

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

SCHEDULE 13D
Amendment No. 2

Under the Securities Exchange Act of 1934

VAALCO ENERGY, INC.
(Name of Issuer)

COMMON STOCK, PAR VALUE \$.10 PER SHARE
(Title of Class of Securities)

91851C201
(CUSIP Number)

LAWRENCE C. TUCKER
Brown Brothers Harriman & Co.
59 Wall Street
New York, New York 10005
(212) 493-8400

(Name, Address and Telephone Number of
Person Authorized to Receive Notices
and Communications)

JUNE 20, 2002
(Date of Event which Requires Filing of
this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition which is the subject of this Schedule 13D, and is filing this schedule because of Rules 13d-1(e), 13d-1(f) or 13-d1(g), check the following box .

Note: Six copies of this statement, including all exhibits, should be filed with the Commission. See Rule 13d-1(a) for other parties to whom copies are to be sent.

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 91851C201 2

1 NAME OF REPORTING PERSON
THE 1818 FUND II, L.P.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP
(a)
(b)

3 SEC USE ONLY

4 SOURCE OF FUNDS
OO

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO
ITEMS 2 (D) OR 2 (E)

6 CITIZENSHIP OR PLACE OR ORGANIZATION
DELAWARE

7 SOLE VOTING POWER
NUMBER OF SHARES -0-
BENEFICIALLY OWNED
BY EACH REPORTING 8 SHARED VOTING POWER

PERSON WITH

38,763,441

9 SOLE DISPOSITIVE POWER

-0-

10 SHARED DISPOSITIVE POWER

38,763,441

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

38,763,441

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

[]

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

70.3%

14 TYPE OF REPORTING PERSON

PN

CUSIP No. 91851C201

3

1 NAME OF REPORTING PERSON

BROWN BROTHERS HARRIMAN & CO.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a) []

(b) [X]

3 SEC USE ONLY

4 SOURCE OF FUNDS

OO

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2 (D) OR 2 (E)

[]

6 CITIZENSHIP OR PLACE OR ORGANIZATION

NEW YORK

7 SOLE VOTING POWER

NUMBER OF SHARES
BENEFICIALLY OWNED
BY EACH REPORTING
PERSON WITH

-0-

8 SHARED VOTING POWER

38,763,441

9 SOLE DISPOSITIVE POWER

-0-

10 SHARED DISPOSITIVE POWER

38,763,441

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[]

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70.3%

14 TYPE OF REPORTING PERSON

CUSIP No. 91851C201

4

1 NAME OF REPORTING PERSON

T. MICHAEL LONG

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a) (b)

3 SEC USE ONLY

4 SOURCE OF FUNDS

OO

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO
ITEMS 2 (D) OR 2 (E)

6 CITIZENSHIP OR PLACE OR ORGANIZATION

UNITED STATES OF AMERICA

7 SOLE VOTING POWER

NUMBER OF SHARES
BENEFICIALLY OWNED
BY EACH REPORTING
PERSON WITH

-0-

8 SHARED VOTING POWER

38,763,441

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-0-

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70.3%

14 TYPE OF REPORTING PERSON

IN

CUSIP No. 91851C201

5

1 NAME OF REPORTING PERSON

LAWRENCE C. TUCKER.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a) (b)

3 SEC USE ONLY

4 SOURCE OF FUNDS

OO

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO
ITEMS 2(D) OR 2(E)

[]

6 CITIZENSHIP OR PLACE OR ORGANIZATION

UNITED STATES OF AMERICA

7 SOLE VOTING POWER

NUMBER OF SHARES
BENEFICIALLY OWNED
BY EACH REPORTING
PERSON WITH

-0-

8 SHARED VOTING POWER

38,763,441

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-0-

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70.3%

14 TYPE OF REPORTING PERSON

IN

CUSIP No. 91851C201

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The undersigned hereby amend their Statement on Schedule 13D filed on May 1, 1998, as amended by Amendment No. 1 thereto dated as of May 27 1998 (the "Schedule 13D"), filed with the Securities and Exchange Commission in respect of the Common Stock, par value \$.10 per share, of Vaalco Energy, Inc., on behalf of The 1818 Fund II, L.P., Brown Brothers Harriman & Co., T. Michael Long and Lawrence C. Tucker. Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the original Schedule 13D.

The information set forth in Schedule 13D is hereby amended as follows:

ITEM 1. SECURITY AND ISSUER.

No change.

ITEM 2. IDENTITY AND BACKGROUND.

Item 2 is hereby amended and supplemented by the addition of the following paragraph:

Schedule I to the original Schedule 13D is hereby amended to read in its entirety in the form attached as Schedule I hereto.

ITEM 3. SOURCE AND AMOUNT OF FUNDS OR OTHER CONSIDERATION.

Pursuant to a Subordinated Credit Agreement dated as of June 10, 2002, and delivered as of June 20, 2002 (the "Credit Agreement"), by and between the Company and the Fund, the Company delivered to the Fund on June 20,

2002, Warrants, dated as of June 10, 2002, to purchase 7,500,000 shares of Common Stock at an exercise price of \$0.50 per share, subject to adjustment in certain circumstances (the "Warrant"), in consideration for the Fund's making a loan to the Company of up to \$10,000,000, all as more fully described in Item 6 below.

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ITEM 4. PURPOSE OF TRANSACTION.

Item 4 is hereby amended and supplemented by adding the following paragraph at the end thereof:

Pursuant to the Credit Agreement, the Company issued to the Fund, on June 20, 2002, the Warrant in consideration for the Fund making a loan to the Company of up to \$10,000,000, all as more fully described in Item 6 below.

ITEM 5. INTEREST IN SECURITIES OF THE ISSUER.

Item 5 is hereby amended and supplemented by the addition of the following:

(a)-(c) As of the date hereof, assuming the conversion of the shares of Preferred Stock held by the Fund into shares of Common Stock as of such date and the exercise of the Warrant held by the Fund into shares of Common Stock, the Fund may be deemed to beneficially own 38,763,441 shares of Common Stock, which, based on calculations made in accordance with Rule 13d-3(d) promulgated under the Exchange Act and there being 20,744,569 shares of Common Stock outstanding as of May 9, 2002 (as reported by the Company in its Form 10-Q for the quarter ended March 31, 2002 as filed with the Securities and Exchange Commission on May 14, 2002), represents approximately 70.3% of the outstanding shares of Common Stock.

By virtue of BBH&Co.'s relationship with the Fund, BBH&Co. may be deemed to beneficially own 38,763,441 shares of Common Stock, which, based on calculations made in accordance with Rule 13d-3(d) of the Exchange Act, and there being 20,744,569 shares of Common Stock outstanding as of May 9, 2002 (as reported by the Company in its Company's Form 10-Q for the quarter ended March 31, 2002 as filed

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with the Securities and Exchange Commission on May 14, 2002), represents approximately 70.3% of the outstanding shares of Common Stock.

By virtue of the resolution adopted by BBH&Co. designating Long and Tucker, or either of them, as the sole and exclusive partners of BBH&Co. having voting power (including the power to vote or to direct the voting) and investment power (including the power to dispose or to direct the disposition) with respect to the securities of the Company, each of them may be deemed to beneficially own 38,763,441 shares of Common Stock, which, based on

calculations made in accordance with Rule 13d-3(d) promulgated under the Exchange Act and there being 20,744,569 shares of Common Stock outstanding as of May 9, 2002 (as reported by the Company in its Form 10-Q for the quarter ended March 31, 2002 as filed with the Securities and Exchange Commission on May 14, 2002), represents approximately 70.3% of the outstanding shares of Common Stock.

Except as set forth herein, no Reporting Person nor, to the best knowledge of each Reporting Person, any person identified on Schedule I, beneficially owns any shares of Common Stock or has effected any transaction in shares of Common Stock during the preceding 60 days.

Paragraphs (d) and (e) of Item 5 of Schedule 13D are not applicable to this filing.

ITEM 6. CONTRACTS, ARRANGEMENTS, UNDERSTANDINGS OR RELATIONSHIPS WITH RESPECT TO SECURITIES OF THE ISSUER.

Item 6 is hereby amended and supplemented by the addition of the following:

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Pursuant to the Credit Agreement, until January 31, 2003, the Fund has agreed to make one or more loans to the Company in an aggregate principal amount not to exceed \$10,000,000, the proceeds of which are to be funded directly into an escrow account. The Company's obligation to repay is evidenced by a promissory note in an aggregate principal amount not to exceed \$10,000,000 at an initial interest rate of 10% (the "Note").

The Warrant, delivered to the Company on June 20, 2002, gives the Fund the right to purchase 7,500,000 validly issued, fully paid and nonassessable shares of the Common Stock at an exercise price of \$0.50 per share, subject to adjustment in certain circumstances. The number of shares of Common Stock subject to the Warrant and the exercise price are subject to anti-dilution adjustments. The Warrant may be exercised immediately, in whole or in part, at any time and from time to time until June 10, 2007 (the "Exercise Period").

Pursuant to the Credit Agreement, the Company also issued to the Fund an additional warrant, dated June 10, 2002, and delivered on June 20, 2002 (the "Clawback Warrant"). The Clawback Warrant gives the Fund the right to purchase an additional 7,500,000 validly issued, fully paid and nonassessable shares of the Common Stock ("Clawback Warrant Shares") at an exercise price of \$0.50 per share, subject to adjustment in certain circumstances. The Clawback Warrant may only be exercised during the period beginning on June 10, 2004 and ending on June 10, 2007. The number of Clawback Warrant Shares is subject to reduction if the Company repays all or a portion of the loans before specified time periods. The Clawback Warrant expires in 18 months if all was hereby repaid by sell date. The number of shares of Common Stock

subject to the Clawback Warrant and the excise price are subject to anti-dilution adjustments.

The Credit Agreement provides that if, by the second anniversary of the first funding under the Credit Agreement, all the loans have not been repaid in full, the Company will issue to the Fund a warrant (the "Additional Warrant") giving the Fund the right to purchase 7,500,000 validly issued, fully paid and nonassessable shares of the Common Stock, at an excise price of \$0.10 per share subject to adjustments. The Additional Warrant will expire 7 years after the date of issuance. The number of shares of Common Stock subject to the Additional Warrant are subject to anti-dilution adjustments.

The foregoing summaries of the Credit Agreement, the Note, the Warrant, the Clawback Warrant and Additional Warrant are qualified in their entirety by reference to Exhibits 1, 2, 3 and 4 which are incorporated herein by reference.

ITEM 7. MATERIAL TO BE FILED AS EXHIBITS.

- Exhibit 1: Credit Agreement, dated as of June 10, 2002, among the Company and the Fund.
- Exhibit 2: Note of the Company, in an aggregate principal amount not to exceed \$10,000,000, dated as of June 10, 2001.
- Exhibit 3: Warrant of the Company, dated as of June 10, 2002.
- Exhibit 4: Clawback Warrant of the Company, dated as of June 10, 2002.

SIGNATURE

After reasonable inquiry and to the best of its knowledge and belief, each of the undersigned certifies that the information set forth in this statement is true, complete and correct.

Dated: June 24, 2002

THE 1818 FUND II, L.P.

By: Brown Brothers Harriman & Co.,
General Partner

By: /s/ Lawrence C. Tucker

Name: Lawrence C. Tucker
Title: Partner

BROWN BROTHERS HARRIMAN & CO.

By: /s/ Lawrence C. Tucker

Name: Lawrence C. Tucker
Title: Partner

/s/ T. Michael Long

T. Michael Long

/s/ Lawrence C. Tucker

SCHEDULE I

Set forth below are the names and positions of all of the general partners of BBH & Co. The principal occupation or employment of each person listed below is private banker, and, unless otherwise indicated, the business address of each person is 59 Wall Street, New York, New York 10005. Unless otherwise indicated, each person listed below is a citizen of the United States.

NAME - ----	BUSINESS ADDRESS (IF OTHER THAN AS INDICATED ABOVE) -----
J. William Anderson	
Peter B. Bartlett	
Brian A. Berris	
Taylor Bodman	
John J. Borland	
Timothy J. Connelly	40 Water Street Boston, Massachusetts 02109
Douglas A. Donahue, Jr.	40 Water Street Boston, Massachusetts 02109
Anthony T. Enders	
Alexander T. Ercklentz	
Terrence M. Farley	
John A. Gehret	525 Washington Blvd. Jersey City, New Jersey 07310-1692
Elbridge T. Gerry, Jr.	
Kristen F. Giarrusso	
Robert R. Gould	
Kyosuke Hashimoto (citizen of Japan)	8-14 Nihonbashi 30-Chome Chuo-ku Tokyo 103, Japan
Ronald J. Hill	
Landon Hilliard	
Radford W. Klotz	

NAME - ----	BUSINESS ADDRESS (IF OTHER THAN AS INDICATED ABOVE) -----
Michael Kraynak, Jr.	
Susan C. Livingston	40 Water Street Boston, Massachusetts 02109
T. Michael Long	
Hampton S. Lynch, Jr.	

Michael W. McConnell

John P. Molner

William H. Moore III

Donald B. Murphy

John A. Nielsen

Eugene C. Rainis

A. Heaton Robertson

40 Water Street
Boston, Massachusetts 02109

Jeffrey Schoenfeld

W. Carter Sullivan

Stokley P. Towles

40 Water Street
Boston, Massachusetts 02109

Andrew J. F. Tucker

Lawrence C. Tucker

William B. Tyree

Maarten van Hengal

Douglas C. Walker

1531 Walnut Street
Philadelphia, Pennsylvania

William J. Whelan

40 Water Street
Boston, Massachusetts 02109

Laurence F. Whittemore

Richard H. Witmer, Jr.

SUBORDINATED CREDIT AGREEMENT

THIS SUBORDINATED CREDIT AGREEMENT (this "AGREEMENT") is entered into as of June 10, 2002, by and between VAALCO ENERGY, INC., a Delaware corporation ("BORROWER"), and 1818 FUND II, L.P., a Delaware limited partnership, and such other parties from time to time a Lender hereto (herein collectively "LENDER").

RECITALS

WHEREAS, Vaalco Gabon (Etame), Inc. ("VGEI") and International Finance Corporation ("IFC") entered into that certain Loan Agreement dated April 19, 2002 (the "IFC LOAN AGREEMENT"), for the purpose of financing the Project (all capitalized terms not defined in the body of this Agreement are defined under Appendix A hereto).

WHEREAS, as a condition precedent to funding under the IFC Loan Agreement, IFC has required an escrow account (the "SPONSOR ESCROW ACCOUNT") be established pursuant to that certain Escrow Account Agreement between Borrower, IFC and JPMorgan/Chase Bank, London Branch ("ESCROW ACCOUNT BANK") dated May 31, 2002 (the "SPONSOR ESCROW AGREEMENT") in which Borrower shall maintain certain required balances up to \$10,000,000 as security for the obligations of Borrower to IFC under the Guarantee Agreement dated on or about the date of the IFC Loan Agreement between Borrower and IFC.

WHEREAS, Borrower has requested Lender extend its credit for the purpose of funding the Sponsor Escrow Account and Lender has agreed to provide such credit to Borrower on the terms and conditions contained herein.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Lender and Borrower hereby agree as follows:

ARTICLE I.

CREDIT TERMS

SECTION 1.01 LINE OF CREDIT LOAN.

(a) LINE OF CREDIT LOAN. Subject to the terms and conditions of this Agreement until January 31, 2003, Lender hereby agrees to make one or more loans (each such advance a "LOAN" and collectively the "LOANS") to Borrower in an aggregate principal amount not to exceed Ten Million Dollars (\$10,000,000) (the "COMMITMENT"), the proceeds of which shall be funded directly into and held in the Sponsor Escrow Account pursuant to the Sponsor Escrow Agreement. Borrower's obligation to repay the Loans shall be evidenced by a promissory note substantially in the form of EXHIBIT A attached hereto (as same may be amended, renewed, assigned in whole or in part, collectively, the "NOTE"), all terms of which are incorporated herein by this reference. After the earlier of (i) Phase One Completion Date and (ii) January 31, 2003, Lender shall have no obligation to make any additional Loans to Borrower.

(b) REPAYMENT. Principal and interest on the Loans shall be repaid in accordance with the provisions of the Note, the terms of which are incorporated herein by reference.

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(c) MANDATORY PREPAYMENT. Principal outstanding under the Loans is subject to mandatory prepayment in accordance with provisions of the Note, the terms of which are incorporated herein by reference.

SECTION 1.02 INTEREST/FEEES.

(a) INTEREST. The outstanding principal balance of the Loans shall bear interest at the rate of interest and on the dates set forth in the Note and this Agreement.

(b) WARRANTS. Borrower shall sell and issue to Lender warrants to purchase 15,000,000 shares of Borrower's Common Stock at \$0.50 per share, subject to adjustment pursuant to the terms thereof (the "WARRANTS") in the forms attached hereto as EXHIBITS B-1 and B-2.

(c) ADDITIONAL WARRANT. If all principal, interest and other amounts under the Loans and the Note have not been paid in full and Lender's obligation to make Loans has not been terminated on or

prior to the second anniversary following the first funding hereunder, Borrower shall issue to Lender a warrant ("ADDITIONAL WARRANT") to purchase a number of shares of Borrower's Common Stock equal to 7,500,000 multiplied by a fraction, the numerator of which shall be the principal amount of the Loans outstanding on such second anniversary and the denominator of which shall be \$10.0 million. The number of shares subject to such Additional Warrant shall be subject to appropriate adjustment if any of the events described in Sections 5.1, 5.2, 5.3, 5.5 and 5.9 of the Warrant attached as EXHIBIT B-1 occurs prior to such second anniversary. The exercise price of such Additional Warrant shall be \$0.10 per share. The Additional Warrant shall expire seven years following the date of issuance. The Additional Warrant shall be substantially identical to the Warrant attached as EXHIBIT B-1 (except that the antidilution adjustments will be appropriately modified so as to adjust the number of shares only and the number of shares subject to the Additional Warrant shall be reduced as set forth in Sections 5.1, 5.2, 5.3, 5.5 and 5.9 of the Warrant).

SECTION 1.03 PAYMENTS.

(a) Borrower shall make all payments of principal, interest, fees, and any other amount due to Lender under the Loan Documents in Dollars, in same day funds, to Brown Brothers Harriman & Co., for credit to Lender's account number 9201033231 at JPMorgan Chase & Co. (ABA #0210-00021), for further credit to The 1818 Fund II, L.P. to account number 3592441 (Reference: VAALCO), or at such other bank or account in New York as Lender from time to time designates. Payments must be received in Lender's designated account no later than 1:00 p.m. New York time.

(b) The tender or payment of any amount payable under the Loan Documents (whether or not by recovery under a judgment) in any currency other than Dollars shall not novate, discharge or satisfy the obligation of Borrower to pay in Dollars all amounts payable under the Loan Documents except to the extent that (and as of the date when) Lender actually receives funds in Dollars in the account specified in, or pursuant to, SUBSECTION 1.03(A).

(c) Borrower shall indemnify Lender against any losses resulting from a payment being received or an order or judgment being given under the Loan Documents in any currency other than Dollars or any place other than the account specified in, or pursuant to,

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SUBSECTION 1.03(A). Borrower shall, as a separate obligation, pay such additional amount as is necessary to enable Lender to receive, after conversion to Dollars at a market rate and transfer to that account, the full amount due to Lender under the Loan Documents in Dollars and in the account specified in, or pursuant to, SUBSECTION 1.03(A).

(d) Notwithstanding the provisions of SUBSECTION 1.03(A) and SUBSECTION 1.03(B), Lender may require Borrower to pay (or reimburse Lender) for any Taxes and other amounts payable under SUBSECTION 1.07(A) in the currency in which they are payable, if other than Dollars.

SECTION 1.04 COLLATERAL.

(a) As security for the payment or performance, as applicable, of all of Borrower's Obligations, Borrower has granted security interests to Lender, and its successors and assigns pursuant to the security agreements and other documents described on SCHEDULE I hereto and any financing statements filed in connection therewith or as Lender shall require, all in form and substance satisfactory to Lender (collectively the "SECURITY DOCUMENTS").

(b) Borrower hereby authorizes Lender to file one or more financing statements, continuation statements, or other documents for the purpose of perfecting, confirming, continuing, enforcing or protecting the security interest granted pursuant to the Security Documents by Borrower naming Borrower as debtor and Lender as secured party. Borrower shall reimburse Lender immediately upon demand for all reasonable costs and expenses incurred by Lender in connection with the Loan Documents or any of the foregoing, including without limitation, filing and recording fees and costs of appraisals, audits, title insurance, and attorneys' fees.

SECTION 1.05 SUBORDINATION OF DEBT. In connection with the Note, VGEI is borrowing money from and incurring obligations to IFC (the "IFC INDEBTEDNESS"). The obligation of Borrower to repay the Note and other indebtedness under the Loan Documents and the priority of liens created under the Security Documents are subject to the terms of that certain Subordination Agreement, dated as of even date herewith, by and between Borrower, IFC and

Lender attached as EXHIBIT C hereto (hereafter, the "SUBORDINATION AGREEMENT").

SECTION 1.06. SUSPENSION OR CANCELLATION BY LENDER.

(a) Lender may, by notice to Borrower, suspend the right of Borrower to borrow and/or cancel the undisbursed portion of the Commitment in whole or in part:

- (i) if the first Loan has not been made by September 30, 2002 or such earlier date agreed to by VGEI and IFC under the IFC Loan Agreement;
- (ii) if any Event of Default has occurred and is continuing;
- (iii) if any event or condition has occurred and is continuing which has or can reasonably be expected to have a material adverse effect;
- (iv) on or after December 31, 2003; or
- (v) the Phase One Completion Date.

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(b) Upon the giving of any such notice, the right of Borrower to any further Loans shall be suspended or canceled, as the case may be. The exercise by Lender of its right of suspension shall not preclude Lender from exercising its right of cancellation, either for the same or any other reason specified in SECTION 1.06. Upon any cancellation, Borrower shall, subject to SUBSECTION 1.06(D), pay to Lender all fees and other amounts accrued (whether or not then due and payable) under this Agreement up to the date of that cancellation. A suspension shall not limit any other provision of this Agreement.

(c) Any portion of the Commitment that is canceled under this SECTION 1.06 may not be reborrowed.

(d) In the case of a partial cancellation of the Commitment pursuant to SUBSECTION 1.06(A), interest on the amount then outstanding of the Loans remains payable as provided in SUBSECTION 1.02(A).

SECTION 1.07 TAXES.

(a) Borrower shall pay or cause to be paid all Taxes other than taxes, if any, payable on the overall income of Lender on or in connection with the payment of any and all amounts due under this Agreement that are now or in the future levied or imposed by any Authority of Gabon, the United States of America, or the United Kingdom or by any organization of which Gabon, the United States of America or the United Kingdom is a member or any jurisdiction through or out of which a payment is made.

(b) All payments of principal, interest, fees and other amounts due under this Agreement shall be made without deduction for or on account of any Taxes.

(c) If Borrower is prevented by operation of law or otherwise from making or causing to be made those payments without deduction, the principal or (as the case may be) interest, fees or other amounts due under this Agreement shall be increased to such amount as may be necessary so that Lender receives the full amount it would have received (taking into account any Taxes payable on amounts payable by Borrower under this subsection) had those payments been made without that deduction.

(d) If SECTION 1.07 applies and Lender so requests, Borrower shall deliver to Lender official tax receipts evidencing payment (or certified copies of them) within thirty (30) days of the date of that request.

ARTICLE II.

REPRESENTATIONS AND WARRANTIES

Borrower makes the following representations and warranties to Lender, which representations and warranties shall survive the execution of this Agreement and shall continue in full force and effect until the full and final payment, and satisfaction and discharge, of all obligations of Borrower to Lender subject to this Agreement.

SECTION 2.01 LEGAL STATUS. Borrower and VGEI are each

corporations, duly organized and existing and in good standing under the laws of the State of Delaware and are qualified or licensed to do business (and are in good standing as a foreign corporation, if applicable) in all jurisdictions in which

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such qualification or licensing is required or in which the failure to so qualify or to be so licensed could have a material adverse effect on Borrower or VGEI.

SECTION 2.02 CAPITALIZATION.

(a) The authorized capital stock of Borrower consists solely of 100,000,000 shares of common stock, par value \$.10 per share ("COMMON STOCK") and 500,000 shares of preferred stock, par value \$25.00 per share ("PREFERRED STOCK"). As of the date hereof: (i) 20,744,569 shares of Common Stock were issued and outstanding, (ii) 10,000 shares of Series A Preferred Stock ("SERIES A PREFERRED STOCK") were issued and outstanding, (iii) 3,495,325 shares of Common Stock were reserved for issuance upon exercise of outstanding options, warrants (excluding the Warrants) and other rights to acquire Common Stock, (iv) 15,000,000 shares of Common Stock were reserved for issuance upon exercise of the Warrants, (v) 5,395 shares of Common Stock were held by the Company in its treasury, and (vi) 27,500,000 shares of Common Stock were reserved for issuance upon conversion of the Series A Preferred Stock. The Warrants and the Additional Warrants are duly authorized, and when issued to Lender after payment therefor, will be validly issued and will be free and clear of all liens. The shares of Common Stock issuable upon exercise of the Warrants and the Additional Warrants, when issued in compliance with the terms thereof, will be validly issued, fully paid and nonassessable and not subject to any preemptive rights. Except as set forth above, as of the date hereof, no shares of capital stock or other equity securities of Borrower were issued, reserved for issuance or outstanding, and there are no other options, warrants or other rights presently outstanding to purchase or otherwise acquire (i) any authorized but unissued, unauthorized or treasury shares of the Borrower's capital stock, or (ii) any security which by its terms is convertible or exercisable for shares of Borrower's capital stock, and there are no commitments to issue any of the foregoing. All outstanding shares of Common Stock and Preferred Stock of Borrower are duly authorized, validly issued, fully paid and nonassessable and not subject to preemptive rights.

(b) The authorized capital stock of VGEI consists solely of 1,000 shares of common stock, par value \$10.00 per share ("VGEI COMMON STOCK"). As of the date hereof 1,000 shares of VGEI Common Stock were issued and outstanding. As of the date hereof all of the capital stock of VGEI was owned by Borrower and no shares of capital stock or other equity securities of VGEI were issued, reserved for issuance or outstanding, and there are no other options, warrants or other rights presently outstanding to purchase or otherwise acquire (i) any authorized but unissued, unauthorized or treasury shares of VGEI's capital stock, or (ii) any security which by its terms is convertible or exercisable for shares of VGEI's capital stock, and there are no commitments to issue any of the foregoing. All outstanding shares of VGEI Common Stock are duly authorized, validly issued, fully paid and nonassessable and not subject to preemptive rights.

SECTION 2.03 AUTHORIZATION AND VALIDITY.

(a) This Agreement, the Note, the Security Documents, the Warrants, the Additional Warrants and each contract, instrument and other document required hereby or at any time hereafter delivered to Lender in connection herewith (collectively, the "LOAN DOCUMENTS") have been duly authorized, and upon their execution and delivery in accordance with the provisions hereof will constitute legal, valid and binding agreements and obligations of Borrower, enforceable in accordance with their respective terms.

(b) The IFC Loan Agreement, and the other Transaction Documents contemplated by the IFC Loan Agreement, have been duly authorized, and upon their execution and delivery in accordance with the provisions of the IFC Loan Agreement will constitute legal, valid and

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binding agreements and obligations of VGEI or Borrower, as the case may be, enforceable in accordance with their respective terms.

SECTION 2.04 NO VIOLATION.

(a) The execution, delivery and performance by Borrower of each of the Loan Documents do not violate any provision of any law or regulation, or contravene any provision of the Articles of Incorporation or By-Laws of Borrower, or result in any breach of or default under any contract, obligation, indenture or other instrument to which Borrower is a party or by which Borrower may be bound.

(b) The execution, delivery and performance by VGEI or Borrower, as the case may be, of the IFC Loan Agreement and each of the Transaction Documents do not violate any provision of any law or regulation, or contravene any provision of the Articles of Incorporation or By-Laws of VGEI, or result in any breach of or default under any contract, obligation, indenture or other instrument to which VGEI is a party or by which VGEI may be bound.

SECTION 2.05 LITIGATION. There are no pending, or to the best of Borrower's knowledge threatened, actions, claims, investigations, suits or proceedings by or before any governmental authority, arbitrator, court or administrative agency which could have a material adverse effect on the financial condition or operation of Borrower or VGEI other than those disclosed by Borrower to Lender in writing prior to the date hereof.

SECTION 2.06 CORRECTNESS OF FINANCIAL STATEMENT. The quarterly consolidated and consolidating balance sheet dated December 31, 2001, prepared by Borrower's chief financial officer (a) are complete and correct and present fairly the consolidated financial condition of Borrower, (b) disclose all liabilities of Borrower and its Subsidiaries that are required to be reflected or reserved against under U.S. generally accepted accounting principles, whether liquidated or unliquidated, fixed or contingent, and (c) were prepared in accordance with U.S. generally accepted accounting principles consistently applied. Since the date of such quarterly financial statement there has been no material adverse change in the consolidated financial condition of Borrower, nor has Borrower or any of its Subsidiaries mortgaged, pledged, granted a security interest in or otherwise encumbered any of its assets or properties except in favor of Lender or IFC or as otherwise permitted by Lender in writing.

SECTION 2.07 INCOME TAX RETURNS. All tax returns and reports of Borrower and its Subsidiaries required by law to be filed have been duly filed and all taxes, obligations, fees and other governmental charges upon Borrower and its Subsidiaries, or their properties, or their income or assets, which are due and payable or to be withheld, have been paid or withheld, other than those currently payable without penalty or interest.

SECTION 2.08 NO SUBORDINATION. There is no agreement, indenture, contract or instrument to which Borrower or any of its Subsidiaries is a party or by which Borrower or any of its Subsidiaries may be bound that requires the subordination in right of payment of any of Borrower's obligations subject to this Agreement to any other obligation of Borrower except as provided in the Subordination Agreement.

SECTION 2.09 PERMITS, FRANCHISES. Each of Borrower and its Subsidiaries possess, and will hereafter possess, all permits, consents, approvals, franchises and licenses required and rights to all trademarks, trade names, patents, and fictitious names, if any, necessary to enable it to conduct the business in which it is now engaged in compliance with applicable law.

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SECTION 2.10 ERISA. Each of Borrower and its Subsidiaries is in compliance in all material respects with all applicable provisions of the Employee Retirement Income Security Act of 1974, as amended or recodified from time to time ("ERISA"); Neither Borrower nor any of its Subsidiaries has violated any provision of any defined employee pension benefit plan (as defined in ERISA) maintained or contributed to by Borrower or its Subsidiaries (each, a "PLAN"); no Reportable Event as defined in ERISA has occurred and is continuing with respect to any Plan initiated by Borrower or its Subsidiaries; each of Borrower and its Subsidiaries has met its minimum funding requirements under ERISA with respect to each Plan; and each Plan will be able to fulfill its benefit obligations as they come due in accordance with the Plan documents and under U.S. generally accepted accounting principles.

SECTION 2.11 OTHER OBLIGATIONS. Neither Borrower nor any of its Subsidiaries is in default on any obligation for borrowed money, any purchase money obligation or any other material lease, commitment, contract, instrument or obligation.

SECTION 2.12 ENVIRONMENTAL MATTERS. Except as disclosed by Borrower to Lender in writing prior to the date hereof, Borrower and each of its Subsidiaries is in compliance with all applicable federal or state environmental, hazardous waste, health and safety statutes, and any rules or regulations adopted pursuant thereto, which govern or affect any of Borrower's or its Subsidiaries' operations and/or properties, including without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Superfund Amendments and Reauthorization Act of 1986, the Federal

Resource Conservation and Recovery Act of 1976, and the Federal Toxic Substances Control Act, as any of the same may be amended, modified or supplemented from time to time. None of the operations of Borrower or its Subsidiaries is the subject of any federal or state investigation evaluating whether any remedial action involving a material expenditure is needed to respond to a release of any toxic or hazardous waste or substance into the environment. Neither Borrower nor any of its Subsidiaries has a material contingent liability in connection with any release of any toxic or hazardous waste or substance into the environment.

SECTION 2.13 NO CONSENT.

(a) Borrower's execution, delivery and performance of each of the Loan Documents, including this Agreement, to which Borrower is a party do not require the consent or approval of any other person or entity which has not been obtained, including, without limitation, any regulatory authority or governmental body of the United States of America or any state thereof or any political subdivision of the United States of America or any state thereof.

(b) VGEI's or Borrower's, as the case may be, execution, delivery and performance of the IFC Loan Agreement and each of the Transaction Documents, to which VGEI or Borrower, as the case may be, is a party do not require the consent or approval of any other person or entity which has not been obtained, including, without limitation, any regulatory authority or governmental body of the United States of America or any state thereof or any political subdivision of the United States of America or any state thereof.

SECTION 2.14 NO LIENS. Neither Borrower nor any of its Subsidiaries has any outstanding lien on any of its assets other than liens under the IFC Loan Agreement in favor of IFC and otherwise as arising by operation of law, and no contract or arrangements, conditional or unconditional, exist for the creation by Borrower or any of its Subsidiaries of any lien, except for liens in favor of IFC pursuant to the IFC Loan Agreement and Lender pursuant to the Loan Documents.

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SECTION 2.15 LAWS. To the best of Borrower's knowledge and belief after due inquiry, neither Borrower nor any of its Subsidiaries is in violation of any statute or regulation of any governmental authority.

SECTION 2.16 JUDGMENTS. No judgment or order has been issued which has or may reasonably be expected to have a material adverse effect on the financial conditions or operations of Borrower or any of its Subsidiaries.

SECTION 2.17 INFORMATION. All information regarding Borrower and its Subsidiaries furnished to Lender prior to or contemporaneously herewith, by or on behalf of Borrower, was and continues to be true and accurate and does not contain any information that is misleading in any material respect nor does it omit any information the omission of which makes the information contained in it misleading in any material respect, and none of the representations and warranties in this ARTICLE II omits any matter the omission of which makes any of such representations and warranties misleading.

SECTION 2.18 VGEI. The representations and warranties made by VGEI in Section 4.01 of the IFC Loan Agreement are true and correct in all material respects (except for any such representations and warranties which are qualified by their terms by a reference to materiality or material adverse affect, which representation as so qualified shall be true and correct in all respects).

ARTICLE III.

CONDITIONS

SECTION 3.01 CONDITIONS TO INITIAL LOAN. The obligation of Lender to make the initial Loan under SECTION 1.01(A) is subject to the fulfillment to Lender's satisfaction of all of the following conditions:

(a) APPROVAL OF LENDER COUNSEL. All legal matters incidental to the extension of credit by Lender shall be satisfactory to Lender's counsel.

(b) DOCUMENTATION. Lender shall have received, in form and substance satisfactory to Lender, such documents as Lender may require including, without limitation, this Agreement, the Note, the Warrants and each of the documents described on SCHEDULE I attached hereto.

(c) LENDER APPROVAL AND CLOSING OF SENIOR LOAN. The IFC Loan Agreement, the Transaction Documents and other related documents (the "IFC LOAN DOCUMENTS") shall be satisfactory to Lender in its sole discretion, all conditions precedent under the IFC Loan Documents will

following the occurrence of funding hereunder, be satisfied (and not waived except with Lender's consent), and all such agreements shall close and fund within three (3) Business Days following Closing and funding hereunder. Borrower will deliver to Lender all documents delivered to IFC upon closing of the IFC Loan Agreement that Lender specifically requests Borrower to deliver to Lender.

(d) FINANCIAL CONDITION. There shall have been no material adverse change, as determined by Lender, in the financial condition or business of Borrower and its Subsidiaries, nor any material decline, as determined by Lender, in the market value of any collateral required hereunder or a substantial or material portion of the assets of Borrower and its Subsidiaries.

(e) INSURANCE. Borrower shall have delivered to Lender evidence of insurance coverage on all Borrower's and its Subsidiaries' property, in form, substance, amounts, covering

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risks and issued by companies satisfactory to Lender, including without limitation, policies of fire and extended coverage insurance covering all real property collateral required hereby, and such policies of insurance against specific hazards affecting any such real property as may be required by governmental regulation.

(f) OPINION OF INVESTMENT BANK. An opinion of an investment bank or financial advisor acceptable to Lender that the terms of this Agreement and the other Loan Documents are fair to Borrower from a financial point of view.

(g) OPINION OF COUNSEL. An opinion of Borrower's counsel, addressed to Lender in form and substance satisfactory to Lender's counsel and opinion of Borrower's U.K. counsel, addressed to Lender, in form and substance satisfactory to Lender's counsel, regarding the validity and enforceability of the Charge Over Deposit Agreement.

SECTION 3.02 CONDITIONS OF ALL LOANS. The obligation of Lender to make any Loan, including the initial Loan, on any date is also subject to the conditions that:

(a) no Event of Default has occurred and is continuing;

(b) no event of default pursuant to Section 7.02 of the IFC Loan Agreement ("IFC EVENTS OF DEFAULT") and no event or circumstance which would, with notice, lapse of time, the making of a determination or any combination thereof, become an event of default pursuant to Section 7.02 of the IFC Loan Agreement ("IFC POTENTIAL EVENTS OF DEFAULT") has occurred and is continuing;

(c) the proceeds of such requested Loan shall, at such date, be used by Borrower for the sole purpose of funding the Sponsor Escrow Account as a condition precedent to a funding in the same amount by IFC to VGFI under the IFC Loan Agreement within three (3) Business Days thereof;

(d) since the date of this Agreement, no event has occurred which (i) has and is continuing to have or (ii) can reasonably be expected to have a material adverse effect on Borrower and its Subsidiaries taken as a whole;

(e) since December 31, 2001, Borrower and its Subsidiaries have not incurred any material loss or liability (except such liabilities as may be incurred in accordance with ARTICLE V);

(f) the representations and warranties made in ARTICLE II are true and correct in all material respects (except for any such representations and warranties which are qualified by their terms by a reference to materiality or material adverse affect, which representation as so qualified shall be true and correct in all respects) on and as of such date with the same effect as if those representations and warranties had been made on and as of such date;

(g) after giving effect to such Loan, neither Borrower nor its Subsidiaries would be in violation of:

(i) its articles of incorporation and bylaws and/or such other constitutive documents, however so called;

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(ii) any provision contained in any document to

which Borrower or any of its Subsidiaries is a party (including this Agreement) or by which Borrower or any of its Subsidiaries is bound; or

(iii) any law, rule, regulation, authorization or agreement or other document binding on Borrower or any of its Subsidiaries directly or indirectly limiting or otherwise restricting Borrower's or any of its Subsidiary's borrowing power or authority or its ability to borrow;

(h) on and as of such date, Borrower's Long-term Debt to Equity Ratio does not exceed 70:30; and

(i) the undisbursed portion of funds available to VGEI under the IFC Loan Agreement are sufficient to finance VGEI's share of costs projected to be incurred up through the Phase One Completion Date.

SECTION 3.03 BORROWER'S CERTIFICATION. Lender shall not be obligated to make any Loan until Borrower shall have delivered to Lender with respect to each request for a Loan:

(a) certifications, in the form included in SCHEDULE III signed by an executive officer of Borrower, certifying the conditions specified in SECTION 3.02 expressed to be effective as of such date; and

(b) such evidence as Lender may reasonably request of the proposed utilization of the proceeds of the Loan or the utilization of the proceeds of the corresponding loan to VGEI under the IFC Loan Agreement.

SECTION 3.04 CONDITIONS FOR LENDER'S BENEFIT. The conditions in SECTION 3.01 through SECTION 3.03 are for the benefit of Lender and may be waived only by Lender in its sole discretion.

ARTICLE IV.

AFFIRMATIVE COVENANTS

Borrower covenants that so long as any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Lender under any of the Loan Documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower shall (and shall cause its Subsidiaries, if applicable), unless Lender otherwise consents in writing.

SECTION 4.01 PUNCTUAL PAYMENTS. Punctually pay all principal, interest, fees or other liabilities due under any of the Loan Documents at the times and place and in the manner specified therein.

SECTION 4.02 ACCOUNTING RECORDS. Maintain adequate books and records in accordance with U.S. generally accepted accounting principles consistently applied, and permit any representative of Lender, at any reasonable time, to inspect, audit and examine such books and records, to make copies of the same, and to inspect the properties of Borrower and its Subsidiaries.

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SECTION 4.03 FINANCIAL STATEMENTS. Borrower will promptly furnish to Lender from time to time upon request such information regarding the business and affairs and financial condition of Borrower and its Subsidiaries as Lender may reasonably request, and will furnish to Lender:

(a) ANNUAL REPORTS - promptly after becoming available and in any event within 90 days after the close of each fiscal year of Borrower, the audited consolidated and unaudited consolidating balance sheets of Borrower and its Subsidiaries as at the end of such year, the audited consolidated and unaudited consolidating statements of profit and loss of Borrower and its Subsidiaries for such year and the audited consolidated and unaudited consolidating statements of reconciliation of capital accounts of Borrower and its Subsidiaries for such year, setting forth in each case for fiscal years ending after September 30, 2001, in comparative form the corresponding figures for the preceding fiscal year, accompanied by the related report of independent public accountants acceptable to Lender which report shall be to the effect that such statements have been prepared in accordance with U.S. generally accepted accounting principles consistently followed throughout the period indicated except for such changes in such principles with which the independent public accountants shall have concurred, showing the calculations confirming Borrower's compliance

with all financial covenants; and

(b) QUARTERLY REPORTS - promptly after becoming available and in any event within 45 days after the end of each of the first three quarterly periods in each fiscal year of Borrower, the consolidated and consolidating balance sheets of Borrower and its Subsidiaries as at the end of such period, the consolidated and consolidating statements of profit and loss of Borrower and its Subsidiaries for such quarter and for the period from the beginning of the fiscal year to the close of such quarter, and the consolidated and consolidating statement of reconciliation of capital accounts of Borrower and its Subsidiaries for such quarter and for the period from the beginning of the fiscal year to the close of such quarter, setting forth in each case for fiscal years ending after September 30, 2001, in comparative form the corresponding figures for the corresponding period of the preceding fiscal year, certified by the principal financial officer of Borrower to have been prepared in accordance with U.S. generally accepted accounting principles consistently followed throughout the period indicated except to the extent stated therein, subject to normal changes resulting from year-end adjustment;

(c) AUDIT REPORTS - promptly upon receipt thereof, one copy of each other report submitted to Borrower or any Subsidiary by independent accountants in connection with any annual, interim or special audit made by them of the books of Borrower or any Subsidiary;

(d) SEC AND OTHER REPORTS - promptly upon their becoming available, one copy of each financial statement, report, notice or proxy statement sent by Borrower to stockholders generally, and of each regular or periodic report and any registration statement, prospectus or written communication (other than transmittal letters) in respect thereof filed by Borrower with or received by Borrower in connection therewith from any securities exchange or the Securities and Exchange Commission or any successor agency;

(e) VGEI REPORTS - to the extent requested by Lender, all reports, documents or other materials required to be delivered or otherwise delivered to IFC pursuant to Section 6.03 of the IFC Loan Agreement.

(f) OTHER INFORMATION - from time to time such other information as Lender may reasonably request.

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SECTION 4.04 COMPLIANCE. Preserve and maintain all licenses, permits, governmental approvals, rights, privileges and franchises necessary for the conduct of its business and the business of its Subsidiaries; and comply with the provisions of all documents pursuant to which Borrower and its Subsidiaries organized and/or which govern Borrower's and its Subsidiaries' continued existence and with the requirements of all laws, rules, regulations and orders of any governmental authority applicable to Borrower, its Subsidiaries and/or their business.

SECTION 4.05 INSURANCE. Maintain and keep in force insurance of the types and in amounts customarily carried in lines of business similar to that of Borrower, including but not limited to fire, extended coverage, public liability, flood, property damage and workers' compensation, with all such insurance carried with companies and in amounts satisfactory to Lender, and deliver to Lender from time to time, at Lender's request, schedules setting forth all insurance then in effect.

SECTION 4.06 FACILITIES. Keep all properties useful or necessary to Borrower's and its Subsidiaries' business in good repair and condition, and from time to time make necessary repairs, renewals and replacements thereto so that such properties shall be fully and efficiently preserved and maintained.

SECTION 4.07 TAXES AND OTHER LIABILITIES. Pay and discharge when due any and all indebtedness, obligations, assessments and taxes, both real or personal, including without limitation federal and state income taxes and state and local property taxes and assessments, except such (a) as Borrower or any Subsidiary may in good faith contest or as to which a bona fide dispute may arise, and (b) for which Borrower or any Subsidiary has made provision, to Lender's satisfaction, for eventual payment thereof in the event Borrower or any Subsidiary is obligated to make such payment.

SECTION 4.08 LITIGATION. Promptly give notice in writing to Lender of all litigation pending or threatened against Borrower or any Subsidiary with claims in excess of \$10,000.00 in the aggregate.

SECTION 4.09 NOTICE TO LENDER. Promptly give written notice to Lender in reasonable detail of: (a) the occurrence of any Event of Default of which Borrower is aware along with written notices or correspondence regarding same, or any condition, event or act which with the giving of notice or the

passage of time or both would constitute an Event of Default; (b) any IFC Events of Default or IFC Potential Events of Default along with written notices or correspondence regarding same; (c) any change in the name or the organizational structure of Borrower; and (d) the occurrence and nature of any Reportable Event or Prohibited Transaction, each as defined in ERISA, or any funding deficiency with respect to any Plan.

SECTION 4.10 MAINTENANCE OF EXISTENCE. Each of Borrower and its Subsidiaries shall preserve and maintain in full force and effect their legal existence, and maintain their good standing under the laws of their state or jurisdiction of formation.

ARTICLE V.

NEGATIVE COVENANTS

Borrower further covenants that so long as Lender remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Lender under any of the Loan Documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower will not (and shall cause its Subsidiaries not to, if applicable) without Lender's prior written consent:

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SECTION 5.01 USE OF FUNDS. Use the proceeds of Loans for purposes other than to fund the Sponsor Escrow Account pursuant to the IFC Loan Agreement.

SECTION 5.02 OTHER INDEBTEDNESS. Create, incur, assume or permit to exist any Debt with respect to Borrower and its Subsidiaries except (a) the liabilities of Borrower to Lender, (b) any other liabilities of Borrower and its Subsidiaries existing as of, and described in the Subordination Agreement, and (c) other Long Term Debt, provided that Borrower's Long Term Debt to Equity Ratio shall not exceed 70:30.

SECTION 5.03 MERGER, CONSOLIDATION, TRANSFER OF ASSETS. Merge into or consolidate with any other entity; make any substantial change in the nature of Borrower's or any Subsidiary's business as conducted as of the date hereof; acquire all or substantially all of the assets of any other entity; nor sell, lease, transfer or otherwise dispose of all or a substantial or material portion of Borrower's or any Subsidiary's assets except in the ordinary course of its business.

SECTION 5.04 LOANS, ADVANCES, INVESTMENTS. Make any loans or advances to or investments in any person or entity, except any of the foregoing to VGEI and to the extent existing as of, and disclosed to Lender prior to, the date hereof.

SECTION 5.05 DIVIDENDS, DISTRIBUTIONS. Declare or pay any dividend or distribution either in cash, stock or any other property on Borrower's or any Subsidiary's (other than wholly-owned Subsidiaries) stock now or hereafter outstanding, nor redeem, retire, repurchase or otherwise acquire any shares of any class of Borrower's or any Subsidiary's (other than wholly-owned Subsidiaries) stock now or hereafter outstanding except as provided in the Warrants.

SECTION 5.06 PLEDGE OF ASSETS. Mortgage, pledge, grant or permit to exist a security interest in, or lien upon, all or any portion of Borrower's or any Subsidiary's assets now owned or hereafter acquired, except any of the foregoing in favor of Lender or which is existing as of the date of, and described under, the Subordination Agreement.

SECTION 5.07 SALES AND LEASEBACKS. Enter into any arrangement, directly or indirectly, with any person whereby Borrower or any Subsidiary shall sell or transfer any of its property, whether now owned or hereafter acquired, and whereby Borrower or any Subsidiary shall then or thereafter rent or lease as lessee such property or any part thereof or other property which Borrower or any Subsidiary intends to use for substantially the same purpose or purposes as the property is sold or transferred.

SECTION 5.08 NATURE OF BUSINESS. Allow any material change to be made in the character of Borrower's or any Subsidiary's business as conducted on the date of this Agreement.

SECTION 5.09 TRANSACTIONS WITH AFFILIATES. Enter into any transaction, including without limitation, any purchase, sale, lease or exchange of property or the rendering of any service, with any affiliate of Borrower or any of its Subsidiaries unless such transactions are in the ordinary course of its business and are upon fair and reasonable terms no less favorable to Borrower or its Subsidiary than Borrower or its Subsidiary would obtain in a comparable arm's-length transaction with a person not an affiliate.

SECTION 5.10 FISCAL YEAR. Change the fiscal accounting year of Borrower or its Subsidiaries from a calendar year commencing each year on January 1 and ending on the following December 31.

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SECTION 5.11 PROJECT. Permit VGEI to change in any material way the nature or scope of the Project or change the nature of its present or contemplated business or operations.

SECTION 5.12 VGEI PSC INTEREST. Permit VGEI to reduce its working interest under the PSC below 30.35% during the exploration phase and below 28.07% during the production phase.

ARTICLE VI.

EVENTS OF DEFAULT

SECTION 6.01 EVENTS OF DEFAULT. The occurrence of any of the following shall constitute an "EVENT OF DEFAULT" under this Agreement:

- (a) Borrower shall fail to pay when due any principal, interest, fees or other amounts payable under any of the Loan Documents.
- (b) Any default in the performance of or compliance with any obligation, agreement or other provision contained herein or in any other Loan Document (other than those referred to in SUBSECTIONS 6.01(A)), and with respect to any such default which by its nature can be cured, such default shall continue for a period of thirty (30) days from its occurrence.
- (c) Borrower or any of its Subsidiaries fails to pay any of its Debt (other than as provided under 6.01 (a)) or to perform any of its obligations under any agreement pursuant to which there is outstanding any Debt, and any such failure continues for more than any applicable period of grace or any such Debt becomes prematurely due and payable or is placed on demand, provided such non-payment or non-performance will not be an Event of Default if (i) such non-payment or non-performance relates to a Debt not exceeding one hundred fifty thousand Dollars (\$150,000) and (ii) is being contested by Borrower or such Subsidiary in good faith in a court of competent jurisdiction for reasons other than its inability to make due and punctual payment and for which Borrower or such Subsidiary has set aside adequate reserves.
- (d) Any of the representations and warranties of Borrower made herein or in any other Loan Document or that is contained in any certificate, document or financial or other statement furnished by it at any time under or in connection with this Agreement or any such other Loan Document shall prove to have been inaccurate, false or misleading in any material respect on or as of the date made.
- (e) The filing of a notice of judgment lien against Borrower or any of its Subsidiaries; or the recording of any abstract of judgment against Borrower or any of its Subsidiaries in any county in which Borrower has an interest in real property; or the service of a notice of levy and/or of a writ of attachment or execution, or other like process, against the assets of Borrower or any of its Subsidiaries; or the entry of a judgment against Borrower or any of its Subsidiaries. Notwithstanding the foregoing, there shall not be an Event of Default upon the filing of notices of judgment lien, the recording of abstracts of judgment, or the entries of judgment against Borrower or any of its Subsidiaries if the aggregate amount of all such judgments not covered by insurance is less than \$1,000,000 and such judgments are released within sixty (60) days of the filing, recording or entry of such judgment.
- (f) Borrower or any of its Subsidiaries shall become insolvent, or shall suffer or consent to or apply for the appointment of a receiver, trustee, custodian or liquidator of itself or

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any of its property, or shall generally fail to pay its debts as they become due, or shall make a general assignment for the benefit of creditors; Borrower or any of its Subsidiaries shall file a voluntary petition in bankruptcy, or seeking reorganization, in order to effect a plan or other arrangement with creditors or any other relief under the Bankruptcy Reform Act, Title 11 of the United States Code, as amended or recodified from time to time ("BANKRUPTCY CODE"), or under any state or federal law granting relief to debtors, whether now or hereafter in effect; or any involuntary petition or proceeding pursuant to the

Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors is filed or commenced against Borrower or any of its Subsidiaries, or Borrower or any of its Subsidiaries shall file an answer admitting the jurisdiction of the court and the material allegations of any involuntary petition; or Borrower or any of its Subsidiaries shall be adjudicated a bankrupt, or an order for relief shall be entered against Borrower or any of its Subsidiaries by any court of competent jurisdiction under the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors.

(g) The dissolution or liquidation of Borrower or any Subsidiary, or any of its directors or stockholders respectively, shall take action seeking to effect the dissolution or liquidation of Borrower or any Subsidiary.

(h) Any IFC Event of Default.

SECTION 6.02 REMEDIES. Upon (a) the occurrence of any Event of Default under SUBSECTION 6.01(F) above, all indebtedness including principal and accrued and unpaid interest outstanding under each of the Loan Documents shall become automatically due and payable and (b) upon the occurrence of any other Event of Default, all indebtedness including all principal and accrued and unpaid interest outstanding under each of the Loan Documents, any term thereof to the contrary notwithstanding, shall at Lender's option and without notice become immediately due and payable; in each case without presentment, demand, or any notices of any kind, including without limitation notice of nonperformance, notice of protest, protest, notice of dishonor, notice of intention to accelerate or notice of acceleration, all of which are hereby expressly waived by Borrower. Upon acceleration of the indebtedness, Lender shall have all rights, powers and remedies available under each of the Loan Documents, and accorded by law, including without limitation the right to resort to any or all security for any credit subject hereto and to exercise any or all of the rights of a beneficiary or secured party pursuant to applicable law. All rights, powers and remedies of Lender may be exercised at any time by Lender and from time to time after the occurrence of an Event of Default, are cumulative and not exclusive, and shall be in addition to any other rights, powers or remedies provided by law or equity.

ARTICLE VII.

MISCELLANEOUS

SECTION 7.01 NO WAIVER. No delay, failure or discontinuance of Lender in exercising any right, power or remedy under any of the Loan Documents shall affect or operate as a waiver of such right, power or remedy; nor shall any single or partial exercise of any such right, power or remedy preclude, waive or otherwise affect any other or further exercise thereof or the exercise of any other right, power or remedy. Any waiver, permit, consent or approval of any kind by Lender of any breach of or default under any of the Loan Documents must be in writing and shall be effective only to the extent set forth in such writing.

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SECTION 7.02 NOTICES. All notices, requests and demands which any party is required or may desire to give to any other party under any provision of this Agreement must be in writing delivered to each party at the following address:

BORROWER: VAALCO ENERGY, INC.
4600 Post Oak Place, Suite 309
Houston, Texas 77027-0130
Attn: Russell Scheirman

LENDER: 1818 FUND II, L.P.
59 Wall Street
New York, New York 10005-2818
Attn: Walter Grist

or to such other address as any party may designate by written notice to all other parties. Each such notice, request and demand shall be deemed given or made as follows: (a) if sent by hand delivery, upon delivery; (b) if sent by mail, upon the earlier of the date of receipt or three (3) days after deposit in the U.S. mail, first class and postage prepaid; and (c) if sent by telecopy, upon receipt.

SECTION 7.03 COSTS, EXPENSES AND ATTORNEYS' FEES. Borrower shall pay to Lender immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees), expended or incurred by Lender in connection with (a) the

negotiation and preparation of this Agreement and the other Loan Documents, Lender's continued administration hereof and thereof, and the preparation of any amendments and waivers hereto and thereto, (b) the enforcement of Lender's rights and/or the collection of any amounts which become due to Lender under any of the Loan Documents, and (c) the prosecution or defense of any action in any way related to any of the Loan Documents, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Lender or any other person) relating to Borrower or any other person or entity.

SECTION 7.04 ASSIGNMENTS.

(a) Borrower may not assign its rights or obligations hereunder or under the Note without the prior consent of Lender.

(b) Lender may assign to one or more assignees all or a portion of its rights and obligations under this Agreement pursuant to an Assignment Agreement substantially in the form of EXHIBIT D (an "ASSIGNMENT"); PROVIDED, however, that any such assignment shall be in the amount of at least \$1,000,000 and PROVIDED FURTHER, at no time shall there be more than four (4) Lenders. Any such assignment will become effective upon the execution and delivery to Borrower and all Lenders then party to this Agreement ("EXISTING LENDERS") of the Assignment and the consent of Existing Lenders. Upon receipt of such executed Assignment, Borrower, will, at its own expense, execute and deliver new Notes to the assignor and/or assignee, as appropriate, in accordance with their respective interests as they appear. Borrower and Lenders further agree to enter into such modifications, assignments and amendments to the Loan Documents as necessary to provide for multiple Lenders, including, for example, designation of a collateral agent and administrative agent for the Lenders. Upon the effectiveness of any assignment

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pursuant to this SECTION 7.04(B), the assignee will become a "Lender" for all purposes of this Agreement and obligated, subject to the terms of this Agreement and the Assignment, to fund up to the full amount of its assigned percentage of the Commitment (the "PERCENTAGE SHARE OF THE COMMITMENT"). The assignor shall be relieved of its obligations hereunder to the extent of such assignment (and if the assigning Lender no longer holds any rights or obligations under this Agreement, such assigning Lender shall cease to be a "Lender" hereunder). Existing Lenders will prepare a new SCHEDULE II giving effect to all such assignments effected restating each Lenders' Percentage Share of the Commitment, its pro-rata share of the Commitment and assigned share of Loans then outstanding, and will promptly provide the same to Borrower and each Lender.

(c) Existing Lenders may furnish any information concerning Borrower in their possession from time to time to assignees (including prospective assignees); PROVIDED that, such persons agree to maintain such information confidential.

(d) Notwithstanding anything in this SECTION 7.04 to the contrary, any Lender may assign and pledge its Note to any Federal Reserve Bank or any Affiliate of such Lender for so long as such entity remains an Affiliate of Lender. No such assignment and/or pledge shall release the assigning and/or pledging Lender from its obligations hereunder.

(e) Notwithstanding any other provisions of this SECTION 7.04, no transfer or assignment of the interests or obligations of any Lender or any grant of participations therein shall be permitted if such transfer, assignment or grant would require Borrower to file a registration statement with the SEC or to qualify the Loans under the "BLUE SKY" laws of any state.

SECTION 7.05 AMENDMENT. This Agreement may be amended or modified only in writing signed by each party hereto.

SECTION 7.06 NO THIRD PARTY BENEFICIARIES. This Agreement is made and entered into for the sole protection and benefit of the parties hereto and their respective permitted successors and assigns, and no other person or entity shall be a third party beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any other of the Loan Documents to which it is not a party.

SECTION 7.07 TIME. Time is of the essence of each and every provision of this Agreement and each other of the Loan Documents.

SECTION 7.08 SEVERABILITY OF PROVISIONS. If any provision of this

Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or any remaining provisions of this Agreement.

SECTION 7.09 COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and all of which when taken together shall constitute one and the same Agreement. Any signed counterpart shall be deemed delivered by the party signing it if sent to the other parties hereto by electronic facsimile transmission.

SECTION 7.10 FURTHER ASSURANCES. Borrower agrees, at its own expense, to execute, acknowledge, deliver and cause to be duly filed all such further instruments and documents and take all such actions as the Lender may from time to time reasonably request to preserve, protect and perfect the

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security interests granted pursuant to the Security Documents and the rights and remedies created hereby, including the payment of any fees and taxes required in connection with the execution and delivery of this Agreement, the granting of the security interests granted pursuant to the Security Documents and the filing of any financing statements (including fixture filings) or other documents in connection herewith or therewith.

SECTION 7.11 GOVERNING LAW.

(a) This Agreement is governed by and shall be construed in accordance with the laws of the State of New York and applicable U.S. federal law.

(b) For the exclusive benefit of Lender, Borrower irrevocably agrees that any legal action, suit or proceeding arising out of or relating to this Agreement or any other Loan Document to which Borrower is a party may be brought by Lender, in its discretion, in the courts of the State of New York, the United States for the Southern District of New York, or England. By the execution of this Agreement, Borrower irrevocably submits to the non-exclusive jurisdiction of such courts in any such action, suit or proceeding. Final judgment against Borrower in any such action, suit or proceeding shall be conclusive and may be enforced in any other jurisdiction, including Gabon, London, New York and Delaware, by suit on the judgment, a certified or exemplified copy of which shall be conclusive evidence of the judgment, or in any other manner provided by law.

(c) Nothing in this Agreement shall affect the right of Lender to commence legal proceedings or otherwise sue Borrower in Gabon, London, New York, Delaware or any other appropriate jurisdiction, or concurrently in more than one jurisdiction, or to serve process, pleadings and other papers upon Borrower in any manner authorized by the laws of any such jurisdiction.

(d) Borrower hereby irrevocably designates, appoints and empowers the Chief Executive and the Head of the Litigation Group of Bird & Bird located at 90 Fetter Lance, London EC4A 1JP (reference VAAEN.0001), as its authorized agent solely to receive for and on its behalf service of the writ of summons or other legal process in any action, suit or proceeding Lender may bring in the courts of England and CT Corp., as its authorized agent solely to receive for and on its behalf service of the writ of summons or other legal process in any action, suit or proceeding Lender may bring in the courts of the Southern District of New York.

(e) As long as this Agreement or any other Loan Document to which Borrower is a party remains in force, Borrower shall maintain a duly appointed and authorized agent to receive for and on its behalf service of the writ of summons or other legal process in any action, suit or proceeding brought by Lender in the courts of England or in the Southern District of New York with respect to this Agreement or such other Loan Documents. Borrower shall keep Lender advised of the identity and location of such agent.

(f) Borrower irrevocably waives: (i) any objection which it may have now or in the future to the laying of the venue of any action, suit or proceeding in any court referred to in this SECTION 7.11; and (ii) any claim that any such action, suit or proceeding has been brought in an inconvenient forum.

(g) To the extent that Borrower may be entitled in any jurisdiction to claim for itself or its assets immunity with respect to its obligations under this Agreement or any other Loan

Document to which it is a party from any suit, execution, attachment (whether provisional or final, in aid of execution, before judgment or otherwise) or other legal process or to the extent that in any jurisdiction that immunity (whether or not claimed), may be attributed to it or its assets, Borrower irrevocably agrees not to claim and irrevocably waives such immunity to the fullest extent now or in the future permitted by the laws of such jurisdiction.

(h) Borrower also consents generally with respect to any proceedings arising out of or in connection with this Agreement or any other Loan Document to which it is a party to the giving of any relief or the issue of any process in connection with such proceedings including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which may be made or given in such proceedings.

(i) To the extent that Borrower may, in any suit, action or proceeding brought in any of the courts referred to in SUBSECTION 7.11(B) or a court of Gabon, London, New York, Delaware or elsewhere arising out of or in connection with this Agreement or any other Loan Document to which Borrower is a party, be entitled to the benefit of any provision of law requiring Lender in such suit, action or proceeding to post security for the costs of Borrower, or to post a bond or to take similar action, Borrower hereby irrevocably waives such benefit, in each case to the fullest extent now or in the future permitted under the laws of Gabon, London, New York, Delaware or, as the case may be, the jurisdiction in which such court is located.

(j) Borrower also irrevocably consents, if for any reason Borrower's authorized agent for service of process of summons, complaint and other legal process in any action, suit or proceeding is not present in New York or England, to service of such papers being made out of those courts by mailing copies of the papers by registered air mail, postage prepaid, to Borrower at its address specified pursuant to SECTION 7.02. In such a case, Lender shall also send by facsimile, or have sent by facsimile, a copy of the papers to Borrower.

SECTION 7.12 SAVINGS CLAUSE. It is the intention of the parties to comply strictly with applicable usury laws. Accordingly, notwithstanding any provision to the contrary in the Loan Documents, in no event shall any Loan Documents require the payment or permit the payment, taking, reserving, receiving, collection or charging of any sums constituting interest under applicable laws that exceed the maximum amount permitted by such laws, as the same may be amended or modified from time to time (the "MAXIMUM RATE"). If any such excess interest is called for, contracted for, charged, taken, reserved or received in connection with any Loan Documents, or in any communication by or any other person to Borrower or any other person, or in the event that all or part of the principal or interest hereof or thereof shall be prepaid or accelerated, so that under any of such circumstances or under any other circumstance whatsoever the amount of interest contracted for, charged, taken, reserved or received on the amount of principal actually outstanding from time to time under the Loan Documents shall exceed the Maximum Rate, then in such event it is agreed that: (i) the provisions of this paragraph shall govern and control; (ii) neither Borrower nor any other person or entity now or hereafter liable for the payment of any Loan Documents shall be obligated to pay the amount of such interest to the extent it is in excess of the Maximum Rate; (iii) any such excess interest which is or has been received by Lender, notwithstanding this paragraph, shall be credited against the then unpaid principal balance hereof or thereof, or if any of the Loan Documents has been or would be paid in full by such credit, refunded to Borrower; and (iv) the provisions of each of the Loan Documents, and any other communication to Borrower, shall immediately be deemed reformed and such excess interest reduced, without the necessity of executing any other document, to the Maximum Rate. The right to accelerate the maturity of the Loan Documents does not include the right to accelerate, collect or charge unearned interest, but only such

interest that has otherwise accrued as of the date of acceleration. Without limiting the foregoing, all calculations of the rate of interest contracted for, charged, taken, reserved or received in connection with any of the Loan Documents which are made for the purpose of determining whether such rate exceeds the Maximum Rate shall be made to the extent permitted by applicable laws by amortizing, prorating, allocating and spreading during the period of the full term of such Loan Documents, including all prior and subsequent renewals and extensions hereof or thereof, all interest at any time contracted for, charged, taken, reserved or received by Lender. The terms of this paragraph shall be deemed to be incorporated into each of the other Loan Documents.

To the extent that either Chapter 303 or 306, or both, of the Texas Finance Code apply in determining the Maximum Rate, Lender hereby elects to

determine the applicable rate ceiling by using the weekly ceiling from time to time in effect, subject to Lender's right subsequently to change such method in accordance with applicable law, as the same may be amended or modified from time to time.

SECTION 7.13 RIGHT OF SETOFF; DEPOSIT ACCOUNTS. Upon and after the occurrence of an Event of Default, (a) Borrower hereby authorizes Lender, acting on Lender's behalf, at any time and from time to time, without notice, which is hereby expressly waived by Borrower, and whether or not Lender shall have declared any credit subject hereto to be due and payable in accordance with the terms hereof, to set off against, and to appropriate and apply to the payment of, Borrower's obligations and liabilities under the Loan Documents (whether matured or unmatured, fixed or contingent, liquidated or unliquidated), any and all amounts owing by Lender to Borrower (whether payable in U.S. dollars or any other currency, whether matured or unmatured, and in the case of deposits, whether general or special (except trust and escrow accounts), time or demand and however evidenced), and (b) pending any such action, to the extent necessary, to hold such amounts as collateral to secure such obligations and liabilities. Borrower hereby grants to Lender a security interest in all deposits and accounts maintained with Lender and with any financial institution to secure the payment of all obligations and liabilities of Borrower to Lender under the Loan Documents.

SECTION 7.14 BUSINESS PURPOSE. Borrower represents and warrants that each credit subject hereto is for a business, commercial, investment, agricultural or other similar purpose and not primarily for a personal, family or household use.

SECTION 7.15 INDEMNIFICATION. Borrower agrees to indemnify Lender, each assignee or participant hereunder, each of their affiliates and each of their officers, directors, partners, employees, representatives, agents, attorneys, accountants and experts ("INDEMNIFIED PARTIES") from, hold each of them harmless against and promptly upon demand pay or reimburse each of them for, the Indemnity Matters which may be incurred by or asserted against or involve any of them (whether or not any of them is designated a party thereto) as a result of, arising out of or in any way related to (i) any actual or proposed use by Borrower of the proceeds of any of the Loans, (ii) the execution, delivery and performance of the Loan Documents and amendments to such documents, (iii) the operations of the business of Borrower, (iv) the failure of Borrower to comply with the terms of any Loan Documents or this Agreement and amendments to such documents, or with any applicable law, (v) any inaccuracy of any representation or any breach of any warranty of Borrower set forth in any of the Loan Documents and amendments to such documents, (vi) any assertion that any Indemnified Party was not entitled to receive the proceeds received pursuant to the Loan Documents and amendments to such documents, (vii) the administration of this Agreement, (viii) the custody or preservation of, or the sale of, collection from or other realization upon any of the collateral, (ix) the exercise, enforcement or protection of any of the rights of the Lender hereunder, or (x) any other aspect of the Loan Documents and amendments to such documents, including, without limitation, the reasonable fees and disbursements of counsel and all other expenses incurred in connection with investigating, defending or preparing to defend any such action,

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suit, proceeding (including any investigations, litigation or inquiries) or claim and including all Indemnity Matters arising by reason of the ordinary negligence of any Indemnified Party, but excluding all Indemnity Matters arising solely by reason of claims between Lender or any assignee or participant, or any such party's shareholders against Lender or any assignee or participant or by reason of the gross negligence or willful misconduct on the part of the Indemnified Party.

SECTION 7.16 WAIVER OF JURY TRIAL. TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, BORROWER HEREBY IRREVOCABLY AND EXPRESSLY WAIVES ALL RIGHT TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING, OR COUNTERCLAIM (WHETHER BASED UPON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OF THE LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED THEREBY OR THE ACTIONS OF LENDER IN THE NEGOTIATION, ADMINISTRATION OR ENFORCEMENT THEREOF.

NOTICE: THIS DOCUMENT AND ALL OTHER DOCUMENTS RELATING TO THE INDEBTEDNESS CONSTITUTE A WRITTEN LOAN AGREEMENT WHICH REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES RELATING TO THE INDEBTEDNESS.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first written above.

VAALCO ENERGY, INC.

By: /s/ W. Russell Scheirman

Name: W.RUSSELL SCHEIRMAN
Title: PRESIDENT

SIGNATURE PAGE S-1 TO SUBORDINATED CREDIT AGREEMENT
S-1

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first written above.

1818 FUND II, L.P.

By: Brown Brothers Harriman & Co.,
its general partner

By: /s/ Walter Grist

Name: Walter Grist
Title: Managing Director

SIGNATURE PAGE S-2 TO SUBORDINATED CREDIT AGREEMENT
S-2

APPENDIX A

DEFINED TERMS

GENERAL DEFINITIONS. Wherever used in this Agreement, the following terms have the meanings specified or referred to below:

"ADDITIONAL WARRANT" has the meaning specified in SUBSECTION 1.02(C).

"AFFILIATE" means, in respect of any Person, any other Person directly or indirectly Controlling, Controlled by or under common Control with, such Person;

"AGREEMENT" has the meaning set forth in the introductory paragraph hereto.

"ASSIGNMENT" has the meaning specified in SUBSECTION 7.04(B).

"AUTHORITY" means any national, supranational, regional or local government or governmental, administrative, fiscal, judicial, or government-owned body, department, commission, authority, tribunal, agency or entity, or central bank (or any entity, whether or not government owned and howsoever constituted or called, that exercises the functions of a central bank).

"BANKRUPTCY CODE" has the meaning specified in SUBSECTION 6.01(F).

"BUSINESS DAY" means a day when banks are open for business in New York, New York.

"BORROWER" has the meaning set forth in the introductory paragraph hereto.

"COMMON STOCK" has the meaning specified in SUBSECTION 2.02(A).

"CONTROL" means the power to direct the management or policies of a Person, directly or indirectly, whether through the ownership of shares or other securities, by contract or otherwise, provided that the direct or indirect ownership of fifty-one per cent (51%) or more of the voting share capital of a Person is deemed to constitute control of that Person, and "Controlling" and "Controlled" have corresponding meanings;

"CURRENT LIABILITIES" means, with respect to Borrower and/or its

Subsidiaries, as applicable, the aggregate of all liabilities of Borrower falling due on demand or within one year (including the portion of Long-term Debt falling due within one year);

"DEBT" means, with respect to Borrower and/or its Subsidiaries, as applicable, the aggregate of all obligations (whether actual or contingent) of such Person, to pay or repay money including, without limitation: (i) all Indebtedness for Borrowed Money; (ii) the aggregate amount then outstanding of all liabilities of any party to the extent such Person guarantees them or otherwise directly or indirectly obligates itself to pay them; (iii) all liabilities of such Person (actual or contingent) under any conditional sale or a transfer with recourse or obligation to repurchase, including, without limitation, by way of discount or factoring of book debts or receivables; and (iv) all liabilities of such Person (actual or contingent) under its Articles of Incorporation or Bylaws, any resolution of its shareholders, or any agreement or other document binding on such Person to redeem any of its shares.

APPENDIX A-1

"DERIVATIVE TRANSACTION" means any swap agreement, cap agreement, collar agreement, futures contract, forward contract or similar arrangement with respect to interest rates, currencies or commodity prices.

"DISBURSEMENT" has the meaning ascribed to such term in the IFC Loan Agreement.

"DOLLARS" and "\$" means the lawful currency of the United States of America.

"ERISA" has the meaning specified in SECTION 2.10.

"ESCROW ACCOUNT BANK" has the meaning set forth in the recitals hereto.

"ETAME FIELD" means the area 45 kilometers offshore of the southern coast of Gabon identified as the "Delimited Area" (ZONE DELIMITEE) in the PSC, which contains hydrocarbon accumulations, in relation to which the EEA has been granted by GOG.

"EVENT OF DEFAULT" has the meaning specified in SECTION 6.01.

"EEA" means the Exclusive Exploitation Authorization granted to Borrower with respect to the Etame Field through an edict by the Minister in charge of Hydrocarbons of Gabon on July 17, 2001, for a term of at least ten (10) years.

"EXISTING LENDERS" has the meaning specified in SUBSECTION 7.04(B).

"GABON" means the Republic of Gabon.

"GOG" means the government of the Republic of Gabon.

"IFC" has the meaning set forth in the recitals hereto.

"IFC INDEBTEDNESS" has the meaning specified in SECTION 1.05.

"IFC LOAN AGREEMENT" has the meaning set forth in the recitals hereto.

"IFC EVENTS OF DEFAULT" has the meaning specified in SUBSECTION 3.02(B).

"IFC POTENTIAL EVENTS OF DEFAULT" has the meaning specified in SUBSECTION 3.02(B).

"IFC LOAN DOCUMENTS" has the meaning specified in SUBSECTION 3.01(C).

"INDEBTEDNESS FOR BORROWED MONEY" means, with respect to Borrower and/or its Subsidiaries, as applicable, all obligations of such Person to repay money including, without limitation, with respect to: (i) borrowed money; (ii) the outstanding principal amount of any bonds, debentures, notes, loan stock, commercial paper, acceptance credits, bills or promissory notes drawn, accepted, endorsed or issued by such Person; (iii) any credit to such Person from a supplier of goods or services under any installment purchase or other similar arrangement with respect to goods or services (except trade accounts that are payable in the ordinary course of business and included in Current Liabilities); (iv) non-contingent obligations of such Person to reimburse any other person or entity with respect to amounts paid by such Person to that person or entity under a letter of credit or similar instrument (excluding any letter of credit or similar instrument issued for the benefit of such Person with respect to trade accounts that are payable in the ordinary course of business and

included in Current Liabilities); (v) amounts raised under any other transaction

APPENDIX A-2

having the financial effect of a borrowing and which would be classified as a borrowing (and not as an off-balance sheet financing) under U.S. generally accepted accounting principles applied on a consistent basis including, without limitation, under leases or similar arrangements entered into primarily as a means of financing the acquisition of the asset leased; (vi) the amount of such Person's obligations, as the case may be, pursuant to Derivative Transactions which consist of swap, collar and cap agreements entered into in connection with other Debt of such Person or VGEI, respectively, provided that for the avoidance of double counting and for so long as any such swap, collar or cap agreement is in effect, that Debt will be included in Indebtedness for Borrowed Money pursuant to the terms of the relevant Derivative Transaction and not the terms of the agreement providing for that Debt when it was incurred; and (vii) any premium payable on a mandatory redemption or replacement of any of the foregoing obligations.

"INDEMNIFIED PARTIES" has the meaning specified in SECTION 7.15.

"INDEMNITY MATTERS" means any and all actions, suits, proceedings (including any investigations, litigation or inquiries), claims, demands and causes of action made or threatened against a person and, in connection therewith, all losses, liabilities, damages (including, without limitation, consequential damages) or reasonable costs and expenses of any kind or nature whatsoever incurred by such person (including, without limitation, expenses and fees of counsel and of any experts and agents) whether caused by the sole or concurrent negligence of such person seeking indemnification.

"LENDER" has the meaning set forth in the introductory paragraph hereto.

"LOAN" has the meaning specified in SUBSECTION 1.01(A).

"LOAN DOCUMENTS" has the meaning specified in SUBSECTION 2.03(A).

"LONG TERM DEBT" means, with respect to Borrower, that part of the Debt of Borrower the final maturity of which, by its terms or the terms of any agreement relating to it, falls due more than one year after the date of its incurrence.

"LONG-TERM DEBT TO EQUITY RATIO" means, at any calculation date, with respect to Borrower, the result obtained by dividing Borrower's Long-term Debt by Borrower's Shareholder Equity.

"MAXIMUM RATE" has the meaning specified in SECTION 7.12.

"NOTE" has the meaning specified in SUBSECTION 1.01(A).

"OBLIGATIONS" means, collectively, (a) the due and punctual payment by the Borrower of (i) the principal of and premium, if any, and interest (including interest accruing during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding) on the Loans, when and as due, whether at maturity, by acceleration, upon one or more dates set for prepayment or otherwise, and (ii) all other monetary obligations, including fees, costs, expenses and indemnities, whether primary, secondary, direct, contingent, fixed or otherwise (including monetary obligations incurred during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding), of the Borrower to the Lender or any other Person under the Loan Documents and (b) the due and punctual payment and performance of all covenants, agreements, obligations and liabilities of the Borrower, monetary or otherwise, under or pursuant to the Loan Documents.

APPENDIX A-3

"PERCENTAGE SHARE OF THE COMMITMENT" has the meaning specified in SUBSECTION 7.04(B).

"PERSON" means any natural person, corporation, partnership, company, or other entity, whether acting in an individual, fiduciary or other capacity.

"PHASE ONE COMPLETION DATE" has the meaning ascribed to such term in the IFC Loan Agreement as in effect on the date hereof.

"PLAN" has the meaning specified in SECTION 2.10.

"PREFERRED STOCK" has the meaning specified in SUBSECTION 2.02(A).

"PSC" means the Exploration and Production Sharing Contract dated as of July 7, 1995, between the Republic of Gabon, represented by the Minister of Mines, Energy and Petroleum, and Borrower and PanAfrican Gabon (under its former name VAALCO Energy (Gabon), Inc.), collectively as the Contractor, as amended October __, 2001.

"PROJECT" means that certain project consisting of the development of the Etame Field in the Etame Marin block, 45 km offshore of the southern coast of Gabon and involving the re-entering and completing of three existing wells, the drilling and completing of up to three additional wells and installing of flowlines to connect the wells to a registered floating production storage and offloading tanker facility and its mooring system capable of processing up to 30,000 barrels per day and storing up to 1.1 million barrels of oil.

"SECURITY DOCUMENTS" has the meaning specified in SECTION 1.04.

"SERIES A PREFERRED STOCK" has the meaning specified in SUBSECTION 2.02(A).

"SHAREHOLDERS' EQUITY" means, with respect to Borrower, the aggregate of: (i) the amount paid up on the share capital of Borrower; and (ii) the amount standing to the credit of the reserves of Borrower (including, without limitation, any share premium account, capital redemption reserve funds and any credit balance on the accumulated profit and loss account); after deducting from that aggregate (A) any debit balance on the profit and loss account or impairment of the issued share capital of Borrower (except to the extent that deduction with respect to that debit balance or impairment has already been made), (B) amounts set aside for dividends or taxation (including deferred taxation), and (C) amounts attributable to capitalized items such as goodwill, trademarks, deferred charges, licenses, patents and other intangible assets.

"SPONSOR ESCROW ACCOUNT" has the meaning set forth in the recitals hereto.

"SPONSOR ESCROW AGREEMENT" has the meaning set forth in the recitals hereto.

"SUBORDINATION AGREEMENT" has the meaning specified in SECTION 1.05.

"SUBSIDIARY" means (a) any corporation in which Borrower, directly or indirectly, owns more than fifty percent (50%) of the issued and outstanding securities having voting power to elect a majority of the directors of such corporation; and (b) any partnership, association, joint venture, or other entity in which Borrower, directly or indirectly, has more than a fifty percent (50%) equity interest at the time.

APPENDIX A-4

"TAXES" means any present or future taxes, withholding obligations, duties and other charges of whatever nature levied by any Authority.

"TRANSACTION DOCUMENTS" has the meaning ascribed to such term in the IFC Loan Agreement.

"VGEI COMMON STOCK" has the meaning specified in SUBSECTION 2.02(B).

"VGEI" has the meaning set forth in the recitals hereto.

"WARRANTS" has the meaning specified in SUBSECTION 1.02(B).

APPENDIX A-5

SCHEDULE I -----

Unless otherwise stated, all documents are of even date herewith.

1. "Subordination Agreement" by and between Borrower, IFC and Lender.

2. "Subordinated Pledge of Shares Agreement" by and between Borrower and Lender.
3. "Charge Over Deposit Agreement" by and between Borrower and Lender and any notices required thereby or delivered thereto.

Schedule I

SCHEDULE II

1. Lender's Commitments

Lender:	Percentage Share of the Commitment	Commitment Amount
1818 Fund II, L.P.	100%	\$10,000,000

SCHEDULE III
Page 1 of 2

SCHEDULE III

FORM OF BORROWER'S CERTIFICATE

[Borrower's Letterhead]

[Date]

1818 Fund II, L.P.
59 Wall Street
New York, New York 10005-2818

Attention: Walter Grist

Gentlemen:

1. Please refer to the Subordinated Credit Agreement (the "Loan Agreement") dated _____, ___, between VAALCO Energy, Inc. (the "Borrower") and 1818 Fund II, L.P. ("Lender"). Terms defined in the Loan Agreement have their defined meanings whenever used in this certificate.

2. The Borrower irrevocably requests the disbursement on _____, _____ (or as soon as practicable thereafter) of the amount of _____ (_____) in accordance with the provisions of Section 3.03 of the Loan Agreement. You are requested to pay such amount to the Escrow Account Bank, Account No. _____ at [Name and Address of Bank] in London, England.

3. Borrower certifies as follows:

(a) no Event of Default has occurred and is continuing;

(b) no event of default pursuant to Section 7.02 of the IFC Loan Agreement and no event or circumstance which would, with notice, lapse of time, the making of a determination or any combination thereof, become an event of default pursuant to Section 7.02 of the IFC Loan Agreement has occurred and is continuing;

(c) the proceeds of the Loan are at the date of this certificate needed by the Borrower to fund the Sponsor Escrow Account as a condition precedent to a funding in the same amount to VGEI under the IFC Loan Agreement to be made within three (3) Business Days after this Loan for the purpose of financing costs associated with the Project;

(d) since the date of the Loan Agreement nothing has occurred which (i) has and is continuing to have, or (ii) can reasonably be expected to have a material adverse effect on Borrower and its Subsidiaries taken as a whole;

(e) since December 31, 2001, the Borrower and its Subsidiaries have not incurred any material loss or liability (except such liabilities as may

be incurred by the Borrower or any of its Subsidiaries in accordance with Article V);

SCHEDULE III
Page 2 of 2

(f) the representations and warranties made in Article II are true and correct in all material respects (except for any such representations and warranties which are qualified by their terms by a reference to materiality or material adverse affect, which representation as so qualified shall be true and correct in all respects) on and as of such date with the same effect as if those representations and warranties had been made on and as of such date;

(g) after giving effect to the Loan, neither the Borrower nor any of its Subsidiaries will be in violation of:

- (i) its articles of incorporation and bylaws and/or such other constitutive documents, howsoever called;
- (ii) any provision contained in any document to which Borrower or any of its Subsidiaries is a party (including the Loan Agreement) or by which Borrower or any of its Subsidiaries is bound; or
- (iii) any law, rule, regulation, authorization or agreement or other document binding on the Borrower or any of its Subsidiaries directly or indirectly, limiting or otherwise restricting the Borrower's or any of its Subsidiaries' borrowing power or authority or its ability to borrow;

(h) on and as of the date of this certificate, Borrower's Long-term Debt to Equity Ratio does not exceed 70:30; and

(i) the undisbursed portion of funds available to VGEI under the IFC Loan Agreement are sufficient to finance VGEI's share of costs projected to be incurred up through the Phase One Completion Date.

The above certifications are effective as of the date hereof and shall continue to be effective as of the date of the Loan. If any of these certifications is no longer valid as of or prior to the date of the Loan, the Borrower undertakes to immediately notify Lender.

Yours truly,

VAALCO ENERGY, INC.

By _____
Authorized Representative

EXHIBIT A

NOTE

\$10,000,000.00

June 10, 2002

FOR VALUE RECEIVED, the undersigned VAALCO ENERGY, INC., a Delaware corporation ("BORROWER"), promises to pay to the order of 1818 FUND II, L.P., Delaware limited partnership or its permitted assigns ("LENDER") at its office at 59 Wall Street, New York, New York 10005-2818, or at such other place as the holder hereof may designate, in lawful money of the United States of America and in immediately available funds, the principal sum of Ten Million Dollars (\$10,000,000.00), or such lesser amount advanced by Lender to Borrower under the terms of the Credit Agreement (as defined below), and to pay interest thereon as set forth herein. This Note is issued in connection with that certain Subordinated Credit Agreement between Lender and Borrower of even date herewith (the "CREDIT Agreement"), and is secured as provided therein by the Security Documents. All capitalized terms not otherwise defined herein are defined in the Credit Agreement.

PROCEDURE FOR BORROWINGS:

(a) Each advance of principal hereunder shall be made upon Borrower's irrevocable written notice delivered to Lender (each a "BORROWING NOTICE"); which notice must be received by Lender prior to 9:00 a.m. (Central time) ten (10) days prior to the date of the requested advance except for the

initial advance in the amount of \$ _____ which shall be made on the date hereof.

(b) Each Borrowing Notice shall specify (i) the amount of principal to be advanced, which shall be in an aggregate minimum amount of \$2,000,000 or any multiple integrals of \$100,000 in excess thereof; and (ii) the requested date principal is to be advanced which shall be a Business Day. Any amounts repaid under this Note may not be reborrowed.

(c) Each advance or repayment shall be recorded by Lender and endorsed on the grid attached hereto, which is part of this Note.

INTEREST:

Borrower agrees to pay interest at Lender's address listed above on the unpaid principal outstanding under this Note and, to the extent permitted by law, the accrued interest in respect hereof from time to time from the date hereof until payment in full of the principal amount hereof and accrued interest hereon, at a rate equal to (i) ten percent (10%) per annum, compounded annually, from the period beginning on the date hereof and ending on the earlier of nine (9) months from the First Sale of Production (as defined in the Senior Loan Documents as in effect on the date hereof) and eighteen (18) months following the date hereof and (ii) fourteen percent (14%) per annum, compounded annually for the period beginning on the date next succeeding the period referred to in clause (i) and ending when the full principal amount hereof and accrued interest hereon have been paid in full. Interest shall be computed on the basis of a 360-day year, actual days elapsed, unless such calculation would result in a usurious rate, in which case interest shall be computed on the basis of a 365/366-day year, as the case may be, actual days elapsed. Interest shall be payable in a single payment on the "MATURITY DATE" as hereinbelow defined.

Exhibit A-1

Notwithstanding the foregoing provisions of this Section, but subject to applicable law, any overdue principal of and overdue interest on this Note shall bear interest, payable on demand in immediately available funds, for each day from the date payment of principal or interest was due to the date of actual payment, at the then current rate of interest plus 2.0% per annum, and, upon and during the continuance of an Event of Default, this Note shall bear interest, from the date of the occurrence of such Event of Default until such Event of Default is cured or waived, payable on demand in immediately available funds, at the then current rate of interest plus 2.0% per annum.

REPAYMENT AND PREPAYMENT:

(a) REPAYMENT. To the extent not sooner paid, the unpaid principal balance of this Note, together with all accrued but unpaid interest and outstanding expenses hereunder and under the Loan Documents shall be due and payable on the earliest of (i) the Phase One Completion Date, (ii) March 31, 2005; and (iii) the date that all principal and accrued and unpaid interest shall become due and payable pursuant to Article VI of the Credit Agreement (the "MATURITY DATE").

(b) APPLICATION OF PAYMENTS. Each payment made on this Note shall be credited first, to any interest then due and second, to the outstanding principal balance hereof.

(c) PREPAYMENT. Borrower may prepay this Note plus accrued and unpaid interest hereon provided that all terms in the Credit Agreement and herein are complied with, at any time upon one day prior notice and in the minimum amount of One Hundred Thousand Dollars (\$100,000); PROVIDED, HOWEVER, that if the outstanding principal balance of such portion of this Note plus accrued and unpaid interest hereon is less than said amount, the minimum prepayment amount shall be the entire outstanding principal hereof.

(d) MANDATORY PREPAYMENT. In the event that IFC has not made a Disbursement pursuant to the IFC Loan Agreement in an amount equal to or greater than the Loan made hereunder within three (3) Business Days of the funding of such Loan pursuant to Section 1.01(a) of the Credit Agreement, Borrower shall immediately notify Lender and shall repay such loan plus interest accruing thereon to Lender upon three Business Days written demand from Lender. Further, Borrower shall prepay this Note in amounts equal to (i) any amounts released by IFC under the Sponsor Escrow Account other than the amounts described under the first sentence of this SUBSECTION (D), (ii) the net proceeds of any debt or issuance of securities received by Borrower in excess of Ten Million Dollars (\$10,000,000), and (iii) to the extent not prohibited under the IFC Loan Agreement (as in effect on the date hereof), ninety percent (90%) of the Free Cash Flow from the Project. For purposes of this SUBSECTION (D), "FREE CASH FLOW" shall mean cash flow from the Project net of amounts required to maintain the PSC in full force and effect. All amounts prepaid shall first be applied to accrued and unpaid interest and then to outstanding principal.

EVENTS OF DEFAULT:

(a) EVENTS OF DEFAULT. The occurrence of an Event of Default under the Credit Agreement shall constitute an "EVENT OF DEFAULT" under this Note.

(b) REMEDIES. Upon the occurrence of any Event of Default, Lender shall be entitled to such remedies as set forth in the Credit Agreement.

Exhibit A-2

MISCELLANEOUS:

(a) GOVERNING LAW.

(i) This Note is governed by and shall be construed in accordance with the laws of the State of New York and applicable Federal Law.

(ii) For the exclusive benefit of Lender, Borrower irrevocably agrees that any legal action, suit or proceeding arising out of or relating to this Note or any other Loan Document to which Borrower is a party may be brought by Lender, in its sole discretion, in the courts of the State of New York, the United States for the Southern District of New York, or England. By the execution of this Note, Borrower irrevocably submits to the non-exclusive jurisdiction of such courts in any such action, suit or proceeding. Final judgment against Borrower in any such action, suit or proceeding shall be conclusive and may be enforced in any other jurisdiction, including Gabon, London, New York and Delaware, by suit on the judgment, a certified or exemplified copy of which shall be conclusive evidence of the judgment, or in any other manner provided by law.

(iii) Nothing in this Note shall affect the right of Lender to commence legal proceedings or otherwise sue Borrower in Gabon, London, New York, Delaware or any other appropriate jurisdiction, or concurrently in more than one jurisdiction, or to serve process, pleadings and other papers upon Borrower in any manner authorized by the laws of any such jurisdiction.

(iv) Borrower hereby irrevocably designates, appoints and empowers the Chief Executive and the Head of the Litigation Group of Bird & Bird located at 90 Fetter Lane, London EC4A 1JP (reference VAAEN.0001), as its authorized agent solely to receive for and on its behalf service of the writ of summons or other legal process in any action, suit or proceeding Lender may bring in the courts of England and CT Corp., as its authorized agent solely to receive for and on its behalf service of the writ of summons or other legal process in any action, suit or proceeding Lender may bring in the courts of the Southern District of New York.

(v) As long as this Note or any other Loan Document to which Borrower is a party remains in force, Borrower shall maintain a duly appointed and authorized agent to receive for and on its behalf service of the writ of summons or other legal process in any action, suit or proceeding brought by Lender in the courts of England or in the Southern District of New York with respect to this Note or such other Loan Documents. Borrower shall keep Lender advised of the identity and location of such agent.

(vi) Borrower irrevocably waives: (x) any objection which it may have now or in the future to the laying of the venue of any action, suit or proceeding in any court referred to in this Section; and (y) any claim that any such action, suit or proceeding has been brought in an inconvenient forum.

(vii) To the extent that Borrower may be entitled in any jurisdiction to claim for itself or its assets immunity with respect to its obligations under this Note or any other Loan Document to which it is a party from any suit, execution, attachment (whether provisional or final, in aid of execution, before judgment or otherwise) or other legal process or to the extent that in any jurisdiction that immunity (whether or not claimed), may be attributed to it or its assets, Borrower

Exhibit A-3

irrevocably agrees not to claim and irrevocably waives such immunity to the fullest extent now or in the future permitted by the laws of such jurisdiction.

(viii) Borrower also consents generally with respect to any proceedings arising out of or in connection with this Note or any other Loan Document to which it is a party to the giving of any relief or the issue of any process in connection with such proceedings including, without limitation, the making, enforcement or execution against any

property whatsoever (irrespective of its use or intended use) of any order or judgment which may be made or given in such proceedings.

(ix) To the extent that Borrower may, in any suit, action or proceeding brought in any of the courts referred to in Subsection (ii) or a court of Gabon, London, New York, Delaware or elsewhere arising out of or in connection with this Note or any other Loan Document to which Borrower is a party, be entitled to the benefit of any provision of law requiring Lender in such suit, action or proceeding to post security for the costs of Borrower, or to post a bond or to take similar action, Borrower hereby irrevocably waives such benefit, in each case to the fullest extent now or in the future permitted under the laws of Gabon, London, New York, Delaware or, as the case may be, the jurisdiction in which such court is located.

(x) Borrower also irrevocably consents, if for any reason Borrower's authorized agent for service of process of summons, complaint and other legal process in any action, suit or proceeding is not present in New York or England, to service of such papers being made out of those courts by mailing copies of the papers by registered air mail, postage prepaid, to Borrower at its address specified pursuant to Section 7.02 of the Credit Agreement. In such a case, Lender shall also send by facsimile, or have sent by facsimile, a copy of the papers to Borrower.

(b) SAVINGS CLAUSE. It is the intention of the parties to comply strictly with applicable usury laws. Accordingly, notwithstanding any provision to the contrary in this Note, the Credit Agreement, or in any other Loan Document, in no event shall this Note or any Loan Document require the payment or permit the payment, taking, reserving, receiving, collection or charging of any sums constituting interest under applicable laws that exceed the maximum amount permitted by such laws, as the same may be amended or modified from time to time (the "MAXIMUM RATE"). If any such excess interest is called for, contracted for, charged, taken, reserved or received in connection with this Note or any Loan Document, or in any communication by Lender or any other person to Borrower or any other person, or in the event that all or part of the principal or interest hereof or thereof shall be prepaid or accelerated, so that under any of such circumstances or under any other circumstance whatsoever the amount of interest contracted for, charged, taken, reserved or received on the amount of principal actually outstanding from time to time under this Note shall exceed the Maximum Rate, then in such event it is agreed that: (i) the provisions of this paragraph shall govern and control; (ii) neither Borrower nor any other person or entity now or hereafter liable for the payment of this Note or any Loan Document shall be obligated to pay the amount of such interest to the extent it is in excess of the Maximum Rate; (iii) any such excess interest which is or has been received by Lender, notwithstanding this paragraph, shall be credited against the then unpaid principal balance hereof or thereof, or if this Note or any Loan Document has been or would be paid in full by such credit, refunded to Borrower; and (iv) the provisions of this Note and each Loan Document, and any other communication to Borrower, shall immediately be deemed reformed and such excess interest reduced, without the necessity of executing any other document, to the Maximum Rate. The right to accelerate the maturity of this Note or any Loan Document does not include the right to accelerate, collect or charge unearned interest, but only such interest that has otherwise accrued as of the date of acceleration. Without limiting the foregoing, all calculations of the rate of interest contracted for, charged, taken, reserved or received in connection with this Note and any Loan Document which are

Exhibit A-4

made for the purpose of determining whether such rate exceeds the Maximum Rate shall be made to the extent permitted by applicable laws by amortizing, prorating, allocating and spreading during the period of the full term of this Note or such Loan Document, including all prior and subsequent renewals and extensions hereof or thereof, all interest at any time contracted for, charged, taken, reserved or received by Lender. The terms of this paragraph shall be deemed to be incorporated into each Loan Document.

To the extent that either Chapter 303 or 306, or both, of the Texas Finance Code apply in determining the Maximum Rate, Lender hereby elects to determine the applicable rate ceiling by using the weekly ceiling from time to time in effect, subject to Lender's right subsequently to change such method in accordance with applicable law, as the same may be amended or modified from time to time.

(c) RIGHT OF SETOFF; DEPOSIT ACCOUNTS. Upon and after the occurrence of an Event of Default, (i) Borrower hereby authorizes Lender, at any time and from time to time, without notice, which is hereby expressly waived by Borrower, and whether or not Lender shall have declared this Note to be due and payable in accordance with the terms hereof, to set off against, and to appropriate and apply to the payment of, Borrower's obligations and liabilities under this Note (whether matured or unmatured, fixed or contingent, liquidated or unliquidated), any and all amounts owing by Lender to Borrower (whether payable in U.S. dollars or any other currency, whether matured or unmatured, and

</TABLE>

Exhibit A-7

EXHIBIT D

FORM OF ASSIGNMENT AGREEMENT

ASSIGNMENT AGREEMENT ("AGREEMENT") dated as of _____, 200__
between: _____ (the "ASSIGNOR") and _____
(the "ASSIGNEE").

RECITALS

A. The Assignor is a party to the Credit Agreement dated as of _____, 2002 (as amended and supplemented and in effect from time to time, the "CREDIT AGREEMENT") among VAALCO Energy, Inc., a Delaware corporation (the "BORROWER"), 1818 Fund II, L.P., a Delaware limited partnership, and each of Lenders that is or becomes a party thereto as provided in SECTION 7.04 of the Credit Agreement (individually, together with its successors and assigns, a "LENDER", and collectively, together with their successors and assigns, the "LENDERS").

B. The Assignor proposes to sell, assign and transfer to the Assignee, and the Assignee proposes to purchase and assume from the Assignor, [all] [a portion] of the Assignor's Percentage Share of the Commitment and outstanding Loans, all on the terms and conditions of this Agreement.

C. In consideration of the foregoing and the mutual agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS

Section 1.01 DEFINITIONS. All capitalized terms used but not defined herein have the respective meanings given to such terms in the Credit Agreement.

Section 1.02 OTHER DEFINITIONS. As used herein, the following terms have the following respective meanings:

"ASSIGNED INTEREST" shall mean [all] [stated percentage] of Assignor's (in its capacity as a "LENDER") Percentage Share of the Commitment including its pro rata rights and obligations under the Credit Agreement and the other Security Documents and the obligation to make Loans and any right to receive payments for the Loans outstanding under the Credit Agreement equal to the Percentage Share of the Commitment specified on Schedule I hereto for Assignee, plus the interest and fees which will accrue from and after the Assignment Date.

"ASSIGNMENT DATE" shall mean _____, 200__.

ARTICLE II
SALE AND ASSIGNMENT

Section 2.01 SALE AND ASSIGNMENT. On the terms and conditions set forth herein, effective on and as of the Assignment Date, the Assignor hereby sells, assigns and transfers to the Assignee, and the Assignee hereby purchases and assumes from the Assignor, all of the right, title and interest of the Assignor

Exhibit D-1

in and to, and all of the obligations of the Assignor in respect of,

the Assigned Interest. Such sale, assignment and transfer is without recourse and, except as expressly provided in this Agreement, without representation or warranty.

Section 2.02 ASSUMPTION OF OBLIGATIONS. The Assignee agrees with the Assignor (for the express benefit of the Assignor and Borrower) that the Assignee will, from and after the Assignment Date, perform all of the obligations of the Assignor in respect of the Assigned Interest. From and after the Assignment Date: (a) the Assignor shall be released from the Assignor's obligations in respect of the Assigned Interest, and (b) the Assignee shall be entitled to all of the Assignor's rights, powers and privileges under the Credit Agreement and the other Security Documents in respect of the Assigned Interest.

Section 2.03 CONSENT BY EXISTING LENDERS. By executing this Agreement as provided below, in accordance with SECTION 7.04(B) of the Credit Agreement, the Existing Lenders hereby acknowledge notice of the transactions contemplated by this Agreement and consent to such transactions.

ARTICLE III

PAYMENTS

Section 3.01 PAYMENTS. As consideration for the sale, assignment and transfer contemplated by SECTION 2.01 hereof, the Assignee shall, on the Assignment Date, assume Assignor's obligations in respect of the Assigned Interest and pay to the Assignor an amount equal to the Assignee's Share of Loans outstanding, as set forth on Schedule I hereto, if any. An amount equal to all accrued and unpaid interest and fees attributable to the Assigned Interest shall be paid to the Assignor as provided in SECTION 3.02(I) and (III) below. Except as otherwise provided in this Agreement, all payments hereunder shall be made in United States Dollars and in immediately available funds, without setoff, deduction or counterclaim.

Section 3.02 ALLOCATION OF PAYMENTS. The Assignor and the Assignee agree that (i) the Assignor shall be entitled to any payments of principal with respect to the Assigned Interest made prior to the Assignment Date, together with any interest and fees with respect to the Assigned Interest accrued prior to the Assignment Date, (ii) the Assignee shall be entitled to any payments of principal with respect to the Assigned Interest made from and after the Assignment Date, together with any and all interest and fees with respect to the Assigned Interest accruing from and after the Assignment Date, and (iii) Borrower is instructed to allocate payments due under the Credit Agreement pro rata between Assignor and the Assignee as provided in the foregoing clauses. Each party hereto agrees that it will hold any interest, fees or other amounts that it may receive to which the other party hereto shall be entitled pursuant to the preceding sentence for account of such other party and pay, in like money and funds, any such amounts that it may receive to such other party promptly upon receipt.

Section 3.03 DELIVERY OF NOTES. Promptly following the receipt by the Assignor of the consideration required to be paid under SECTION 3.01 hereof, the Assignor shall, in the manner contemplated by SECTION 7.04(B) of the Credit Agreement, (i) deliver to the Existing Lenders (or their counsel) the Note(s) held by the Assignor and (ii) notify Borrower to execute and deliver new Notes to the Assignor, if Assignor continues to be a Lender, and the Assignee, dated the date of this Agreement in respective principal amounts equal to the respective Maximum Loan Amounts of the Assignor (if any) and the Assignee as set forth on Schedule I hereto after giving effect to the sale, assignment and transfer contemplated hereby.

Section 3.04 FURTHER ASSURANCES. The Assignor and the Assignee hereby agree to execute and deliver such other instruments, and take such other actions, as either party may reasonably request in connection with the transactions contemplated by this Agreement.

Exhibit D-2

ARTICLE IV

CONDITIONS PRECEDENT

Section 4.01 CONDITIONS PRECEDENT. The effectiveness of the sale, assignment and transfer contemplated hereby is subject to the satisfaction of each of the following conditions precedent:

(a) the execution and delivery of this Agreement by the Assignor and the Assignee;

(b) the receipt by the Assignor of the payment required to be made by the Assignee under SECTION 3.01 hereof; and

(c) the acknowledgment and consent by the Existing Lenders contemplated by SECTION 2.03 hereof.

ARTICLE V

REPRESENTATIONS AND WARRANTIES.

Section 5.01 REPRESENTATIONS AND WARRANTIES OF THE ASSIGNOR. The Assignor represents and warrants to the Assignee as follows:

(a) it has all requisite power and authority, and has taken all action necessary to execute and deliver this Agreement and to fulfill its obligations under, and consummate the transactions contemplated by, this Agreement;

(b) the execution, delivery and compliance with the terms hereof by Assignor and the delivery of all instruments required to be delivered by it hereunder do not and will not violate any provision of any law or regulation of any Authority applicable to it;

(c) this Agreement has been duly executed and delivered by it and constitutes the legal, valid and binding obligation of the Assignor, enforceable against it in accordance with its terms;

(d) all approvals and authorizations of, all filings with and all actions by any Authority necessary for the validity or enforceability of its obligations under this Agreement have been obtained; and

(e) the Assignor has good title to, and is the sole legal and beneficial owner of, the Assigned Interest, free and clear of all liens, claims, participations or other charges of any nature whatsoever.

Section 5.02 DISCLAIMER. Except as expressly provided in SECTION 5.01 hereof, the Assignor does not make any representation or warranty, nor shall it have any responsibility to the Assignee, with respect to the accuracy of any recitals, statements, representations or warranties contained in the Credit Agreement or in any certificate or other document referred to or provided for in, or received by any Lender under, the Credit Agreement, or for the value, validity, effectiveness, genuineness, execution, effectiveness, legality, enforceability or sufficiency of the Credit Agreement, the Note(s) or any other document referred to or provided for therein or for any failure by Borrower or any other person (other than Assignor) to perform any of its obligations thereunder prior hereto or for the existence, value, perfection or priority of any collateral security or the financial or other condition of Borrower or the Subsidiaries or any other obligor or guarantor,

Exhibit D-3

or any other matter relating to the Credit Agreement or any other Security Documents or any extension of credit thereunder.

Section 5.03 REPRESENTATIONS AND WARRANTIES OF THE ASSIGNEE. The Assignee represents and warrants to the Assignor as follows:

(a) it has all requisite power and authority, and has taken all action necessary to execute and deliver this Agreement and to fulfill its obligations under, and consummate the transactions contemplated by, this Agreement;

(b) the execution, delivery and compliance with the terms hereof by Assignee and the delivery of all instruments required to be delivered by it hereunder do not and will not violate any provision of any law or regulation of any Authority applicable to it;

(c) this Agreement has been duly executed and delivered by it and constitutes the legal, valid and binding obligation of the Assignee, enforceable against it in accordance with its terms;

(d) all approvals and authorizations of, all filings with and all actions by any Authority necessary for the validity or enforceability of its obligations under this Agreement have been obtained; and

(e) the Assignee has fully reviewed the terms of the Credit Agreement and the other Security Documents and has independently and without reliance upon the Assignor, and based on such information as the Assignee has deemed appropriate, made its own credit analysis and decision to enter into this Agreement.

ARTICLE VI

MISCELLANEOUS.

Section 6.01 NOTICES. All notices and other communications provided for herein (including, without limitation, any modifications of, or waivers, requests or consents under, this Agreement) shall be given or made in writing (including, without limitation, by telex or telecopy) to the intended recipient

at its "Address for Notices" specified below its name on the signature pages hereof or, as to either party, at such other address as shall be designated by such party in a notice to the other party.

Section 6.02 AMENDMENT, MODIFICATION OR WAIVER. No provision of this Agreement may be amended, modified or waived except by an instrument in writing signed by the Assignor and the Assignee, and consented to by the Existing Lenders .

Section 6.03 SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. The representations and warranties made herein by the Assignee are also made for the benefit of the Existing Lenders and Borrower, and the Assignee agrees that the Existing Lenders and Borrower are entitled to rely upon such representations and warranties.

Section 6.04 ASSIGNMENTS. Neither party hereto may assign any of its rights or obligations hereunder except in accordance with the terms of the Credit Agreement.

Exhibit D-4

Section 6.05 CAPTIONS. The captions and section headings appearing herein are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Agreement.

Section 6.06 COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be identical and all of which, taken together, shall constitute one and the same instrument, and each of the parties hereto may execute this Agreement by signing any such counterpart.

Section 6.07 GOVERNING LAW. This Agreement shall be governed by, and construed in accordance with, the law of the State of New York.

Section 6.08 EXPENSES. To the extent not paid by Borrower pursuant to the terms of the Credit Agreement, each party hereto shall bear its own expenses in connection with the execution, delivery and performance of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Assignment Agreement to be executed and delivered as of the date first above written.

ASSIGNOR:

By: _____

Name: _____

Title: _____

Address for Notices:

Telecopier No.: _____

Telephone No.: _____

Attention: _____

ASSIGNEE:

By: _____

Name: _____

Title: _____

Exhibit D-5

Address for Notices:

Telecopier No.: _____

Telephone No.: _____

Attention: _____

ACKNOWLEDGED AND CONSENTED TO:

[Existing Lenders, if applicable]

By: _____
Name: _____
Title: _____

Exhibit D-6

SCHEDULE I
TO ASSIGNMENT AGREEMENT

	Assignor (Retained Interest)	Assignee (Assigned Interest)
a. Percentage Share of the Commitment	_____ %	_____ %
b. Maximum Loan Amount	\$ _____	\$ _____
c. Share of Loans Outstanding	\$ _____	\$ _____

Exhibit D-7

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APPENDIX A

Defined Terms

EXHIBITS

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SUBORDINATED CREDIT AGREEMENT

Dated as of June 10, 2002

Between

VAALCO ENERGY, INC., as Borrower

And

1818 FUND II, L.P., as Lender

NOTE

\$10,000,000.00

June 10, 2002

FOR VALUE RECEIVED, the undersigned VAALCO ENERGY, INC., a Delaware corporation ("BORROWER"), promises to pay to the order of 1818 FUND II, L.P., Delaware limited partnership or its permitted assigns ("LENDER") at its office at 59 Wall Street, New York, New York 10005-2818, or at such other place as the holder hereof may designate, in lawful money of the United States of America and in immediately available funds, the principal sum of Ten Million Dollars (\$10,000,000.00), or such lesser amount advanced by Lender to Borrower under the terms of the Credit Agreement (as defined below), and to pay interest thereon as set forth herein. This Note is issued in connection with that certain Subordinated Credit Agreement between Lender and Borrower of even date herewith (the "CREDIT AGREEMENT"), and is secured as provided therein by the Security Documents. All capitalized terms not otherwise defined herein are defined in the Credit Agreement.

PROCEDURE FOR BORROWINGS:

(a) Each advance of principal hereunder shall be made upon Borrower's irrevocable written notice delivered to Lender (each a "BORROWING NOTICE"); which notice must be received by Lender prior to 9:00 a.m. (Central time) ten (10) days prior to the date of the requested advance except for the initial advance in the amount of \$5,000,000 which shall be made on the date hereof.

(b) Each Borrowing Notice shall specify (i) the amount of principal to be advanced, which shall be in an aggregate minimum amount of \$2,000,000 or any multiple integrals of \$100,000 in excess thereof; and (ii) the requested date principal is to be advanced which shall be a Business Day. Any amounts repaid under this Note may not be reborrowed.

(c) Each advance or repayment shall be recorded by Lender and endorsed on the grid attached hereto, which is part of this Note.

INTEREST:

Borrower agrees to pay interest at Lender's address listed above on the unpaid principal outstanding under this Note and, to the extent permitted by law, the accrued interest in respect hereof from time to time from the date hereof until payment in full of the principal amount hereof and accrued interest hereon, at a rate equal to (i) ten percent (10%) per annum, compounded annually, from the period beginning on the date hereof and ending on the earlier of nine (9) months from the First Sale of Production (as defined in the Senior Loan Documents as in effect on the date hereof) and eighteen (18) months following the date hereof and (ii) fourteen percent (14%) per annum, compounded annually for the period beginning on the date next succeeding the period referred to in clause (i) and ending when the full principal amount hereof and accrued interest hereon have been paid in full. Interest shall be computed on the basis of a 360-day year, actual days elapsed, unless such calculation would result in a usurious rate, in which case interest shall be computed on the basis of a 365/366-day year, as the case may be, actual days elapsed. Interest shall be payable in a single payment on the "MATURITY DATE" as hereinbelow defined.

Notwithstanding the foregoing provisions of this Section, but subject to applicable law, any overdue principal of and overdue interest on this Note shall bear interest, payable on demand in immediately available funds, for each day from the date payment of principal or interest was due to the

date of actual payment, at the then current rate of interest plus 2.0% per annum, and, upon and during the continuance of an Event of Default, this Note shall bear interest, from the date of the occurrence of such Event of Default until such Event of Default is cured or waived, payable on demand in immediately available funds, at the then current rate of interest plus 2.0% per annum.

REPAYMENT AND PREPAYMENT:

(a) REPAYMENT. To the extent not sooner paid, the unpaid principal balance of this Note, together with all accrued but unpaid interest and outstanding expenses hereunder and under the Loan Documents shall be due and payable on the earliest of (i) the Phase One Completion Date, (ii) March 31, 2005; and (iii) the date that all principal and accrued and unpaid interest shall become due and payable pursuant to Article VI of the Credit Agreement (the "MATURITY DATE").

(b) APPLICATION OF PAYMENTS. Each payment made on this Note shall be credited first, to any interest then due and second, to the outstanding principal balance hereof.

(c) PREPAYMENT. Borrower may prepay this Note plus accrued and unpaid interest hereon provided that all terms in the Credit Agreement and herein are complied with, at any time upon one day prior notice and in the minimum amount of One Hundred Thousand Dollars (\$100,000); PROVIDED, HOWEVER, that if the outstanding principal balance of such portion of this Note plus accrued and unpaid interest hereon is less than said amount, the minimum prepayment amount shall be the entire outstanding principal hereof.

(d) MANDATORY PREPAYMENT. In the event that IFC has not made a Disbursement pursuant to the IFC Loan Agreement in an amount equal to or greater than the Loan made hereunder within three (3) Business Days of the funding of such Loan pursuant to Section 1.01(a) of the Credit Agreement, Borrower shall immediately notify Lender and shall repay such loan plus interest accruing thereon to Lender upon three Business Days written demand from Lender. Further, Borrower shall prepay this Note in amounts equal to (i) any amounts released by IFC under the Sponsor Escrow Account other than the amounts described under the first sentence of this SUBSECTION (D), (ii) the net proceeds of any debt or issuance of securities received by Borrower in excess of Ten Million Dollars (\$10,000,000), and (iii) to the extent not prohibited under the IFC Loan Agreement (as in effect on the date hereof), ninety percent (90%) of the Free Cash Flow from the Project. For purposes of this SUBSECTION (D), "FREE CASH FLOW" shall mean cash flow from the Project net of amounts required to maintain the PSC in full force and effect. All amounts prepaid shall first be applied to accrued and unpaid interest and then to outstanding principal.

EVENTS OF DEFAULT:

(a) EVENTS OF DEFAULT. The occurrence of an Event of Default under the Credit Agreement shall constitute an "EVENT OF DEFAULT" under this Note.

(b) REMEDIES. Upon the occurrence of any Event of Default, Lender shall be entitled to such remedies as set forth in the Credit Agreement.

MISCELLANEOUS:

(a) GOVERNING LAW.

(i) This Note is governed by and shall be construed in accordance with the laws of the State of New York and applicable Federal Law.

(ii) For the exclusive benefit of Lender, Borrower irrevocably agrees that any legal action, suit or proceeding arising out of or relating to this Note or any other Loan Document to which Borrower is a party may be brought by Lender, in its sole discretion, in the courts of the State of New York, the United States for the Southern District of New York, or England. By the execution of this Note, Borrower irrevocably submits to the non-exclusive jurisdiction of such courts in any such action, suit or proceeding. Final judgment against Borrower in any such action, suit or proceeding shall be conclusive and may be enforced in any other jurisdiction, including Gabon, London, New York and Delaware, by suit on the judgment, a certified or exemplified copy of which shall be conclusive evidence of the judgment, or in any other manner provided by law.

(iii) Nothing in this Note shall affect the right of Lender to commence legal proceedings or otherwise sue Borrower in Gabon, London, New York, Delaware or any other appropriate jurisdiction, or concurrently in more than one jurisdiction, or to serve process, pleadings and other papers upon Borrower in any manner authorized by the laws of any such jurisdiction.

(iv) Borrower hereby irrevocably designates, appoints and empowers the Chief Executive and the Head of the Litigation Group of Bird & Bird located at 90 Fetter Lane, London EC4A 1JP (reference VAAEN.0001), as its authorized agent solely to receive for and on its behalf service of the writ of summons or other legal process in any action, suit or proceeding Lender may bring in the courts of England and CT Corp., as its authorized agent solely to receive for and on its behalf service of the writ of summons or other legal process in any action, suit or proceeding Lender may bring in the courts of the Southern District of New York.

(v) As long as this Note or any other Loan Document to which Borrower is a party remains in force, Borrower shall maintain a duly appointed and authorized agent to receive for and on its behalf service of the writ of summons or other legal process in any action, suit or proceeding brought by Lender in the courts of England or in the Southern District of New York with respect to this Note or such other

Loan Documents. Borrower shall keep Lender advised of the identity and location of such agent.

(vi) Borrower irrevocably waives: (x) any objection which it may have now or in the future to the laying of the venue of any action, suit or proceeding in any court referred to in this Section; and (y) any claim that any such action, suit or proceeding has been brought in an inconvenient forum.

(vii) To the extent that Borrower may be entitled in any jurisdiction to claim for itself or its assets immunity with respect to its obligations under this Note or any other Loan Document to which it is a party from any suit, execution, attachment (whether provisional or final, in aid of execution, before judgment or otherwise) or other legal process or to the extent that in any jurisdiction that immunity (whether or not claimed), may be attributed to it or its assets, Borrower irrevocably agrees not to claim and irrevocably waives such immunity to the fullest extent now or in the future permitted by the laws of such jurisdiction.

(viii) Borrower also consents generally with respect to any proceedings arising out of or in connection with this Note or any other Loan Document to which it is a party to the giving of any relief or the issue of any process in connection with such proceedings including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of

its use or intended use) of any order or judgment which may be made or given in such proceedings.

(ix) To the extent that Borrower may, in any suit, action or proceeding brought in any of the courts referred to in Subsection (ii) or a court of Gabon, London, New York, Delaware or elsewhere arising out of or in connection with this Note or any other Loan Document to which Borrower is a party, be entitled to the benefit of any provision of law requiring Lender in such suit, action or proceeding to post security for the costs of Borrower, or to post a bond or to take similar action, Borrower hereby irrevocably waives such benefit, in each case to the fullest extent now or in the future permitted under the laws of Gabon, London, New York, Delaware or, as the case may be, the jurisdiction in which such court is located.

(x) Borrower also irrevocably consents, if for any reason Borrower's authorized agent for service of process of summons, complaint and other legal process in any action, suit or proceeding is not present in New York or England, to service of such papers being made out of those courts by mailing copies of the papers by registered air mail, postage prepaid, to Borrower at its address specified pursuant to Section 7.02 of the Credit Agreement. In such a case, Lender shall also send by facsimile, or have sent by facsimile, a copy of the papers to Borrower.

(b) SAVINGS CLAUSE. It is the intention of the parties to comply strictly with applicable usury laws. Accordingly, notwithstanding any provision to the contrary in this Note, the Credit Agreement, or in any other Loan Document, in no event shall this Note or any Loan Document require the payment or permit the payment, taking, reserving, receiving, collection or charging of any sums constituting interest under applicable laws that exceed the maximum amount permitted by such laws, as the same may be amended or modified from time to time (the "MAXIMUM RATE"). If any such excess interest is called for, contracted for, charged, taken, reserved or received in connection with this Note or any Loan Document, or in any communication by Lender or any other person to Borrower or any other person, or in the event that all or part of the principal or interest hereof or thereof shall be prepaid or accelerated, so that under any of such circumstances or under any other circumstance whatsoever the amount of interest contracted for, charged, taken, reserved or received on the amount of principal actually outstanding from time to time under this Note shall exceed the Maximum Rate, then in such event it is agreed that: (i) the provisions of this paragraph shall govern and control; (ii) neither Borrower nor any other person or entity now or hereafter liable for the payment of this Note or any Loan Document shall be obligated to pay the amount of such interest to the extent it is in excess of the Maximum Rate; (iii) any such excess interest which is or has been received by Lender, notwithstanding this paragraph, shall be credited against the then unpaid principal balance hereof or thereof, or if this Note or any Loan Document has been or would be paid in full by such credit, refunded to Borrower; and (iv) the provisions of this Note and each Loan Document, and any other communication to Borrower, shall immediately be deemed reformed and such excess interest reduced, without the necessity of executing any other document, to the Maximum Rate. The right to accelerate the maturity of this Note or any Loan Document does not include the right to accelerate, collect or charge unearned interest, but only such interest that has otherwise accrued as of the date of acceleration. Without limiting the foregoing, all calculations of the rate of interest contracted for, charged, taken, reserved or received in connection with this Note and any Loan Document which are made for the purpose

of determining whether such rate exceeds the Maximum Rate shall be made to the extent permitted by applicable laws by amortizing, prorating, allocating and spreading during the period of the full term of this Note or such Loan Document, including all prior and subsequent renewals and extensions hereof or thereof, all interest at any time contracted for, charged, taken, reserved or received by Lender. The terms of this paragraph shall be deemed to be incorporated into each Loan Document.

To the extent that either Chapter 303 or 306, or both, of the Texas Finance Code apply in determining the Maximum Rate, Lender hereby elects to determine the applicable rate ceiling by using

the weekly ceiling from time to time in effect, subject to Lender's right subsequently to change such method in accordance with applicable law, as the same may be amended or modified from time to time.

(c) RIGHT OF SETOFF; DEPOSIT ACCOUNTS. Upon and after the occurrence of an Event of Default, (i) Borrower hereby authorizes Lender, at any time and from time to time, without notice, which is hereby expressly waived by Borrower, and whether or not Lender shall have declared this Note to be due and payable in accordance with the terms hereof, to set off against, and to appropriate and apply to the payment of, Borrower's obligations and liabilities under this Note (whether matured or unmatured, fixed or contingent, liquidated or unliquidated), any and all amounts owing by Lender to Borrower (whether payable in U.S. dollars or any other currency, whether matured or unmatured, and in the case of deposits, whether general or special (except trust and escrow accounts), time or demand and however evidenced), and (ii) pending any such action, to the extent necessary, to hold such amounts as collateral to secure such obligations and liabilities. Borrower hereby grants to Lender a security interest in all deposits and accounts maintained with Lender and with any financial institution to secure the payment of all obligations and liabilities of Borrower to Lender under this Note.

(d) SUBORDINATION. Payment of this Note is subject to the terms of the Subordination Agreement of even date herewith between Borrower, Lender and IFC.

(e) ASSIGNMENT. Lender may assign this Note pursuant to the terms of the Credit Agreement. Borrower may not assign its rights or obligations under this Note without the prior consent of Lender.

(f) AMENDMENT. This Note may be amended or modified only in writing signed by Borrower and Lender.

NOTICE: THIS NOTE AND ALL OTHER DOCUMENTS RELATING TO THE INDEBTEDNESS EVIDENCED HEREBY CONSTITUTE A WRITTEN LOAN AGREEMENT WHICH REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES RELATING TO THIS NOTE AND THE INDEBTEDNESS EVIDENCED HEREBY.

[THE REMAINDER OF THIS PAGE INTENTIONALLY BLANK. SIGNATURE PAGE TO FOLLOW.]

IN WITNESS WHEREOF, the undersigned has executed this Note as of the date first written above.

VAALCO ENERGY, INC.

By: /s/ W. Russell Scheirman

Name: W. RUSSELL SCHEIRMAN
Title: PRESIDENT

<TABLE>
<CAPTION>

LOANS AND PRINCIPAL PAYMENTS

DATE	AMOUNT OF LOAN MADE	AMOUNT OF PRINCIPAL REPAID	UNPAID PRINCIPAL BALANCE	TOTAL	NOTATION MADE BY
<S>	<C>	<C>	<C>	<C>	<C>

THIS WARRANT AND ANY SECURITIES ACQUIRED UPON THE EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR FOREIGN JURISDICTION. NEITHER THIS WARRANT, SUCH SECURITIES NOR ANY INTEREST THEREIN MAY BE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT AND APPLICABLE STATE AND FOREIGN SECURITIES LAWS OR PURSUANT TO AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT AND SUCH LAWS.

VAALCO ENERGY, INC.
COMMON STOCK PURCHASE WARRANT

This certifies that, for good and valuable consideration, VAALCO Energy, Inc., a Delaware corporation (the "Company"), grants to 1818 Fund II, L.P., a Delaware limited partnership (the "Warrantholder"), the right to subscribe for and purchase from the Company, during the Exercise Period (as hereinafter defined), seven million five hundred thousand (7,500,000) validly issued, fully paid and nonassessable shares, par value \$.10, of Common Stock of the Company (the "Warrant Shares"), at the exercise price per share of \$.50 (the "Exercise Price"), all subject to the terms, conditions and adjustments herein set forth. Capitalized terms used herein shall have the meanings ascribed to such terms in Section 11 below.

1. WARRANT. This Warrant is issued pursuant to, and in accordance with, Section 1.02(b) of the Subordinated Credit Agreement, dated the date hereof, between the Company and the Warrantholder (the "Credit Agreement") and is subject to the terms thereof and hereof.

2. EXERCISE OF WARRANT; PAYMENT OF TAXES.

2.1 EXERCISE OF WARRANT. Subject to the terms and conditions set forth herein, this Warrant may be exercised at any time, in whole or in part, by the Warrantholder during the Exercise Period by:

(a) the surrender of this Warrant to the Company, with a duly executed Exercise Form, and

(b) subject to Section 2.2 below, the delivery of payment to the Company, for the account of the Company, by cash, wire transfer, certified or official bank check or any other means approved by the Company, of the aggregate Exercise Price in lawful money of the United States of America.

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The Company agrees that the Warrant Shares shall be deemed to be issued to the Warrantholder as the record holder of such Warrant Shares as of the close of business on the date on which this Warrant shall have been surrendered and payment made of the Exercise Price as aforesaid.

2.2 CONVERSION RIGHT.

(a) In lieu of the payment of the aggregate Exercise Price, the Warrantholder shall have the right (but not the obligation), to require the Company to convert this Warrant, in whole or in part, into shares of Common Stock (the "Conversion Right") as provided for in this Section 2.2. Upon exercise of the Conversion Right, the Company shall deliver to the Warrantholder (without payment by the Warrantholder of any of the Exercise Price) in accordance with Section 2.2(b) that number of shares of Common Stock equal to the quotient obtained by dividing (i) the value of the Warrant or portion thereof at the time the Conversion Right is exercised (determined by subtracting the aggregate Exercise Price at the time of the exercise of the Conversion Right for the number of shares of Common Stock for which the Warrant is being exercised from the aggregate Current Market Price for the shares of Common Stock issuable upon exercise of the Warrant at the time of the exercise of the Conversion Right for the number of shares of Common Stock for which the Warrant is being exercised) by (ii) the Current Market Price of one share of Common Stock at the time of the exercise of the Conversion Right.

(b) The Conversion Right may be exercised by the Warrantholder on any Business Day prior to the end of the Exercise Period by surrender of this Warrant to the Company, with a duly executed Exercise Form with the conversion section completed, exercising the Conversion Right and specifying the total number of shares of Common Stock that the Warrantholder will be issued pursuant to such conversion.

2.3 WARRANT SHARES CERTIFICATE. A stock certificate or certificates for the Warrant Shares specified in the Exercise Form shall be delivered to the Warrantholder within five (5) Business Days after receipt of the Exercise Form by the Company and, if the Conversion Right is not exercised, the payment by the Warrantholder of the aggregate Exercise Price. If this Warrant shall have been exercised only in part, the Company shall, at the time of delivery of the stock certificate or certificates, deliver to the Warrantholder a new Warrant evidencing the right to purchase the remaining Warrant Shares, which new Warrant shall in all other respects be identical with this Warrant.

2.4 PAYMENT OF TAXES. The Company will pay all documentary stamp or other issuance taxes, if any, attributable to the issuance of Warrant Shares upon the exercise of this Warrant; PROVIDED, HOWEVER, that the Company shall not be required to pay any tax or taxes which may be payable in respect of any transfer involved in the issue or delivery of any Warrants or Warrant certificates or Warrant Shares in a name other than that of the then Warrantholder as reflected upon the books of the Company.

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3. RESTRICTIONS ON TRANSFER; RESTRICTIVE LEGENDS.

3.1 TRANSFER. At no time may this Warrant or the Warrant Shares be offered, sold, transferred, pledged or otherwise disposed of, in whole or in part, except in accordance with applicable federal and state securities laws.

3.2 LEGENDS.

(a) Except as otherwise permitted by this Section 3, each Warrant (including each Warrant issued upon the transfer of any Warrant) shall be stamped or otherwise imprinted with a legend in substantially the following form:

"This Warrant and any shares acquired upon the exercise of this Warrant have not been registered under the Securities Act of 1933, as amended (the "Act"), or the securities laws of any state of the United States or foreign jurisdiction. Neither this Warrant, such securities nor any interest therein may be transferred except pursuant to an effective registration statement under such Act and applicable state and foreign securities laws or pursuant to an applicable exemption from the registration requirements of such Act and such laws."

(b) Except as otherwise permitted by this Section 3, each certificate for Common Stock (or Other Securities) issued upon the exercise of any Warrant, and each certificate issued upon the transfer of any such Common Stock (or Other Securities), shall be stamped or otherwise imprinted with a legend in substantially the following form:

"The shares represented by this certificate have not been registered under the Securities Act of 1933 and may not be transferred in the absence of such registration or an exemption therefrom under such Act."

4. RESERVATION AND REGISTRATION OF SHARES. The Company covenants and agrees as follows:

(a) All Warrant Shares that are issued upon the exercise of this Warrant shall, upon issuance, be validly issued, not subject to any preemptive rights, and, be free from all taxes, liens, security interests, charges, and other encumbrances with respect to the issuance thereof, other than taxes in respect of any transfer occurring contemporaneously with such issue.

(b) The Company shall at all times have authorized and reserved, and shall keep available and free from preemptive rights, a sufficient number of shares of Common Stock to provide for the exercise of the rights represented by this Warrant.

(c) The Company shall not, by amendment of its Certificate of Incorporation or through any reorganization, transfer of assets, spin-off, consolidation, merger, dissolution, issue or sale of securities or any other action or

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inaction, seek to avoid the observance or performance of any of the terms of this Warrant, and shall at all times in good faith assist in performing and giving effect to the terms hereof and in the taking of all such actions as may be necessary or appropriate in order to protect the rights of the Warrantholder against dilution or other impairment.

5. ANTI-DILUTION AND OTHER ADJUSTMENTS. The Exercise Price and

the number of Warrant Shares to be received upon exercise of this Warrant shall be subject to adjustment as follows:

5.1 DIVIDEND, SUBDIVISION, COMBINATION OR RECLASSIFICATION OF COMMON STOCK. In the event that the Company shall at any time or from time to time, after the issuance of this Warrant but prior to the exercise hereof, (w) make a dividend or distribution on the outstanding shares of Common Stock payable in Capital Stock, (x) subdivide the outstanding shares of Common Stock into a larger number of shares, (y) combine the outstanding shares of Common Stock into a smaller number of shares or (z) issue any shares of its Capital Stock in a reclassification of the Common Stock (other than any such event for which an adjustment is made pursuant to another clause of this Section 5), THEN, and in each such case, (A) the aggregate number of Warrant Shares for which this Warrant is exercisable (the "Warrant Share Number") immediately prior to such event shall be adjusted (and any other appropriate actions shall be taken by the Company) so that the Warrantholder shall be entitled to receive upon exercise of this Warrant the number of shares of Common Stock or other securities of the Company that it would have owned or would have been entitled to receive upon or by reason of any of the events described above, had this Warrant been exercised immediately prior to the occurrence of such event and (B) the Exercise Price payable upon the exercise of this Warrant shall be adjusted by multiplying such Exercise Price immediately prior to such adjustment by a fraction, the numerator of which shall be the number of Warrant Shares issuable upon the exercise of this Warrant immediately prior to such adjustment, and the denominator of which shall be the number of Warrant Shares issuable immediately thereafter. An adjustment made pursuant to this Section 5.1 shall become effective retroactively (x) in the case of any such dividend or distribution, to a date immediately following the close of business on the record date for the determination of holders of shares of Common Stock entitled to receive such dividend or distribution or (y) in the case of any such subdivision, combination or reclassification, to the close of business on the day upon which such corporate action becomes effective.

5.2 ISSUANCE OF COMMON STOCK OR COMMON STOCK EQUIVALENTS BELOW EXERCISE PRICE.

(a) If the Company shall at any time or from time to time, after the issuance of this Warrant but prior to the exercise hereof, issue or sell (such issuance or sale, a "New Issuance") any shares of Common Stock or Common Stock Equivalents at a price per share of Common Stock (the "New Issue Price") that is less than the Exercise Price then in effect as of the record date or Issue Date (as defined below), as the case may be (the "Relevant Date") (treating the price per share of Common Stock, in the case of the issuance of any Common Stock Equivalent, as equal to (x) the

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sum of the price for such Common Stock Equivalent plus any additional consideration payable (without regard to any anti-dilution adjustments) upon the conversion, exchange or exercise of such Common Stock Equivalent divided by (y) the number of shares of Common Stock initially underlying such Common Stock Equivalent), other than (i) issuances or sales for which an adjustment is made pursuant to another subsection of this Section 5 and (ii) issuances in connection with an Excluded Transaction, THEN, and in each such case, (A) the Exercise Price then in effect shall be adjusted to equal the New Issue Price and (B) the Warrant Share Number immediately prior to such adjustment shall be increased to equal the product of (i) the aggregate number of Warrant Shares for which this Warrant is exercisable immediately prior to the New Issuance multiplied by (ii) a fraction, the numerator of which shall be the Exercise Price in effect on the day immediately prior to the Relevant Date and the denominator of which shall be the Exercise Price in effect immediately after such adjustment.

Such adjustment shall be made whenever such shares of Common Stock or Common Stock Equivalents are issued, and shall become effective retroactively (x) in the case of an issuance to the stockholders of the Company, as such, to a date immediately following the close of business on the record date for the determination of shareholders entitled to receive such shares of Common Stock or Common Stock Equivalents and (y) in all other cases, on the date (the "Issue Date") of such issuance; PROVIDED, HOWEVER, that the determination as to whether an adjustment is required to be made pursuant to this Section 5.2 shall be made only upon the issuance of such shares of Common Stock or Common Stock Equivalents, and not upon the issuance of any security into which the Common Stock Equivalents convert, exchange or may be exercised.

(b) In case at any time any shares of Common Stock or Common Stock Equivalents or any rights or options to purchase any shares of Common Stock or Common Stock Equivalents shall be issued or sold for consideration other than cash, the consideration received therefor shall be deemed to be the amount received by the Company therefor, without deduction therefrom of any expenses incurred or any underwriting commissions or concessions or discounts paid or allowed by the Company in connection therewith, as determined mutually by the Board of Directors and the Majority Warrantholders or, if the Board of Directors and the Majority Warrantholders shall fail to

agree, at the Company's expense by an appraiser chosen by the Board of Directors and reasonably acceptable to the Majority Warrantholders.

5.3 CERTAIN DISTRIBUTIONS. In case the Company shall at any time or from time to time, after the issuance of this Warrant but prior to the exercise hereof, distribute to all holders of shares of Common Stock (including any such distribution made in connection with a merger or consolidation in which the Company is the resulting or surviving Person and shares of Common Stock are not changed or exchanged) cash, evidences of indebtedness of the Company or another issuer, securities of the Company or another issuer or other assets (excluding dividends or distributions payable in shares of Common Stock for which adjustment is made under Section 5.1 and any distribution in connection with an Excluded Transaction) or rights or warrants to subscribe for or purchase any of the foregoing, THEN, and in each such case, (A) the

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Exercise Price in effect immediately prior to the date of distribution shall be adjusted (and any other appropriate actions shall be taken by the Company) by being multiplied by a fraction (i) the numerator of which shall be such Current Market Price of Common Stock immediately prior to the date of distribution less the then fair market value (as determined by the Board of Directors in the exercise of their fiduciary duties) of the portion of the cash, evidences of indebtedness, securities or other assets so distributed or of such rights or warrants applicable to one share of Common Stock and (ii) the denominator of which shall be the Current Market Price of the Common Stock immediately prior to the date of distribution (but such fraction shall not be greater than one) and (B) the Warrant Share Number shall be increased by being multiplied by a fraction (i) the numerator of which shall be the Current Market Price of one share of Common Stock immediately prior to the record date for the distribution of such cash, evidences of indebtedness, securities, other assets or rights or warrants and (ii) the denominator of which shall be the Current Market Price of one share of Common Stock immediately prior to such record date less the fair market value (as determined by the Board of Directors in the exercise of their fiduciary duties) of the portion of such cash, evidences of indebtedness, securities, other assets or rights or warrants so distributed applicable to one share of Common Stock. Such adjustment shall be made whenever any such distribution is made and shall become effective retroactively to a date immediately following the close of business on the record date for the determination of stockholders entitled to receive such distribution.

5.4 CREDIT AGREEMENT ADJUSTMENTS.

(a) In the event that the Obligations of the Company to the Warrantholder have not been satisfied in full on or before the earlier of (i) nine (9) months from the First Sale of Production and (ii) eighteen (18) months from the date hereof, then on the last day of such ninth (9th) month or eighteenth (18th) month, as the case may be, and on the last day of each succeeding month until the Obligations of the Company to the Warrantholder have been satisfied in full, the Exercise Price in effect on each such date shall be reduced (and any other appropriate actions shall be taken by the Company) by subtracting from the Exercise Price in effect immediately prior to such adjustment an amount equal to the Exercise Price in effect immediately prior to such adjustment multiplied by a fraction (i) the numerator of which shall be ten percent (10%) of the average daily principal balance outstanding under the Note during such month and (ii) the denominator of which shall be ten million dollars (\$10,000,000). In the event that the Exercise Price is required to be adjusted pursuant to this Section 5.4(a) and at the same time an adjustment is required to be made pursuant to Section 5.4(b), then the adjustment required to be made under this Section 5.4(a) shall be made after giving effect to the adjustment required under Section 5.4(b).

(b) If, on the date that is eighteen (18) months from the date hereof, (i) the Obligations of the Company to the Warrantholder have not been satisfied in full and the Market Price on such date (or if such date is not a Business Day, on the immediately preceding Business Day) is less than the Exercise Price then in effect (determined without regard to any adjustments made pursuant to Section 5.4(a)), then on

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such date, the Exercise Price then in effect shall be reduced (and any other appropriate actions shall be taken by the Company) to an amount that is equal to eighty percent (80%) of the Current Market Price; PROVIDED, HOWEVER, that in no event, shall any adjustment be made pursuant to this Section 5.4(b) if such adjustment would result in an increase to the Exercise Price in effect immediately prior to such adjustment. In the event that the Exercise Price is required to be adjusted pursuant to this Section 5.4(b) and at the same time an adjustment is required to be made pursuant to Section 5.4(a), then the adjustment required to be made under this Section 5.4(b) shall be made before giving effect to the adjustment required under Section 5.4(a).

5.5 OTHER CHANGES. In case the Company at any time or from time to time, after the issuance of this Warrant but prior to the exercise hereof, shall take any action affecting its Common Stock similar to or having an effect similar to any of the actions described in any of Sections 5.1 or 5.4 (but not including any action described in any such Section) and the Board of Directors in good faith determines that it would be equitable in the circumstances to adjust the Exercise Price and Warrant Share Number as a result of such action, THEN, and in each such case, the Exercise Price and Warrant Share Number shall be adjusted in such manner and at such time as the Board of Directors in good faith determines would be equitable in the circumstances (such determination to be evidenced in a resolution, a certified copy of which shall be mailed to the Warrantholder).

5.6 NO ADJUSTMENT; PAR VALUE MINIMUM. Notwithstanding anything herein to the contrary, no adjustment under this Section 5 need be made to the Exercise Price or Warrant Share Number if the company receives written notice from the Warrantholder that no such adjustment is required. Notwithstanding any other provision of this Warrant, the Exercise Price shall not be adjusted below the par value of a share of Common Stock.; PROVIDED, HOWEVER, that the written consent of the Majority Warrantholders shall be required prior to any increase in the par value of the shares of Common Stock.

5.7 ABANDONMENT. If the Company shall take a record of the holders of shares of its Common Stock for the purpose of entitling them to receive a dividend or other distribution, and shall thereafter and before the distribution to stockholders thereof legally abandon its plan to pay or deliver such dividend or distribution, then no adjustment in the Exercise Price or Warrant Share Number shall be required by reason of the taking of such record.

5.8 CERTIFICATE AS TO ADJUSTMENTS. Upon any adjustment in the Exercise Price or Warrant Share Number, the Company shall within a reasonable period (not to exceed ten (10) days) following any of the foregoing transactions deliver to the Warrantholder a certificate, signed by (i) the Chief Executive Officer of the Company and (ii) the Chief Financial Officer of the Company, setting forth in reasonable detail the event requiring the adjustment and the method by which such adjustment was calculated and specifying the adjusted Exercise Price and Warrant Share Number then in effect following such adjustment.

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5.9 REORGANIZATION, RECLASSIFICATION, MERGER OR SALE TRANSACTION. In case of any capital reorganization, reclassification, Sale Transaction, merger or consolidation (other than a Sale Transaction or a merger or consolidation of the Company in which the Company is the surviving corporation) of the Company or other change of outstanding shares of Common Stock (other than a change in par value, or from par value to no par value, or from no par value to par value) (each, a "Transaction") at any time after the issuance of this Warrant but prior to the exercise hereof, the Company shall execute and deliver to the Warrantholder at least twenty (20) Business Days prior to effecting such Transaction a certificate stating that the Warrantholder shall have the right thereafter to exercise this Warrant for the kind and amount of shares of stock or other securities, property or cash receivable upon such Transaction by a holder of the number of shares of Common Stock into which this Warrant could have been exercised immediately prior to such Transaction, and provision shall be made therefor in the agreement, if any, relating to such Transaction. Such certificate shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 5 and shall contain other terms substantially identical to the terms hereof. If, in the case of any such Transaction, the stock, other securities, cash or property receivable thereupon by a holder of Common Stock includes shares of stock or other securities of a Person other than the successor or purchasing Persons and other than the Company, which controls or is controlled by the successor or purchasing Person or which, in connection with such Transaction, issues stock, securities, other property or cash to holders of Common Stock, then such certificate also shall be executed by such Person, and such Person shall, in such certificate, specifically assume the obligations of such successor or purchasing Person and acknowledge its obligations to issue such stock, securities, other property or cash to holders of the Warrants upon exercise thereof as provided above. The provisions of this Section 5.9 and any equivalent thereof in any such certificate similarly shall apply to successive transactions.

5.10 NOTICES. In case at any time or from time to time:

(a) the Company shall declare a dividend (or any other distribution) on its shares of Common Stock;

(b) the Company shall authorize the granting to the holders of shares of its Common Stock rights or warrants to subscribe for or purchase any shares of Capital Stock or any other rights or warrants;

(c) there shall occur a Transaction; or

(d) the Company shall take any other action that would require a vote of the Company's stockholders;

then the Company shall mail to the Warrantholder, as promptly as possible but in any event at least ten (10) days prior to the applicable date hereinafter specified, a notice stating (A) the date on which a record is to be taken for the purpose of such dividend, distribution or granting of rights or warrants or, if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such dividend,

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distribution or granting of rights or warrants are to be determined, or (B) the date on which such Transaction is expected to become effective and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their Common Stock for shares of stock or other securities or property or cash deliverable upon such Transaction. Notwithstanding the foregoing, in the case of any event to which Section 5.9 is applicable, the Company shall also deliver the certificate described in such Section 5.9 to the Warrantholder at least ten (10) Business Days prior to effecting such reorganization or reclassification as aforesaid.

6. REGISTRATION RIGHTS. The Warrant Shares are subject to the terms and conditions of the Registration Rights Agreement, dated April 21, 1998, between the Company and the Warrantholder.

7. LOSS OR DESTRUCTION OF WARRANT. Subject to the terms and conditions hereof, upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, of such bond or indemnification as the Company may reasonably require, and, in the case of such mutilation, upon surrender and cancellation of this Warrant, the Company will execute and deliver a new Warrant of like tenor.

8. OWNERSHIP OF WARRANT. The Company may deem and treat the person in whose name this Warrant is registered as the holder and owner hereof (notwithstanding any notations of ownership or writing hereon made by anyone other than the Company) for all purposes and shall not be affected by any notice to the contrary, until presentation of this Warrant for registration of transfer.

9. AMENDMENTS. Any provision of this Warrant may be amended and the observance thereof waived only with the written consent of the Company and the Warrantholder.

10. NO IMPAIRMENT. The Company (i) will not permit the par value of any shares of stock receivable upon the exercise of this Warrant to exceed the amount payable therefor upon such exercise, (ii) will take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock on the exercise of the Warrant from time to time outstanding, and (iii) will not take any action which results in any adjustment of the Exercise Price if the total number of shares of Common Stock (or Other Securities) issuable after the action upon the exercise of the Warrant would exceed the total number of shares of Common Stock (or Other Securities) then authorized by the Company's Certificate of Incorporation and available for the purpose of issuance upon such exercise.

11. DEFINITIONS. As used herein, unless the context otherwise requires, the following terms have the following respective meanings:

"AFFILIATE" shall mean any Person who is an "affiliate" as defined in Rule 12b-2 of the General Rules and Regulations under the Exchange Act.

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"BOARD OF DIRECTORS" means the Board of Directors of the Company.

"BUSINESS DAY" means any day other than a Saturday, Sunday or other day on which commercial banks in the State of New York are authorized or required by law or executive order to close.

"CAPITAL STOCK" means, with respect to any Person, any and all shares, interests, participations, rights in, or other equivalents (however designated and whether voting or non-voting) of such Person's capital stock and any and all rights, warrants or options exchangeable for or convertible into such capital stock (but excluding any debt security whether or not it is exchangeable for or convertible into such capital stock).

"COMMISSION" means the Securities and Exchange Commission or any similar agency then having jurisdiction to enforce the Securities Act.

"COMMON STOCK" means the Common Stock, par value \$.10 per share, of the Company.

"COMMON STOCK EQUIVALENT" means any security or obligation which is by its terms convertible into or exercisable into shares of Common Stock, including, without limitation, any option, warrant or other subscription or purchase right with respect to Common Stock.

"COMPANY" has the meaning set forth in the first paragraph of this Warrant.

"CONVERSION RIGHT" has the meaning set forth in Section 2.2(a) of this Warrant.

"CREDIT AGREEMENT" has the meaning set forth in Section 1 of this Warrant.

"CURRENT MARKET PRICE" means, as of the date of determination, (a) the average of the daily Market Price under clause (a), (b) or (c) of the definition thereof of the Common Stock during the immediately preceding thirty (30) trading days ending on such date, and (b) if the Common Stock is not then listed or admitted to trading on any national securities exchange or quoted in the over-the-counter market, then the Market Price under clause (d) of the definition thereof on such date.

"EXCLUDED TRANSACTION" means (a) any issuance of up to an aggregate of two million (2,000,000) shares of restricted stock or options to purchase shares of Common Stock (subject to adjustment in the event of stock splits, combinations or similar occurrences) to employees, officers or directors of the Company pursuant to a stock option plan or other employee benefit arrangement approved by the Board of Directors and (b) any issuance of Common Stock upon conversion or exercise of any Common Stock Equivalents and/or (c) any issuance of Warrant Shares.

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"EXERCISE FORM" means an Exercise Form in the form annexed hereto as EXHIBIT A.

"EXERCISE PERIOD" means the period beginning on the date hereof and ending on the fifth (5th) anniversary of the date hereof.

"EXERCISE PRICE" has the meaning set forth in the first paragraph of this Warrant.

"FIRST SALE OF PRODUCTION" has the meaning set forth in the Loan Agreement between VAALCO Gabon (Etame), Inc. and the International Finance Corporation dated April 19, 2002.

"ISSUE DATE" has the meaning set forth in Section 5.2 of this Warrant.

"MARKET PRICE" means, as of the date of determination, (a) if the Common Stock is listed on a national securities exchange, the closing price per share of Common Stock on such date published in THE WALL STREET JOURNAL (NATIONAL EDITION) or, if no such closing price on such date is published in THE WALL STREET JOURNAL (NATIONAL EDITION), the average of the closing bid and asked prices on such date, as officially reported on the principal national securities exchange on which the Common Stock is then listed or admitted to trading; or (b) if the Common Stock is not then listed or admitted to trading on any national securities exchange but is designated as a national market system security by the National Association of Securities Dealers, Inc., the last trading price of the Common Stock on such date; or (c) if there shall have been no trading on such date or if the Common Stock is not designated as a national market system security by the National Association of Securities Dealers, Inc., the average of the reported closing bid and asked prices of the Common Stock on such date as shown by the National Market System of the National Association of Securities Dealers, Inc. Automated Quotations System and reported by any member firm of the New York Stock Exchange selected by the Company; or (d) if none of (a), (b) or (c) is applicable, a market price per share determined mutually by the Board of Directors and the Majority Warrantholders or, if the Board of Directors and the Majority Warrantholders shall fail to agree, at the Company's expense by an appraiser chosen by the Board of Directors and reasonably acceptable to the Majority Warrantholders. Any determination of the Market Price by an appraiser shall be based on a valuation of the Company as an entirety without regard to any discount for minority interests or disparate voting rights among classes of capital stock.

"MAJORITY WARRANTHOLDERS" means the holders of a majority of Warrant Shares issuable upon exercise of all of the warrants issued pursuant to Section 1.02(b) of the Credit Agreement assuming the exercise of all such warrants.

"NEW ISSUANCE" has the meaning set forth in Section 5.2 of this Warrant.

"NEW ISSUE PRICE" has the meaning set forth in Section 5.2 of this Warrant.

"NOTE" has the meaning set forth in the Credit Agreement.

"OBLIGATIONS" means the obligations of the Company to the Warrantholder for the prompt payment when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) and performance of the Note and the Credit Agreement and any premium and all interest and other sums in respect thereof, whether now or hereafter owing or incurred.

"OTHER SECURITIES" means any stock (other than Common Stock) and other securities of the Company or any other Person (corporate or otherwise) which the holder of the Warrant at any time shall be entitled to receive, or shall have received upon the exercise of the Warrant, in lieu of or in addition to Common Stock.

"PERSON" means any individual, firm, corporation, partnership, limited liability company, trust, incorporated or unincorporated association, joint venture, joint stock company, governmental body or other entity of any kind.

"RELEVANT DATE" has the meaning set forth in Section 5.2 of this Warrant.

"SALE TRANSACTION" shall mean (a) (i) the merger or consolidation of the Company into or with one or more Persons, (ii) the merger or consolidation of one or more Persons into or with the Company or (iii) a tender offer or other business combination if, in the case of (i), (ii) or (iii), the stockholders of the Company prior to such merger or consolidation do not retain at least a majority of the voting power of the surviving Person or (b) the voluntary sale, conveyance, exchange or transfer to another Person of (i) the voting Capital Stock of the Company if, after such sale, conveyance, exchange or transfer, the stockholders of the Company prior to such sale, conveyance, exchange or transfer do not retain at least a majority of the voting power of the Company or (ii) all or substantially all of the assets of the Company.

"SECURITIES ACT" means the Securities Act of 1933, as amended, and the rules and regulations of the Commission thereunder.

"TRANSACTION" has the meaning set forth in Section 5.9 of this Warrant.

"WARRANT SHARE NUMBER" has the meaning set forth in Section 5.1 of this Warrant.

"WARRANT SHARES" has the meaning set forth in the first paragraph of this Warrant.

"WARRANTHOLDER" has the meaning set forth in the first paragraph of this Warrant.

12. MISCELLANEOUS.

12.1 ENTIRE AGREEMENT. This Warrant and the Credit Agreement constitutes the entire agreement between the Company and the Warrantholder with

respect to the Warrant and supersedes all prior agreements and understanding with respects to the subject matter of this Warrant.

12.2 BINDING EFFECT; BENEFITS. This Warrant shall inure to the benefit of and shall be binding upon the Company and the Warrantholder and their respective permitted successors and assigns. Nothing in this Warrant, expressed or implied, is intended to or shall confer on any person other than the Company and the Warrantholder, or their respective permitted successors or assigns, any rights, remedies, obligations or liabilities under or by reason of this Warrant.

12.3 HEADINGS. The headings in this Warrant are for convenience of reference only and shall not limit or otherwise affect the meaning of this Warrant.

12.4 NOTICES. All notices, demands and other communications provided for or permitted hereunder shall be made in writing and shall be by registered or certified first-class mail, return receipt requested, telecopier, courier service or personal delivery:

- (a) if to the Company:
VAALCO Energy, Inc.
4600 Post Oak Place, Suite 309
Houston, TX 77027-0130
Attention: Russell Scheirman

with a copy to:

Haynes and Boone, LLP
1000 Louisiana, Suite 4300
Houston, TX 77002
Telecopy: (713) 547-2600
Attention: Guy Young

(b) if to the Warrantholder:

The 1818 Fund II, L.P.
59 Wall Street
New York, NY 10005-2818
Attention: Walter Grist

with a copy to:

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Paul, Weiss, Rifkind, Wharton & Garrison
1285 Avenue of the Americas
New York, NY 10019-3027
Telecopy: (212) 757-3990
Attention: Marilyn Sobel

All such notices, demands and other communications shall be deemed to have been duly given when delivered by hand, if personally delivered; when delivered by courier, if delivered by commercial courier service; five (5) Business Days after being deposited in the mail, postage prepaid, if mailed; and when receipt is mechanically acknowledged, if telecopied. Any party may by notice given in accordance with this Section 12.4 designate another address or Person for receipt of notices hereunder.

12.5 SEVERABILITY. Any term or provision of this Warrant which is invalid or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the terms and provisions of this Warrant or affecting the validity or enforceability of any of the terms or provisions of this Warrant in any other jurisdiction.

12.6 GOVERNING LAW. THIS WARRANT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE WITHOUT REGARD TO THE CONFLICTS OF LAW PRINCIPLES THEREOF.

12.7 NO RIGHTS OR LIABILITIES AS STOCKHOLDERS. Nothing contained in this Warrant shall be determined as conferring upon the Warrantholder any rights as a stockholder of the Company or as imposing any liabilities on the Warrantholder to purchase any securities whether such liabilities are asserted by the Company or by creditors or stockholders of the Company or otherwise.

12.8 AMENDMENTS AND WAIVERS. Except as otherwise provided herein, the provisions of this Warrant may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given unless consented to in writing by the Company and the Warrantholder.

[Remainder of this page intentionally left blank]

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IN WITNESS WHEREOF, the Company has caused this Warrant to be signed by its duly authorized officer.

VAALCO ENERGY, INC.

By: /s/ W. Russell Scheirman

Name: W. Russell Scheirman
Title: President

Dated: June 10, 2002

EXERCISE FORM

(To be executed upon exercise of this Warrant)

The undersigned hereby irrevocably elects to exercise the right, represented by this Warrant, to purchase [insert number] shares of Common Stock and [herewith tenders payment for such shares to the order of the Company in the amount of \$[insert number] [hereby exercises its Conversion Right] in accordance with the terms of this Warrant. The undersigned requests that a certificate for such [Warrant Shares] [that number of Warrant Shares to which the undersigned is entitled as calculated pursuant to Section 2.2] be registered in the name of the undersigned and that such certificates be delivered to the undersigned's address below.

The undersigned represents that it is acquiring such shares for its own account for investment and not with a view to or for sale in connection with any distribution thereof (subject, however, to any requirement of law that the disposition thereof shall at all times be within its control).

Dated: _____

Signature _____

(Print Name)

(Street Address)

(City) (State) (Zip Code)

[Clawback Warrant]

THIS WARRANT AND ANY SECURITIES ACQUIRED UPON THE EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR FOREIGN JURISDICTION. NEITHER THIS WARRANT, SUCH SECURITIES NOR ANY INTEREST THEREIN MAY BE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT AND APPLICABLE STATE AND FOREIGN SECURITIES LAWS OR PURSUANT TO AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT AND SUCH LAWS.

VAALCO ENERGY, INC.
COMMON STOCK PURCHASE WARRANT

This certifies that, for good and valuable consideration, VAALCO Energy, Inc., a Delaware corporation (the "Company"), grants to 1818 Fund II, L.P., a Delaware limited partnership (the "Warrantholder"), the right to subscribe for and purchase from the Company, during the Exercise Period (as hereinafter defined), seven million five hundred thousand (7,500,000) validly issued, fully paid and nonassessable shares, par value \$.50, of Common Stock of the Company (the "Warrant Shares"), at the exercise price per share of \$.10 (the "Exercise Price"), all subject to the terms, conditions and adjustments herein set forth. Capitalized terms used herein shall have the meanings ascribed to such terms in Section 11 below.

1. WARRANT. This Warrant is issued pursuant to, and in accordance with, Section 1.02(b) of the Subordinated Credit Agreement, dated the date hereof, between the Company and the Warrantholder (the "Credit Agreement") and is subject to the terms thereof and hereof.

2. EXERCISE OF WARRANT; PAYMENT OF TAXES.

2.1 EXERCISE OF WARRANT.

(a) Subject to Sections 2.1(b) and 2.1(c), and the other terms and conditions set forth herein, this Warrant may be exercised at any time, in whole or in part, by the Warrantholder during the Exercise Period by:

(i) the surrender of this Warrant to the Company, with a duly executed Exercise Form, and

(ii) subject to Section 2.2 below, the delivery of payment to the Company, for the account of the Company, by cash, wire transfer,

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certified or official bank check or any other means approved by the Company, of the aggregate Exercise Price in lawful money of the United States of America.

The Company agrees that the Warrant Shares shall be deemed to be issued to the Warrantholder as the record holder of such Warrant Shares as of the close of business on the date on which this Warrant shall have been surrendered and payment made of the Exercise Price as aforesaid.

(b) This Warrant shall automatically terminate and no longer be exercisable in its entirety upon the satisfaction in full of the Obligations of the Company to the Warrantholder; PROVIDED, THAT such Obligations are satisfied in full on or before eighteen (18) months from the date hereof.

2.2 CONVERSION RIGHT.

(a) In lieu of the payment of the aggregate Exercise Price, the Warrantholder shall have the right (but not the obligation), to require the Company to convert this Warrant, in whole or in part, into shares of Common Stock (the "Conversion Right") as provided for in this Section 2.2. Upon exercise of the Conversion Right, the Company shall deliver to the Warrantholder (without payment by the Warrantholder of any of the Exercise Price) in accordance with Section 2.2(b) that number of shares of Common Stock equal to the quotient obtained by dividing (i) the value of the Warrant or portion thereof at the time the Conversion Right is exercised (determined by

subtracting the aggregate Exercise Price at the time of the exercise of the Conversion Right for the number of shares of Common Stock for which the Warrant is being exercised from the aggregate Current Market Price for the shares of Common Stock issuable upon exercise of the Warrant at the time of the exercise of the Conversion Right for the number of shares of Common Stock for which the Warrant is being exercised) by (ii) the Current Market Price of one share of Common Stock at the time of the exercise of the Conversion Right.

(b) The Conversion Right may be exercised by the Warrantholder on any Business Day prior to the end of the Exercise Period by surrender of this Warrant to the Company, with a duly executed Exercise Form with the conversion section completed, exercising the Conversion Right and specifying the total number of shares of Common Stock that the Warrantholder will be issued pursuant to such conversion.

2.3 WARRANT SHARES CERTIFICATE. A stock certificate or certificates for the Warrant Shares specified in the Exercise Form shall be delivered to the Warrantholder within five (5) Business Days after receipt of the Exercise Form by the Company and, if the Conversion Right is not exercised, the payment by the Warrantholder of the aggregate Exercise Price. If this Warrant shall have been exercised only in part, the Company shall, at the time of delivery of the stock certificate or certificates, deliver to the Warrantholder a new Warrant evidencing the right to purchase the remaining Warrant Shares, which new Warrant shall in all other respects be identical with this Warrant.

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2.4 PAYMENT OF TAXES. The Company will pay all documentary stamp or other issuance taxes, if any, attributable to the issuance of Warrant Shares upon the exercise of this Warrant; PROVIDED, HOWEVER, that the Company shall not be required to pay any tax or taxes which may be payable in respect of any transfer involved in the issue or delivery of any Warrants or Warrant certificates or Warrant Shares in a name other than that of the then Warrantholder as reflected upon the books of the Company.

3. RESTRICTIONS ON TRANSFER; RESTRICTIVE LEGENDS.

3.1 TRANSFER. At no time may this Warrant or the Warrant Shares be offered, sold, transferred, pledged or otherwise disposed of, in whole or in part, except in accordance with applicable federal and state securities laws.

3.2 LEGENDS.

(a) Except as otherwise permitted by this Section 3, each Warrant (including each Warrant issued upon the transfer of any Warrant) shall be stamped or otherwise imprinted with a legend in substantially the following form:

"This Warrant and any shares acquired upon the exercise of this Warrant have not been registered under the Securities Act of 1933, as amended (the "Act"), or the securities laws of any state of the United States or foreign jurisdiction. Neither this Warrant, such securities nor any interest therein may be transferred except pursuant to an effective registration statement under such Act and applicable state and foreign securities laws or pursuant to an applicable exemption from the registration requirements of such Act and such laws."

(b) Except as otherwise permitted by this Section 3, each certificate for Common Stock (or Other Securities) issued upon the exercise of any Warrant, and each certificate issued upon the transfer of any such Common Stock (or Other Securities), shall be stamped or otherwise imprinted with a legend in substantially the following form:

"The shares represented by this certificate have not been registered under the Securities Act of 1933 and may not be transferred in the absence of such registration or an exemption therefrom under such Act."

4. RESERVATION AND REGISTRATION OF SHARES. The Company covenants and agrees as follows:

(a) All Warrant Shares that are issued upon the exercise of this Warrant shall, upon issuance, be validly issued, not subject to any preemptive rights, and, be free from all taxes, liens, security interests, charges, and other encumbrances with respect to the issuance thereof, other than taxes in respect of any transfer occurring contemporaneously with such issue.

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(b) The Company shall at all times have authorized and reserved, and shall keep available and free from preemptive rights, a sufficient number of shares of Common Stock to provide for the

exercise of the rights represented by this Warrant.

(c) The Company shall not, by amendment of its Certificate of Incorporation or through any reorganization, transfer of assets, spin-off, consolidation, merger, dissolution, issue or sale of securities or any other action or inaction, seek to avoid the observance or performance of any of the terms of this Warrant, and shall at all times in good faith assist in performing and giving effect to the terms hereof and in the taking of all such actions as may be necessary or appropriate in order to protect the rights of the Warrantholder against dilution or other impairment.

5. ANTI-DILUTION AND OTHER ADJUSTMENTS. The Exercise Price and the number of Warrant Shares to be received upon exercise of this Warrant shall be subject to adjustment as follows:

5.1 DIVIDEND, SUBDIVISION, COMBINATION OR RECLASSIFICATION OF COMMON STOCK. In the event that the Company shall at any time or from time to time, after the issuance of this Warrant but prior to the exercise hereof, (w) make a dividend or distribution on the outstanding shares of Common Stock payable in Capital Stock, (x) subdivide the outstanding shares of Common Stock into a larger number of shares, (y) combine the outstanding shares of Common Stock into a smaller number of shares or (z) issue any shares of its Capital Stock in a reclassification of the Common Stock (other than any such event for which an adjustment is made pursuant to another clause of this Section 5), THEN, and in each such case, (A) the aggregate number of Warrant Shares for which this Warrant is exercisable (the "Warrant Share Number") immediately prior to such event shall be adjusted (and any other appropriate actions shall be taken by the Company) so that the Warrantholder shall be entitled to receive upon exercise of this Warrant the number of shares of Common Stock or other securities of the Company that it would have owned or would have been entitled to receive upon or by reason of any of the events described above, had this Warrant been exercised immediately prior to the occurrence of such event and (B) the Exercise Price payable upon the exercise of this Warrant shall be adjusted by multiplying such Exercise Price immediately prior to such adjustment by a fraction, the numerator of which shall be the number of Warrant Shares issuable upon the exercise of this Warrant immediately prior to such adjustment, and the denominator of which shall be the number of Warrant Shares issuable immediately thereafter. An adjustment made pursuant to this Section 5.1 shall become effective retroactively (x) in the case of any such dividend or distribution, to a date immediately following the close of business on the record date for the determination of holders of shares of Common Stock entitled to receive such dividend or distribution or (y) in the case of any such subdivision, combination or reclassification, to the close of business on the day upon which such corporate action becomes effective.

5.2 ISSUANCE OF COMMON STOCK OR COMMON STOCK EQUIVALENTS BELOW EXERCISE PRICE.

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(a) If the Company shall at any time or from time to time, after the issuance of this Warrant but prior to the exercise hereof, issue or sell (such issuance or sale, a "New Issuance") any shares of Common Stock or Common Stock Equivalents at a price per share of Common Stock (the "New Issue Price") that is less than the Exercise Price then in effect as of the record date or Issue Date (as defined below), as the case may be (the "Relevant Date") (treating the price per share of Common Stock, in the case of the issuance of any Common Stock Equivalent, as equal to (x) the sum of the price for such Common Stock Equivalent plus any additional consideration payable (without regard to any anti-dilution adjustments) upon the conversion, exchange or exercise of such Common Stock Equivalent divided by (y) the number of shares of Common Stock initially underlying such Common Stock Equivalent), other than (i) issuances or sales for which an adjustment is made pursuant to another subsection of this Section 5 and (ii) issuances in connection with an Excluded Transaction, THEN, and in each such case, (A) the Exercise Price then in effect shall be adjusted to equal the New Issue Price and (B) the Warrant Share Number immediately prior to such adjustment shall be increased to equal the product of (i) the aggregate number of Warrant Shares for which this Warrant is exercisable immediately prior to the New Issuance multiplied by (ii) a fraction, the numerator of which shall be the Exercise Price in effect on the day immediately prior to the Relevant Date and the denominator of which shall be the Exercise Price in effect immediately after such adjustment.

Such adjustment shall be made whenever such shares of Common Stock or Common Stock Equivalents are issued, and shall become effective retroactively (x) in the case of an issuance to the stockholders of the Company, as such, to a date immediately following the close of business on the record date for the determination of shareholders entitled to receive such shares of Common Stock or Common Stock Equivalents and (y) in all other cases, on the date (the "Issue Date") of such issuance; PROVIDED, HOWEVER, that the determination as to whether an adjustment is required to be made pursuant to this Section 5.2 shall be made only upon the issuance of such shares of Common Stock or Common Stock Equivalents, and not upon the issuance of any security into which the Common Stock Equivalents convert, exchange or may be exercised.

(b) In case at any time any shares of Common Stock or Common Stock Equivalents or any rights or options to purchase any shares of Common Stock or Common Stock Equivalents shall be issued or sold for consideration other than cash, the consideration received therefor shall be deemed to be the amount received by the Company therefor, without deduction therefrom of any expenses incurred or any underwriting commissions or concessions or discounts paid or allowed by the Company in connection therewith, as determined mutually by the Board of Directors and the Majority Warrantholders or, if the Board of Directors and the Majority Warrantholders shall fail to agree, at the Company's expense by an appraiser chosen by the Board of Directors and reasonably acceptable to the Majority Warrantholders.

5.3 CERTAIN DISTRIBUTIONS. In case the Company shall at any time or from time to time, after the issuance of this Warrant but prior to the exercise hereof, distribute to all holders of shares of Common Stock (including any such

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distribution made in connection with a merger or consolidation in which the Company is the resulting or surviving Person and shares of Common Stock are not changed or exchanged) cash, evidences of indebtedness of the Company or another issuer, securities of the Company or another issuer or other assets (excluding dividends or distributions payable in shares of Common Stock for which adjustment is made under Section 5.1 and any distribution in connection with an Excluded Transaction) or rights or warrants to subscribe for or purchase any of the foregoing, THEN, and in each such case, (A) the Exercise Price then in effect shall be adjusted (and any other appropriate actions shall be taken by the Company) by being multiplied by the Exercise Price in effect prior to the date of distribution by a fraction (i) the numerator of which shall be such Current Market Price of Common Stock immediately prior to the date of distribution less the then fair market value (as determined by the Board of Directors in the exercise of their fiduciary duties) of the portion of the cash, evidences of indebtedness, securities or other assets so distributed or of such rights or warrants applicable to one share of Common Stock and (ii) the denominator of which shall be the Current Market Price of the Common Stock immediately prior to the date of distribution (but such fraction shall not be greater than one) and (B) the Warrant Share Number shall be increased by being multiplied by a fraction (i) the numerator of which shall be the Current Market Price of one share of Common Stock immediately prior to the record date for the distribution of such cash, evidences of indebtedness, securities, other assets or rights or warrants and (ii) the denominator of which shall be the Current Market Price of one share of Common Stock immediately prior to such record date less the fair market value (as determined by the Board of Directors in the exercise of their fiduciary duties) of the portion of such cash, evidences of indebtedness, securities, other assets or rights or warrants so distributed. Such adjustment shall be made whenever any such distribution is made and shall become effective retroactively to a date immediately following the close of business on the record date for the determination of stockholders entitled to receive such distribution.

5.4 CREDIT AGREEMENT ADJUSTMENTS.

(a) In the event that the Obligations of the Company to the Warrantholder have not been satisfied in full on or before the earlier of (i) nine (9) months from the First Sale of Production and (ii) eighteen (18) months from the date hereof, then on the last day of such ninth (9th) month or eighteenth (18th) month, as the case may be, and on the last day of each succeeding month until the Obligations of the Company to the Warrantholder have been satisfied in full, the Exercise Price in effect on each such date shall be reduced (and any other appropriate actions shall be taken by the Company) by subtracting from the Exercise Price in effect immediately prior to such adjustment an amount equal to the Exercise Price in effect immediately prior to such adjustment multiplied by a fraction (i) the numerator of which shall be ten percent (10%) of the average principal balance outstanding under the Note during such month and (ii) the denominator of which shall be ten million dollars (\$10,000,000). In the event that the Exercise Price is required to be adjusted pursuant to this Section 5.4(a) and at the same time an adjustment is required to be made pursuant to Section 5.4(b), then the adjustment required to be made under this Section 5.4(a) shall be made after giving effect to the adjustment required under Section 5.4(b).

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(b) If, on the date that is eighteen (18) months from the date hereof, (i) the Obligations of the Company to the Warrantholder have not been satisfied in full and the Market Price on such date (or if such date is not a Business Day, on the immediately preceding Business Day) is less than the Exercise Price then in effect (determined without regard to any adjustments made pursuant to Section 5.4(a)), then on such date, the Exercise Price then in effect shall be reduced (and any other appropriate actions shall be taken by the Company) to an amount that is equal to eighty percent (80%) of

the Current Market Price; PROVIDED, HOWEVER, that in no event, shall any adjustment be made pursuant to this Section 5.4(b) if such adjustment would result in an increase to the Exercise Price in effect immediately prior to such adjustment. In the event that the Exercise Price is required to be adjusted pursuant to this Section 5.4(b) and at the same time an adjustment is required to be made pursuant to Section 5.4(a), then the adjustment required to be made under this Section 5.4(b) shall be made before giving effect to the adjustment required under Section 5.4(a).

(c) On the first day of the Exercise Period, the number of Warrant Shares shall be adjusted to a number equal to the product of the number of Warrant Shares for which this Warrant is exercisable immediately prior to the commencement of the Exercise Period multiplied by a fraction, the numerator of which shall be the average daily principal balance outstanding under the Note during the period beginning following the end of eighteen (18) months from the date hereof and ending immediately prior to the commencement of the Exercise Period, and the denominator of which shall be ten million (10,000,000).

5.5 OTHER CHANGES. In case the Company at any time or from time to time, after the issuance of this Warrant but prior to the exercise hereof, shall take any action affecting its Common Stock similar to or having an effect similar to any of the actions described in any of Sections 5.1 or 5.4 (but not including any action described in any such Section) and the Board of Directors in good faith determines that it would be equitable in the circumstances to adjust the Exercise Price and Warrant Share Number as a result of such action, THEN, and in each such case, the Exercise Price and Warrant Share Number shall be adjusted in such manner and at such time as the Board of Directors in good faith determines would be equitable in the circumstances (such determination to be evidenced in a resolution, a certified copy of which shall be mailed to the Warrantholder).

5.6 NO ADJUSTMENT; PAR VALUE MINIMUM. Notwithstanding anything herein to the contrary, no adjustment under this Section 5 need be made to the Exercise Price or Warrant Share Number if the company receives written notice from the Warrantholder that no such adjustment is required. Notwithstanding any other provision of this Warrant, the Exercise Price shall not be adjusted below the par value of a share of Common Stock.; PROVIDED, HOWEVER, that the written consent of the Majority Warrantholders shall be required prior to any increase in the par value of the shares of Common Stock.

5.7 ABANDONMENT. If the Company shall take a record of the holders of shares of its Common Stock for the purpose of entitling them to receive a

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dividend or other distribution, and shall thereafter and before the distribution to stockholders thereof legally abandon its plan to pay or deliver such dividend or distribution, then no adjustment in the Exercise Price or Warrant Share Number shall be required by reason of the taking of such record.

5.8 CERTIFICATE AS TO ADJUSTMENTS. Upon any adjustment in the Exercise Price or Warrant Share Number, the Company shall within a reasonable period (not to exceed ten (10) days) following any of the foregoing transactions deliver to the Warrantholder a certificate, signed by (i) the Chief Executive Officer of the Company and (ii) the Chief Financial Officer of the Company, setting forth in reasonable detail the event requiring the adjustment and the method by which such adjustment was calculated and specifying the adjusted Exercise Price and Warrant Share Number then in effect following such adjustment.

5.9 REORGANIZATION, RECLASSIFICATION, MERGER OR SALE TRANSACTION. In case of any capital reorganization, reclassification, Sale Transaction, merger or consolidation (other than a Sale Transaction or a merger or consolidation of the Company in which the Company is the surviving corporation) of the Company or other change of outstanding shares of Common Stock (other than a change in par value, or from par value to no par value, or from no par value to par value) (each, a "Transaction") at any time after the issuance of this Warrant but prior to the exercise hereof, the Company shall execute and deliver to the Warrantholder at least twenty (20) Business Days prior to effecting such Transaction a certificate stating that the Warrantholder shall have the right thereafter to exercise this Warrant for the kind and amount of shares of stock or other securities, property or cash receivable upon such Transaction by a holder of the number of shares of Common Stock into which this Warrant could have been exercised immediately prior to such Transaction, and provision shall be made therefor in the agreement, if any, relating to such Transaction. Such certificate shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 5 and shall contain other terms substantially identical to the terms hereof. If, in the case of any such Transaction, the stock, other securities, cash or property receivable thereupon by a holder of Common Stock includes shares of stock or other securities of a Person other than the successor or purchasing Persons and other than the Company, which controls or is controlled

by the successor or purchasing Person or which, in connection with such Transaction, issues stock, securities, other property or cash to holders of Common Stock, then such certificate also shall be executed by such Person, and such Person shall, in such certificate, specifically assume the obligations of such successor or purchasing Person and acknowledge its obligations to issue such stock, securities, other property or cash to holders of the Warrants upon exercise thereof as provided above. The provisions of this Section 5.9 and any equivalent thereof in any such certificate similarly shall apply to successive transactions.

5.10 NOTICES. In case at any time or from time to time:

(a) the Company shall declare a dividend (or any other distribution) on its shares of Common Stock;

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(b) the Company shall authorize the granting to the holders of shares of its Common Stock rights or warrants to subscribe for or purchase any shares of Capital Stock or any other rights or warrants;

(c) there shall occur a Transaction; or

(d) the Company shall take any other action that would require a vote of the Company's stockholders;

then the Company shall mail to the Warrantholder, as promptly as possible but in any event at least ten (10) days prior to the applicable date hereinafter specified, a notice stating (A) the date on which a record is to be taken for the purpose of such dividend, distribution or granting of rights or warrants or, if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such dividend, distribution or granting of rights or warrants are to be determined, or (B) the date on which such Transaction is expected to become effective and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their Common Stock for shares of stock or other securities or property or cash deliverable upon such Transaction. Notwithstanding the foregoing, in the case of any event to which Section 5.9 is applicable, the Company shall also deliver the certificate described in such Section 5.9 to the Warrantholder at least ten (10) Business Days prior to effecting such reorganization or reclassification as aforesaid.

6. REGISTRATION RIGHTS. The Warrant Shares are subject to the terms and conditions of the Registration Rights Agreement, dated April 21, 1998, between the Company and the Warrantholder.

7. LOSS OR DESTRUCTION OF WARRANT. Subject to the terms and conditions hereof, upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, of such bond or indemnification as the Company may reasonably require, and, in the case of such mutilation, upon surrender and cancellation of this Warrant, the Company will execute and deliver a new Warrant of like tenor.

8. OWNERSHIP OF WARRANT. The Company may deem and treat the person in whose name this Warrant is registered as the holder and owner hereof (notwithstanding any notations of ownership or writing hereon made by anyone other than the Company) for all purposes and shall not be affected by any notice to the contrary, until presentation of this Warrant for registration of transfer.

9. AMENDMENTS. Any provision of this Warrant may be amended and the observance thereof waived only with the written consent of the Company and the Warrantholder.

10. NO IMPAIRMENT. The Company (i) will not permit the par value of any shares of stock receivable upon the exercise of this Warrant to exceed the amount payable therefor upon such exercise, (ii) will take all such action as may be necessary or

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appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock on the exercise of the Warrant from time to time outstanding, and (iii) will not take any action which results in any adjustment of the Exercise Price if the total number of shares of Common Stock (or Other Securities) issuable after the action upon the exercise of the Warrant would exceed the total number of shares of Common Stock (or Other Securities) then authorized by the Company's Certificate of Incorporation and available for the purpose of issuance upon such exercise.

11. DEFINITIONS. As used herein, unless the context otherwise requires, the following terms have the following respective meanings:

"AFFILIATE" shall mean any Person who is an "affiliate" as defined in Rule 12b-2 of the General Rules and Regulations under the Exchange Act.

"BOARD OF DIRECTORS" means the Board of Directors of the Company.

"BUSINESS DAY" means any day other than a Saturday, Sunday or other day on which commercial banks in the State of New York are authorized or required by law or executive order to close.

"CAPITAL STOCK" means, with respect to any Person, any and all shares, interests, participations, rights in, or other equivalents (however designated and whether voting or non-voting) of such Person's capital stock and any and all rights, warrants or options exchangeable for or convertible into such capital stock (but excluding any debt security whether or not it is exchangeable for or convertible into such capital stock).

"COMMISSION" means the Securities and Exchange Commission or any similar agency then having jurisdiction to enforce the Securities Act.

"COMMON STOCK" means the Common Stock, par value \$.10 per share, of the Company.

"COMMON STOCK EQUIVALENT" means any security or obligation which is by its terms convertible into or exercisable into shares of Common Stock, including, without limitation, any option, warrant or other subscription or purchase right with respect to Common Stock.

"COMPANY" has the meaning set forth in the first paragraph of this Warrant. "CONVERSION RIGHT" has the meaning set forth in Section 2.2(a) of this Warrant.

"CREDIT AGREEMENT" has the meaning set forth in Section 1 of this Warrant.

"CURRENT MARKET PRICE" means, as of the date of determination, (a) the average of the daily Market Price under clause (a), (b) or (c) of the definition thereof of the Common Stock during the immediately preceding thirty (30) trading days ending on

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such date, and (b) if the Common Stock is not then listed or admitted to trading on any national securities exchange or quoted in the over-the-counter market, then the Market Price under clause (d) of the definition thereof on such date.

"EXCLUDED TRANSACTION" means (a) any issuance of up to an aggregate of two million (2,000,000) shares of restricted stock or options to purchase shares of Common Stock (subject to adjustment in the event of stock splits, combinations or similar occurrences) to employees, officers or directors of the Company pursuant to a stock option plan or other employee benefit arrangement approved by the Board of Directors and (b) any issuance of Common Stock upon conversion or exercise of any Common Stock Equivalents and/or (c) any issuance of Warrant Shares.

"EXERCISE FORM" means an Exercise Form in the form annexed hereto as EXHIBIT A.

"EXERCISE PERIOD" means, subject to Sections 2.1(b), the period beginning on the date that is twenty-four months from the date hereof and ending on the fifth (5th) anniversary of the date hereof.

"EXERCISE PRICE" has the meaning set forth in the first paragraph of this Warrant.

"FIRST SALE OF PRODUCTION" has the meaning set forth in the Loan Agreement between VAALCO Gabon (Etame), Inc. and the International Finance Corporation dated April 19, 2002.

"ISSUE DATE" has the meaning set forth in Section 5.2 of this Warrant.

"MARKET PRICE" means, as of the date of determination, (a) if the Common Stock is listed on a national securities exchange, the closing price per share of Common Stock on such date published in THE WALL STREET JOURNAL (NATIONAL EDITION) or, if no such closing price on such date is published in THE WALL STREET JOURNAL (NATIONAL EDITION), the average of the closing bid and asked prices on such date, as officially reported on the principal national securities exchange on which the Common Stock is then listed or admitted to trading; or (b) if the Common Stock is not then listed or admitted to trading on any national securities exchange but is designated as a national market system security by the National Association of Securities Dealers, Inc., the last trading price of the Common Stock on such date; or (c) if there shall have been no trading on such date or if the Common Stock is not designated as a national market system security by the National Association of Securities Dealers, Inc., the average of

the reported closing bid and asked prices of the Common Stock on such date as shown by the National Market System of the National Association of Securities Dealers, Inc. Automated Quotations System and reported by any member firm of the New York Stock Exchange selected by the Company; or (d) if none of (a), (b) or (c) is applicable, a market price per share determined mutually by the Board of Directors and the Majority Warrantholders or, if the Board of Directors and the Majority Warrantholders shall fail to agree, at the Company's expense by an appraiser chosen by the Board of Directors and reasonably acceptable to

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the Majority Warrantholders. Any determination of the Market Price by an appraiser shall be based on a valuation of the Company as an entirety without regard to any discount for minority interests or disparate voting rights among classes of capital stock.

"MAJORITY WARRANTHOLDERS" means the holders of a majority of Warrant Shares issuable upon exercise of all of the warrants issued pursuant to Section 1.02(b) of the Credit Agreement assuming the exercise of all such warrants.

"NEW ISSUANCE" has the meaning set forth in Section 5.2 of this Warrant.

"NEW ISSUE PRICE" has the meaning set forth in Section 5.2 of this Warrant.

"NOTE" has the meaning set forth in the Credit Agreement.

"OBLIGATIONS" means the obligations of the Company to the Warrantholder for the prompt payment when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) and performance of the Note and the Credit Agreement and any premium and all interest and other sums in respect thereof, whether now or hereafter owing or incurred.

"OTHER SECURITIES" means any stock (other than Common Stock) and other securities of the Company or any other Person (corporate or otherwise) which the holder of the Warrant at any time shall be entitled to receive, or shall have received upon the exercise of the Warrant, in lieu of or in addition to Common Stock.

"PERSON" means any individual, firm, corporation, partnership, limited liability company, trust, incorporated or unincorporated association, joint venture, joint stock company, governmental body or other entity of any kind.

"RELEVANT DATE" has the meaning set forth in Section 5.2 of this Warrant.

"SALE TRANSACTION" shall mean (a) (i) the merger or consolidation of the Company into or with one or more Persons, (ii) the merger or consolidation of one or more Persons into or with the Company or (iii) a tender offer or other business combination if, in the case of (i), (ii) or (iii), the stockholders of the Company prior to such merger or consolidation do not retain at least a majority of the voting power of the surviving Person or (b) the voluntary sale, conveyance, exchange or transfer to another Person of (i) the voting Capital Stock of the Company if, after such sale, conveyance, exchange or transfer, the stockholders of the Company prior to such sale, conveyance, exchange or transfer do not retain at least a majority of the voting power of the Company or (ii) all or substantially all of the assets of the Company.

"SECURITIES ACT" means the Securities Act of 1933, as amended, and the rules and regulations of the Commission thereunder.

"TRANSACTION" has the meaning set forth in Section 5.9 of this Warrant.

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"WARRANT SHARE NUMBER" has the meaning set forth in Section 5.1 of this Warrant.

"WARRANT SHARES" has the meaning set forth in the first paragraph of this Warrant.

"WARRANTHOLDER" has the meaning set forth in the first paragraph of this Warrant.

12. MISCELLANEOUS.

12.1 ENTIRE AGREEMENT. This Warrant and the Credit Agreement constitutes the entire agreement between the Company and the Warrantholder with respect to the Warrant and supersedes all prior agreements and understanding with respects to the subject matter of this Warrant.

12.2 BINDING EFFECT; BENEFITS. This Warrant shall inure to

the benefit of and shall be binding upon the Company and the Warrantholder and their respective permitted successors and assigns. Nothing in this Warrant, expressed or implied, is intended to or shall confer on any person other than the Company and the Warrantholder, or their respective permitted successors or assigns, any rights, remedies, obligations or liabilities under or by reason of this Warrant.

12.3 HEADINGS. The headings in this Warrant are for convenience of reference only and shall not limit or otherwise affect the meaning of this Warrant.

12.4 NOTICES. All notices, demands and other communications provided for or permitted hereunder shall be made in writing and shall be by registered or certified first-class mail, return receipt requested, telecopier, courier service or personal delivery:

(a) if to the Company:
VAALCO Energy, Inc.
4600 Post Oak Place, Suite 309
Houston, TX 77027-0130
Attention: Russell Scheirman

with a copy to:

Haynes and Boone, LLP
1000 Louisiana, Suite 4300
Houston, TX 77002
Telecopy: (713) 547-2600
Attention: Guy Young

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(b) if to the Warrantholder:

The 1818 Fund II, L.P.
59 Wall Street
New York, NY 10005-2818
Attention: Walter Grist

with a copy to:

Paul, Weiss, Rifkind, Wharton & Garrison
1285 Avenue of the Americas
New York, NY 10019-3027
Telecopy: (212) 757-3990
Attention: Marilyn Sobel

All such notices, demands and other communications shall be deemed to have been duly given when delivered by hand, if personally delivered; when delivered by courier, if delivered by commercial courier service; five (5) Business Days after being deposited in the mail, postage prepaid, if mailed; and when receipt is mechanically acknowledged, if telecopied. Any party may by notice given in accordance with this Section 12.4 designate another address or Person for receipt of notices hereunder.

12.5 SEVERABILITY. Any term or provision of this Warrant which is invalid or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the terms and provisions of this Warrant or affecting the validity or enforceability of any of the terms or provisions of this Warrant in any other jurisdiction.

12.6 GOVERNING LAW. THIS WARRANT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE WITHOUT REGARD TO THE CONFLICTS OF LAW PRINCIPLES THEREOF.

12.7 NO RIGHTS OR LIABILITIES AS STOCKHOLDERS. Nothing contained in this Warrant shall be determined as conferring upon the Warrantholder any rights as a stockholder of the Company or as imposing any liabilities on the Warrantholder to purchase any securities whether such liabilities are asserted by the Company or by creditors or stockholders of the Company or otherwise.

12.8 AMENDMENTS AND WAIVERS. Except as otherwise provided herein, the provisions of this Warrant may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given unless consented to in writing by the Company and the Warrantholder.

[Remainder of this page intentionally left blank]

IN WITNESS WHEREOF, the Company has caused this Warrant to be signed by its duly authorized officer.

VAALCO ENERGY, INC.

By: /s/ W. Russell Scheirman

Name: W. Russell Scheirman
Title: President

Dated: June 10, 2002

EXHIBIT A

EXERCISE FORM

(To be executed upon exercise of this Warrant)

The undersigned hereby irrevocably elects to exercise the right, represented by this Warrant, to purchase [insert number] shares of Common Stock and [herewith tenders payment for such shares to the order of the Company in the amount of \$[insert number] [hereby exercises its Conversion Right] in accordance with the terms of this Warrant. The undersigned requests that a certificate for such [Warrant Shares] [that number of Warrant Shares to which the undersigned is entitled as calculated pursuant to Section 2.2] be registered in the name of the undersigned and that such certificates be delivered to the undersigned's address below.

The undersigned represents that it is acquiring such shares for its own account for investment and not with a view to or for sale in connection with any distribution thereof (subject, however, to any requirement of law that the disposition thereof shall at all times be within its control).

Dated: _____

Signature _____

(Print Name)

(Street Address)

(City) (State) (Zip Code)