upon a Claim, the Indemnifying Person shall have thirty (30) days from its receipt of the Claim Notice to (i) cure the Damages complained of, (ii) admit its liability for such Damages or (iii) dispute the claim for such Damages. If the Indemnifying Person does not notify the Indemnified Person within such thirty (30) day period that it has cured the Damages or that it disputes the claim for such Damages, the amount of such Damages shall conclusively be deemed a liability of the Indemnifying Person hereunder.

SECTION 10.3 LIMITATION ON ACTIONS.

(a) The representations and warranties of the Parties in Articles 3 and 4 and the covenants and agreements of the Parties in Article 5, and the corresponding representations and warranties given in the certificates delivered at Closing pursuant to Sections 7.2(c) and 7.3(b), as applicable, shall survive the Closing for a period of one year, except the representations and warranties of Seller set forth in Sections 3.3(a) and 3.3(j), and the corresponding representations and warranties given in the certificate delivered by Seller at Closing, which shall survive the Closing for a period of two years. The remainder of this Agreement shall survive the Closing without time limit except as may otherwise be expressly provided herein. Representations, warranties, covenants and agreements shall be of no further force and effect after the date of their expiration, provided that there shall be no termination

of any bona fide claim asserted pursuant to this Agreement with respect to such a representation, warranty, covenant or agreement prior to its expiration date.

(b) The indemnities in Sections 10.1(a)(ii), 10.1(a)(iii), 10.1(b)(ii) and 10.1(b)(iii) shall terminate as of the termination date of each respective representation, warranty,

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covenant or agreement that is subject to indemnification, except in each case as to matters for which a specific written claim for indemnity has been delivered to the Indemnifying Person on or before such termination date. The indemnities in Sections 10.1(a)(i) and 10.1(b)(i) shall continue without time limit.

(c) Seller shall not have any liability for any indemnification under Section 10.1 until and unless the aggregate amount of the liability for all Damages for which Claim Notices are delivered by Purchaser exceeds two hundred twenty thousand dollars (\$220,000) U.S. and then only to the extent such Damages exceed two hundred twenty thousand dollars (\$220,000), provided, however, that this Section 10.3(c) shall not limit Seller's liability under Section 10.1(b)(i).

(d) The amount of any Damages for which an Indemnified Person is entitled to indemnity under this Article 10 shall be reduced by the amount of insurance proceeds realized by the Indemnified Person or its Affiliates with respect to such Damages (net of any collection costs, and excluding the proceeds of any insurance policy issued or underwritten by the Indemnified Person or its Affiliates).

ARTICLE 11. MISCELLANEOUS

SECTION 11.1 COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be deemed an original instrument, but all such counterparts together shall constitute but one agreement.

SECTION 11.2 NOTICES. All notices that are required or may be given pursuant to this Agreement shall be sufficient in all respects if given in writing, in English and delivered personally, by telecopy or by recognized courier service, as follows:

If to Seller: Deputy General Counsel
Baker Hughes, Inc.
3900 Essex Lane, Suite 1200
Houston, Texas 77027
Telephone: 713-439-8600
Telecopy: 713-439-8472

with a copy to: (which shall not constitute notice)

Assistant Secretary
Baker Hughes, Inc.
3900 Essex Lane, Suite 1200
Houston, Texas 77027
Telephone: 713-439-8600
Telecopy: 713-439-8472

If to Purchaser: VAALCO Gabon (Etame), Inc.
4600 Post Oak Place, Suite 309

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Houston, Texas 77027
Telephone: 713-623-0801
Telecopy: 713-623-0982
Attn: President

Either Party may change its address for notice by notice to the other in the manner set forth above. All notices shall be deemed to have been duly given at the time of receipt by the Party to which such notice is addressed.

SECTION 11.3 SALES OR USE TAX, RECORDING FEES AND SIMILAR TAXES AND FEES. Purchaser shall bear any sales, use, excise, gross receipts, registration, capital, documentary, stamp or transfer Taxes, recording fees and similar Taxes and fees incurred and imposed upon, or with respect to, the transfer of the Shares or other transactions contemplated hereby. If such transfer or transactions are exempt from any such Taxes or fees upon the filing of an appropriate certificate or other evidence of exemption, Purchaser shall timely furnish to Seller such certificate or evidence.

SECTION 11.4 EXPENSES. Except as provided in Section 11.3, all expenses incurred by Seller in connection with or related to the authorization, preparation or execution of this Agreement, and the Exhibits and Schedules hereto and thereto, and all other matters related to the Closing, including without limitation, all fees and expenses of counsel, accountants and financial advisers employed by Seller, shall be borne solely and entirely by Seller, and

all such expenses incurred by Purchaser shall be borne solely and entirely by Purchaser.

SECTION 11.5 CHANGE OF NAME. Purchaser shall, effective as of the Closing Date, amend the charter and bylaws (or equivalent governing documents) of the Company to change the Company's name to a name not containing "Baker Hughes", "Western" or any abbreviations or variants thereof and make any filings necessary to change the name of all local branches through which the Company does business accordingly. As promptly as practicable, but in any case within thirty (30) days after the Closing Date, Purchaser shall eliminate the names "Baker Hughes", "Western" and any abbreviations or variants thereof from the Assets and, except with respect to such grace period for eliminating existing usage, shall have no right to use any logos, trademarks or trade names belonging to Seller or any of its Affiliates.

SECTION 11.6 REPLACEMENT OF BONDS, LETTERS OF CREDIT AND GUARANTEES. The Parties understand that none of the bonds, letters of credit and guarantees, if any, posted by Seller or any other Affiliate of the Company with any Governmental Authority or third Person and relating to the Company or the Assets are to be transferred to Purchaser. On or before Closing, Purchaser shall obtain, or cause to be obtained in the name of Purchaser, replacements for such bonds, letters of credit and guarantees, to the extent such replacements are necessary to permit the cancellation of the bonds, letters of credit and guarantees posted by Seller and such Affiliates or to consummate the transactions contemplated by this Agreement.

SECTION 11.7 RECORDS.

(a) Within ten (10) days after the Closing Date, Seller shall deliver or cause to be delivered to Purchaser any Records that are in the possession of Seller or its Affiliates, and not already in the possession of Purchaser or its Affiliates, subject to Section 11.7(b).

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(b) Seller may retain the originals of those Records relating to tax, and accounting matters or ongoing litigation, if any, for which Seller is retaining responsibility and provide Purchaser with copies thereof and may also retain the originals of those Records already in the possession of Purchaser or its Affiliates. Seller may retain copies of any other Records.

(c) Purchaser, for a period of seven (7) years following the Closing, shall (i) retain the Records, (ii) provide Seller, its Affiliates, and its and their respective officers, employees and representatives with access to the Records during normal business hours for review and copying at Seller's expense and (iii) provide Seller, its Affiliates, and its and their respective officers, employees and representatives with access, during normal business hours, to materials received or produced after Closing relating to any claim for indemnification made under Section 10.2 of this Agreement (excluding, however, attorney work product and attorney-client communications with respect to any such claim being brought by Purchaser under this Agreement) for review and copying at Seller's expense and to Seller's and its Affiliates' respective officers, employees and representatives for the purpose of discussing any such claim, provided that Purchaser shall have the right to have its own representatives present during any such meeting.

SECTION 11.8 GOVERNING LAW. This Agreement and the legal relations between the Parties shall be governed by and construed in accordance with the laws of the State of Texas, United States of America without regard to principles of conflicts of laws that would direct the application of the laws of another jurisdiction.

SECTION 11.9 ARBITRATION. It is agreed, as a severable and independent arbitration agreement separately enforceable from the remainder of this Agreement, that any dispute, controversy or claim arising out of or in relation to or in connection with this Agreement, including, without limitation, any dispute as to the construction, validity, interpretation, enforceability, or breach of this Agreement, shall be exclusively and finally settled by arbitration in accordance with this Section 11.9. Either Party may submit such a dispute, controversy, or claim to arbitration by notice to the other Party and the administrator for the American Arbitration Association ("AAA"). The arbitration proceedings shall be conducted in Houston, Texas, United States of America in accordance with the International Arbitration Rules of the American Arbitration Association as in effect on the date hereof. The arbitration shall be heard and determined by three (3) arbitrators. Each Party shall appoint an arbitrator of its choice within twenty (20) days of the submission of the notice of arbitration. The Party appointed arbitrators shall in turn appoint a presiding arbitrator for the tribunal within twenty (20) days following the appointment of the second Party appointed arbitrator. If the Party appointed arbitrators cannot reach agreement on a presiding arbitrator for the tribunal and/or one Party fails to appoint its Party appointed arbitrator within the applicable period, the AAA shall act as appointing authority to appoint an independent arbitrator with at least ten (10) years experience in the legal and/or commercial aspects of the petroleum industry. None of the arbitrators

shall have been an employee of or consultant to either Party to this Agreement or any of its Affiliates within the five (5) year period preceding the arbitration, or have any financial interest in the dispute, controversy, or claim. All decisions of the arbitral tribunal shall be by majority vote. The arbitration shall be conducted in the English language. The arbitrators may not award special punitive damages except those claimed by Persons other than Indemnified Persons under this Agreement for which responsibility is being allocated between the Parties. Each Party shall

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pay its own expenses in connection with the arbitration, but the compensation and expenses of the arbitrators shall be borne in such manner as may be specified in the arbitral award. Privileges protecting attorney-client communications and attorney work product from compelled disclosure or use in evidence, as recognized by the courts of the State of Texas, United States of America, shall apply to and be binding in any arbitration proceeding conducted under this Section 11.9.

SECTION 11.10 CAPTIONS. The captions in this Agreement are for convenience only and shall not be considered a part of or affect the construction or interpretation of any provision of this Agreement.

SECTION 11.11 WAIVERS. Any failure by any Party to comply with any of its obligations, agreements or conditions herein contained may be waived by the Party to whom such compliance is owed by an instrument signed by the Party to whom compliance is owed and expressly identified as a waiver, but not in any other manner. No waiver of, or consent to a change in, any of the provisions of this Agreement shall be deemed or shall constitute a waiver of, or consent to a change in, other provisions hereof (whether or not similar), nor shall such waiver constitute a continuing waiver unless otherwise expressly provided.

SECTION 11.12 ASSIGNMENT. No Party shall assign or otherwise transfer all or any part of this Agreement, nor any of its rights or duties hereunder, without the prior written consent of the other Party and any transfer made without such consent shall be void. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and assigns.

SECTION 11.13 AMENDMENT. This Agreement may be amended or modified only by an agreement in writing signed by both Parties and expressly identified as an amendment or modification.

SECTION 11.14 NO THIRD-PERSON BENEFICIARIES. Nothing in this Agreement shall entitle any Person other than Purchaser and Seller to any claim, cause of action, remedy or right of any kind, except the rights expressly provided to the Persons described in Section 10.1(e).

SECTION 11.15 REFERENCES.

In this Agreement:

- (a) References to any gender includes a reference to all other genders;
- (b) References to the singular includes the plural, and vice versa;
- (c) Reference to any Article or Section means an Article or Section of this Agreement;
- (d) Reference to any Exhibit or Schedule means an Exhibit or Schedule to this Agreement, all of which are incorporated into and made a part of this Agreement;

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(e) Unless expressly provided to the contrary, "hereunder", "hereof", "herein" and words of similar import are references to this Agreement as a whole and not any particular Section or other provision of this Agreement; and

(f) "Include" and "including" shall mean include or including without limiting the generality of the description preceding such term.

SECTION 11.16 CONSTRUCTION. Purchaser is a party capable of making such investigation, inspection, review and evaluation of the Assets as a prudent purchaser would deem appropriate under the circumstances, including with respect to all matters relating to the Assets, their value, operation and suitability. Each of Seller and Purchaser has had the opportunity to exercise business discretion in relation to the negotiation of the details of the transaction contemplated hereby. This Agreement is the result of arm's-length negotiations from equal bargaining positions.

SECTION 11.17 LIMITATION ON DAMAGES. Notwithstanding anything to

the contrary contained herein, none of Purchaser, Seller or any of their respective Affiliates shall be entitled to special or punitive damages in connection with this Agreement and the transactions contemplated hereby (other than special or punitive damages suffered by third Persons for which responsibility is allocated between the Parties) and each of Purchaser and Seller, for itself and on behalf of its Affiliates, hereby expressly waives any right to special or punitive damages in connection with this Agreement and the transactions contemplated hereby. After Closing, none of Purchaser, Seller or any of their respective Affiliates shall be entitled to consequential damages in connection with this Agreement and the transactions contemplated hereby (other than consequential damages suffered by third Persons for which responsibility is allocated between the Parties) and each of Purchaser and Seller, for itself and on behalf of its Affiliates, hereby waives any right to consequential damages after Closing in connection with this Agreement and the transactions contemplated hereby.

SECTION 11.18 SEVERABILITY. If any provision of this Agreement (or any part of such provision) is unenforceable, all other provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any provision (or any part of such provision) is unenforceable, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that the transactions contemplated hereby are fulfilled.

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IN WITNESS WHEREOF, this Agreement has been signed by each of the Parties as of the date first above written.

SELLER: WESTERN ATLAS INTERNATIONAL, INC.

Name:
Title:

PURCHASER: VAALCO GABON (ETAME), INC.

Name:
Title:

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STOCK PURCHASE AGREEMENT

BETWEEN

VAALCO ENERGY, INC.

AS SELLER,

AND

PANAFRICAN ENERGY CORPORATION LTD

AS PURCHASER,

Dated as of January 15, 2001.

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STOCK PURCHASE AGREEMENT

This Stock Purchase Agreement (this "Agreement"), is dated as of January 15, 2001, by and between VAALCO Energy, Inc., a company organized under the laws of Delaware ("Seller"), and PanAfrican Energy Corporation Ltd., a company organized under the laws of the States of Jersey ("Purchaser"). Seller and Purchaser are sometimes referred to collectively as the "Parties" and individually as a "Party."

RECITALS:

Seller desires to sell and Purchaser desires to purchase all of the issued and outstanding shares (the "Shares") of VAALCO Energy (Gabon), Inc., a company organized under the laws of Delaware (the "Company").

NOW, THEREFORE, in consideration of the premises and of the mutual promises, representations, warranties, covenants, conditions and agreements contained herein, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

ARTICLE 1 PURCHASE AND SALE

SECTION 1.1 PURCHASE AND SALE. On the terms and conditions contained in this Agreement, Seller agrees to sell to Purchaser and Purchaser agrees to purchase, accept and pay for the Shares.

SECTION 1.2 CERTAIN DEFINITIONS. As used herein:

(a) "Assets" means all of the Company's right, title, and interest in and to the following:

(i) The Exploration and Production Sharing Contract described in Exhibit A (the "Hydrocarbon Interest"), and the assets described under that certain Supplemental and Correction Deed of Assignment by and between Western Atlas Afrique, Ltd., as Assignor, to the Company, as Assignee (the "Deed of Assignment") attached as Exhibit B.

(ii) All units that include all or a part of the area subject to the Hydrocarbon Interest (the "Contract Area");

(iii) All presently existing contracts, agreements and instruments to which the Company's interest in the Hydrocarbon Interest is subject, including operating agreements, unitization, pooling and communitization agreements, joint venture agreements, farmin and farmout agreements, exchange agreements, transportation agreements, processing agreements, agreements for the sale and purchase of oil, gas and/or other liquid or gaseous hydrocarbons or any combination thereof ("Hydrocarbons"), all of which are hereinafter collectively

referred to as "Contracts", provided that "Contracts" shall not include the Hydrocarbon Interest;

(iv) All easements, permits, licenses, servitudes, rights-of-way, surface leases and other rights appurtenant to, and used or held for use solely in connection with, the Hydrocarbon Interest;

(v) Equipment, machinery, fixtures and other tangible personal property and improvements located on the Contract Area or used or held for use solely in connection with the operation of the Hydrocarbon Interest (the "Equipment");

(vi) All books, records, data, files, maps and accounting records related solely to the Hydrocarbon Interests, or used or held for use solely in connection with the maintenance or operation thereof, but excluding (i) any books, records, data, files, maps and accounting records licensed from a third Person which are not transferable or

cannot be disclosed under the terms of the license in the event of a sale of the Company or for which the license will terminate or a transfer fee or similar payment will be incurred upon a sale of the Company, (ii) any computer software that is proprietary to any Affiliate of the Company, (iii) attorney-client communications with, and work product of, legal counsel for the Company or any Affiliate of the Company other than Contracts and correspondence of such legal counsel with third Persons, including Governmental Authorities, who are not employed by or acting for such Affiliates or counsel for such Affiliates (the "Records").

(vii) 32.50% of the Cost Oil pool under said Exploration and Production Sharing Contract.

(b) "Affiliate" means, with respect to any Person, a Person that directly or indirectly controls, is controlled by or is under common control with such Person, with control in such context meaning the ability to direct the management or policies of a Person through ownership of voting shares or other securities, pursuant to a written agreement, or otherwise.

(c) "Business Day" means any day other than a Saturday, a Sunday, or a day on which banks are closed for business in Houston, Texas, United States of America.

(d) "Governmental Authority" means any government, including without limitation the governments of the United States of America, States of Jersey, Mauritius and Gabon, and/or any political subdivision thereof, including departments, courts, commissions, boards, bureaus, ministries, agencies or other instrumentalities.

(e) "Laws" means all laws, statutes, rules, regulations, ordinances, orders, decrees, requirements, judgments and codes of Governmental Authorities.

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(f) "Person" means any individual, corporation, partnership, limited liability company, trust, estate, Governmental Authority or any other entity.

(g) "Tax" means all federal, state, local and foreign taxes, including income tax, surtax, remittance tax, presumptive tax, net worth tax, special contribution, production tax, pipeline transportation tax, value added tax, withholding tax, gross receipts tax, windfall profits tax, profits tax, severance tax, personal property tax, real property tax, sales tax, service tax, transfer tax, use tax, excise tax, premium tax, customs duties, stamp tax, motor vehicle tax, entertainment tax, insurance tax, capital stock tax, franchise tax, occupation tax, payroll tax, employment tax, social security, unemployment tax, disability tax, alternative or add-on minimum tax, estimated tax, and any other assessments, duties, fees, levies or other charges imposed by a Governmental Authority together with any interest, fine or penalty thereon, or addition thereto.

ARTICLE 2 CONSIDERATION

The Parties have entered into this Agreement in consideration of the mutual promises contained herein, and other good and valuable consideration.

ARTICLE 3 REPRESENTATIONS AND WARRANTIES OF SELLER

SECTION 3.1 DISCLAIMERS.

(a) Except as and to the extent expressly set forth in this Article 3 or in the certificate of Seller to be delivered pursuant to Section 7.2(c), (i) Seller makes no representations or warranties, express or implied, and (ii) Seller expressly disclaims all liability and responsibility for any representation, warranty, statement or information made or communicated (orally or in writing) to Purchaser or any of its Affiliates, employees, agents, consultants or representatives (including, without limitation, any opinion, information, projection or advice that may have been provided to Purchaser by any officer, director, employee, agent, consultant, representative or advisor of Seller or any of its Affiliates).

(b) EXCEPT AS EXPRESSLY REPRESENTED OTHERWISE IN THIS ARTICLE 3 OR IN THE CERTIFICATE OF SELLER TO BE DELIVERED AT CLOSING PURSUANT TO SECTION 7.2(c), WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, SELLER EXPRESSLY DISCLAIMS ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO (I) TITLE TO ANY OF THE ASSETS, (II) THE CONTENTS, CHARACTER OR NATURE OF ANY DESCRIPTIVE MEMORANDUM, OR ANY REPORT OF ANY PETROLEUM ENGINEERING CONSULTANT, OR ANY GEOLOGICAL OR SEISMIC DATA OR INTERPRETATION, RELATING TO THE ASSETS, (III) THE QUANTITY, QUALITY OR RECOVERABILITY OF PETROLEUM SUBSTANCES IN OR FROM THE ASSETS, (IV) ANY ESTIMATES OF THE VALUE OF THE ASSETS OR FUTURE REVENUES GENERATED BY THE ASSETS, (V) THE PRODUCTION OF PETROLEUM SUBSTANCES FROM THE ASSETS, OR WHETHER PRODUCTION HAS BEEN CONTINUOUS, OR IN PAYING QUANTITIES, (VI) THE

MAINTENANCE, REPAIR, CONDITION, QUALITY, SUITABILITY, DESIGN OR MARKETABILITY OF THE ASSETS, OR (VII) ANY OTHER MATERIALS OR INFORMATION THAT MAY HAVE BEEN MADE AVAILABLE OR COMMUNICATED TO PURCHASER OR ITS AFFILIATES, OR ITS OR THEIR EMPLOYEES, AGENTS, CONSULTANTS, REPRESENTATIVES OR ADVISORS IN CONNECTION WITH THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY DISCUSSION OR PRESENTATION RELATING THERETO, AND FURTHER DISCLAIMS ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE OR CONFORMITY TO MODELS OR SAMPLES OF MATERIALS OF ANY EQUIPMENT, IT BEING EXPRESSLY UNDERSTOOD AND AGREED BY THE PARTIES HERETO THAT PURCHASER HAS MADE OR CAUSED TO BE MADE SUCH INSPECTIONS AS PURCHASER DEEMS APPROPRIATE.

(c) Any representation "to the knowledge of Seller" or "to Seller's knowledge" is limited to matters within the actual conscious awareness of Seller's and its Affiliates' officers and directors.

(d) Inclusion of a matter on a schedule attached hereto with respect to a representation or warranty that addresses matters having a Material Adverse Effect shall not be deemed an indication that such matter does, or may, have a Material Adverse Effect. Matters may be disclosed on a schedule for purposes of information only. As used herein, "Material Adverse Effect" means a material adverse effect on the ownership, operation or value of the Company or the Assets, taken as a whole; provided, however, that "Material Adverse Effect" shall not include material adverse effects resulting from general changes in Hydrocarbon prices; general changes in industry, economic or political conditions; civil unrest, insurrection or similar disorders; or changes in Laws.

(e) Subject to the foregoing provisions of this Section 3.1, and the other terms and conditions of this Agreement, Seller represents and warrants to Purchaser the matters set out in Sections 3.2 through 3.12.

SECTION 3.2 SELLER.

(a) Existence and Qualification. Seller is a company duly organized and validly existing under the laws of Delaware and is duly qualified to do business as a foreign company in each jurisdiction in which it is required to qualify in order to conduct its business, except where the failure to so qualify would not, individually or in the aggregate, have a Material Adverse Effect.

(b) Power. Seller has the corporate power to enter into and perform this Agreement (and all documents required to be executed and delivered by Seller at Closing) and to consummate the transactions contemplated by this Agreement (and such documents).

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(c) Authorization and Enforceability. The execution, delivery and performance of this Agreement (and all documents required to be executed and delivered by Seller at Closing), and the consummation of the transactions contemplated hereby and thereby, have been duly and validly authorized by all necessary corporate action on the part of Seller. This Agreement has been duly executed and delivered by Seller (and all documents required to be executed and delivered by Seller at Closing shall be duly executed and delivered by Seller) and this Agreement constitutes, and at the Closing such documents shall constitute, the valid and binding obligations of Seller, enforceable in accordance with their terms except as such enforceability may be limited by applicable bankruptcy or other similar Laws affecting the rights and remedies of creditors generally as well as to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(d) No Conflicts. The execution, delivery and performance of this Agreement by Seller, and the consummation of the transactions contemplated by this Agreement shall not (i) violate any provision of the certificate of incorporation or bylaws of Seller, (ii) result in default (with due notice or lapse of time or both) or the creation of any lien or encumbrance or give rise to any right of termination, cancellation or acceleration under any material note, bond, mortgage, indenture, license or agreement to which Seller is a party or by which it is bound, (iii) violate any judgment, order, ruling, or decree applicable to Seller as a party in interest or (iv) violate any Laws applicable to Seller, or any of the Assets, except any matters described in clauses (ii), (iii), or (iv) above which would not have a Material Adverse Effect.

SECTION 3.3 THE COMPANY.

(a) Title to Shares. Seller has good and valid title to the Shares, free and clear of any liens, claims, encumbrances, security interests, options, charges and restrictions of any kind. Assuming Purchaser has the requisite power and authority to be the lawful owner of the Shares, upon delivery to Purchaser at the Closing of certificates representing the Shares, duly endorsed by Seller for transfer to Purchaser, and upon Seller's receipt of the consideration described in Article II, good and valid title to the Shares shall pass to Purchaser, free and clear of any liens, claims, encumbrances, security interests, options, charges and restrictions of any kind, other than those arising from acts of Purchaser or its Affiliates. Other than this Agreement, the Shares are not subject to any voting agreement or other contract, agreement, arrangement, commitment or understanding, including any such agreement,

arrangement, commitment or understanding restricting or otherwise relating to the voting, dividend rights or disposition of the Shares.

(b) Existence and Qualification. The Company is a company duly organized and validly existing under the Laws of Delaware and is duly qualified to do business as a foreign company in each jurisdiction where it does business, except where the failure to so qualify would not, individually or in the aggregate, have a Material Adverse Effect.

(c) Power. The Company has the corporate power and authority to own, lease or otherwise hold the Assets and conduct its business in the manner presently conducted.

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(d) No Conflicts. The consummation of transactions contemplated by this Agreement shall not (i) violate any provision of the certificate of incorporation or bylaws of the Company, (ii) result in default (with due notice or lapse of time or both) or the creation of any lien or encumbrance or give rise to any right of termination, cancellation or acceleration under any note, bond, mortgage, indenture, license or agreement to which the Company is a party or by which it is bound, (iii) violate any judgment, order, ruling, or decree applicable to the Company as a party in interest, or (iv) violate any Laws applicable to the Company, or any of the Assets.

(e) Charter and Bylaws. Seller has delivered to Purchaser true and complete copies of the charter and by-laws (or equivalent governing instruments), each as amended to the Closing Date, of the Company. The stock certificates and transfer books, and the minute books of the Company (which have been made available for inspection by Purchaser prior to the date hereof) are true, complete and current.

(f) The Shares. The entire authorized capital stock of the Company is the Shares, consisting of 1,000 shares of common stock, par value \$10.00, and all the Shares are duly authorized and validly issued and outstanding, fully paid, non-assessable and not issued in violation of any preemptive rights. Except for the Shares, there are no outstanding shares of capital stock or other equity securities of the Company, or any contractual arrangements giving any person a right to receive any benefits or rights similar to the rights enjoyed by or accruing to the holders of any capital stock of the Company. Other than this Agreement, there are no outstanding warrants, options, rights, convertible or exchangeable securities or other commitments pursuant to which Seller or the Company is or may become obligated to issue or sell any shares of capital stock or other equity securities of the Company.

(g) Balance Sheet. The consolidated, audited balance sheet (the "Balance Sheet") of the Company as of the Effective Time attached hereto as Schedule 3.3(g) has been prepared from the books and records of the Company in conformity with United States generally accepted accounting principles as published by the Financial Accounting Standards Board (the "Accounting Principles") and fairly presents the financial position of the Company as of the date thereof.

(h) Subsidiaries. The Company does not directly or indirectly own any capital stock or other equity interest in any Person.

(i) Employees. The Company has no past or current employees and no past or current employee benefit plans. The Company's directors and officers are not directly compensated by the Company.

(j) Company History. The Company was formed by Seller in 1995, and since the date of its formation the sole activity of the Company has been to own the Assets, participate under the Hydrocarbon Interest and undertake activities related thereto. The Company does not own any material property (real, personal or mixed) other than the Assets. The Company is not engaged in and is not otherwise a party to any joint venture, partnership or enterprise other than as directly regards and concerns the Assets.

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SECTION 3.4 HYDROCARBON INTEREST. The Hydrocarbon Interest is in full force and effect, and neither the Company nor, to the knowledge of Seller, any other Person is in default thereunder except such defaults as would not, individually or in the aggregate, have a Material Adverse Effect. The Company owns a 32.50% undivided interest in the Assets and the "Contractor's" rights to the Hydrocarbon Interest free and clear of any liens, mortgages, security interests, charges, pledges or other encumbrances or ownership rights of third Persons of any kind or character except (a) rights of Governmental Authorities in the Republic of Gabon and their assignees under the terms of the Hydrocarbon Interest or the Contracts or applicable Law, (b) preferential rights, similar rights and rights to consent, if any, held by third Persons under the operating agreement or other agreements applicable to the Hydrocarbon Interest as described on Schedule 3.11 and (c) those encumbrances or ownership rights described on Exhibit A.

SECTION 3.5 LITIGATION. There are no actions, suits or proceedings

pending, or to Seller's knowledge threatened in writing, before any Governmental Authority or arbitrator with respect to the Company or the Assets.

SECTION 3.6 TAXES AND ASSESSMENTS. The Company has filed all Tax returns required to be filed by the Company. The Company has withheld and paid all Taxes that were required to be withheld or due and payable by the Company. The Company has not received written notice of any threatened or pending claim against the Company from any applicable taxing authority for assessment of Taxes. The Company is not the beneficiary of any extension of time to file any Tax return. The Company has not expressly waived any statute of limitations in respect of Taxes or agreed to an extension of time with respect to a Tax assessment or deficiency. The Company has not received any written notice of a claim made by a tax authority in a jurisdiction where the Company has not filed Tax returns that the Company is or may be subject to taxation in that jurisdiction. The Company has no obligation to pay the Taxes of any other Person as a transferee or successor, by contract or otherwise.

SECTION 3.7 OUTSTANDING CAPITAL COMMITMENTS. Except as provided in the current approved work program and budget under the joint operating agreement for the Contract Area, or as otherwise disclosed on Schedule 3.7, there are no outstanding AFEs or other commitments to make capital expenditures which are binding on the Company and which Seller reasonably anticipates will individually require expenditures at or after 12:01 a.m. local time on October 1, 2000 (the "Effective Time") in excess of fifty thousand U.S. dollars (U.S.\$50,000).

SECTION 3.8 COMPLIANCE WITH LAWS. The Company has complied with all applicable Laws, except such failures to comply as would not, individually or in the aggregate, have a Material Adverse Effect. Neither the Company, nor the officers or directors of the Company, in any unlawful manner, have offered, paid, promised to pay, or authorized the payment of any money, or offered, given, promised to give, or authorized the paying of anything of value to foreign governmental officials, political parties, political officials or candidates for political office, or to any person while knowing that all or a portion of such money or thing of value would be offered, given or promised, directly or indirectly, to any foreign officials, for the purpose of influencing such foreign officials acting in their official capacity, inducing such foreign officials to do or omit to do any acts in violation of the lawful duty of such foreign officials or securing any improper advantage, in order to assist the Company in obtaining or retaining business for or with, or directing business to, any Person. The Company has complied

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with all applicable import/export laws and regulations, including obtaining, to the extent required, applicable export license and permits and refraining from participating in illegal boycotts, except such failures to comply as would not, individually or in the aggregate, have a Material Adverse Effect.

SECTION 3.9 CONTRACTS. Neither the Company, nor to the knowledge of Seller, any other Person is in default under any Contract except such defaults as would not, individually or in the aggregate, have a Material Adverse Effect. Except as disclosed on Schedule 3.9, there are no Contracts that will be binding on the Company or the Assets after Closing.

SECTION 3.10 ADVANCE SALE OF PRODUCTION. The Company is not obligated by virtue of a take or pay payment, advance payment or other similar payment (other than arrangements established in the Hydrocarbon Interest), to deliver Hydrocarbons, or proceeds from the sale thereof, attributable to the Company's interest in the Hydrocarbon Interest at some future time without receiving payment therefor at or after the time of delivery .

SECTION 3.11 CONSENTS AND PREFERENTIAL PURCHASE RIGHTS. The Hydrocarbon Interest is not subject to any preferential rights to purchase or similar rights or required third Person consents to assignment, which may be applicable to the transactions contemplated by this Agreement, except as set forth on Schedule 3.11.

SECTION 3.12 LIABILITY FOR BROKERS' FEES. Purchaser shall not directly or indirectly have any responsibility, liability or expense, as a result of undertakings or agreements of Seller or the Company, for brokerage fees, finder's fees, agent's commissions or other similar forms of compensation to an intermediary in connection with the negotiation, execution or delivery of this Agreement or any agreement or transaction contemplated hereby.

ARTICLE 4 REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser represents and warrants to Seller the following:

SECTION 4.1 EXISTENCE AND QUALIFICATION. Purchaser is a corporation organized, validly existing and in good standing under the laws of the States of Jersey; and Purchaser is duly qualified to do business as a foreign corporation in every jurisdiction in which it is required to qualify in order to conduct its business except where the failure to so qualify would not have a material adverse effect on Purchaser or its properties.

SECTION 4.2 POWER. Purchaser has the corporate power to enter into and perform this Agreement (and all documents required to be executed and delivered by Purchaser at Closing) and to consummate the transactions contemplated by this Agreement (and such documents).

SECTION 4.3 AUTHORIZATION AND ENFORCEABILITY. The execution, delivery and performance of this Agreement (and all documents required to be executed and delivered by Purchaser at Closing), and the consummation of the transactions contemplated hereby and thereby, have been duly and validly authorized by all necessary corporate action on the part of Purchaser. This Agreement has been duly executed and delivered by Purchaser (and all documents required to be executed and delivered by Purchaser at Closing will be duly executed and delivered by Purchaser) and this Agreement constitutes, and at the Closing such documents

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will constitute, the valid and binding obligations of Purchaser, enforceable in accordance with their terms except as such enforceability may be limited by applicable bankruptcy or other similar laws affecting the rights and remedies of creditors generally as well as to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

SECTION 4.4 NO CONFLICTS. The execution, delivery and performance of this Agreement by Purchaser, and the consummation of the transactions contemplated by this Agreement, will not (i) violate any provision of the certificate of incorporation or bylaws (or other governing instruments) of Purchaser, (ii) result in a material default (with due notice or lapse of time or both) or the creation of any lien or encumbrance or give rise to any right of termination, cancellation or acceleration under any material note, bond, mortgage, indenture, license or agreement to which Purchaser is a party or by which it is bound, (iii) violate any judgment, order, ruling, or regulation applicable to Purchaser as a party in interest or (iv) violate any Law applicable to Purchaser or any of its assets, except any matters described in clauses (ii), (iii) or (iv) above which would not have a material adverse effect on Purchaser or its properties.

SECTION 4.5 CONSENTS, APPROVALS OR WAIVERS. The execution, delivery and performance of this Agreement by Purchaser will not be subject to any consent, approval or waiver from any Governmental Authority or other third Person.

SECTION 4.6 LITIGATION. There are no actions, suits or proceedings pending, or to Purchaser's knowledge, threatened in writing before any Governmental Authority or arbitrator against Purchaser or any subsidiary of Purchaser which are reasonably likely to impair materially Purchaser's ability to perform its obligations under this Agreement.

SECTION 4.7 FINANCING. Purchaser has sufficient cash, available lines of credit or other sources of immediately available funds (in United States dollars) to enable it to pay the consideration described in Article II to Seller at the Closing.

SECTION 4.8 LIABILITY FOR BROKERS' FEES. Seller shall not directly or indirectly have any responsibility, liability or expense, as a result of undertakings or agreements of Purchaser, for brokerage fees, finder's fees, agent's commissions or other similar forms of compensation to an intermediary in connection with the negotiation, execution or delivery of this Agreement or any agreement or transaction contemplated hereby.

ARTICLE 5 COVENANTS OF THE PARTIES

SECTION 5.1 ACCESS. Seller will give Purchaser and its representatives access to the Assets and access to and the right to copy, at Purchaser's expense, the Records in Seller's and its Affiliates' possession, for the purpose of conducting an investigation of the Assets, but only to the extent that Seller may do so without violating any obligations to any third Person and to the extent that Seller has authority to grant such access without breaching any restriction binding on Seller. Such access by Purchaser shall be limited to Seller's normal business hours, and Purchaser's investigation shall be conducted in a manner that minimizes interference with the operation of the Assets. Unless and until the Closing occurs, Purchaser shall keep all information obtained by Purchaser and its representatives from Seller and its representatives with

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respect to the Company or the Assets, except information that was already in Purchaser's possession (and not subject to any confidentiality restrictions in favor of Seller), confidential and not disclose the same except that Purchaser may disclose such information:

- (a) to its Affiliates;
- (b) to employees, officers and directors of Purchaser and its Affiliates;

- (c) to professional consultants, agents or advisors retained by Purchaser for purposes of evaluating such information;
- (d) to Governmental Authorities and third Persons holding preferential rights to purchase or similar rights or rights of consent that may be applicable to the transactions contemplated by this Agreement, as reasonably necessary to obtain waivers of such rights, or such consents;
- (e) to the extent disclosure is required by applicable Law or the applicable rules of any stock exchange having jurisdiction over Purchaser or its Affiliates; and
- (f) which is acquired independently from a third Person who is not under any obligation of confidentiality to Seller or its Affiliates.

Purchaser shall require any Person to whom information is disclosed under Section 5.1(c) to agree in writing to keep such information confidential for the benefit of Seller. Purchaser shall be responsible for insuring that all Persons to whom it discloses such information under Sections 5.1(a), (b) or (c) keep such information confidential and shall be liable for any breach of that confidentiality obligation by any such discloser.

SECTION 5.2 NOTIFICATION OF BREACHES. Until the Closing,

- (a) Purchaser shall notify Seller promptly after Purchaser obtains actual knowledge that any representation or warranty of Seller contained in this Agreement is untrue in any material respect or will be untrue in any material respect as of the Closing Date or that any covenant or agreement to be performed or observed by Seller prior to or on the Closing Date has not been so performed or observed in any material respect.
- (b) Seller shall notify Purchaser promptly after Seller obtains actual knowledge that any representation or warranty of Purchaser contained in this Agreement is untrue in any material respect or will be untrue in any material respect as of the Closing Date or that any covenant or agreement to be performed or observed by Purchaser prior to or on the Closing Date has not been so performed or observed in any material respect.

If any of Purchaser's or Seller's representations or warranties is untrue or shall become untrue in any material respect between the date of execution of this Agreement and the Closing Date, or if any of Purchaser's or Seller's covenants or agreements to be performed or observed prior to or on the Closing Date shall not have been so performed or observed in any material respect, but if such breach of representation, warranty, covenant or agreement shall (if curable) be cured by the

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Closing (or, if the Closing does not occur, by the date set forth in Section 9.1), then such breach shall be considered not to have occurred for all purposes of this Agreement.

SECTION 5.3 PUBLIC ANNOUNCEMENTS. Until the Closing, neither Party shall make any press release or other public announcement regarding the existence of this Agreement, the contents hereof or the transactions contemplated hereby without the prior written consent of the other Party; provided, however, the foregoing shall not restrict disclosures by Purchaser or Seller (i) that are required by applicable securities or other Laws or the applicable rules of any stock exchange having jurisdiction over the disclosing Party or its Affiliates or (ii) to Governmental Authorities and third Persons holding preferential rights to purchase or rights of consent that may be applicable to the transactions contemplated by this Agreement, as reasonably necessary to obtain waivers of such rights, or such consents.

SECTION 5.4 OPERATION OF BUSINESS. Except as provided in the current approved work program and budget under the joint operating agreement for the Contract Area, or as otherwise set forth on Schedule 3.7, until the Closing, Seller will cause the Company to (i) operate its business in the ordinary course, (ii) not, without the prior written consent of Purchaser, which consent shall not be unreasonably conditioned or withheld, commit to any operation reasonably anticipated to require future capital expenditures by the Company in excess of U.S.\$20,000, or terminate, amend, execute or extend any Contracts affecting the Assets, (iii) maintain insurance coverage on the Assets in the amounts and of the types presently in force, (iv) use reasonable efforts to maintain in full force and effect the Hydrocarbon Interest, (v) maintain all material governmental permits and approvals affecting the Assets, and (vi) not transfer, sell, hypothecate, encumber or otherwise dispose of any Assets except for (A) transfers of Assets pursuant to valid third Person exercises of preferential purchase rights or similar rights and (B) sales and dispositions of

Equipment made in the ordinary course of business consistent with past practices. In the event of an emergency, Seller may take such action as a prudent operator would take and shall notify Purchaser of such action promptly thereafter.

SECTION 5.5 CONDUCT OF THE COMPANY. The Seller shall not permit the Company to do any of the following without the prior written consent of the Purchaser: (i) amend its charter, by-laws or equivalent governing instruments; (ii) issue, redeem or otherwise acquire any shares of its capital stock or issue any option, warrant or right relating to its capital stock or any securities convertible into or exchangeable for any shares of capital stock or declare or pay any dividend (whether in cash, stock, property, or any combination thereof), or declare or pay any stock-split; (iii) incur or assume any liabilities, obligations or indebtedness for borrowed money or guarantee any such liabilities, obligations or indebtedness, other than accounts payable incurred in the ordinary course of business; (iv) lend to any Person (except as set forth in Section 5.5 (ix)) or make an equity investment in any other Person; (v) make any change in any method of accounting or accounting practice or policy other than those required by the Accounting Principles; (vi) acquire by merging or consolidating with, or by purchasing a substantial portion of the assets of, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof; (vii) enter into any lease of real property, except any renewals of existing leases in the ordinary course of business; (viii) enter into any settlement of any issue with respect to any assessment or audit or other administrative or judicial proceeding with respect to Taxes; (ix) make any loan (other than (A) accounts receivable in the ordinary course of business, (B) advances or cash call payments to the operator as required under

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applicable operating agreements, or (C) advances on behalf of co-owners for costs under applicable operating agreements) to any Person; (x) terminate or voluntarily relinquish any permit, license or other authorization from any Governmental Authority necessary for the conduct of the Company's business or operations or which relates in any way to any Asset or (xi) agree to do any of the foregoing. Purchaser's approval of any action restricted by this Section 5.5 shall not be unreasonably withheld.

SECTION 5.6 INDEMNITY REGARDING ACCESS. Purchaser agrees to indemnify, defend and hold harmless Seller, its Affiliates, and all such Persons' directors, officers, employees, agents and representatives from and against any and all claims, liabilities, losses, costs and expenses (including court costs and reasonable attorneys' fees), including claims (including without limitation contribution or indemnity claims by other owners of the Hydrocarbon Interest), liabilities, losses, costs and expenses attributable to personal injury, death, or property damage, arising out of or relating to access to the Assets prior to the Closing by Purchaser, its Affiliates, or its or their directors, officers, employees, agents or representatives under Section 5.1 hereof (to which Purchaser was not otherwise entitled as a co-owner of the Hydrocarbon Interest), even if caused in whole or in part by the negligence (whether sole, joint or concurrent), strict liability or other legal fault of any indemnified Person.

SECTION 5.7 CONSENTS AND PREFERENTIAL RIGHTS.

- (a) Promptly after the date hereof, Seller shall prepare and send (i) notices to the holders of any required consents to assignment that are set forth on Schedule 3.11 requesting consents to the transactions contemplated by this Agreement and (ii) notices to the holders of any applicable preferential rights to purchase or similar rights that are set forth on Schedule 3.11 in compliance with the terms of such rights and requesting waivers of such rights. Any preferential purchase right must be exercised subject to all terms and conditions set forth in this Agreement. Seller shall use commercially reasonable efforts to cause such consents to assignment and waivers of preferential rights to purchase or similar rights (or the exercise thereof) to be obtained and delivered prior to Closing, provided that Seller shall not be required to make payments or undertake obligations to or for the benefit of the holders of such rights in order to obtain the required consents and waivers. Purchaser shall cooperate with Seller in seeking to obtain such consents to assignment and waivers of preferential rights and similar rights.
- (b) Should any preferential right to purchase any portion of the Assets be exercised prior to Closing, or should any Person holding a right of first opportunity deliver a binding offer on terms more favorable to Seller than the terms of this Agreement, this Agreement shall terminate in accordance with Article 9.

SECTION 5.8 GOVERNMENTAL REVIEWS. Seller and Purchaser shall each in a timely manner make (a) all required filings, if any, and prepare applications to

and conduct negotiations, with each Governmental Authority as to which such filings, applications or negotiations are necessary or appropriate in the consummation of the transactions contemplated hereby and (b) provide such information as the other may reasonably request in order to make such filings, prepare such applications and conduct such negotiations. Each Party shall cooperate with and use all reasonable efforts to assist the other with respect to such filings, applications and negotiations.

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SECTION 5.9 FURTHER ASSURANCES. After Closing, Seller and Purchaser each agrees to take such further actions and to execute, acknowledge and deliver all such further documents as are reasonably requested by the other Party for carrying out the purposes of this Agreement or of any document delivered pursuant to this Agreement.

ARTICLE 6 CONDITIONS TO CLOSING

SECTION 6.1 CONDITIONS OF SELLER TO CLOSING. The obligations of Seller to consummate the transactions contemplated by this Agreement are subject, at the option of Seller, to the satisfaction on or prior to Closing of each of the following conditions:

- (a) Representations. The representations and warranties of Purchaser set forth in Article 4 shall be true and correct in all material respects as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing Date (other than representations and warranties that refer to a specific date, which need only be true and correct on and as of such specified date);
- (b) Performance. Purchaser shall have performed and observed, in all material respects, all covenants and agreements to be performed or observed by it under this Agreement prior to or on the Closing Date;
- (c) No Action. On the Closing Date, no suit, action, or other proceeding (excluding any such matter initiated by Seller or any of its Affiliates) shall be pending or threatened before any Governmental Authority or body of competent jurisdiction seeking to enjoin or restrain the consummation of the transactions contemplated by this Agreement or recover substantial damages from Seller or any Affiliate of Seller resulting therefrom; and
- (d) Consents and Waivers. All necessary consents and approvals required from Governmental Authorities and all material consents and approvals required from other third Persons for the consummation of the transactions contemplated by this Agreement shall have been granted, and all preferential purchase rights, rights of first opportunity and similar rights with respect to such transactions shall have been waived, expired without exercise, or, in the case of rights of first opportunity, resulted in an offer which was properly rejected by Seller or the Company, as applicable.
- (e) Closing of Western Atlas Afrique Transaction. Seller or its Affiliates shall have consummated the acquisition of all of the stock of Western Atlas Afrique, Ltd. from Western Atlas International, Inc. and Western Atlas Afrique, Ltd. shall have duly executed and delivered to the Company the Deed of Assignment.

SECTION 6.2 CONDITIONS OF PURCHASER TO CLOSING. The obligations of Purchaser to consummate the transactions contemplated by this Agreement are subject, at the option of Purchaser, to the satisfaction on or prior to Closing of each of the following conditions:

- (a) Representations. The representations and warranties of Seller set forth in Article 3 shall be true and correct as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing Date (other than representations and

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warranties that refer to a specified date, which need only be true and correct on and as of such specified date), except for such breaches, if any, as would not have a Material Adverse Effect;

- (b) Performance. Seller shall have performed and observed, in all material respects, all covenants and agreements to be performed or observed by it under this Agreement prior to

or on the Closing Date;

- (c) No Action. On the Closing Date, no suit, action, or other proceeding (excluding any such matter initiated by Purchaser or any of its Affiliates) shall be pending or threatened before any Governmental Authority or body of competent jurisdiction seeking to enjoin or restrain the consummation of the transactions contemplated by this Agreement or recover substantial damages from Purchaser or any Affiliate of Purchaser resulting therefrom;
- (d) Consents and Waivers. All necessary consents and approvals required from Governmental Authorities and all material consents and approvals required from other third Persons for the consummation of the transactions contemplated by this Agreement shall have been granted, and all preferential purchase rights, rights of first opportunity and similar rights with respect to such transactions shall have been waived, expired without exercise, or, in the case of rights of first opportunity, resulted in an offer which was properly rejected by Seller or the Company, as applicable; and
- (e) Material Adverse Change. There shall have been no material adverse changes since the Effective Time in the business, operations, assets or condition of the Company, taken as a whole, except as may have resulted from general changes in Hydrocarbon prices; general changes in industry, economic or political conditions; civil unrest, insurrection or similar disorders; or changes in Laws.
- (f) The Amendment One to the Joint Operating Agreement. The Amendment One to the Joint Operating Agreement (the "JOA Amendment") substantially in the form of Exhibit C attached hereto, amending that certain Joint Operating Agreement among Vaalco Gabon (Etame), Inc., Operator, Vaalco Energy (Gabon), Inc. and other Non-operators dated as of April 4, 1997 covering the Hydrocarbon Interest (the "Joint Operating Agreement") shall be duly executed by the parties thereto.

ARTICLE 7 CLOSING

SECTION 7.1 TIME AND PLACE OF CLOSING. The consummation of the purchase and sale of the Shares contemplated by this Agreement (the "Closing") shall, unless otherwise agreed to in writing by Purchaser and Seller, take place at the offices of Seller located at 4600 Post Oak Place, Suite 309, Houston, Texas 77027, at 10:00 a.m., local time, on January, ____ 2001 or if all conditions in Article 6 to be satisfied prior to Closing have not yet been satisfied or waived, as soon thereafter as such conditions have been satisfied or waived, subject to the provisions of Article 9. The date on which the Closing occurs is referred to herein as the "Closing Date."

SECTION 7.2 OBLIGATIONS OF SELLER AT CLOSING. At the Closing, upon the terms and subject to the conditions of this Agreement, and subject to the simultaneous performance by

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Purchaser of its obligations pursuant to Section 7.3, Seller shall deliver or cause to be delivered to Purchaser, among other things, the following:

- (a) A duly executed share transfer form for transfer of the Shares to Purchaser;
- (b) Resignations of the directors and officers of the Company, including a confirmation by each of them that he(she) has no claim against the Company for compensation for loss of office or termination of employment;
- (c) A certificate duly executed by an authorized corporate officer of Seller, dated as of the Closing, certifying on behalf of Seller that the conditions set forth in Sections 6.2(a) and 6.2(b) have been fulfilled; and
- (d) A certificate duly executed by the secretary or any assistant secretary of Seller, dated as of the Closing, (i) attaching and certifying on behalf of Seller complete and correct copies of (A) the certificate of incorporation and the bylaws of Seller, each as in effect as of the Closing, (B) the resolutions of the Board of Directors of Seller authorizing the execution, delivery, and performance by Seller of this Agreement and the consummation of the transactions contemplated hereby, and (C) any required approval by the stockholders of Seller of this Agreement

and the transactions contemplated hereby and (ii) certifying on behalf of Seller the incumbency of each officer of Seller executing this Agreement or any document delivered in connection with the Closing.

SECTION 7.3 OBLIGATIONS OF PURCHASER AT CLOSING. At the Closing, upon the terms and subject to the conditions of this Agreement, and subject to the simultaneous performance by Seller of its obligations pursuant to Section 7.2, Purchaser shall deliver or cause to be delivered to Seller, among other things, the following:

- (a) Transfer of any agreed cash consideration;
- (b) A certificate by an authorized corporate officer of Purchaser, dated as of the Closing, certifying on behalf of Purchaser that the conditions set forth in Sections 6.1(a) and 6.1(b) have been fulfilled; and
- (c) A certificate duly executed by the secretary or any assistant secretary of Purchaser, dated as of the Closing, (i) attaching and certifying on behalf of Purchaser complete and correct copies of (A) the certificate of incorporation and the bylaws (or other governing instruments) of Purchaser, each as in effect as of the Closing, (B) the resolutions of the Board of Directors of Purchaser authorizing the execution, delivery, and performance by Purchaser of this Agreement and the consummation of the transactions contemplated hereby, and (C) any required approval by the stockholders of Purchaser of this Agreement and the transactions contemplated hereby and (ii) certifying on behalf of Purchaser the incumbency of each officer of Purchaser executing this Agreement or any document delivered in connection with the Closing.

SECTION 7.4 CASUALTY OR CONDEMNATION LOSS. If, after the date of this Agreement but prior to Closing Date, any portion of the Assets is destroyed by fire or other casualty or is expropriated or taken in condemnation or under right of eminent domain, Purchaser shall

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nevertheless be required to close and Seller shall elect by written notice to Purchaser prior to Closing either (i) to cause the Assets affected by any casualty to be repaired or restored, at Seller's sole cost, as promptly as reasonably practicable (which work may extend after the Closing Date), or (ii) to indemnify Purchaser through a document reasonably acceptable to Seller and Purchaser against any costs or expenses that Purchaser reasonably incurs to repair the Assets subject to any casualty. In each case, Seller shall retain all rights to insurance and other claims against third parties with respect to the casualty or taking except to the extent the Parties otherwise agree in writing. Notwithstanding the preceding, if the loss caused by such casualty or taking exceeds U.S. \$500,000, either Party may, by notice to the other at least one (1) Business Day prior to Closing, elect to terminate this Agreement under Section 9.1.

ARTICLE 8 TAX MATTERS

SECTION 8.1 LIABILITY FOR TAXES. (a) Seller shall be liable for, and shall indemnify and hold harmless Purchaser and the Company from and against, any Taxes imposed on or incurred by the Company and attributable to any taxable period ending prior to the Effective Time, and the portion, determined as described in Section 8.1(c), of any such Taxes for any taxable period beginning prior to the Effective Time and ending after the Effective Time which is allocable to the portion of such period occurring prior to the Effective Time (the "Pre-Effective Time Period").

(b) Purchaser shall be liable for, and shall indemnify and hold harmless Seller and its Affiliates from and against, any Taxes imposed on or incurred by the Company and attributable to any taxable period beginning on or after the Effective Time, and the portion, determined as described in Section 8.1(c), of any such Taxes for any taxable period beginning prior to the Effective Time and ending after the Effective Time which is allocable to the portion of such period occurring on or after the Effective Time (the "Post-Effective Time Period").

(c) Whenever it is necessary for purposes of this Agreement to determine the portion of any Taxes of or with respect to the Company for a taxable period beginning prior to and ending after the Effective Time which is allocable to the Pre-Effective Time Period or the Post-Effective Time Period, the determination shall be made (i) in the case of property, ad valorem or similar Taxes (which are not based on or measured by production), by allocating all such Taxes on a per diem basis, (ii) in the case of franchise, capital or similar Taxes (which are not based on or measured by income or profit), by allocating all such Taxes on a period diem basis, and (iii) in the case of other Taxes, by assuming that each of the Pre-Effective Time Period and the Post-Effective Time Period constitutes a separate taxable period and by taking into account the actual

taxable events occurring during each such period.

(d) Any claim for indemnification under this Section 8.1, except to the extent otherwise provided in this Article 8, shall be resolved in accordance with the procedures described in Section 10.2.

SECTION 8.2 PREPARATION AND FILING OF TAX RETURNS. (a) With respect to each Tax return for, by or with respect to the Company that is required to be filed on or before the

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Closing Date, Seller shall cause such Tax return to be prepared, shall cause to be included in such Tax return all items of income, gain, loss, deduction and credit or other items (collectively "Tax Items") required to be included therein and shall timely file or cause to be filed (assuming it has authority to do so) such Tax return with the appropriate taxing authority and shall (subject to any right of indemnification under Section 8.1) pay the amount of Taxes shown to be due on such Tax return.

(b) With respect to each Tax return for, by or with respect to the Company that is required to be filed after the Closing Date, Purchaser shall cause such Tax return to be prepared, shall cause to be included in such Tax return all Tax Items required to be included therein, and shall cause the Company to file timely such Tax return with the appropriate taxing authority and shall (subject to any right of indemnification under Section 8.1) pay timely the amount of Taxes shown to be due on such Tax return.

(c) Any Tax return to be prepared pursuant to the provision of this Article shall be prepared in an appropriate manner consistent with good accounting practices followed in prior years with respect to similar Tax returns, except for changes required by changes in law.

SECTION 8.3 ALLOCATION ARRANGEMENTS. Effective as of the Closing Date, any tax indemnity, sharing, allocation or similar agreement or arrangement that may be in effect prior to the Closing Date between or among the Seller and the Company, shall be extinguished in full, and any liabilities or rights existing under any such agreement or arrangement shall cease to exist and shall no longer be enforceable.

SECTION 8.4 ACCESS TO INFORMATION. (a) Seller shall grant to Purchaser (or its designees) access at all reasonable times to all of the information, books and records relating to the Company within the possession of Seller (including without limitation work papers and correspondence with taxing authorities), and shall afford Purchaser (or its designees) the right (at Purchaser's expense) to take extracts therefrom and to make copies thereof, to the extent reasonably necessary to permit Purchaser (or its designees) to prepare Tax returns, to conduct negotiations with Tax authorities, and to implement the provisions of, or to investigate or defend any claims between the Parties arising under, this Agreement.

(b) Purchaser shall grant to Seller (or its designees) access at all reasonable times to all of the information, books and records relating to the Company within the possession of Purchaser or the Company (including without limitation work papers and correspondence with taxing authorities), and shall afford Seller (or its designees) the right (at Seller's expense) to take extracts therefrom and to make copies thereof, to the extent reasonably necessary to permit Seller (or its designees) to prepare Tax returns, to conduct negotiations with Tax authorities, and to implement the provisions of, or to investigate or defend any claims between the Parties arising under, this Agreement.

(c) Each of the Parties hereto will preserve and retain all schedules, work papers and other documents relating to any Tax returns of or with respect to the Company or to any claims, audits or other proceedings affecting the Company until the expiration of the

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statute of limitations (including extensions) applicable to the taxable period to which such documents relate or until the final determination of any controversy with respect to such taxable period, and until the final determination of any payments that may be required with respect to such taxable period under this Agreement.

SECTION 8.5 TAX PROCEEDINGS. In the event Purchaser, the Company, or any of their Affiliates receives notice of any examination, claim, adjustment or other proceeding with respect to the liability of the Company for Taxes for any taxable period for which Seller is or may be liable under Section 8.1, Purchaser shall, within ten (10) days, notify Seller in writing. Seller and Purchaser shall cooperate with each other, and with their respective Affiliates, and will consult with each other in the settlement of any proceeding described in this Section 8.5 that could affect the other.

SECTION 8.6 CONFLICT. In the event of a conflict between the provisions

of this Article 8 and any other provision of this Agreement, this Article 8 shall control.

ARTICLE 9 TERMINATION

SECTION 9.1 TERMINATION. This Agreement may be terminated at any time prior to Closing: (i) by the mutual prior written consent of Seller and Purchaser; (ii) by either Seller or Purchaser pursuant to the provisions of Section 7.4; or (iii) by either Seller or Purchaser, if Closing has not occurred on or before March 31, 2001, provided, however, that no Party shall be entitled to terminate this Agreement under this Section 9.1(iii) if the Closing has failed to occur because such Party negligently or willfully failed to perform or observe in any material respect its covenants and agreements hereunder. This Agreement shall also terminate in the circumstances described in Section 5.7(b).

SECTION 9.2 EFFECT OF TERMINATION. If this Agreement is terminated pursuant to Section 9.1, this Agreement shall become void and of no further force or effect (except for the provisions of Sections 3.12, 4.8, 5.3, 5.6, 11.4, 11.8, 11.9, 11.16 and 11.17 and the confidentiality obligation in Section 5.1, all of which shall continue in full force and effect). Notwithstanding anything to the contrary in this Agreement, the termination of this Agreement under Section 9.1(iii) shall not relieve any Party from liability (including liability for consequential damages) for any willful or negligent failure to perform or observe in any material respect any of its agreements or covenants contained herein that are to be performed or observed at or prior to Closing. In the event this Agreement terminates under Section 9.1(iii) and any Party has willfully or negligently failed to perform or observe in any material respect any of its agreements or covenants contained herein which are to be performed at or prior to Closing, then the other Party shall be entitled to all remedies available at law or in equity and shall be entitled to recover court costs and attorneys' fees in addition to any other relief to which such Party maybe entitled.

ARTICLE 10 INDEMNIFICATION; LIMITATIONS

SECTION 10.1 INDEMNIFICATION.

(a) From and after Closing, Purchaser shall indemnify, defend and hold harmless Seller from and against all Damages incurred or suffered by Seller

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- (i) caused by or arising out of or resulting from the ownership, use or operation of the Assets, whether before or after the Effective Time or the Closing Date,
- (ii) caused by or arising out of or resulting from Purchaser's breach of any of Purchaser's covenants or agreements contained in Article 5, or
- (iii) caused by or arising out of or resulting from any breach of any representation or warranty made by Purchaser contained in Article 4 of this Agreement or in the certificate delivered by Purchaser at Closing pursuant to Section 7.3(b),

EVEN IF SUCH DAMAGES ARE CAUSED IN WHOLE OR IN PART BY THE NEGLIGENCE (WHETHER SOLE, JOINT OR CONCURRENT), STRICT LIABILITY OR OTHER LEGAL FAULT OF ANY INDEMNIFIED PERSON, but excepting Damages to the extent caused by the gross negligence or willful misconduct of such Indemnified Person and further excepting in each case Damages against which Seller would be required to indemnify Purchaser under Section 10.1(b) at the time the claim notice is presented by Purchaser.

(b) From and after Closing, Seller shall indemnify, defend and hold harmless Purchaser against and from all Damages incurred or suffered by Purchaser

- (i) attributable to or arising out of the Company's obligations and liabilities with respect to the actions, suits or proceedings, if any, set forth on Schedule 3.5;
- (ii) caused by or arising out of or resulting from Seller's breach of any of Seller's covenants or agreements contained in Article 5, or
- (iii) caused by or arising out of or resulting from any breach of any representation or warranty made by Seller contained in Article 3 of this Agreement, or in the certificate delivered by Seller at Closing pursuant to Section 7.2(c),

EVEN IF SUCH DAMAGES ARE CAUSED IN WHOLE OR IN PART BY THE NEGLIGENCE (WHETHER SOLE, JOINT OR CONCURRENT), STRICT LIABILITY OR OTHER LEGAL FAULT OF ANY INDEMNIFIED PERSON, but excepting Damages to the extent caused by the gross negligence or willful misconduct of such Indemnified Person.

(c) Notwithstanding anything to the contrary contained in this Agreement, this Section 10.1 contains the Parties' exclusive remedy against each other with respect to breaches of the representations, warranties, covenants and agreements of the Parties contained in Articles 3, 4 and 5 (excluding Section 5.6, which shall be separately enforceable by Seller pursuant to whatever rights and remedies are available to it outside of this Article 10) and the affirmations of such representations, warranties, covenants and agreements contained in the certificate delivered by each Party at Closing pursuant to Sections 7.2(c) or 7.3(b), as applicable. From and after Closing, except for the remedies contained in this Section 10.1, and any other remedies available to the Parties at law or in

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equity for breaches of provisions of this Agreement other than Articles 3, 4 and 5 (excluding Section 5.6), Seller and Purchaser each releases, remises and forever discharges the other and its Affiliates and all such Persons' stockholders, officers, directors, employees, agents, advisors and representatives from any and all suits, legal or administrative proceedings, claims, demands, damages, losses, costs, liabilities, interest, or causes of action whatsoever, in law or in equity, known or unknown, which such Parties might now or subsequently may have, based on, relating to or arising out of this Agreement or the Company's ownership, use or operation of the Assets, including without limitation any rights under insurance policies issued or underwritten by the other Party or any of its Affiliates and any rights under agreements between the Company and the Seller or any other Affiliate of the Company, EVEN IF CAUSED IN WHOLE OR IN PART BY THE NEGLIGENCE (WHETHER SOLE, JOINT OR CONCURRENT), STRICT LIABILITY OR OTHER LEGAL FAULT OF ANY RELEASED PERSON, but excepting suits, legal or administrative proceedings, claims, demands, damages, losses, costs, liabilities, interest or causes of action caused by the gross negligence or willful misconduct of such released Person and further excepting any existing contractual rights under service contracts entered into in the ordinary course of business between the Company and Affiliates of the Company relating to the provision of geological, geophysical, engineering or well services.

(d) "Damages", for purposes of this Article 10, shall mean the amount of any actual liability, loss, cost, expense, claim, award or judgment incurred or suffered by any Indemnified Person arising out of or resulting from the indemnified matter, whether attributable to personal injury or death, property damage, contract claims, torts or otherwise including reasonable fees and expenses of attorneys, consultants, accountants or other agents and experts reasonably incident to matters indemnified against, and the costs of investigation and/or monitoring of such matters, and the costs of enforcement of the indemnity; provided, however, that Purchaser and Seller shall not be entitled to indemnification under this Section 10.1 for, and "Damages" shall not include, (i) loss of profits or other consequential damages suffered by the Party claiming indemnification, or any punitive damages, or (ii) any liability, loss, cost, expense, claim, award or judgment to the extent resulting from or increased by the actions or omissions of any Indemnified Person after the Closing Date.

(e) The indemnity to which each Party is entitled under this Section 10.1 shall be for the benefit of and extend to such Party's present and former Affiliates, and its and their respective directors, officers, employees, and agents. Any claim for indemnity under this Section 10.1 by any such Affiliate, director, officer, employee or agent must be brought and administered by the applicable Party to this Agreement. No Indemnified Person other than Seller and Purchaser shall have any rights against either Seller or Purchaser under the terms of this Section 10.1 except as may be exercised on its behalf by Purchaser or Seller, as applicable, pursuant to this Section 10.1(e). Each of Seller and Purchaser may elect to exercise or not exercise indemnification rights under this Section on behalf of the other Indemnified Persons affiliated with it in its sole discretion and shall have no liability to any such other Indemnified Person for any action or inaction under this Section.

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(f) Purchaser and Seller agree that any remediation activities undertaken with respect to any claimed Damages relating to a breach of Seller's representation and warranty pursuant to section 3.8 or any Claim related to environmental matters covered by such representation and warranty, whether conducted by Purchaser or Seller, shall be reasonable in extent and cost effective and shall not be designed or implemented in such a manner as to exceed what is required to cause a condition to be brought into compliance with applicable Laws.

SECTION 10.2 INDEMNIFICATION ACTIONS.

(a) All claims for indemnification under Section 10.1 shall be asserted and resolved as follows: For purposes of this Article 10, the term "Indemnifying Person" when used in connection with particular Damages shall mean the Person having an obligation to indemnify another Person or Persons with respect to such Damages pursuant to this Article 10, and the term "Indemnified Person" when used in connection with particular Damages shall mean a Person having the right to be indemnified with respect to such Damages pursuant to this Article 10.

(b) To make claim for indemnification under Section 10.1, subject to Section 10.1(e), an Indemnified Person shall notify the Indemnifying Person of its claim, including the specific details of and specific basis under this Agreement for its claim (the "Claim Notice"). In the event that the claim for indemnification is based upon a claim by a third Person against the Indemnified Person (a "Claim"), the Indemnified Person shall provide its Claim Notice promptly after the Indemnified Person has actual knowledge of the Claim and shall enclose a copy of all papers (if any) served with respect to the Claim; provided that the failure of any Indemnified Person to give notice of a Claim as provided in this Section 10.2 shall not relieve the Indemnifying Person of its obligations under Section 10.1 except to the extent such failure results in insufficient time being available to permit the Indemnifying Person to effectively defend against the Claim or otherwise prejudices the Indemnifying Person's ability to defend against the Claim. In the event that the claim for indemnification is based upon an inaccuracy or breach of a representation, warranty, covenant or agreement, the Claim Notice shall specify the representation, warranty, covenant or agreement that was inaccurate or breached.

(c) In the case of a claim for indemnification based upon a Claim, the Indemnifying Person shall have thirty (30) days from its receipt of the Claim Notice to notify the Indemnified Person whether it admits or denies its liability to defend the Indemnified Person against such Claim under this Article 10. If the Indemnifying Person does not notify the Indemnified Person within such thirty (30) day period regarding whether the Indemnifying Person admits or denies its liability to defend the Indemnified Person, the Damages for which the Indemnified Person is seeking indemnity shall be conclusively deemed a liability of the Indemnifying Person hereunder. The Indemnified Person is authorized, prior to and during such thirty (30) day period, to file any motion, answer or other pleading that it shall deem necessary or appropriate to protect its interests or those of the Indemnifying Person and that is not prejudicial to the Indemnifying Person.

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(d) If the Indemnifying Person admits its liability to indemnify the Indemnified Person, it shall have the right and obligation to diligently defend, at its sole cost and expense, the Claim. The Parties agree to cooperate in contesting any Claim which the Indemnifying Person elects to contest (provided, however, that the Indemnified Person shall not be required to bring any counterclaim or cross-complaint against any Person). The Parties shall jointly participate in any defense or settlement of any Claim pursuant to this Section 10.2(d). An Indemnifying Person shall not, without the written consent of the Indemnified Person, settle any Claim or consent to the entry of any judgment with respect thereto that (i) does not result in a final resolution of the Indemnified Person's liability with respect to the Claim (including, in the case of a settlement, an unconditional written release of the Indemnified Person from all liability in respect of such Claim) or (ii) may materially and adversely affect the Indemnified Person (other than as a result of money damages covered by the indemnity).

(e) If the Indemnifying Person does not admit its liability to indemnify the Indemnified Person or admits its liability but fails to diligently defend or settle the Claim, then the Indemnified Person shall have the right to defend against the Claim (at the sole cost and expense of the Indemnifying Person, if the Indemnified Person is entitled to indemnification hereunder), with counsel of the Indemnified Person's choosing, subject to the right of the Indemnifying Person to admit its liability to indemnify the Indemnified Person and assume the defense of the Claim at any time prior to settlement or final determination thereof. If the Indemnifying Person has not yet admitted its liability to indemnify the Indemnified Person, the Indemnified Person shall send written notice to the Indemnifying Person of any proposed settlement and the Indemnifying Person shall have the option for ten (10) days following receipt of such notice to (i) admit in writing its liability for indemnification with respect to such Claim and (ii) if liability is so admitted, assume the defense of the Claim, including the power to reject the proposed settlement. If the Indemnified Person settles any Claim over the objection of the Indemnifying Person after the Indemnifying Person has timely admitted its liability for indemnification in writing and assumed the defense of the Claim, the Indemnified Person shall be deemed to have waived any right to indemnity therefor.

(f) In the case of a claim for indemnification not based upon a Claim, the Indemnifying Person shall have thirty (30) days from its receipt of the Claim Notice to (i) cure the Damages complained of, (ii) admit its liability for such Damages or (iii) dispute the claim for such Damages. If the Indemnifying Person does not notify the Indemnified Person within such thirty (30) day period that it has cured the Damages or that it disputes the claim for such Damages, the amount of such Damages shall conclusively be deemed a liability of the Indemnifying Person hereunder.

SECTION 10.3 LIMITATION ON ACTIONS.

(a) The representations and warranties of the Parties in Articles 3 and 4 and the covenants and agreements of the Parties in Article 5, and the corresponding representations and warranties given in the certificates delivered

at Closing pursuant to Sections 7.2(c) and 7.3(b), as applicable, shall survive the Closing for a period of one year, except the representations and warranties of Seller set forth in Sections 3.3(a) and

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3.3(j), and the corresponding representations and warranties given in the certificate delivered by Seller at Closing, which shall survive the Closing for a period of two years. The remainder of this Agreement shall survive the Closing without time limit except as may otherwise be expressly provided herein. Representations, warranties, covenants and agreements shall be of no further force and effect after the date of their expiration, provided that there shall be no termination of any bona fide claim asserted pursuant to this Agreement with respect to such a representation, warranty, covenant or agreement prior to its expiration date.

(b) The indemnities in Sections 10.1(a)(ii), 10.1(a)(iii), 10.1(b)(ii) and 10.1(b)(iii) shall terminate as of the termination date of each respective representation, warranty, covenant or agreement that is subject to indemnification, except in each case as to matters for which a specific written claim for indemnity has been delivered to the Indemnifying Person on or before such termination date. The indemnities in Sections 10.1(a)(i) and 10.1(b)(i) shall continue without time limit.

(c) Seller shall not have any liability for any indemnification under Section 10.1 until and unless the aggregate amount of the liability for all Damages for which Claim Notices are delivered by Purchaser exceeds twenty thousand dollars (\$20,000) U.S. and then only to the extent such Damages exceed twenty thousand dollars (\$20,000), provided, however, that this Section 10.3(c) shall not limit Seller's liability under Section 10.1(b)(i).

(d) The amount of any Damages for which an Indemnified Person is entitled to indemnity under this Article 10 shall be reduced by the amount of insurance proceeds realized by the Indemnified Person or its Affiliates with respect to such Damages (net of any collection costs, and excluding the proceeds of any insurance policy issued or underwritten by the Indemnified Person or its Affiliates).

ARTICLE 11 MISCELLANEOUS

SECTION 11.1 COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be deemed an original instrument, but all such counterparts together shall constitute but one agreement.

SECTION 11.2 NOTICES. All notices that are required or may be given pursuant to this Agreement shall be sufficient in all respects if given in writing, in English and delivered personally, by telecopy or by recognized courier service, as follows:

If to Seller: VAALCO Energy, Inc.
4600 Post Oak Place, Suite 309
Houston, Texas 77027
Telephone: 713-623-0801
Telecopy: 713-623-0982
Attn: President

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If to Purchaser: PanAfrican Energy Corporation Ltd.
PO Box 332
Sir Walter Raleigh House
48-50 Esplanade, St. Hellier, Jersey, Channel
Islands JE4 9YA
Telephone: 44-1534-700903
Telecopy: 44-1534-700901
Attn: J. Goodrich or other Vice President

Either Party may change its address for notice by notice to the other in the manner set forth above. All notices shall be deemed to have been duly given at the time of receipt by the Party to which such notice is addressed.

SECTION 11.3 SALES OR USE TAX, RECORDING FEES AND SIMILAR TAXES AND FEES. Purchaser shall bear any sales, use, excise, gross receipts, registration, capital, documentary, stamp or transfer Taxes, recording fees and similar Taxes and fees incurred and imposed upon, or with respect to, the transfer of the Shares or other transactions contemplated hereby. If such transfer or transactions are exempt from any such taxes or fees upon the filing of an appropriate certificate or other evidence of exemption, Purchaser shall timely furnish to Seller such certificate or evidence.

SECTION 11.4 EXPENSES. Except as provided in Section 11.3, all expenses incurred by Seller in connection with or related to the authorization, preparation or execution of this Agreement, and the Exhibits and Schedules hereto and thereto, and all other matters related to the Closing, including without limitation, all fees and expenses of counsel, accountants and financial

advisers employed by Seller, shall be borne solely and entirely by Seller, and all such expenses incurred by Purchaser shall be borne solely and entirely by Purchaser.

SECTION 11.5 CHANGE OF NAME. Purchaser shall, as promptly as practicable, but in any case within thirty (30) days after the Closing Date, amend the charter and bylaws (or equivalent governing documents) of the Company to change the Company's name to a name not containing "VAALCO" or any abbreviations or variants thereof and make any filings necessary to change the name of all local branches through which the Company does business accordingly. As promptly as practicable, but in any case within one hundred eighty (180) days after the Closing Date, Purchaser shall eliminate the name "VAALCO," and any abbreviations or variants thereof from the Assets and, except with respect to such grace period for eliminating existing usage, shall have no right to use any logos, trademarks or trade names belonging to Seller or any of its Affiliates.

SECTION 11.6 REPLACEMENT OF BONDS, LETTERS OF CREDIT AND GUARANTEES. The Parties understand that none of the bonds, letters of credit and guarantees, if any, posted by Seller or any other Affiliate of the Company with any Governmental Authority or third Person and relating to the Company or the Assets are to be transferred to Purchaser. On or before Closing, Purchaser shall obtain, or cause to be obtained in the name of Purchaser, replacements for such bonds, letters of credit and guarantees, to the extent such replacements are necessary to permit the cancellation of the bonds, letters of credit and guarantees posted by Seller and such Affiliates or to consummate the transactions contemplated by this Agreement.

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SECTION 11.7 RECORDS.

(a) Within ten (10) days after the Closing Date, Seller shall deliver or cause to be delivered to Purchaser any Records that are in the possession of Seller or its Affiliates, and not already in the possession of Purchaser or its Affiliates, subject to Section 11.7(b).

(b) Seller may retain the originals of those Records relating to tax, and accounting matters or ongoing litigation, if any, for which Seller is retaining responsibility and provide Purchaser with copies thereof. Seller may retain copies of any other Records.

(c) Purchaser, for a period of seven (7) years following the Closing, shall (i) retain the Records, (ii) provide Seller, its Affiliates, and its and their respective officers, employees and representatives with access to the Records during normal business hours for review and copying at Seller's expense and (iii) provide Seller, its Affiliates, and its and their respective officers, employees and representatives with access, during normal business hours, to materials received or produced after Closing relating to any claim for indemnification made under Section 10.2 of this Agreement (excluding, however, attorney work product and attorney-client communications with respect to any such claim being brought by Purchaser under this Agreement) for review and copying at Seller's expense and to Seller's and its Affiliates' respective officers, employees and representatives for the purpose of discussing any such claim, provided that Purchaser shall have the right to have its own representatives present during any such meeting.

SECTION 11.8 GOVERNING LAW. This Agreement and the legal relations between the Parties shall be governed by and construed in accordance with the laws of the State of Texas, United States of America without regard to principles of conflicts of laws that would direct the application of the laws of another jurisdiction.

SECTION 11.9 ARBITRATION. It is agreed, as a severable and independent arbitration agreement separately enforceable from the remainder of this Agreement, that any dispute, controversy or claim arising out of or in relation to or in connection with this Agreement, including, without limitation, any dispute as to the construction, validity, interpretation, enforceability, or breach of this Agreement, shall be exclusively and finally settled by arbitration in accordance with this Section 11.9. Either Party may submit such a dispute, controversy, or claim to arbitration by notice to the other Party and the administrator for the American Arbitration Association ("AAA"). The arbitration proceedings shall be conducted in Houston, Texas, United States of America in accordance with the International Arbitration Rules of the American Arbitration Association as in effect on the date hereof. The arbitration shall be heard and determined by three (3) arbitrators. Each Party shall appoint an arbitrator of its choice within twenty (20) days of the submission of the notice of arbitration. The Party appointed arbitrators shall in turn appoint a presiding arbitrator for the tribunal within twenty (20) days following the appointment of the second Party appointed arbitrator. If the Party appointed arbitrators cannot reach agreement on a presiding arbitrator for the tribunal and/or one Party fails to appoint its Party appointed arbitrator within the applicable period, the AAA shall act as appointing authority to appoint an independent arbitrator with at least ten (10) years experience in the legal and/or commercial aspects of the petroleum industry. None of the arbitrators shall have been an employee of or consultant to either Party to this Agreement

within the five (5) year period preceding the arbitration, or have any financial interest in the dispute, controversy, or claim. All decisions of the arbitral tribunal shall be by majority vote. The arbitration shall be conducted in the English language. The arbitrators may not award special punitive damages except those claimed by Persons other than Indemnified Persons under this Agreement for which responsibility is being allocated between the Parties. Each Party shall pay its own expenses in connection with the arbitration, but the compensation and expenses of the arbitrators shall be borne in such manner as may be specified in the arbitral award. Privileges protecting attorney-client communications and attorney work product from compelled disclosure or use in evidence, as recognized by the courts of the State of Texas, United States of America, shall apply to and be binding in any arbitration proceeding conducted under this Section 11.9.

SECTION 11.10 CAPTIONS. The captions in this Agreement are for convenience only and shall not be considered a part of or affect the construction or interpretation of any provision of this Agreement.

SECTION 11.11 WAIVERS. Any failure by any Party to comply with any of its obligations, agreements or conditions herein contained may be waived by the Party to whom such compliance is owed by an instrument signed by the Party to whom compliance is owed and expressly identified as a waiver, but not in any other manner. No waiver of, or consent to a change in, any of the provisions of this Agreement shall be deemed or shall constitute a waiver of, or consent to a change in, other provisions hereof (whether or not similar), nor shall such waiver constitute a continuing waiver unless otherwise expressly provided.

SECTION 11.12 ASSIGNMENT. No Party shall assign or otherwise transfer all or any part of this Agreement, nor any of its rights or duties hereunder, without the prior written consent of the other Party, such consent not to be unreasonably withheld, and any transfer made without such consent shall be void. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and assigns.

SECTION 11.13 AMENDMENT. This Agreement may be amended or modified only by an agreement in writing signed by both Parties and expressly identified as an amendment or modification.

SECTION 11.14 NO THIRD-PERSON BENEFICIARIES. Nothing in this Agreement shall entitle any Person other than Purchaser and Seller and their permitted assignees and successors in interest to any claim, cause of action, remedy or right of any kind, except the rights expressly provided to the Persons described in Section 10.1(e).

SECTION 11.15 REFERENCES.

In this Agreement:

- (a) References to any gender includes a reference to all other genders;
- (b) References to the singular includes the plural, and vice versa;
- (c) Reference to any Article or Section means an Article or Section of this Agreement;
- (d) Reference to any Exhibit or Schedule means an Exhibit or Schedule to this Agreement, all of which are incorporated into and made a part of this Agreement;
- (e) Unless expressly provided to the contrary, "hereunder", "hereof", "herein" and words of similar import are references to this Agreement as a whole and not any particular Section or other provision of this Agreement; and
- (f) "Include" and "including" shall mean include or including without limiting the generality of the description preceding such term.

SECTION 11.16 CONSTRUCTION. Purchaser is a party capable of making such investigation, inspection, review and evaluation of the Assets as a prudent purchaser would deem appropriate under the circumstances, including with respect to all matters relating to the Assets, their value, operation and suitability. Each of Seller and Purchaser has had the opportunity to exercise business discretion in relation to the negotiation of the details of the transaction contemplated hereby. This Agreement is the result of arm's-length negotiations from equal bargaining positions.

SECTION 11.17 LIMITATION ON DAMAGES. Notwithstanding anything to the contrary contained herein, none of Purchaser, Seller or any of their respective Affiliates shall be entitled to special or punitive damages in connection with this Agreement and the transactions contemplated hereby (other than special or punitive damages suffered by third Persons for which responsibility is allocated between the Parties) and each of Purchaser and Seller, for itself and on behalf of its Affiliates, hereby expressly waives any right to special or punitive damages in connection with this Agreement and the transactions contemplated hereby. After Closing, none of Purchaser, Seller or any of their respective Affiliates shall be entitled to consequential damages in connection with this Agreement and the transactions contemplated hereby (other than consequential damages suffered by third Persons for which responsibility is allocated between the Parties) and each of Purchaser and Seller, for itself and on behalf of its Affiliates, hereby waives any right to consequential damages after Closing in connection with this Agreement and the transactions contemplated hereby.

SECTION 11.18 SEVERABILITY. If any provision of this Agreement (or any part of such provision) is unenforceable, all other provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any provision (or any part of such provision) is unenforceable, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that the transactions contemplated hereby are fulfilled.

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IN WITNESS WHEREOF, this Agreement has been signed by each of the Parties as of the date first above written.

SELLER: VAALCO ENERGY, INC.

Name:
Title:

PURCHASER: PANAFRICAN ENERGY CORPORATION LTD.

Name:
Title:

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ATTACHED TO AND MADE A PART OF THE STOCK PURCHASE AGREEMENT DATED JANUARY __, 2001 BETWEEN VAALCO ENERGY, INC. AND PAN AFRICAN ENERGY CORPORATION LTD.

EXHIBIT A

HYDROCARBON INTEREST

1. That certain Exploration and Production Sharing Contract among the Republic of Gabon, VAALCO Gabon (Eteme), Inc. and VAALCO Energy (Gabon), Inc. executed on July 7, 1995 and covering part of the Eteme Marin block, offshore Gabon.

ATTACHED TO AND MADE A PART OF THE STOCK PURCHASE AGREEMENT DATED JANUARY __, 2001 BETWEEN VAALCO ENERGY, INC. AND PAN AFRICAN ENERGY CORPORATION LTD.

EXHIBIT B

1. That certain Supplemental and Correction Deed of Assignment between Western Atlas Afrique, Ltd., as Assignor, and Vaalco Energy (Gabon), Inc., as Assignee to be dated effective as of the Effective Date.

ATTACHED TO AND MADE A PART OF THE STOCK PURCHASE AGREEMENT DATED JANUARY __, 2001 BETWEEN VAALCO ENERGY, INC. AND PAN AFRICAN ENERGY CORPORATION LTD.

EXHIBIT C

1. Attach copy of JOA Amendment amending Section 3.2 of the Joint Operating Agreement

ATTACHED TO AND MADE A PART OF THE STOCK PURCHASE AGREEMENT DATED JANUARY __, 2001 BETWEEN VAALCO ENERGY, INC. AND PAN AFRICAN ENERGY CORPORATION LTD.

SCHEDULE 3.3(G)

BALANCE SHEET

SHARE SALE AND PURCHASE AGREEMENT

By and Between

VAALCO GABON (ETAME) INC.,

And

SASOL PETROLEUM INTERNATIONAL (PTY) LTD.

Concerning the Shares of

WESTERN ATLAS AFRIQUE LTD.

Dated as of February 4, 2001

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SCHEDULE:

1. ANNEXURE A - DISCLOSURE SCHEDULE OF CONTRACTS OF COMPANY

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SHARE SALE AND PURCHASE AGREEMENT

This Share Sale and Purchase Agreement ("Agreement") is made and entered into as of February __, 2001 (the "Effective Date"), by and between:

VAALCO GABON (ETAME) INC., a corporation organized and existing under the laws of Delaware, U.S.A. (the "Seller"); and

SASOL PETROLEUM INTERNATIONAL (PTY) LTD., a company organized and existing under the laws of South Africa (the "Purchaser").

Seller and Purchaser are sometimes hereinafter referred to collectively as the "Parties" and individually as a "Party".

W I T N E S S E T H :

WHEREAS, Seller is the beneficial owner and the registered holder of all the issued and outstanding Shares in Western Atlas Afrique Ltd., a company organized

and existing under the laws of Bermuda (hereinafter referred to as the "Company");

WHEREAS, Seller has agreed to sell to Purchaser, and Purchaser has agreed to purchase from Seller, the Shares, upon the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the premises and of the mutual agreements and covenants hereinafter set forth, Purchaser and Seller hereby agree as follows:

ARTICLE I DEFINITIONS

SECTION 1.01. Certain Defined Terms. As used in this Agreement (including its Recitals and Schedules), the following terms have the following meanings:

"Action" means any action, claim, suit, proceeding, condemnation or audit by or before any court or other Governmental Authority or any arbitration proceeding.

"Affiliate" means, with respect to any Person, any other Person controlling, controlled by or under common control with such Person. The term "control", as used in the preceding sentence, means, with respect to a corporation, the right to exercise, directly or indirectly, more than fifty percent (50%) of the voting rights attributable to the shares of the controlled corporation, and, with respect to any Person other than a corporation,

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the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person.

"Agreement" means this Share Sale and Purchase Agreement, dated as of February ___, 2001, by and between Seller and Purchaser, including any Exhibits and Schedules attached hereto.

"Assets" means all of the Company's right, title, and interest in and to the following:

- (i) The Petroleum Contract;
- (ii) All units that include all or a part of the area subject to the Petroleum Contract;
- (iii) All presently existing contracts, agreements and instruments to which the Company's interest in the Petroleum Contract Interest is subject, including operating agreements, unitization, pooling and communitization agreements, joint venture agreements, farmin and farmout agreements, exchange agreements, transportation agreements, processing agreements, agreements for the sale and purchase of oil, gas and/or other liquid or gaseous hydrocarbons or any combination thereof ("Hydrocarbons"), all of which are hereinafter collectively referred to as "Contracts", provided that "Contracts" shall not include the Petroleum Contract Interest;
- (iv) All easements, permits, licenses, servitudes, rights-of-way, surface leases and other rights appurtenant to, and used or held for use primarily in connection with, the Petroleum Contract Interest;
- (v) Equipment, machinery, fixtures and other tangible personal property and improvements located on the Contract Area or used or held for use primarily in connection with the operation of the Petroleum Contract Interest (the "Equipment");
- (vi) All books, records, data, files, maps and accounting records related solely to the Petroleum Contract Interests, or used or held for use primarily in connection with the maintenance or operation thereof, but excluding (i) any books, records, data, files, maps and accounting records licensed from a third Person which are not transferrable or cannot be disclosed under the terms of the license in the event of a sale of the Company or for which the license will terminate or a transfer fee or similar payment will be incurred upon a sale of the Company, (ii) any computer software that is proprietary to any Affiliate of the Company, (iii) attorney-client communications with, and work product of, legal counsel for the Company or any Affiliate of the Company other than Contracts and correspondence of such legal counsel with third Persons, including Governmental Authorities, who are not employed by or acting for such Affiliates or counsel for such Affiliates; and (iv) records relating to the sale of the Shares, including bids received from and records of negotiations with third Persons, not including such records that are or should be included in the Company's minute.

"Books and Records" means all books of account, documents, records and other

financial records pertaining to the Company.

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"Business" means the ownership of the Assets and all operations and activities pursuant to the Petroleum Contract and the Joint Operating Agreement.

"Business Day" means any day that is not a Saturday, a Sunday or other day on which banks are required or authorized by law to be closed in Houston, Texas, U.S.A., or in Johannesburg, Republic of South Africa.

"Company" means Western Atlas Afrique Ltd., a company organized and existing under the laws of Bermuda.

"Contract Area" means the Etame Block, offshore Gabon, defined as the "Delimited Area" in the Petroleum Contract.

"Closing" has the meaning set forth in Section 2.02 below.

"Closing Date" has the meaning set forth in Section 2.02 below.

"Disclosure Schedule" means the Disclosure Schedule attached hereto and marked Annexure A.

"Effective Date" means the date of this Agreement.

"Financial Statements" means all the statutory balance sheets and the consolidated statements of income and retained earnings of the Company.

"Government," "Governmental," or "Governmental Authority" means any government, any governmental entity, department, commission, board, agency or instrumentality, and any court, tribunal, or judicial or arbitral, body, whether federal, state, local or foreign.

"Governmental Order" means any order, judgement, injunction, decree, stipulation, determination or award entered by or with any Governmental Authority.

"Indemnified Person" has the meaning set forth in Section 8.02 (a) below.

"Joint Operating Agreement" means that certain Joint Operating Agreement (as amended) dated as of April 4, 1997, by and between Vaalco Gabon (Etame) Inc., Vaalco Energy (Gabon) Inc., Western Atlas Afrique Ltd., Petrofields Exploration & Development Co. Inc. and Alcorn Petroleum and Minerals Corporation.

"Knowledge" shall mean, as to each Party specified below, the actual knowledge of any fact, circumstance or condition after having made a reasonable inquiry with respect to the matters covered by this Agreement, by any of the individuals identified below with respect to such Party: (i) as to Seller, any director or officer of Seller, and (ii) as to Purchaser, any director or officer of the Purchaser.

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"Law" means any federal, state, local or foreign statute, law, ordinance, regulation, rule, code, order or rule of common law, as in effect on the date hereof, other than any Environmental Law. For purposes of this definition, "Environmental Law" means any Law relating to (a) the control of any potential pollutant, or protection of the air, water or land, (b) solid, gaseous or liquid waste generation, handling, treatment, storage, disposal, transportation or remediation, (c) exposure to hazardous, toxic or other substances alleged to be harmful, and (d) protection of wildlife or cultural or historic resources.

"Liabilities" means any and all debts, liabilities and obligations, whether accrued or fixed, absolute or contingent, matured or unmatured or determined or determinable.

"Losses" of a Person means any and all losses, liabilities, damages, claims, awards, judgements, costs and expenses (including, without limitation, reasonable attorney's fees) actually suffered or incurred by such Person.

"Material Contracts" has the meaning set forth in Section 3.14(a).

"Party" or "Parties" has the meaning set forth above.

"Person" means any individual, partnership, firm, corporation, association, trust, limited liability company, unincorporated organization, a Governmental Authority or other entity.

"Petroleum Contract" means that certain Exploration and Production Sharing Contract (as amended) dated July 7, 1995 by and between the Government of Gabon, Vaalco Energy (Gabon), Inc. and Vaalco Gabon (Etame) Inc.

"Purchaser" means Sasol Petroleum International (Pty) Ltd., a company organized and existing under the laws of South Africa.

"Returns" means all reports, returns, forms, declarations, elections, claims for refund, information statements and any other filing related to or required to be supplied to or filed with any taxing authority or jurisdiction with respect to any Taxes, including any schedule or attachment thereto and any amendments thereof, and including information returns or reports with respect to tax withholding and other payments to third parties.

"Seller" means Vaalco Gabon (Eteme) Inc., a corporation organized and existing under the laws of Delaware, U.S.A.

"Shares" means twelve thousand (12,000) shares of common stock of the Company, being all of the issued and outstanding shares of the share capital of the Company.

"Subsidiary" means a corporation (or equivalent legal entity under foreign law) of which another Person owns directly or indirectly more than 50% of the stock, the holders of which are ordinarily and generally, in the absence of contingencies or understandings, entitled to vote for the election of directors and any partnership (or equivalent legal

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entity under foreign law) in which such other person owns directly or indirectly more than a 50% interest.

"Tax" or "Taxes" means all income, gross receipts, license, sales, use, payroll, employment, franchise, profits, property, excise, severance, occupation, premium, business, value added, stamp, environmental, customs duties, transfer, gains, capital stock, withholding, social security (or similar), worker's compensation, unemployment, compensation, disability, ad valorem, real property, personal property, transfer, alternative or add-on minimum, estimated, or any other taxes, fees, duties, assessments or charges of any kind whatsoever (whether payable directly or by withholding), together with any interest and any penalties, whether disputed or not.

"U. S. Dollars" or "US \$" means the lawful currency of the United States of America.

ARTICLE II

PURCHASE AND SALE; CLOSING; TERMINATION

2.01. Purchase and Sale. Upon the terms and subject to the conditions set forth in this Agreement, and for good and valuable consideration agreed to by the Parties, Seller agrees to sell to Purchaser, and Purchaser agrees to purchase from Seller, all the Shares on and with effect from the Effective Date free of all charges, liens, encumbrances, claims or restrictions whatsoever and together with all rights which are now, or at any time hereafter may become attached to them (including to receive any dividend or distribution).

2.02 Closing.

(a) Subject to satisfaction or waiver of the conditions set forth in Article VII hereof, the sale and purchase of the Shares contemplated hereby shall take place at a closing (the "Closing") within 3 days after the Purchaser has informed the Seller in writing that approval from the South African Reserve Bank for the transaction has been obtained, such Closing to be held at the offices of the Seller or at such other date or at such other place as Seller and Purchaser may mutually agree upon in writing (the day on which the Closing takes place being the "Closing Date").

(b) At the Closing, Seller shall deliver or cause to be delivered to Purchaser in respect of the Company:

- (i) stock certificates evidencing the Shares duly endorsed in blank or accompanied by stock powers duly executed in blank;
- (ii) letters of resignation of each director and officer of the Company resigning from their offices and employment and stating that no moneys are owed to

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them by the Company and that they have no outstanding claims against the Company;

- (iii) a certificate of an officer of Seller, dated the Closing Date, confirming that (A) the conditions set forth in Sections 7.02 (a) and (b) below have been satisfied, (B) all bank accounts of the Company have been closed, (C) all outstanding powers of attorney authorizing any Person to act on behalf of the Company have been

revoked, (D) attaching resolutions by the Board of Directors of Seller authorizing the execution, delivery and performance by Seller of this Agreement and the consummation of the transactions contemplated hereby, and (E) any required approval by the stockholders of the Seller and the consummation of the transactions contemplated hereby; and

- (iv) a true and correct copy of the Company's Certificate of Incorporation, Memorandum of Association, Bye-laws and the original Minute Books of the Company.
- (c) At the Closing, Purchaser shall deliver or cause to be delivered to Seller:
 - (i) wire transfer in immediately available funds of any agreed cash consideration in same day funds; and
 - (ii) a certificate of an officer of Purchaser, dated the Closing Date, confirming that the conditions set forth in Sections 7.01 (a) and (b) below have been satisfied.
- (d) At Closing or immediately following Closing, the Purchaser shall duly cause a shareholders meeting of the Company to be duly convened and held at which:
 - (i) such persons as nominated by the Purchaser shall be appointed as directors and officers; and
 - (ii) the registered office shall be changed to such address as nominated by the Purchaser.

2.03. Termination. This Agreement and the transactions contemplated hereby may be terminated at any time prior to the Closing:

- (a) by the mutual consent of Seller and Purchaser; or
- (b) By either Seller or Purchaser if the Closing has not occurred by the close of business on April 15 2001, and if the failure to consummate the transactions contemplated hereby on or before such date did not result from the failure by the Party seeking termination of this Agreement to fulfill any undertaking or commitment provided

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for herein that is required to be fulfilled by such Party or its Affiliates at or prior to Closing.

ARTICLE III REPRESENTATIONS AND WARRANTIES OF SELLER

3.01 DISCLAIMERS.

(a) Except as and to the extent expressly set forth in this Article 3 or in the certificate of Seller to be delivered pursuant to Section 2.02(b), (i) Seller makes no representations or warranties, express or implied, and (ii) Seller expressly disclaims all liability and responsibility for any representation, warranty, statement or information made or communicated (orally or in writing) to Purchaser or any of its Affiliates, employees, agents, consultants or representatives (including, without limitation, any opinion, information, projection or advice that may have been provided to Purchaser by any officer, director, employee, agent, consultant, representative or advisor of Seller or any of its Affiliates).

(b) EXCEPT AS EXPRESSLY REPRESENTED OTHERWISE IN THIS ARTICLE 3 OR IN THE CERTIFICATE OF SELLER TO BE DELIVERED AT CLOSING PURSUANT TO SECTION 2.02(b), WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, SELLER EXPRESSLY DISCLAIMS ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO, (I) THE CONTENTS, CHARACTER OR NATURE OF ANY DESCRIPTIVE MEMORANDUM, OR ANY REPORT OF ANY PETROLEUM ENGINEERING CONSULTANT, OR ANY GEOLOGICAL OR SEISMIC DATA OR INTERPRETATION, RELATING TO THE ASSETS, (II) THE QUANTITY, QUALITY OR RECOVERABILITY OF PETROLEUM SUBSTANCES IN OR FROM THE ASSETS, (III) ANY ESTIMATES OF THE VALUE OF THE ASSETS OR FUTURE REVENUES GENERATED BY THE ASSETS, (IV) THE PRODUCTION OF PETROLEUM SUBSTANCES FROM THE ASSETS, OR WHETHER PRODUCTION HAS BEEN CONTINUOUS, OR IN PAYING QUANTITIES, (V) THE MAINTENANCE, REPAIR, CONDITION, QUALITY, SUITABILITY, DESIGN OR MARKETABILITY OF THE ASSETS, OR (VI) ANY OTHER MATERIALS OR INFORMATION THAT MAY HAVE BEEN MADE AVAILABLE OR COMMUNICATED TO PURCHASER OR ITS AFFILIATES, OR ITS OR THEIR EMPLOYEES, AGENTS, CONSULTANTS, REPRESENTATIVES OR ADVISORS IN CONNECTION WITH THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY DISCUSSION OR PRESENTATION RELATING THERETO, AND FURTHER DISCLAIMS ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE OR CONFORMITY TO MODELS OR SAMPLES OF MATERIALS OF ANY EQUIPMENT, IT BEING EXPRESSLY UNDERSTOOD AND AGREED BY THE PARTIES HERETO THAT PURCHASER HAS MADE OR CAUSED TO BE MADE SUCH INSPECTIONS AS PURCHASER DEEMS APPROPRIATE.

(c) Subject to the foregoing provisions of this Section 3.1, and the other terms and conditions of this Agreement, Seller represents and warrants to Purchaser the matters set out in Sections 3.2 through 3.25.

3.02. Incorporation and Authority of the Seller. The Seller is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware and has all necessary corporate power and authority to enter into this Agreement, to carry out its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by Seller, the performance by Seller of its obligations hereunder and the consummation by Seller of the transactions contemplated hereby have been duly authorized by all requisite corporate action on the part of Seller. This Agreement has been duly executed and delivered by Seller, and (assuming due authorization, execution and delivery by Purchaser) this Agreement constitutes a legal, valid and binding obligation of Seller enforceable against Seller in accordance with its terms.

3.03. Incorporation and Qualification of the Company. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of Bermuda and has the requisite power and authority to own, operate or lease the properties and assets now owned, operated or leased by it and to carry on that portion of the Business as currently conducted by the Company in all material respects. The Company is duly qualified as a foreign corporation to do business, and is in good standing in Gabon. True, correct and complete originals or copies of the Company's charter and organizational documents, bylaws, minute books, stock register books and other corporate books and records (containing all amendments, corrections or modifications thereof) have been made available to Purchaser. For the period of time in which Seller has owned the Shares, and to Seller's Knowledge, prior to such time as Seller acquired the Shares, the minute books of the Company reflect all material action taken by the Company's board of directors and stockholders in their capacities as such.

3.04. Capital Stock of the Company. For the period of time in which Seller has owned the Shares, the Company has not at any time carried on or held any interest in or in connection with any business other than the Business. Prior to such time as Seller acquired the Shares, to Seller's Knowledge, the Company was formed by Seller's predecessor in interest in 1997, and since the date of its formation the sole activity of the Company has been to own an interest in the Petroleum Contract and undertake activities related to the Business; the Company has not owned any material property (real, personal or mixed) other than its interest in the Petroleum Contract and any bank account balances; and the Company was not engaged in and is not otherwise a party to any joint venture, partnership or enterprise other than as directly regards and concerns the Business. The Shares constitute all the issued and outstanding shares of capital stock of the Company. The Shares have been duly authorized and validly issued and are fully paid and non-assessable and were not issued in violation of any pre-emptive rights. There are no outstanding options, warrants or rights of conversion or other rights, agreements, arrangements or commitments relating to the capital stock of the Company obligating the Company to issue or sell any of its shares of capital stock or

other securities. In addition, the Shares are free and clear of any security interests, pledges or other encumbrance. The Seller is the recorded and beneficial owner of the Shares except as a result of Seller's obligation to transfer the Shares to Purchaser pursuant to this Agreement and any restriction on transfer to others arising out of this Agreement. Subject to the conditions under Section 7.01, on the Closing Date, Seller will transfer and deliver to Purchaser valid title to all the Shares free and clear of any security interests, pledges or encumbrances.

3.04. Subsidiaries. The Company has no Subsidiaries, equity investments, joint ventures or interests in any other business entities, and has never had any Subsidiaries, equity investments, joint ventures or interests in other business entities.

3.05. No Conflict. The execution, delivery and performance of this Agreement by Seller do not and will not (a) violate or conflict with the Certificate of Incorporation or By-laws of the Seller or the Company, (b) conflict with or violate any Law or Governmental Order applicable to Seller or the Company, or (c) result in any material breach of, or constitute a material default (or event which with the giving of notice or lapse of time, or both, would become a material default) under, or give to others any rights of termination, amendment, acceleration or cancellation pursuant to, the Joint Operating Agreement, the Petroleum Contract or any material note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument to which Seller or the Company is a party or by which any of the assets or properties of the Company is bound or affected.

3.06. Financial Statements. The Seller has caused the Company's Financial Statements to be prepared and delivered to Purchaser. The Financial Statements

have been prepared in accordance with international accounting standards applied on a consistent basis and fairly present in all material respects the financial position and results of operations of the Business for the period covered thereby.

3.07. Absence of Undisclosed Liabilities. As of the Closing Date, there shall be no Liabilities of the Company, except (a) as set forth in the Disclosure Schedule attached to this Agreement, (b) for Liabilities under the Petroleum Contract, the Joint Operating Agreement and the other Material Contracts identified in Section 3.14(a) of this Agreement, (c) with respect to matters otherwise addressed by any of the representations, warranties or covenants made by Seller in this Agreement, or (d) except as stated otherwise in this Agreement, for Liabilities incurred in the ordinary course of business after the Effective Date and prior to the Closing Date or pursuant to the Petroleum Contract or Joint Operating Agreement.

3.08. Absence of Litigation. As of the date of this Agreement there are no Actions pending or, to the Knowledge of Seller, threatened against the Seller, the Company or any of the assets or properties of the Company, and, to Seller's Knowledge, there are no circumstances which are reasonably likely to give rise to any Actions. As of the date of this Agreement no injunctions have been granted against the Company.

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3.09. Compliance with Laws. Except as set forth in the Disclosure Schedule, to the Knowledge of Seller, the Company and the conduct of the Business are in substantial compliance with all applicable Laws, and all Tax Returns and filings required to be made by the Company have been duly made, and the statutory books have been properly kept and contain a true, accurate and complete record of the matters dealt with therein. As of the date of this Agreement, neither Seller nor the Company has received any written notice to the effect that Seller or the Company is not in compliance with any applicable Laws.

3.10. Consents, Approvals, Licenses, Etc. No consent, approval, authorization, license, order or permit of, or declaration, filing or registration with, or notification to, any Governmental Authority, or any other Person or entity, is required to be made or obtained by the Seller, except as set forth in the Disclosure Schedule in connection with the execution, delivery and performance of this Agreement by the Company and the consummation of the transactions contemplated hereby, except where the failure to obtain such consents, approvals, authorizations, licenses, orders or permits of, or to make such declarations, filings or registrations or notifications, either individually or in the aggregate would not prevent Seller from performing its obligations under this Agreement.

3.12. Insurance. All properties and risks of the Company are covered by valid and currently effective insurance policies or binders of insurance or programs of self-insurance in such types and amounts as are consistent with customary practices and standards of companies engaged in businesses and operations similar to those of the Company. As of the date of this Agreement there are no pending claims and, to Seller's Knowledge, no event exists which may give rise to any claim under such insurance policies. Seller shall keep in full force and effect all insurance policies maintained in respect of the Business of the Company until the Closing Date, and any proceeds of insurance received in respect of any event occurring after the Effective Date and on or before the Closing Date shall be an asset of and be paid to the Company. At Closing, Seller shall terminate all insurance maintained by or on behalf of the Company and Purchaser shall procure such insurance as it deems advisable or appropriate.

3.13. Taxes. Except as disclosed on the Disclosure Schedule:

(a) The Company has filed, or has had filed on its behalf in a timely manner (within any applicable extension periods) with the appropriate taxing authority all Returns required to be filed with respect to Taxes of the Company, and such Returns are true, complete and correct in all material respects;

(b) All Taxes shown to be due and payable on all filed Returns of or with respect to the Company, and all Taxes required to be paid or deposited by or with respect to the Company, or on subsequent assessments with respect thereto, have been paid or deposited in full on a timely basis;

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(c) There are no outstanding agreements or waivers extending the period for filing any Returns or for assessment or collection of Taxes with respect to the Company;

(d) No other Taxes are payable by the Company with respect to items or periods covered by such Returns (whether or not shown on or reportable on such Returns) or with respect to any date prior to and including the Closing Date;

(e) The Company, or Seller on behalf of the Company, has withheld and paid over all Taxes required to have been withheld and paid over, and complied with all information reporting and other withholding requirements, including

maintenance of required records with respect thereto, in connection with any amounts paid or owing to any employee, creditor, independent contractor or any other Person with respect to any date prior to and including the Closing Date;

(f) There are no liens on any of the assets of the Company with respect to Taxes, other than liens for Taxes not yet due and payable or for Taxes that the Company is contesting in good faith through appropriate proceedings and for which appropriate reserves have been established;

(h) To Seller's Knowledge, no claim has ever been made by an authority in a jurisdiction where the Company does NOT file tax returns that the Company is or may be subject to taxation by the jurisdiction for any taxable period;

(i) The Company is not a party to any allocation or Tax sharing arrangement, and the Company has no liability for the Taxes of any person other than the Company under any tax consolidation or tax grouping law; as a transferee or successor, by contract or by any other means.

3.14. Material Contracts.

(a) The Disclosure Schedule attached to this Agreement lists all of the contracts to which the Company or its Affiliates are a party that are material to the ownership of the Company's interest under the Petroleum Contract and the Joint Operating Agreement, in effect as of the date of this Agreement (the "Material Contracts"). Seller has provided Purchaser with true, complete and accurate copies of the Material Contracts. Except as set forth in the Disclosure Schedule, to Seller's Knowledge, (i) the Material Contracts are in full force and effect as of the date hereof in accordance with their terms and conditions, (ii) neither the Company nor any of its Affiliates who are a party to any Material Contract, is, as of the date hereof, in material breach of or material default under any Material Contract, and (iii) neither the Company nor any of its Affiliates who are a party to any Material Contract have given or received a written notice of any action to terminate, rescind, procure a judicial reformation of, or amend any Material Contract in a manner materially adverse to the Company's interests.

3.15. Affiliate Agreements. The Disclosure Schedule sets forth a list of all contracts existing as of the date of this Agreement which relate to (a) the provision or sharing of

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products or services to the Company by Seller or by any other division, unit or Affiliate of Seller or (b) the provision or sharing of products or services by the Company to Seller or to any other division, unit or Affiliate of Seller and except as may arise under the Petroleum Contract and the Joint Operating Agreement, or other Material Contracts Seller shall ensure that, at Closing, all such contracts have been terminated without liability to the Company and all amounts due under such contracts shall have been paid or waived by Seller or such Affiliate.

3.16. Brokers. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Seller.

3.17 Consultants. The Company has not entered into any contract with any consultant pursuant to which any compensation would be payable on or after the Closing Date.

3.18 Pension Obligations. The Company has no pension scheme or other arrangement or any liability to pay any pension to any present or past director, officer or expatriate employee.

3.19 Petroleum Contract Interest. The Company is the legal and beneficial owner of a 20% interest under the Petroleum Contract and Joint Operating Agreement, and all of such ownership is free of all charges, pledges, liens, assignments, security interests or other third party rights and encumbrances, except as set forth in the Disclosure Schedule, and other than as is provided for in the Petroleum Contract and the Joint Operating Agreement.

3.20 Royalties, Production Payments, etc. Except as set forth in the Disclosure Schedule, the Company has not entered into any agreement in the nature of a farm-out, overriding royalty, production payment or otherwise granting to any Person any other rights over, or entitlement to, hydrocarbons produced under the Petroleum Contract or the Joint Operating Agreement, or which otherwise restrict the Company's ability to dispose freely of any hydrocarbons produced thereunder.

3.21 Powers of Attorney. All powers of attorney authorizing Persons to act on behalf of the Company will be revoked by Seller on or before Closing.

3.22 Guarantees. The Company has not issued any guarantee or indemnity save as contained in the Petroleum Contract and the Joint Operating Agreement.

3.23 Environmental Matters. Except as disclosed in the Disclosure Schedule, the Business have been operated in compliance with all applicable Environmental Laws. Except as set forth in the Disclosure Schedule, neither Seller, any Affiliate of Seller nor any other Person has filed or given any notice or report under any Law indicating or reporting any past or present treatment, storage, disposal, processing, remediation, transportation, transmission or other handling, or any spill, discharge or release, of any

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Hazardous Materials with respect to the Business. Except as set forth in the Disclosure Schedule, there has been no contamination of, or releases of hazardous materials into, groundwater, surface water or soil resulting from the use, construction, maintenance or operation of the Business which would require such a report or would require remediation under applicable Environmental Laws, except for such contamination or releases as would not have a material adverse effect. Except as set forth in the Disclosure Schedule, all hazardous materials generated from the use, construction, maintenance or operation of the Business have been handled and disposed of in accordance with applicable Environmental Laws, except for such non-compliance as would not have a material adverse effect. There are no liabilities, whether under Environmental Laws or common law, to any Governmental Authority or to any private person in connection with any release, discharge, spill, disposal, storage, treatment, processing, remediation, transportation, transmission or other handling of hazardous materials that would adversely affect the business of the Company or the value of the Business.

3.24 Employees. The Company has no employees and no employee benefit plans. The Company's directors and officers are not directly compensated by the Company.

3.25 Permits and Filings. The Company has all permits and all of the permits are in full force and effect and all fees and charges relating thereto have been paid. All application for renewal of any permits have been timely filed and no modifications of any permit or application for renewal of any permit is required for the Company to hold such permits. All filings and notices required to be made with any Governmental Authority with respect to the Assets have been made or given as required by Law and are current, in full force and effect and are not in default.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser hereby represents, warrants and undertakes to Seller in the terms of the representations, warranties and undertakings set out in this Article IV.

4.01. Incorporation and Authority of the Purchaser. Purchaser is a corporation duly incorporated, validly existing and in good standing under the laws of South Africa and has all necessary corporate power and authority to enter into this Agreement, to carry out its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by Purchaser, the performance by Purchaser of its obligations hereunder and the consummation by Purchaser of the transactions contemplated hereby have been duly authorized by all requisite corporate action on the part of Purchaser. This Agreement has been duly executed and delivered by Purchaser, and (assuming due authorization, execution and delivery by Seller) constitutes a legal, valid and binding obligation of Purchaser enforceable against Purchaser in accordance with its terms, subject to the effect of any applicable

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bankruptcy, reorganization, insolvency, moratorium or similar laws affecting creditors' rights generally and subject, as to enforceability, to the effect of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

4.02. No Conflict. The execution, delivery and performance of this Agreement by Purchaser do not and will not (a) violate or conflict with the Certificate of Incorporation or By-laws of Purchaser, (b) conflict with or violate any Law or Governmental Order applicable to Purchaser, or (c) result in any material breach of, or constitute a material default (or event which with the giving of notice or lapse of time, or both, would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in the creation of any encumbrance on any of the assets or properties of Purchaser pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument relating to such assets or properties to which Purchaser is a party or by which any of Purchaser's assets or properties is bound or affected.

4.03. Consents and Approvals. Except as described on the Disclosure Schedule, no consent, approval, authorization, license, order or permit of, or declaration, filing or registration with, or notification to, any Governmental Authority, or any other Person or entity, is required to be made or obtained by

Purchaser or any of its Affiliates in connection with the execution, delivery and performance of this Agreement by Purchaser and the consummation of the transactions contemplated hereby.

4.04. Absence of Litigation. No Action is pending or, to the Knowledge of Purchaser, threatened against Purchaser which would, individually or in the aggregate, delay the consummation of the transactions contemplated by this Agreement.

4.05 Financing. The Purchaser has all funds necessary to consummate the transactions contemplated by this Agreement.

4.06. Brokers. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Purchaser.

ARTICLE V

ADDITIONAL AGREEMENTS

5.01. Conduct of Business Prior to the Closing. During the period from the date of this Agreement until the Closing Date, unless this Agreement is sooner terminated as provided in Section 2.03 above:

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(a) Seller covenants and agrees that it shall not permit the Company to conduct the Business other than in the ordinary and usual course and consistent with their prior practice, except as provided in this Agreement.

(b) Seller covenants and agrees that it will not permit the Company to amend its Certificate of Incorporation or By-laws (or equivalent organization documents) or merge or consolidate, or obligate itself to do so, with or into any other entity, without the prior written consent of Purchaser.

(c) Except to the extent set forth on the Disclosure Schedule, Seller and the Company shall prepare and timely file all Returns required to be filed by them and all such Returns shall be true, complete and correct in all material respects and prepared on a basis consistent with previously filed returns. Purchaser shall have a reasonable opportunity to review and comment on all such Returns.

(d) The following matters shall require the prior written consent of Purchaser which consent shall not be unreasonably withheld:

- (i) Except as described in or related to AFE #005 dated December 5, 2000, related to the Etame V3 Well, the acquisition or disposal of or agreement to acquire or dispose of any material assets of the Company, or agreement to amend the Petroleum Contract and/or the Joint Operating Agreement (except as provided in Amendment One to the Joint Operating Agreement), or assumption or incurring or agreement to assume or incur any new or additional liabilities (including contingent liabilities) by the Company;
- (ii) the modification of any of the rights attached to any of the Shares or the creation or issue of any new shares or the grant, or agreement to grant, of any option over any of the Shares or new shares or uncalled capital of the Company or the issue of any obligations convertible into shares of the Company;
- (iii) the admission of any Person (other than a Party) as a member of the Company;
- (iv) the granting of any guarantee or indemnity by the Company;
- (v) except as described in AFE #005, the making of any capital commitments by the Company;
- (vi) the borrowing or lending of any monies by the Company save as inter-company loans from any Affiliate of the Company on terms that such loans are repaid in full at Closing; and
- (vii) the creation of any debenture, charge, mortgage or other encumbrance over the Assets of the Company or the Shares.

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(e) During the period from the date of this Agreement to the Closing Date, unless this Agreement is sooner terminated as provided in Section 2.03 above, Seller shall procure that:

- (i) the Company exercises its voting rights at all management or

operating committee meetings held pursuant to the Joint Operating Agreement only after having consulted in a reasonably timely manner with Purchaser, to the extent that such consultation is reasonably practicable under the circumstance;

- (ii) all loans or intercompany accounts payable between the Company and Seller or any Affiliate of Seller shall be settled prior to the Closing Date, and all indebtedness for borrowed money owing by the Company to any party other than Seller or any Affiliate of Seller shall be repaid in full prior to the Closing Date; and
- (iii) all loans or advances due to or from any directors, officers or employees (past or present) of the Company have been repaid in full.

5.02. Confidentiality. Each Party agrees that, between the date of this Agreement and the Closing Date, it shall not provide a copy of all or any portion of this Agreement to any Person other than (i) an Affiliate of such Party, or (ii) any attorney, accountant or banker engaged by such Party or any of its Affiliates who agrees to maintain the confidentiality of this Agreement.

5.03. Notifications; Updates to Disclosure Schedule. Between the date of this Agreement and the Closing Date, the Parties will promptly notify each other in writing if they become aware of any fact, condition or occurrence that causes or constitutes a material breach of any of the representations, warranties or covenants in this Agreement. Should any such fact, condition or occurrence discovered or occurring prior to Closing require any change in the Disclosure Schedule, or should Seller become aware of any other information that it reasonably believes should be included in the Disclosure Schedule, Seller will promptly deliver to Purchaser a supplement to the Disclosure Schedule specifying such change. The Disclosure Schedule shall only be amended and supplemented by mutual consent of the Parties.

5.04. Access to Information.

(a) From the date of this Agreement until the Closing, upon reasonable notice, Seller shall, and shall cause the officers, employees, and agents of Seller and the Company, to afford the officers, employees and authorized agents and representatives of Purchaser reasonable access, during normal business hours, to the properties, Books and Records and Returns of the Company whether in possession of the Company, Seller or third-party professional advisors or representatives in order that Purchaser may have full opportunity to make such investigations as it shall desire to make of the

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affairs of the Company. Subject to receiving the prior written consent from Seller, such consent to not be unreasonably denied, and Purchaser will be afforded reasonable access to the third party advisors, including accountants and attorneys, of Seller and the Company in connection with the investigation of the Books and Records, Returns, and the Business of the Company.

(b) Each Party agrees that it will cooperate with and make available to the other Party, during normal business hours, subject to reasonable prior notice, all Books and Records and information retained and remaining in existence after the Closing Date which are necessary or useful in respect of any Tax inquiry, audit, investigation or dispute, any litigation or investigation or any other matter requiring any such Books and Records, information or employees for any reasonable business purpose. The Party requesting any such Books and Records and information shall bear all of the out-of-pocket costs and expenses (including, without limitation, attorneys' fees, but excluding reimbursement for salaries and employee benefits) reasonably incurred in connection with providing such Books and Records or information. Seller may require certain financial information relating to the Business for periods prior to the Closing Date for the purpose of filing federal, state, local and foreign Tax returns and other governmental reports, and Purchaser agrees to furnish such information to Seller at Seller's request and expense. All Books and Records and information provided to Seller shall be used only for the purpose provided and shall be kept confidential save to the extent disclosure is required to be made.

(c) Each Party agrees that it will provide to the other Party copies of all correspondence received from any taxing authority by such Party or any of its Affiliates in connection with Taxes for which the other Party is or may be liable under this Agreement.

5.05. Regulatory and Other Authorizations; Consents. Without prejudice to Article VII, each Party hereto shall use all reasonable endeavours to obtain all authorizations, consents, orders and approvals of, and to give all notices to and make all filings with, all Governmental Authorities and other third parties that may be or become necessary for its execution and delivery of, and the performance of its obligations pursuant to, this Agreement and will cooperate fully with the other Party in promptly seeking to obtain all such authorizations, consents, orders and approvals, giving such notices, and making such filings. The Parties hereto acknowledge that time shall be of the essence

in this Agreement and agree not to take any action that will have the effect of unreasonably delaying, impairing or impeding the receipt of any required authorizations, consents, orders or approvals. In particular and without limiting the foregoing, Purchaser covenants that it will diligently seek all requisite approvals from the Bermuda Monetary Authority to transfer the Shares and the Reserve Bank of South Africa to transfer currency necessary to make payment of the Purchase Price to Seller.

5.06. Further Action. Subject to the terms and conditions herein provided, each of the parties hereto covenants and agrees to use its best efforts to deliver or cause to be delivered such documents and other papers and to take or cause to be taken such

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further actions as may be necessary, proper or advisable under applicable Laws to consummate and make effective the transactions contemplated hereby.

5.07 AFE #005 dated December 5, 2000. Notwithstanding the Effective Date, Company shall be responsible for payment of its Petroleum Contract Interest share of costs described in AFE #005 dated December 5, 2000 and the associated administrative charges in the approved budget of the Operating Committee, for the planning of the well covered by AFE #005, and the administration of the Petroleum Contract from October 1, 2000 onwards.

ARTICLE VI

TAX MATTERS

6.01. Conveyance Taxes. Any transfer, stamp, registration, or similar Tax imposed with respect to the sale of Shares or any other transaction contemplated under this Agreement will be borne by the Party on whom the relevant law places the burden of such Tax.

6.02 Returns and Taxes for Periods Through the Closing Date. Seller shall be liable and responsible for, and indemnify and hold Purchaser harmless from, (1) any income, profit or capital gains Taxes caused by or resulting from the sale of the Shares or any other transaction contemplated under this Agreement (other than Taxes described in Section 6.01), (2) any Taxes of Seller or any of its Affiliates imposed on the Company solely on the basis of joint and several liability for such Taxes or Taxes resulting from the inclusion of the Company in any affiliated, consolidated, combined, unitary or similar group for Tax purposes (even if such Taxes relate to periods after the Effective Date), and (3) any Taxes of the Company (or of other Persons to the extent the Company is liable for the payment of such Taxes) for any taxable period ending on or prior to the Effective Date (and the portion, determined as described in Section 6.04, of any such Taxes for any taxable period beginning prior to and ending on or after the Effective Date which is allocable to the portion of such period occurring on or prior to the Effective Date). Notwithstanding any provision of this Agreement to the contrary, Seller shall not cause any amended Return after Closing to be filed by or with respect to the Company without the prior written consent of Purchaser, which consent shall not be unreasonably withheld. Purchaser agrees to pay to Seller any refund received after the Closing Date by Purchaser or the Company in respect of any Taxes of the Company for which Seller is liable under this Section 6.02, but only to the extent such refund does not result from the carry back of net operating losses or other tax attributes from a taxable period of the Company ending after the Closing Date. Seller agrees to pay to Purchaser any refund received after the Closing Date by Seller or its Affiliates in respect of any Taxes of the Company for which Purchaser is liable under Section 6.04. Any refunds of such Taxes shall be paid to the other Party within a reasonable period after its receipt. Seller shall not cause any election to be made to treat the Company as a partnership, branch or division for income tax purposes. Purchaser shall not cause make any election to be

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made to treat the Company as a partnership, branch or division for income tax purposes which is effective at or prior to the Closing.

6.03 Tax Sharing Agreements. Seller and the Company shall, on or before the Closing Date but as of the Effective Date, terminate all tax allocation or tax sharing agreements or arrangements with respect to the Company and shall ensure that such agreements or arrangements are of no further force or effect as to the Company on and after the Closing Date and there shall be no further liability or obligation of the Company under any such agreement or arrangement for any taxable year (whether the current year, a future year or a past year).

6.04 Post-Closing Returns and Examinations. Purchaser shall be responsible for the preparation and filing of all Returns, and payment to the appropriate taxing authority of Taxes, of the Company for taxable periods ending after the Effective Date. Seller shall cooperate with Purchaser in providing information necessary for the filing of such Returns. Seller shall be responsible for the preparation and filing of all Returns, and payment to the appropriate taxing authority of Taxes, of the Company for taxable periods ending prior to or on the

Effective Date provided that (1) all such Returns shall be prepared on a basis consistent with previously filed Returns, (2) Purchaser have a reasonable opportunity to review and comment on any such Returns, if it bears any relevance to the Company or its Business activities after the Effective Date, within a reasonable period, and (3) Seller shall provide copies of any such Returns to Purchaser within a reasonable period after they are filed. Purchaser shall be liable and responsible for, and indemnify and hold Seller harmless from, any Taxes of the Company (or of other Persons to the extent the Company is liable for the payment of such Taxes) for which Seller is not liable under this Agreement. Taxes of the Company for any taxable periods beginning prior to and ending after the Effective Date shall be allocated between the portion occurring prior to the Effective Date and the portion occurring after the Effective Date based on the actual business operations, activity, and transactions of the Company taken place on or prior to, and after, the Closing Date, except that property, ad valorem or similar Taxes which are not based on or measured by production and Taxes which are based on capital or net worth shall be so allocated on a per diem basis. In the case of any Return filed by Purchaser for any taxable period of the Company beginning prior to and ending after the Effective Date, Seller shall reimburse Purchaser on request for any Taxes payable on such Returns for which Seller is liable under this Agreement.

In the case of any audit, examination or other proceeding ("Proceeding") with respect to Taxes for which Seller is or may be liable pursuant to this Agreement, Purchaser shall promptly inform Seller, and, in the case of Taxes for which Seller is solely liable under this Agreement, Purchaser shall afford Seller, at Seller's expense, the opportunity to control the conduct of such Proceeding provided Seller notifies Purchaser of its desire to control such Proceeding as soon as possible. Purchaser shall execute or cause to be executed powers of attorney or other documents necessary to enable Seller to take all actions desired by Seller with respect to any Proceeding which Seller is entitled to control pursuant to this Section 6.04. Notwithstanding any provision of this Section 6.04

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to the contrary, Seller shall not have the right to control any Proceeding if, as a result of such Proceeding, the Taxes for which Purchaser is liable under this Agreement would be likely to be materially increased.

Notwithstanding the foregoing, Seller shall not agree to any settlement concerning Taxes of the Company (or other Persons to the extent the Company is liable for the payment of such Taxes) which may result in an increase in Taxes of the Company (or of other Persons to the extent the Company is liable for the payment of such Taxes) for which Purchaser is liable under this Agreement without the prior written consent of Purchaser.

By written notice to Seller, Purchaser shall have the right at any time to instruct Seller to forego Proceedings with respect to any item for which Seller may be liable to indemnify Purchaser. Such notice shall constitute a waiver of the right of Purchaser to indemnification for any Taxes arising out of such item for the period or periods involved, but shall not otherwise affect any rights of Purchaser or Seller under this Section 6.04 other than the right of Seller to control the Proceedings.

ARTICLE VII

CONDITIONS TO CLOSING

7.01. Conditions of Seller to Closing. The obligations of Seller to consummate the transactions contemplated by this Agreement shall be subject to the fulfilment or waiver, at or prior to the Closing, of each of the following conditions:

- (a) Representations and Warranties. The representations and warranties of Purchaser contained in this Agreement shall be true and correct in all material respects as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing date.
- (b) Performance. Purchaser shall have performed and observed, in all material respects, all covenants and agreements to be performed and observed by it under this Agreement prior to or on the Closing Date.
- (c) No Action. On the Closing Date, no suit, Action, or other proceeding (excluding any Action initiated by Seller or any of its Affiliates) shall be pending or threatened before any Governmental Authority or body of competent jurisdiction seeking to enjoin or restrain the consummation of the transactions contemplated by this Agreement or recover substantial damages from Seller or any Affiliate of Seller resulting therefrom; and

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- (d) Consents and Waivers. All necessary consents and approvals required from Governmental Authorities and all material consents and approvals required

from other third Persons for the consummation of the transactions contemplated by this Agreement shall have been granted, and all preferential purchase rights, rights of first opportunity and similar rights with respect to such transactions shall have been waived, expired without exercise, or, in the case of rights of first opportunity, resulted in an offer which was properly rejected by Seller or the Company, as applicable.

7.02. Conditions of Purchaser to Closing. The obligations of Purchaser to consummate the transactions contemplated by this Agreement shall be subject to the fulfilment or waiver, at or prior to the Closing, of each of the following conditions:

- (a) Representations and Warranties. The representations and warranties of Seller contained in this Agreement shall be true and correct in all material respects as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing Date.
- (b) Performance. Seller shall have performed and observed, in all material respects, all covenants and agreements to be performed and observed by it under this Agreement prior to or on the Closing Date.
- (c) No Action. On the Closing Date, no suit, action, or other proceeding (excluding any Action initiated by Purchaser or any of its Affiliates) shall be pending or threatened before any Governmental Authority or body of competent jurisdiction seeking to enjoin or restrain the consummation of the transactions contemplated by this Agreement or recover substantial damages from Purchaser or any Affiliate of Purchaser resulting therefrom; and
- (d) Consents and Waivers. All necessary consents and approvals required from Governmental Authorities and all material consents and approvals required from other third Persons for the consummation of the transactions contemplated by this Agreement shall have been granted, and all preferential purchase rights, rights of first opportunity and similar rights with respect to such transactions shall have been waived, expired without exercise, or, in the case of rights of first opportunity, resulted in an offer which was properly rejected by Seller or the Company, as applicable.
- (e) Currency and Shares Transfer Approval. Purchaser shall have received all requisite approvals from the Reserve Bank of South Africa to transfer any consideration pursuant to this Agreement and from the Bermuda Monetary Authority authorizing the transfer of the Shares.
- (f) Material Adverse Change. There shall have been no material adverse changes since the Effective Date in the Business, operations, assets or condition of the Company, taken as a whole, except as may have resulted from general changes in hydrocarbon prices or general changes in industry, economic or political

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conditions and except as a result from any change related to the drilling, testing, completion, production or operation of the Etame 3V Well.

- (g) Opinion of Bermuda Counsel. Seller shall provide Purchaser with an opinion from Bermuda counsel in a form previously submitted to Western Atlas International Inc.
- (h) Closing Audit. The Purchaser shall have performed a Closing audit immediately prior to Closing and such audit, performed to the satisfaction of the Purchaser, reveals no material variance from information supplied to Purchaser during Purchaser's due diligence exercise.

ARTICLE VIII

INDEMNIFICATION

8.01 Indemnification.

- (a) From and after Closing, Purchaser shall indemnify, defend and hold harmless Seller from and against all Damages incurred or suffered by Seller:
 - (i) caused by or arising out of or resulting from the Company's ownership, use or operation of the Petroleum Contract, Business or the Assets on and after the Effective Date;
 - (ii) caused by or arising out of or resulting from Purchaser's breach of any of Purchaser's covenants or agreements contained in this Agreement; or

- (iii) caused by or arising out of or resulting from any breach of any representation or warranty made by Purchaser contained in this Agreement or in the certificate delivered by Purchaser at Closing pursuant to Section 2.04;

EVEN IF SUCH DAMAGES ARE CAUSED IN WHOLE OR IN PART BY THE NEGLIGENCE (WHETHER SOLE, JOINT OR CONCURRENT), STRICT LIABILITY OR OTHER LEGAL FAULT OF ANY INDEMNIFIED PERSON, but excepting Damages to the extent caused by the gross negligence or willful misconduct of such Indemnified Person and further excepting in each case Damages against which Seller would be required to indemnify Purchaser under Section 8.01(b) at the time the claim notice is presented by Purchaser.

(b) From and after Closing, Seller shall indemnify, defend and hold harmless Purchaser against and from all Damages incurred or suffered by Purchaser:

- (i) caused by or arising out of or resulting from the Company's ownership, use or operation of the Petroleum Contract, Business or the Assets before the Effective Date;

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- (ii) attributable to or arising out of the Company's obligations and liabilities with respect to actions, suits or proceedings, if any, scheduled on the Disclosure Schedule;
- (iii) caused by or arising out of or resulting from Seller's breach of any of Seller's covenants or agreements contained in this Agreement; or
- (iv) caused by or arising out of or resulting from any breach of any representation or warranty made by Seller contained in this Agreement, or in the certificate delivered by Seller at Closing pursuant to Section 2.02;

EVEN IF SUCH DAMAGES ARE CAUSED IN WHOLE OR IN PART BY THE NEGLIGENCE (WHETHER SOLE, JOINT OR CONCURRENT), STRICT LIABILITY OR OTHER LEGAL FAULT OF ANY INDEMNIFIED PERSON, but excepting Damages to the extent caused by the gross negligence or willful misconduct of such Indemnified Person.

- (c) Notwithstanding anything to the contrary contained in this Agreement, this Section 8.01 contains the Parties' exclusive remedy against each other with respect to breaches of the representations, warranties, covenants and agreements of the Parties contained in this Agreement and the affirmations of such representations, warranties, covenants and agreements contained in the certificate delivered by each Party at Closing pursuant to Sections 2.04. From and after Closing, except for the remedies contained in this Section 8.01, and any other remedies available to the Parties at law or in equity for breaches of provisions of this Agreement, Seller and Purchaser each releases, remises and forever discharges the other and its Affiliates and all such Persons' stockholders, officers, directors, employees, agents, advisors and representatives from any and all suits, legal or administrative proceedings, claims, demands, damages, losses, costs, liabilities, interest, or causes of action whatsoever, in law or in equity, known or unknown, which such Parties might now or subsequently may have, based on, relating to or arising out of this Agreement or to the extent covered under Section 8.01 hereof the Company's ownership, use or operation of the Petroleum Contract, including without limitation any rights under insurance policies issued or underwritten by the other Party or any of its Affiliates and any rights under agreements between the Company and Seller or any other Affiliate of the Company, EVEN IF CAUSED IN WHOLE OR IN PART BY THE NEGLIGENCE (WHETHER SOLE, JOINT OR CONCURRENT), STRICT LIABILITY OR OTHER LEGAL FAULT OF ANY RELEASED PERSON, but excepting suits, legal or administrative proceedings, claims, demands, damages, losses, costs, liabilities, interest or causes of action caused by the gross negligence or willful misconduct of such released Person and further excepting any contractual rights and obligations arising after the Effective Date under the Petroleum Contract and Joint Operating Agreement relating to the operations described in such agreements.
- (d) "Damages", for purposes of this Article 8.01, shall mean the amount of any actual liability, loss, cost, expense, claim, award or judgment incurred or suffered by any Indemnified Person arising out of or resulting from the indemnified matter, whether attributable to personal injury or death, property damage, contract

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claims, torts or otherwise including reasonable fees and expenses of attorneys, consultants, accountants or other agents and experts reasonably incident to matters indemnified against, and the costs of investigation and/or monitoring of such matters, and the costs of enforcement of the indemnity; provided, however, that Purchaser and

Seller shall not be entitled to indemnification under this Section 8.01 for, and "Damages" shall not include, (i) loss of profits or other consequential damages suffered by the Party claiming indemnification, or any punitive damages, or (ii) any liability, loss, cost, expense, claim, award or judgment to the extent resulting from or increased by the actions or omissions of any Indemnified Person after the Closing Date.

- (e) The indemnity to which each Party is entitled under this Section 8.01 shall be for the benefit of and extend to such Party's present and former Affiliates, and its and their respective directors, officers, employees, and agents. Any claim for indemnity under this Section 8.01 by any such Affiliate, director, officer, employee or agent must be brought and administered by the applicable Party to this Agreement. No Indemnified Person other than Seller and Purchaser shall have any rights against either Seller or Purchaser under the terms of this Section. Each of Seller and Purchaser may elect to exercise or not exercise indemnification rights under this Section on behalf of the other Indemnified Persons affiliated with it in its sole discretion and shall have no liability to any such other Indemnified Person for any action or inaction under this Section.
- (f) This Section 8.01 shall not apply in respect of Tax matters, which are covered by Article VI of this Agreement.
- (g) Purchaser and Seller agree that any remediation activities undertaken with respect to any claimed Damages relating to a breach of Seller's representation and warranty pursuant to any Claim related to environmental matters covered by such representation and warranty, whether conducted by Purchaser or Seller, shall be reasonable in extent and cost effective and shall not be designed or implemented in such a manner as to exceed what is required to cause a condition to be brought into compliance with applicable Laws.

8.02 INDEMNIFICATION ACTIONS.

- (a) All claims for indemnification under Section 8.01 shall be asserted and resolved as follows: For purposes of this Article 8, the term "Indemnifying Person" when used in connection with particular Damages shall mean the Person having an obligation to indemnify another Person or Persons with respect to such Damages pursuant to this Article 8, and the term "Indemnified Person" when used in connection with particular Damages shall mean a Person having the right to be indemnified with respect to such Damages pursuant to this Article 8.
- (b) To make claim for indemnification under Section 8.01 an Indemnified Person shall notify the Indemnifying Person of its claim, including the specific details of

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and specific basis under this Agreement for its claim (the "Claim Notice"). In the event that the claim for indemnification is based upon a claim by a third Person against the Indemnified Person (a "Claim"), the Indemnified Person shall provide its Claim Notice promptly after the Indemnified Person has actual knowledge of the Claim and shall enclose a copy of all papers (if any) served with respect to the Claim; provided that the failure of any Indemnified Person to give notice of a Claim as provided in this Section 8.02 shall not relieve the Indemnifying Person of its obligations under Section 8.01 except to the extent such failure results in insufficient time being available to permit the Indemnifying Person to effectively defend against the Claim or otherwise prejudices the Indemnifying Person's ability to defend against the Claim. In the event that the claim for indemnification is based upon an inaccuracy or breach of a representation, warranty, covenant or agreement, the Claim Notice shall specify the representation, warranty, covenant or agreement that was inaccurate or breached.

- (c) In the case of a claim for indemnification based upon a Claim, the Indemnifying Person shall have thirty (30) days from its receipt of the Claim Notice to notify the Indemnified Person whether it admits or denies its liability to defend the Indemnified Person against such Claim under this Article 8. If the Indemnifying Person does not notify the Indemnified Person within such thirty (30) day period regarding whether the Indemnifying Person admits or denies its liability to defend the Indemnified Person, the Damages for which the Indemnified Person is seeking indemnity shall be conclusively deemed a liability of the Indemnifying Person hereunder. The Indemnified Person is authorized, prior to and during such thirty (30) day period, to file any motion, answer or other pleading that it shall deem necessary or appropriate to protect its interests or those of the Indemnifying Person and that is not prejudicial to the Indemnifying Person.
- (d) If the Indemnifying Person admits its liability to indemnify the Indemnified Person, it shall have the right and obligation to diligently defend, at its sole cost and expense, the Claim. The Indemnifying Person

shall have full control of such defense and proceedings, including any compromise or settlement thereof. If requested by the Indemnifying Person, the Indemnified Person agrees to cooperate in contesting any Claim which the Indemnifying Person elects to contest (provided, however, that the Indemnified Person shall not be required to bring any counterclaim or cross-complaint against any Person). The Indemnified Person may participate in, but not control, any defense or settlement of any Claim controlled by the Indemnifying Person pursuant to this Section 8.02(d). An Indemnifying Person shall not, without the written consent of the Indemnified Person, settle any Claim or consent to the entry of any judgment with respect thereto that (i) does not result in a final resolution of the Indemnified Person's liability with respect to the Claim (including, in the case of a settlement, an unconditional written release of the Indemnified Person from all liability in respect of such Claim) or (ii) may materially and adversely affect the Indemnified Person (other than as a result of money damages covered by the indemnity).

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- (e) If the Indemnifying Person does not admit its liability to indemnify the Indemnified Person or admits its liability but fails to diligently defend or settle the Claim, then the Indemnified Person shall have the right to defend against the Claim (at the sole cost and expense of the Indemnifying Person, if the Indemnified Person is entitled to indemnification hereunder), with counsel of the Indemnified Person's choosing, subject to the right of the Indemnifying Person to admit its liability to indemnify the Indemnified Person and assume the defense of the Claim at any time prior to settlement or final determination thereof. If the Indemnifying Person has not yet admitted its liability to indemnify the Indemnified Person, the Indemnified Person shall send written notice to the Indemnifying Person of any proposed settlement and the Indemnifying Person shall have the option for ten (10) days following receipt of such notice to (i) admit in writing its liability for indemnification with respect to such Claim and (ii) if liability is so admitted, assume the defense of the Claim, including the power to reject the proposed settlement. If the Indemnified Person settles any Claim over the objection of the Indemnifying Person after the Indemnifying Person has timely admitted its liability for indemnification in writing and assumed the defense of the Claim, the Indemnified Person shall be deemed to have waived any right to indemnity therefor.
- (f) In the case of a claim for indemnification not based upon a Claim, the Indemnifying Person shall have thirty (30) days from its receipt of the Claim Notice to (i) cure the Damages complained of, (ii) admit its liability for such Damages or (iii) dispute the claim for such Damages. If the Indemnifying Person does not notify the Indemnified Person within such thirty (30) day period that it has cured the Damages or that it disputes the claim for such Damages, the amount of such Damages shall conclusively be deemed a liability of the Indemnifying Person hereunder.

8.03 LIMITATION ON ACTIONS.

- (a) The representations, warranties and covenants of the Parties in this Agreement, and the corresponding representations and warranties given in the certificates delivered at Closing pursuant to Section 2.02, as applicable, shall survive the Closing for a period of two years, except the representations and warranties of Seller set forth in Sections 3.02, 3.03 and 3.04 shall survive indefinitely. The remainder of this Agreement shall survive the Closing without time limit except as may otherwise be expressly provided herein. Representations, warranties, covenants and agreements shall be of no further force and effect after the date of their expiration, provided that there shall be no termination of any bona fide claim asserted pursuant to this Agreement with respect to such a representation, warranty, covenant or agreement prior to its expiration date.
- (b) Seller and Purchaser shall not have any liability for any indemnification under Section 8.01 until and unless the aggregate amount of the liability for all Damages for which Claim Notices are delivered by a party exceeds sixty

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thousand dollars (\$60,000) U.S. and then only to the extent such Damages exceed sixty thousand dollars (\$60,000), provided, however, that this Section 8.03(b) shall not limit Seller's liability under Section 8.01(b) (i) and (ii).

- (c) The amount of any Damages for which an Indemnified Person is entitled to indemnity under this Article 8 shall be reduced by the amount of insurance proceeds realized by the Indemnified Person or its Affiliates with respect to such Damages (net of any collection costs, and excluding the proceeds of any insurance policy issued or underwritten by the Indemnified Person or its Affiliates).

ARTICLE IX

GENERAL PROVISIONS

9.01. Expenses. Except as provided otherwise in Section 6.01, all costs and expenses, including, without limitation, fees and disbursements of counsel, financial advisors and accountants, incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such costs and expenses, whether or not the Closing shall have occurred.

9.02. Notices. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given or made (and shall be deemed to have been duly given or made upon receipt) by delivery in person, by courier service, by cable, by telecopy, by telegram, or by registered or certified mail (postage prepaid, return receipt requested) to the respective parties at the following addresses (or at such other address for a Party as shall be specified in a notice given in accordance with this Section 9.02):

(a) If to the Seller:

VAALCO Gabon (Etame), Inc.
4600 Post Oak Place, Suite 309
Houston, Texas 77027
Attention: President
Telephone: 713-623-0801
Telefax: 713-623-0982

(b) If to the Purchaser:

Sasol Petroleum International (Pty) Ltd.
Grace Hotel & Office Block
24 Tyrwhitt Avenue, Rosebank 2196

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Johannesburg, South Africa
Attention: Manager, West Africa
Telefax: 27 11 441-3974
Telephone: 27 11 441-3948

9.03. Public Announcements. Unless otherwise required by applicable Law or rules of any stock exchange on which the shares of a Party or its Affiliates are listed, no Party to this Agreement shall make any public announcements in respect of this Agreement or the transactions contemplated hereby or otherwise communicate with any news media without prior notification to the other Party, and the parties shall cooperate as to the timing and contents of any such announcement.

9.04. Headings. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

9.05. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner adverse to any Party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the greatest extent possible.

9.06. Entire Agreement. This Agreement constitutes the entire agreement of the Parties hereto with respect to the subject matter hereof and supersedes all prior agreements and undertakings, both written and oral between Seller and Purchaser with respect to the subject matter hereof and except as otherwise expressly provided herein.

9.07. Assignment. Neither this Agreement nor any of the rights and obligations of the Parties hereunder may be assigned by any of the Parties hereto without the prior consent of the other Party hereto. Subject to the first sentence of this Section 9.07, this Agreement shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and assigns and no other person shall have any right, obligation or benefit hereunder.

9.08. No Third-Party Beneficiaries. This Agreement is for the sole benefit of the Parties hereto and their permitted assigns and nothing herein, express or implied, is intended to or shall confer upon any other person or entity any legal or equitable right, benefit or remedy of any nature whatsoever under or by

reason of this Agreement.

9.09. Waivers and Amendments. This Agreement may be amended or modified, and the terms and conditions hereof may be waived, only by a written instrument signed by the Parties hereto or, in the case of a waiver, by the Party waiving compliance. No

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delay on the part of any Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any Party of any right, power or privilege hereunder, nor any single or partial exercise of any other right, power or privilege hereunder, preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder. The rights and remedies herein provided are cumulative and are not exclusive of any rights or remedies which any party may otherwise have at Law or in equity.

9.10. Specific Performance. The Parties hereto agree that irreparable damage would occur in the event any provision of this Agreement required to be performed prior to the Closing was not performed in accordance with the terms hereof and that, prior to the Closing, the Parties shall be entitled to specific performance of the terms hereof, in addition to any other right to claim damages.

9.11. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Texas and the United States of America, excluding any conflicts of law, rule or principle that might refer such matters to the laws of another jurisdiction.

9.12 Dispute Resolution

(a) Any dispute, controversy or claim arising out of or in connection with this Agreement, or the breach, or validity thereof, which is not amicably settled by the Parties, shall be settled by the arbitration of a single arbitrator under the Rules of the London Court of International Arbitration, which Rules are deemed to be incorporated by reference to this Clause.

(b) The seat of the arbitration shall be England, and the place of the arbitration shall be London. The language of the arbitration shall be English. The Parties hereby agree pursuant to Section 45 and 69 of the English Arbitration Act of 1966 to exclude any application to the court to determine on a question of law or an appeal to the court on a question of law in relation to any award made.

(c) The Parties agree that the decision or award of the arbitrator is final and will be the sole and exclusive remedy between them regarding any and all claims, counter-claims, or issues of accounting presented to the arbitrator and that the award shall be made and promptly paid or performed free of any tax deduction or set-off. The award shall include interest from the breach or violation of this Agreement, as determined by the arbitrator, and from the date of the award until paid at a fluctuating rate per annum equal to the one month term, LIBOR rate published for U.S. dollar deposits, as published by the Financial Times of London plus three percent.

(d) The arbitrator shall be, and remain at all times, wholly independent and impartial.

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(e) The costs of the arbitration proceedings (including lawyer's fees and costs) shall be borne in the manner determined by the arbitrator. Consequential and/or punitive damages shall not be allowed.

9.13. Counterparts. This Agreement may be executed in one or more counterparts, and by the different Parties hereto in separate counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement.

IN WITNESS WHEREOF, Seller and Purchaser have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

VAALCO GABON (ETAME) INC.

SASOL PETROLEUM INTERNATIONAL
(PTY) LTD.

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

ANNEXURE A

DISCLOSURE SCHEDULE

UNFILED TAX RETURNS.

The Company has not filed Gabonese tax refunds for the fiscal years 1997, 1998 and 1999.

There will be a modest penalty assessed upon filing of the returns, for which Seller will be liable under the terms of Section 6.02, but no interest as no taxes are owed.

OUTSTANDING CAPITAL COMMITMENTS.

AFE #005, dated December 5, 2000, for drilling of Etame Well 3V ("ET-3V") in the Etame Main Block.

CONSENTS, APPROVALS OR WAIVERS.

<TABLE>
<CAPTION>

AGREEMENT	TYPE OF RIGHT	PARTY

<S>	<C>	<C>
Requirement of	Consent to Transfer Shares of	Bermuda Monetary Authority
Applicable Law	Western Atlas Afrique, Ltd.	

Requirement of	Consent to Currency Transfer	South African Reserve Bank
Applicable Law		

</TABLE>

CONVEYANCE OF PRODUCTION PAYMENT

FROM

WESTERN ATLAS AFRIQUE, LTD.

TO

WESTERN ATLAS INTERNATIONAL, INC.

Dated December 29, 2000

CONVEYANCE OF PRODUCTION PAYMENT

This Conveyance of Production Payment (this "Conveyance"), from Western Atlas Afrique, Ltd., a Bermuda company ("Grantor"), to Western Atlas International, Inc., a Delaware corporation ("Grantee"), is executed this 29th day of December, 2000 but effective for all purposes as of 11:59 p.m. on December 31, 2000 (the "Effective Date").

RECITALS

A. Grantee and VAALCO Gabon (Eteme) Inc. ("VAALCO") have entered into a Stock Purchase Agreement (the "Agreement") dated December, 2000 for the sale by Grantee to VAALCO of all of the issued and outstanding shares of Grantor and a side letter of even date therewith regarding the consideration for such sale (the "Side Letter").

B. Under the terms of the Agreement and Side Letter, Grantor is permitted to transfer the Production Payment (as defined below) to Grantee prior to the sale of Grantor to VAALCO.

C. Grantor desires to convey, and Grantee desires to acquire, the Production Payment on the terms set forth in this conveyance.

NOW, THEREFORE, for good and valuable consideration, the Parties agree as follows:

ARTICLE 1

DEFINITIONS

"Affiliate" means, with respect to any Person, a Person that directly or indirectly controls, is controlled by or is under common control with such Person, with control in such context meaning the ability to direct the management or policies of a Person through ownership of voting shares or other securities, pursuant to a written agreement, or otherwise.

"Business Day" means any day other than a Saturday, a Sunday or a day on which banks are closed for business in Houston, Texas, United States of America.

"Contract" means the Exploration and Production Sharing Contract between the Republic of Gabon and VAALCO Gabon (Eteme), Inc., dated July 7, 1995, as amended or supplemented from time to time, and any extension, renewal or replacement thereof entered into within one year following termination of the original Contract or the then-existing extension, renewal or replacement (with "replacement" including any alternate legal arrangement entered into between the government of the Republic of Gabon or its agencies and the Contractor with respect to the development and production of Hydrocarbons from all or any portion of the "Delimited Area" (as defined in the Contract)).

"Contractor" shall have the meaning given to that term under the Contract.

"Deductible Expenses" means all costs incurred by Grantor for the processing, gathering, compression, treatment, refining, transportation, storage and marketing of Hydrocarbons downstream from the point where title transfers to the Contractor under Article 36 of the

Contract (or any succession provision), provided that (i) no charge shall be made for the cost of constructing and/or financing, or other capital costs of, pipelines, terminals, refineries, processing plants, tankers or other facilities downstream from such point of title transfer, owned in whole or in part (directly or indirectly) by Grantor or its Affiliates, except through operating charges for the use of such facilities allowed under clause (iii), (ii) no charge shall be made for penalties incurred as a result of imbalances in the delivery of Hydrocarbon production or a failure to deliver Hydrocarbon production, demurrage payments incurred for detaining vessels in excess of allowed laytime, or any liability, loss, cost or expense incurred as a consequence of a violation of any law or breach of any contract by Grantor or its Affiliates or arising from Grantor's or its Affiliates' gross negligence or willful misconduct, (iii) operating charges, including without limitation

transportation and processing charges, payable (directly or indirectly) to Grantor or any of its Affiliates for the use of facilities may only be included in Deductible Expenses to the extent they do not exceed (A) prevailing charges for similar services provided by non-Affiliates on an arm's-length basis in the general area where the services are provided, or (B) if there are no such prevailing charges, then a monthly charge calculated by adding (x) that portion of the total capital cost of the applicable facilities that the capacity used by the Hydrocarbons bears to the total capacity of the facilities, divided by 120 months, plus (y) that portion of the monthly cost of maintaining and operating the facilities that the capacity used by such Hydrocarbons bears to the total capacity of the facilities and (iv) no charge shall be made for Subject Taxes.

"Grantor's Hydrocarbons" means Hydrocarbons to which Grantor is entitled under the Contract with respect to the Subject Interests, provided that Grantor's Hydrocarbons shall not include (i) any Hydrocarbons to which Grantor is not entitled under the terms of an applicable operating agreement or other document as a consequence of Grantor's election not to participate in any nonconsent or sole risk operation, provided that Grantor's election not to participate has been made in good faith and as a prudent operator and that no participating party in such operation is an Affiliate of Grantor and (ii) any Hydrocarbons not included within Net Production (as defined in the Contract).

"Gross Proceeds" means, with respect to any Hydrocarbon production sold or otherwise disposed of:

(i) In the case of cash sales to non-Affiliates in arm's-length transactions, the actual proceeds received from the sale of such Hydrocarbons, less Deductible Expenses; and

(ii) In the case of sales to an Affiliate or other non-arm's-length transactions, or exchanges or other sales for consideration other than cash, the Market Value of such Hydrocarbons,

provided that (A) Gross Proceeds shall include any demand charge or similar payment by a purchaser of such Hydrocarbons to secure the right to purchase and receive deliveries of such Hydrocarbons, (B) Gross Proceeds shall include proceeds received for the advance sale of any such Hydrocarbons at the time received, and (C) Gross Proceeds shall include any interest, penalties and other amounts collected from any purchaser of such Hydrocarbons as a consequence of such purchaser's late payment or failure to pay, and provided further that if Hydrocarbons produced under the Contract are blended prior to sale with Hydrocarbons of

different quality from outside the Delimited Area (as defined in the Contract) in which neither Grantor nor its Affiliates hold an interest, the "Gross Proceeds" for the Hydrocarbons that have been blended shall be adjusted by any adjustment to which Grantor is entitled with respect to those differences in quality, but if Hydrocarbons produced under the Contract are blended prior to sale with Hydrocarbons of different quality from outside the Delimited Area in which Grantor or its Affiliates hold an interest, the Gross Proceeds for the Hydrocarbons that have been blended shall be their Market Value.

"Hydrocarbons" shall have the meaning given to that term under the Contract.

"Market Value" of a quantity of Hydrocarbons means, (i) if there were arm's length cash sales to non-Affiliates of any of the Grantor's or its Affiliates' share of Hydrocarbons of similar type and quality under the Contract in the month proceeding the month of the sale, the product of the quantity of Hydrocarbons and the average cash price actually received by Grantor or any such Affiliate in an arm's-length sale of Hydrocarbons of similar type and quality under the Contract to a non-Affiliate during the month preceding the month of sale, less Deductible Expenses, or, (ii) if there were no such sales, then (A) in the case of Crude Petroleum (as defined in the Contract), the product of the quantity of Crude Petroleum and the average spot price for West Texas Intermediate crude oil for the month preceding the month of sale, as published in Platt's Oilgram Price Report, minus U.S. \$1.50 or (B) in the case of Natural Gas (as defined in the Contract), the product of the quantity of Natural Gas and the average spot price for West Texas Intermediate crude oil for the month preceding the month of sale, as published in Platt's Oilgram Price Report, minus U.S. \$1.50, converted to a per mcf price based on the conversion ratio established in Article 30.1 of the Contract. If the spot price of West Texas Intermediate crude oil is not published in Platt's Oilgram Price Report for the month preceding the month of sale, then the parties shall in good faith negotiate a mutually satisfactory alternate spot price and adjustment for use in this definition.

"Party" means Grantor, Grantee or either of their respective successors and assigns permitted under the terms of Section 8.1.

"Person" means any individual, corporation, partnership, limited liability company, trust, estate, governmental authority, or any other entity.

"Production Payment" shall have the meaning given to such term in Section 2.1.

"Production Payment Percentage" means, with respect to each type and grade of Grantor's Hydrocarbons, an undivided percentage equal to the product of (i) 0.15 and (ii) the percentage of Grantor's Hydrocarbons of such type and grade which consist of Profit Hydrocarbons.

"Profit Hydrocarbons" means that share of the Remaining Production (as defined in the Contract) to which the Contractor is entitled under Article 25 of the Contract.

"Subject Interest" means each and every kind and character of right, title and interest which Grantor has in the Contract, subject to reduction pursuant to the participation rights of the Republic of Gabon or its transferee under the terms of the Contract.

"Subject Taxes" means all taxes, including income tax, surtax, remittance tax, presumptive tax, net worth tax, special contribution, production tax, pipeline transportation tax, value added tax, withholding tax, gross receipts tax, windfall profits tax, profit tax, severance tax, personal property tax, real property tax, sales tax, service tax, transfer tax, use tax, excise tax, premium tax, customs duties, stamp tax, motor vehicle tax, entertainment tax, insurance tax, capital stock tax, franchise tax, occupation tax, payroll tax, employment tax, social security, unemployment tax, disability tax, alternative or add-on minimum tax, estimated tax, and any other assessments, duties, fees, levies or other charges imposed by the Government of the Republic of Gabon or any agency or political subdivision thereof or therein, together with any interest, fine or penalty thereon, or additions thereto, but excluding royalty Hydrocarbons and any other share of Hydrocarbons to which the Government of the Republic of Gabon is entitled under the terms of the Contract.

ARTICLE 2

PRODUCTION PAYMENT

Section 2.1 Conveyance. For valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Grantor hereby agrees and promises to pay to the order of Grantee an amount equal to the Production Payment Percentage of the Gross Proceeds from each sale or other disposition of each type and grade of Grantor's Hydrocarbons produced and saved on or after the Effective Date, until Grantee shall have realized from such Gross Proceeds Ten Million U.S. Dollars (U.S. \$10,000,000) (such obligation being referred to herein as the "Production Payment"). The Production Payment shall not accrue interest except as provided in Section 2.5. Annex I to this Conveyance sets forth an example of the method of calculation of the Production Payment.

TO HAVE AND TO HOLD the Production Payment unto Grantee, its successors and assigns, forever.

This Production Payment is issued on the date of execution of this Conveyance as a dividend to Grantee, the sole shareholder of Grantor.

Section 2.2 Not An Interest in the Contract. The Production Payment is not an interest in the Contract or the Hydrocarbons produced thereunder, and Grantee shall have no rights under or with respect to the Contract or such Hydrocarbons.

Section 2.3 Nonliability. In no event shall Grantee ever be liable or responsible in any way for payment of any costs, expenses or liabilities attributable to the Subject Interest or any part thereof or otherwise incurred in connection with the Contract or the exploration for, appraisal, development, production, processing, refining, transportation or marketing of Hydrocarbons produced thereunder.

Section 2.4 Nonrecourse. Grantee shall look solely to the sums generated as the Production Payment Percentage of Gross Proceeds from the sale of Grantor's Hydrocarbons for discharge of the Production Payment and, except in the event of Grantor's failure to pay the applicable percentage of such sums to Grantee in the manner provided in this Conveyance or in

the event of some other default hereunder, Grantor shall not be personally liable for such discharge. In the event that the Contract terminates without having generated sufficient Gross Proceeds applicable to the Production Payment under Section 2.1 to satisfy the Production Payment, Grantor shall have no liability for the deficiency.

Section 2.5 Payment. Grantor shall make payments of the amounts attributable to the Production Payment under Section 2.1 within five (5) Business Days after Grantor or any of its Affiliates have received Gross Proceeds from the disposition of Grantor's Hydrocarbons. All such amounts shall be paid by wire transfer of immediately available funds in U.S. dollars to the bank and account designated by Grantee from time to time, provided that any such designation or change in designation shall only take effect ten (10) Business Days after notice to Grantor of such designation or change in designation. Any amounts owing by Grantor under this Conveyance and not paid when due shall bear interest from the date due until the date paid at the lesser of (a) eighteen

percent (18%) per annum or (b) the maximum rate of interest permitted by applicable law.

Section 2.6 Subject Taxes. The Production Payment shall be free of (and without deduction therefrom of) any Subject Taxes, and Grantor shall indemnify and hold Grantee harmless from and against any liability, loss, cost or expense with respect to any claim, demand or assessment of Subject Taxes against or with respect to the granting of the Production Payment, sums paid to Grantee pursuant to the Production Payment, or any other amounts payable to Grantee under Sections 2.5 or 2.6. Grantor shall provide Grantee with copies of official receipts for all Subject Taxes paid by Grantor pursuant to this Section 2.6 as promptly as practicable after such Subject Taxes are paid.

ARTICLE 3

REPRESENTATIONS AND WARRANTIES

Section 3.1 Grantor.

(a) Existence and Qualification. Grantor is a company duly organized and validly existing under the laws of Bermuda and is duly qualified to do business as a foreign company in each jurisdiction in which it is required to qualify in order to conduct its business.

(b) Power. Grantor has the corporate power to enter into and perform this Conveyance and to consummate the transactions contemplated by this Conveyance.

(c) Authorization and Enforceability. The execution, delivery and performance of this Conveyance, and the consummation of the transactions contemplated hereby, have been duly and validly authorized by all necessary corporate action on the part of Grantor. This Conveyance has been duly executed and delivered by Grantor and this Conveyance constitutes the valid and binding obligations of Grantor, enforceable in accordance with its terms except as such enforceability may be limited by applicable bankruptcy or other similar laws affecting the rights and remedies of creditors generally as well as by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(d) No Conflicts. The execution, delivery and performance of this Conveyance by Grantor, and the consummation of the transactions contemplated by this Conveyance, shall not (i) violate any provision of the memorandum and articles of association or equivalent governing instruments of Grantor, (ii) result in default (with due notice or lapse of time or both) or the creation of any lien or encumbrance or give rise to any right of termination, cancellation or acceleration under any material note, bond, mortgage, indenture, license or agreement to which Grantor is a party or by which it is bound, (iii) violate any judgment, order, ruling, or decree applicable to Grantor as a party in interest or (iv) violate any laws applicable to Grantor, or any of its assets, except any matters described in clauses (ii), (iii), or (iv) above which would not, individually or in the aggregate, have a material adverse effect.

(e) Contract. The Contract is in full force and effect and neither Grantor nor, to the knowledge of Grantor, any other person is in default thereunder, except such defaults as would not, individually or in the aggregate, have a material adverse effect. Grantor owns a 65.000% undivided interest in the "Contractor's" rights to the Contract free and clear of any liens, mortgages, security interests, charges, pledges or other encumbrances or ownership rights of third Persons of any kind or character except (a) rights of governmental authorities in the Republic of Gabon and their assignees under the terms of the Contract or applicable law, and (b) preferential rights, similar rights and rights to consent, if any, held by third Persons under the operating agreement or other agreements applicable to the Contract.

(f) Advance Sale of Production. Grantor is not obligated by virtue of a take or pay payment, advance payment or other similar payment (other than royalties, overriding royalties and similar arrangements established in the Contract or described in Section 3.1(e) above), to deliver Hydrocarbons, or proceeds from the sale thereof, attributable to the Subject Interest at some future time without receiving payment therefor at or after the time of delivery.

Section 3.2 Grantee.

(a) Existence and Qualification. Grantee is a company duly organized and validly existing under the laws of Delaware and is duly qualified to do business as a foreign company in each jurisdiction in which it is required to qualify in order to conduct its business.

(b) Power. Grantee has the corporate power to enter into and perform this Conveyance and to consummate the transactions contemplated by this Conveyance.

(c) Authorization and Enforceability. The execution, delivery and performance of this Conveyance, and the consummation of the transactions

contemplated hereby, have been duly and validly authorized by all necessary corporate action on the part of Grantee. This Conveyance has been duly executed and delivered by Grantee and this Conveyance constitutes the valid and binding obligations of Grantee, enforceable in accordance with its terms except as such enforceability may be limited by applicable bankruptcy or other similar laws affecting the rights and remedies of creditors generally as well as by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(d) No Conflicts. The execution, delivery and performance of this Conveyance by Grantee, and the consummation of the transactions contemplated by this Conveyance, shall not (i) violate any provision of the certificate of incorporation or bylaws of Grantee, (ii) result in default (with due notice or lapse of time or both) or the creation of any lien or encumbrance or give rise to any right of termination, cancellation or acceleration under any material note, bond, mortgage, indenture, license or agreement to which Grantee is a party or by which it is bound, (iii) violate any judgment, order, ruling, or decree applicable to Grantee as a party in interest or (iv) violate any laws applicable to Grantee, or any of its assets, except any matters described in clauses (ii), (iii), or (iv) above which would not, individually or in the aggregate, have a material adverse effect.

ARTICLE 4

PRODUCTION AND MARKETING OF GRANTOR'S HYDROCARBONS

Section 4.1 Production. Subject to the requirements of the Contract, governmental authorities and applicable law, and to good engineering practices and maintenance requirements, Grantor shall use its reasonable endeavors to maximize production on each day throughout the term of the Production Payment from each well capable of producing Hydrocarbons in commercial quantities attributable to the Subject Interest.

Section 4.2 Marketing. Grantor shall market or cause to be marketed all commercial quantities of Grantor's Hydrocarbons produced and saved. Grantor may enter into one or more sales contracts; except in the case of sales to Affiliates, such contracts shall be at the best prices and on the best terms Grantor shall in good faith deem reasonably obtainable in the circumstances.

Section 4.3 Performance of Sales Contracts. Grantor shall duly perform all material obligations binding on it under all sales contracts for the sale of Grantor's Hydrocarbons in accordance with the terms thereof and shall take all appropriate measures to enforce the performance of the obligations of the purchaser under each of such sales contracts.

Section 4.4 Protection to Purchasers. No Person purchasing or taking Grantor's Hydrocarbons shall be under any obligation to inquire as to or to see to the application by Grantor of the proceeds received by it from any such sale.

ARTICLE 5

OPERATION OF SUBJECT INTERESTS

Section 5.1 Prudent Operator Standard. Grantor shall conduct, or cause to be conducted, the development, maintenance and operation of the Subject Interest with reasonable and prudent business judgment and in accordance with sound oil and gas field practices and the terms of applicable laws and contracts and will drill such wells as a reasonably prudent operator would drill from time to time in order to develop the Subject Interest.

Section 5.2 Exclusive Operations. Nothing contained in this Agreement shall be deemed to prevent or restrict Grantor from electing not to participate in any operation that is to be conducted under the terms of any operating agreement, unit operating agreement, contract for development or similar instrument affecting or pertaining to the Subject Interest (or any portion thereof) and allowing consenting parties to conduct non-consent operations thereon if such election is made by Grantor in good faith and in conformity with sound field practices. If Grantor elects not to participate in a proposed operation, then the Production Payment shall only apply to such residual or contingent interests as are retained by Grantor. Notwithstanding the foregoing, Grantor shall elect to participate in all operations under the Contract in which any Affiliate of Grantor elects to participate.

Section 5.3 Abandonment of Properties. Nothing contained in this Agreement shall obligate Grantor to operate or continue to operate (or cause to be operated or continued) any well when, in the reasonable judgment of Grantor, exercised in good faith, such well has ceased to produce or is not capable of producing Hydrocarbons in commercial quantities. Similarly, nothing contained in this Agreement shall obligate Grantor to maintain the Contract in effect (or cause the Contract to be maintained in effect) when, in the reasonable judgment of Grantor, exercised in good faith, the Contract is unlikely to generate future Hydrocarbon production to which the Contractor is entitled under the Contract with a value in excess of the future costs of exploring for, appraising,

developing, producing, processing, refining, transportation and marketing such Hydrocarbons which the Contractor would be obligated to pay.

Section 5.4 Withdrawal. Nothing contained in this Agreement shall be deemed to prevent or restrict Grantor from withdrawing from the Contract, provided that Grantor has determined in good faith that the Contract is unlikely to generate future Hydrocarbon production to which Grantor is entitled under the Contract and related agreements (without considering the Production Payment) with a value in excess of the future costs of exploring for, appraising, developing, producing, processing, refining, transportation and marketing such Hydrocarbons which Grantor would be obligated to pay, and that any Affiliates of Grantor holding interests in the Contract withdraw at the same time.

ARTICLE 6

POOLING AND UNITIZATION

Grantor shall have the right and power to pool or unitize any of the Subject Interest and to alter, change, amend or terminate any pooling or unitization agreements, as to all or any part of the Delimited Area (as defined in the Contract), and as to any one or more of the formations or horizons thereunder, upon such terms and provisions as Grantor shall in its sole discretion determine. If and whenever through the exercise of such right and power, or pursuant to any law or any rule, regulation or order of any governmental body or official, any portion of the Subject Interest is pooled or unitized in any manner, the Production Payment, insofar as it affects such Subject Interest, shall apply to and affect only the Grantor's Hydrocarbons that accrue to such Subject Interest under and by virtue of the pooling and unitization.

ARTICLE 7

RECORDS AND STATEMENTS

Section 7.1 Books and Records. Grantor shall at all times maintain true and correct books and records, in accordance with generally accepted accounting principles, sufficient to enable Grantee or its representatives to verify the correctness of amounts paid and payable to Grantee as the owner of the Production Payment. Such books and records, and copies of all agreements for the processing, refining, transportation, marketing or disposition of Grantor's Hydrocarbons, shall be open for inspection, no more than once a year, by Grantee or its representatives at Grantor's office during normal business hours, and Grantor shall furnish copies of any such books, records, or agreements as requested by Grantee at Grantee's expense.

Section 7.2 Statements. From the date hereof until the termination of the Production Payment, Grantor, at Grantor's own expense, shall furnish to Grantee the following:

(a) Annually, prior to March 1 of each calendar year, a statement setting forth for the preceding year a summary of the information reported under paragraph (b) below and containing any other information reasonably required for Grantee to complete its federal, state and local tax returns;

(b) Monthly, on or before 60 days after the end of each month, a statement setting forth for that month (i) the gross production of Hydrocarbons from each field under the Contract, (ii) the royalty production payable to the Government of the Republic of Gabon under Article 26 of the Contract, (iii) the Hydrocarbons allocated to the Contractor for recovery of Petroleum Costs under Article 24 of the Contract, (iv) the Remaining Hydrocarbon Production (as defined in the Contract) and the quantity allocated to the Contractor as Profit Hydrocarbons, (v) Grantor's Hydrocarbons, (vi) volumes of Hydrocarbons disposed of by or on behalf of Grantor, separated by individual sale or disposition, the identity of each purchaser and the consideration received for each such sale or disposition, (vii) inventories of Hydrocarbons attributable to Grantor at month's end, (viii) any Subject Taxes paid by or on behalf of Grantor on Hydrocarbon production or the proceeds of such production, and (ix) the calculation of amounts paid with respect to the Production Payment;

(c) upon receipt, copies of any third party reserve reports or reserve estimates and/or production forecasts received or prepared with respect to Hydrocarbons subject to the Contract;

(d) upon request, copies of geological, geophysical, engineering and well data and maps relating to the Delimited Area under the Contract, or areas unitized with the Delimited Area, subject to any limitations on disclosure of data contained in arm's-length third Person licenses for such data; and

(e) upon request, any additional information concerning the Production Payment and/or operations under the Contract as Grantee may reasonably request and to which Grantor has access.

Section 7.3 Confidentiality. Grantee agrees that information obtained under Sections 7.1 and 7.2 shall be kept confidential and not disclosed to any

person or entity other than Grantor and its Affiliates, subject to such exceptions and restrictions as are provided in Article 15.1 of the Joint Operating Agreement dated April 4, 1997 governing operations under the Contract.

ARTICLE 8

ASSIGNMENT

Section 8.1 Assignment by Grantor. Grantor shall have the right to sell or otherwise dispose of all or any portion of the Subject Interest subject to the Production Payment and the terms and provisions of this Conveyance. No transfer of any portion of the Subject Interest shall be valid or enforceable unless and until the transferee agrees in writing for the benefit of Grantee to assume and pay, perform and discharge the Production Payment and Grantor's other obligations hereunder with respect to that portion of the Subject Interest that is transferred. Unless and until approved by Grantee (which approval shall not be unreasonably withheld), no such transfer shall relieve Grantor of its obligation to insure payment of the Production Payment and performance of such other obligations in accordance with the terms of this Conveyance. Grantee hereby approves transfer of an undivided 12.5/65ths portion of the Subject Interests to VAALCO Gabon (Etame), Inc., and an undivided 32.5/65ths portion of the Subject Interests to VAALCO Energy (Gabon), Inc. (which 32.5/65ths portion of the Subject Interests shall be assigned to PanAfrican Energy Corporation, Ltd.). Grantee agrees to look solely to such assignees, severally and not jointly, pro rata to their interest in the Subject Interest, for payments of the Production Payment and performance of Grantor's other obligations hereunder with respect to the interests so assigned.

Section 8.2 Separate Computation. If Grantor sells or otherwise disposes of some, but not all, of its Subject Interest, then effective as of the date of such sale or other disposition, in computing the Production Payment, Grantor's Hydrocarbons, Gross Proceeds and Deductible Expenses shall be computed separately for each separately owned portion of the Subject Interest.

Section 8.3 Assignment by Grantee. Grantee shall have the right to sell or otherwise dispose of all or any portion of the Production Payment, but no such sale or disposition shall affect the method of computing Grantor's Hydrocarbons, Gross Proceeds or Deductible Expenses.

Section 8.4 Change in Ownership. No change of ownership or right to receive payment of the Production Payment, or of any part thereof, however accomplished, shall be binding upon Grantor until notice thereof shall have been furnished by the Person claiming the benefit thereof, and then only with respect to payments thereafter made. Notice of sale or assignment shall consist of a copy of the instrument accomplishing the same; notice of change of ownership or right to receive payment accomplished in any other manner (for example, by reason of incapacity, death or dissolution) shall consist of certified copies of public documents and completed proceedings legally binding and conclusive of the rights of all parties. Until such notice shall have been furnished Grantor as above provided, the payment or tender of all sums payable in respect of the Production Payment may be made in the manner provided herein precisely as if no such change in interest ownership or right to receive payment had occurred.

The notice specified in this Section 8.4 shall be exclusive, and no other kind of notice, whether actual or constructive, shall be binding on Grantor.

Section 8.5 Rights of Secured Party. If Grantee shall at any time execute a security agreement or pledge covering all or part of the Production Payment, the secured party therein named or the holder of any obligation secured thereby shall be entitled, to the extent such security agreement or pledge so provides, to exercise all the rights, remedies, powers and privileges conferred upon Grantee by the terms of this Conveyance and to give or withhold all consents required to be given hereunder by Grantee, but the provisions of this Section 8.5 shall in no way be deemed or construed to impose upon Grantor any obligation or liability undertaken by Grantee under such security agreement or pledge or under the obligation secured thereby.

ARTICLE 9

MISCELLANEOUS

Section 9.1 Counterparts. This Conveyance may be executed in counterparts, each of which shall be deemed an original instrument, but all such counterparts together shall constitute but one agreement.

Section 9.2 Notices. All notices that are required or may be given pursuant to this Conveyance shall be sufficient in all respects if given in writing, in English and delivered personally, by telecopy or by recognized courier service, as follows:

If to Grantor:	President
	Western Atlas Afrique, Ltd.
	c/o Baker Hughes E&P Solutions

10111 Richmond Avenue
Houston, Texas 77042
USA
Telephone: 713-972-6850
Telecopy: 713-972-6719

If to Grantee: Deputy General Counsel
Baker Hughes, Inc.
3900 Essex Lane, Suite 1200
Houston, Texas 77027
USA
Telephone: 713-439-8600
Telecopy: 713-439-8472

with a copy to: Assistant Secretary
Baker Hughes, Inc.
3900 Essex Lane, Suite 1200
Houston, Texas 77027
USA
Telephone: 713-439-8600
Telecopy: 713-439-8472

Either Party may change its address for notice by notice to the other in the manner set forth above. All notices shall be deemed to have been duly given at the time of receipt by the Party to which such notice is addressed.

Section 9.3 Costs of Enforcement. The prevailing Party in any action to enforce this Conveyance shall be entitled to all costs of enforcement or attempted enforcement, including without limitation court costs, arbitrators' fees and reasonable attorneys' fees.

Section 9.4 Certain Waivers. Grantor waives presentment for payment, grace, protest and demand, notice of nonpayment, notice of demand, dishonor, nonpayment, default or acceleration, notice of intent to accelerate and all other notices (except as expressly provided for in this Conveyance), and diligence in the filing of suit and in collecting the Production Payment.

Section 9.5 Governing Law. This Conveyance and the legal relations between the Parties shall be governed by and construed in accordance with the laws of the State of Texas, United States of America without regard to principles of conflicts of laws that would direct the application of the laws of another jurisdiction.

Section 9.6 Arbitration. It is agreed, as a severable and independent arbitration agreement separately enforceable from the remainder of this Conveyance, that any dispute, controversy or claim arising out of or in relation to or in connection with this Conveyance, including, without limitation, any dispute as to the construction, validity, interpretation, enforceability, or breach of this Conveyance, shall be exclusively and finally settled by arbitration in accordance with this Section 9.6. Either Party may submit such a dispute, controversy, or claim to arbitration by notice to the other Party and the administrator for the American Arbitration Association ("AAA"). The arbitration proceedings shall be conducted in Houston, Texas, United States of America in accordance with the International Arbitration Rules of the American Arbitration Association as in effect on the date hereof. The arbitration shall be heard and determined by three (3) arbitrators. Each Party shall appoint an arbitrator of its choice within twenty (20) days of the submission of the notice of arbitration. The Party appointed arbitrators shall in turn appoint a presiding arbitrator for the tribunal within twenty (20) days following the appointment of the second Party appointed arbitrator. If the Party appointed arbitrators cannot reach agreement on a presiding arbitrator for the tribunal and/or one Party fails to appoint its Party appointed arbitrator within the applicable period, the AAA shall act as appointing authority to appoint an independent arbitrator with at least ten (10) years experience in the legal and/or commercial aspects of the petroleum industry. None of the arbitrators shall have been an employee of or consultant to either Party to this Conveyance or any of its Affiliates within the five (5) year period preceding the arbitration, or have any financial interest in the dispute, controversy, or claim. All decisions of the arbitral tribunal shall be by majority vote.

The arbitration shall be conducted in the English language. The arbitrators may not award special or punitive damages. Each Party shall pay its own expenses in connection with the arbitration, but the compensation and expenses of the arbitrators shall be borne in such manner as may be specified in the arbitral award. Privileges protecting attorney-client communications and attorney work product from compelled disclosure or use in evidence, as recognized by the courts of the State of Texas, United States of America, shall apply to and be binding in any arbitration proceeding conducted under this Section 9.6.

Section 9.7 Earnings Limitation. Grantor agrees that it shall not earn any income or profits from the date of this Conveyance through the end of calendar year 2000.

Section 9.8 Captions. The captions in this Conveyance are for convenience only and shall not be considered a part of or affect the

construction or interpretation of any provision of this Conveyance.

Section 9.9 Waivers. Any failure by any Party to comply with any of its obligations, agreements or conditions herein contained may be waived by the Party to whom such compliance is owed by an instrument signed by the Party to whom compliance is owed and expressly identified as a waiver, but not in any other manner. No waiver of, or consent to a change in, any of the provisions of this Conveyance shall be deemed or shall constitute a waiver of, or consent to a change in, other provisions hereof (whether or not similar), nor shall such waiver constitute a continuing waiver unless otherwise expressly provided.

Section 9.10 Successors and Assigns. Subject to the limitations set forth in Article 8, this Conveyance shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and assigns.

Section 9.11 Entire Agreement. This Conveyance and the Annex attached hereto constitute the entire agreement between the Parties pertaining to the subject matter hereof, and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, of the Parties pertaining to the subject matter hereof.

Section 9.12 Amendment. This Conveyance may be amended or modified only by an agreement in writing signed by both Parties and expressly identified as an amendment or modification.

Section 9.13 No Third-Person Beneficiaries. Nothing in this Conveyance shall entitle any Person other than Grantor, Grantee and their respective permitted successors and assigns to any claim, cause of action, remedy or right of any kind.

Section 9.14 References.

In this Conveyance:

(a) References to any gender includes a reference to all other genders;

(b) References to the singular includes the plural, and vice versa;

(c) Reference to any Article or Section means an Article or Section of this Conveyance;

(d) Reference to any Annex means an Annex to this Conveyance, all of which are incorporated into and made a part of this Conveyance;

(e) Unless expressly provided to the contrary, "hereunder", "hereof", "herein" and words of similar import are references to this Conveyance as a whole and not any particular Section or other provision of this Conveyance; and

(f) "Include" and "including" shall mean include or including without limiting the generality of the description preceding such term.

Section 9.15 Limitation on Damages. Notwithstanding anything to the contrary contained herein, none of Grantor, Grantee or any of their respective Affiliates shall be entitled to consequential, special or punitive damages in connection with this Conveyance and the transactions contemplated hereby (other than consequential, special or punitive damages suffered by third Persons for which responsibility is allocated between the Parties) and each of Grantor and Grantee, for itself and on behalf of its Affiliates, hereby expressly waives any right to consequential, special or punitive damages in connection with this Conveyance and the transactions contemplated hereby.

Section 9.16 Severability. If any provision of this Conveyance (or any part of such provision) is unenforceable, all other provisions of this Conveyance shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any provision (or any part of such provision) is unenforceable, the parties hereto shall negotiate in good faith to modify this Conveyance so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that the transactions contemplated hereby are fulfilled.

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IN WITNESS WHEREOF, this Conveyance has been signed by each of the Parties as of the date first above written.

GRANTOR: WESTERN ATLAS AFRIQUE, LTD.

Name:

Title:

GRANTEE: WESTERN ATLAS INTERNATIONAL, INC.

Name:

Title:

<TABLE>
<CAPTION>

Subsidiary Name	Business	Ownership	Date and State of Incorporation	
- - - - -	- - - - -	- - - - -	- - - - -	
<S>	<C>	<C>	<C>	
VAALCO ENERGY (USA), INC.	Energy	100%	10/16/96	Delaware
VAALCO Energy (Gabon), Inc.	Energy	100%	6/14/95	Delaware
VAALCO Gabon (Etame), Inc.	Energy	100%	6/14/95	Delaware
VAALCO Production (Gabon), Inc.	Energy	100%	6/14/95	Delaware
Alcorn (Philippines), Inc.	Energy	100%	2/28/86	Delaware
Alcorn (Production) Philippines, Inc.	Energy	100%	2/28/86	Delaware

</TABLE>