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

FORM 10-KSB

(Mark One)

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

For the fiscal year ended December 31, 1997

OR

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

For the transition period from ______ to ______

COMMISSION FILE NUMBER 0-20928

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

Delaware	76-0274813
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

Issuer's telephone number: (713) 623-0801
Securities registered under Section 12(b) of the Exchange Act:

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

Securities registered under Section 12(g) of the Exchange Act:
Common Stock, $.10 par value
(Title of class)

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

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

The registrant's revenues for the fiscal year ended December 31, 1997 were $6,437,354.

The aggregate market value of the voting and non-voting common equity of the registrant held by non-affiliates as of March 23, 1998 was $20,955,283 based upon the closing price as of such date.

As of March 23, 1998, there were outstanding 15,566,527 shares of Common Stock, $.10 par value per share, of the registrant.

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

VAALCO ENERGY, INC.

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PART I

ITEM 1. BUSINESS

BACKGROUND

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

VAALCO was incorporated in Delaware in 1989. VAALCO's Philippine subsidiaries include Alcorn (Philippines) Inc. and Alcorn (Production) Philippines Inc. VAALCO's Gabon subsidiaries are VAALCO Gabon (Equata), Inc., VAALCO Gabon (Etame), Inc., VAALCO Production (Gabon), Inc. and VAALCO Energy (Gabon), Inc. VAALCO (USA), Inc. holds interests in certain properties in the United States.

RECENT DEVELOPMENTS

Hunt Transaction

In February 1998, the Company agreed to acquire from the 1818 Fund all of the outstanding capital stock of 1818 Corp. in exchange for 10,000 shares of New Preferred Stock. The assets of 1818 Corp. consist of a 7.5% limited partnership interest in Hunt, a partnership that explores for high risk, large reserve accumulations, generally targeting deposits which pre-drilling seismic and other data indicate to have potential in excess of 100 MMBOE. Hunt has entered into production sharing contracts and other arrangements which entitle it to explore for oil and gas, both onshore and offshore, in countries including Argentina, Canada, Ethiopia, Ghana, Niger and Peru. The general partner of Hunt is Hunt Overseas Operating Company ("HOOC"), a subsidiary of Hunt Oil Company. The closing of the Hunt transaction is subject, among other things, to the Company raising $5.0 million of additional capital through a private placement of Common Stock and the execution of certain agreements pertaining to the Paramount joint venture. There can be no assurance that the Company will successfully raise the new capital, execute the Paramount joint venture agreements, or that the Hunt transaction will close. If the Hunt transaction does close, it will be accounted for as a reverse acquisition, and 1818 Corp. will be the acquiring entity for accounting purposes.

Under the partnership agreement of Hunt, the Company will have an obligation to contribute an estimated $6.1 million to fund its share of the exploration costs of Hunt. In addition, if Hunt discovers oil or gas deposits, the Company will be required to contribute an additional $7.5 million to fund appraisal costs. The 1818 Fund has agreed that, immediately prior to the closing, 1818 Corp. will deposit cash in the amount of $13.6 million (or such lesser amount as is equal to 1818 Corp.'s unfunded capital commitment) with a commercial bank that will hold such cash as collateral for a letter of credit issued in favor of Hunt to secure the Company's

obligations to make future capital contributions. If Hunt does not call such capital contributions as provided in the partnership agreement of Hunt, the cash collateral will be released to the Company.

The 1818 Fund has agreed to acquire for cash an additional $5.0 million of common stock of VAALCO ("Common Stock") at a price per share equal to the lesser of $2.50 per share and the price paid by investors net of placement fees.

A minimum of $5.0 million of Common Stock must be privately placed with investors for the 1818 Fund to acquire the additional $5.0 million of Common Stock. These amounts will be used to fund the Company's capital expenditure program, including investments in the Paramount joint venture and possible future acquisitions, and for general corporate purposes. There can be no assurances that the private placement will be successfully completed.

If the Hunt transaction is closed, the holders of the New Preferred Stock will have the right to appoint three directors of the Company, voting separately as a class. In addition, the holders of the New Preferred Stock will have the right to vote as a class with the holders of Common Stock on all matters submitted to a vote of the holders of Common Stock on an "as converted basis." Following the Offering, the 1818 Fund will own Common Stock and New Preferred Stock which will in the aggregate represent approximately 60.2% of the outstanding voting power of the Company on an as converted basis (excluding options and warrants), and will therefore have the ability to control the vote on all matters submitted to a vote of the holders of the Common Stock, including the election of directors.

Paramount Agreement

In October 1997, the Company agreed to form a joint venture with Paramount Petroleum, Inc. ("Paramount") to conduct exploration activities primarily in the onshore Gulf Coast area, including Alabama, Mississippi and Louisiana, ("Paramount joint venture"). The agreement will entitle the Company to acquire, at its option, 25% of any prospect generated by the joint venture, on a non-promoted basis taking into account the Company's interest in the joint venture. The joint venture agreement will also provide for sharing of any revenues attributable to prospects generated by the joint venture and sold to others. The Company has committed to expend $3.0 million to fund overhead, leases, seismic and other amounts in connection with the joint venture, $0.7 million of which has been funded as of the date of this filing. The Company has agreed to post a letter of credit to secure such commitment. The closing of the Hunt transaction and the private placement are contingent upon the formation of the Paramount joint venture.

Sale of Gulf of Mexico Properties

During December 1997, the Company sold its interest in the High Island and West Cameron Blocks in the Gulf of Mexico for $506,000 and the assumption by the purchaser of $665,500 of abandonment costs. The Company recognized a $0.9 million gain in connection with such sale.

GENERAL

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

INTERNATIONAL

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

The Company owns interests in five production platforms and other infrastructure offshore of the Philippines in Service Contracts No. 14 and No. 6. In Gabon, the Company is an owner in two offshore blocks, the Equata Block and the Etame Block.

During 1997, an Australian oil company acquired 132,000 line kilometers of 3-D seismic data over Service Contracts No. 14 and No. 6 in the Philippines in exchange for a farm out of interests in the Service Contracts. The Company expects that the seismic data will be processed and interpreted in the first half of 1998. In Gabon, the Company farmed out an internally generated exploration prospect to Western Atlas Afrique, Ltd. ("Western Atlas") in exchange for an agreement by Western Atlas to conduct a 320 square kilometer seismic survey and to pay 80% of the costs of an initial exploration well (up to $4.7 million). In exchange, Western Atlas received a 65% working interest in the production sharing contract. The Company expects to begin drilling this well in April 1998.

DOMESTIC

The Company's domestic strategy is to build near-term cash flows to fund its international exploration activities through focused acquisition of domestic properties that have significant exploration potential, increasing production from existing fields with the application of the Company's technical and operating expertise and participating in exploration through farm out and other arrangements. Recognizing that international operations are subject to greater social, economic and political volatility, the Company seeks to build a stable domestic production and reserve base that will permit the Company to continue to participate in more high-risk international projects with greater reserve potential. The Company owns an interest in 8,000 acres onshore Texas and has interest in producing fields in the Gulf of Mexico. The Company sold interests in five platforms in High Island and West Cameron in the Gulf of Mexico on December 31, 1997.

CUSTOMERS

Substantially all of the Company's crude oil and natural gas is sold at the well head at posted or indexed prices under short term contracts, as is customary in the industry. For the years ended December 31, 1997 and 1996, one purchaser of the Company's crude oil accounted for essentially all of the Company's total crude oil sales. During 1997 a second purchaser accounted for in excess of 90 percent of the Company's domestic gas sales. The Company markets its crude oil share in the Philippines under an agreement with SeaOil Corporation, a local Philippines refiner ("SeaOil"). While the loss of this buyer might have a material effect on the Company in the near term, management believes that the Company would be able to obtain other customers for its crude oil.

EMPLOYEES

As of December 31, 1997, the Company had 28 full-time employees, 20 of which were located in the Philippines. The Company is not subject to any collective bargaining agreements and believes its relations with its employees are satisfactory.

COMPETITION

The oil and gas industry is highly competitive. Competition is particularly intense with respect to acquisitions of desirable oil and gas reserves. There is also competition for the acquisition of oil and gas leases suitable for exploration and the hiring of experienced personnel. Competition also exists with other industries in supplying the energy needs of consumers. In addition, the producing, processing and marketing of oil and gas is affected by a number of factors beyond the control of the Company, the effects of which cannot be accurately predicted.

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

RISK FACTORS

CHANGE OF CONTROL

If the Hunt transaction and the conditions to closing thereto are consummated, the 1818 Fund will own Common Stock and New Preferred Stock which will vote as a class with the Common Stock on an as converted basis, and which will in the aggregate represent approximately 60.2% of the outstanding voting power of the Company on an as converted basis (excluding options and warrants). In addition, the terms of the New Preferred Stock to be acquired by the 1818 Fund provide that while the New Preferred Stock is outstanding, the holders of New Preferred Stock voting together as a class will be entitled to elect three directors of the Company.

Accordingly, the 1818 Fund will be able to control all matters submitted to a vote of the stockholders of the Company, including the election of directors.

In connection with the Hunt transaction, the Company has agreed to make certain changes to its bylaws which will require that at least a majority of the directors constituting the entire board of directors, which majority must include at least one of the directors elected by the holders of New Preferred Stock, approve each of the following transactions effected by either the Company or, as applicable, any subsidiary of the Company: any issuance of or agreement to issue any equity securities, including securities convertible into or exchangeable for such equity securities (other than issuances pursuant to an employee benefit plan); the declaration of any dividend; the incurrence, assumption of or refinancing of indebtedness; the adoption of any employee stock option or similar plan; entering into employment or consulting agreements with annual compensation exceeding $100,000; any merger or consolidation; the sale, conveyance, exchange or transfer of the voting stock or all or substantially all of the assets; the sale or other disposition to another person, or purchase, lease or other acquisition from another person, of any material assets, rights or properties; certain expenditures in excess of $300,000; the formation of any entity that is not wholly-owned by the Company; material changes in accounting methods or policies; any amendment, modification or restatement of the certificate of incorporation or bylaws; the settlement of any claim or other action against the Company or subsidiary in an amount in excess of $50,000; approval or amendment of the annual operating budget; any other action which is not in the ordinary course of business; and the agreement to take any of the foregoing actions. Accordingly, none of the foregoing actions can be taken by the Company without the approval of at least one director designated by the holders of the New Preferred Stock.

VOLATILITY OF OIL AND GAS PRICES AND MARKETS

The Company's revenues, cash flow, profitability and future rate of growth are substantially dependent upon prevailing prices for oil and gas. The Company's ability to borrow funds and to obtain additional capital on attractive terms is also substantially dependent on oil and gas prices. The Company's production in the Philippines (representing substantially all of the Company's oil production since 1994) is from mature offshore fields with high production costs. The Company's margin on sales from these fields (the price received for oil less the production costs for the oil) is lower than the margin on oil production from many other areas. As a result, the profitability of the Company's production in the Philippines is affected more by changes in prices than production located in other areas. Historically, oil and gas prices and markets have been volatile and are likely to continue to be volatile in the future. Prices for oil and gas are subject to wide fluctuations in response to relatively minor changes in supply of and demand for oil and gas, market uncertainty and a variety of additional factors that are beyond the control of the Company. These factors include international political conditions, the domestic and foreign supply of oil and gas, the level of consumer demand, weather conditions, domestic and foreign governmental regulations, the price and availability of alternative fuels and overall economic conditions. In addition, various factors, including the availability and capacity of gas gathering systems and pipelines, the effect of federal, state and foreign regulation of production and transportation, general economic conditions, changes in supply due to drilling by other producers and changes in demand may adversely affect the Company's ability to market its oil and gas production. Any significant decline in the price of oil or gas would adversely affect the Company's revenues, operating income, cash flows and borrowing capacity and may require a

reduction in the carrying value of the Company's oil and gas properties and its planned level of capital expenditures.

The recent downturn in certain of the economies in Asia has resulted in a substantial oversupply of fuel oil in the area. The Company's Philippine production competes as an energy source with fuel oil, so the price received for the Company's production is being adversely affected by market instability and the current oversupply of fuel oil in the area. For example, average prices during January 1998 were $7.50 per Bbl, compared with $9.00 per Bbl in January 1997. Although the Company believes the oversupply of fuel oil will not be permanent, no assurances can be given as to the length of time that will be required to return the supplies of fuel oil to normal.

REPLACEMENT OF RESERVES

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

SUBSTANTIAL CAPITAL REQUIREMENTS

The Company makes, and will continue to make, substantial capital expenditures for the acquisition, exploitation, development, exploration and production of oil and gas reserves. Historically, the Company has financed these expenditures primarily with cash flow from operations, asset sales, private sales of equity, bank borrowings and purchase money debt. The Company believes that it will have sufficient capital to finance planned capital expenditures through 1998. If revenues decrease as a result of lower oil and gas prices, operating difficulties or declines in reserves, the Company may have limited ability to finance planned capital expenditures in the future. There can be no assurances that additional equity financing or cash generated by operations or borrowings will be available to meet these requirements.

The partnership agreement of Hunt obligates the Company to contribute, when requested by Hunt, up to $6.1 million to fund Hunt's exploration program. In addition, if Hunt discovers oil, the Company may be required to contribute an additional $7.5 million to fund the appraisal of

the discovery. The 1818 Fund has agreed that, immediately prior to the closing of the Hunt transaction, 1818 Corp. will have $13.6 million in cash (or such lesser amount as is equal to 1818 Corp.'s unfunded capital commitment), and will use such cash as collateral for a letter of credit in favor of Hunt to secure 1818 Corp.'s obligation to make capital contributions to Hunt. If Hunt does not call such capital contributions as provided in the partnership agreement of Hunt, the cash collateral will be released to the Company.

The Company has committed to invest $3.0 million in the Paramount joint venture, of which $0.7 million has already been funded as of the date of this filing. There can be no assurance that the Company will realize a return on this investment or that the Company's investment in the Paramount joint venture will be successful.

HISTORY OF LOSSES

The Company incurred net losses (after preferred dividends requirement) of $12.3 million, $8.2 million, $7.2 million and $0.6 million for each of the years ended December 31, 1993, 1994, 1995 and 1996, respectively. For the year ended December 31, 1997, the Company reported net income (after preferred dividends requirement and including a $4.2 million gain on sale of assets) of $2.3 million. No assurance can be made that the Company will operate profitably in the future. The likelihood of the Company's future profitability must be considered in light of the financial, business and operating risks, expenses, difficulties, and delays frequently encountered in connection with the oil and gas acquisition, exploration, development and production business in which the Company is engaged.

DRILLING RISKS

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

OPERATING HAZARDS AND UNINSURED RISKS

The oil and gas business involves a variety of operating risks, including fire, explosions, blow-outs, pipe failure, casing collapse, abnormally pressured formations and environmental hazards such as oil spills, gas leaks, ruptures and discharges of toxic gases, the occurrence of any of which could result in substantial losses to the Company due to injury and loss of life, severe damage to and destruction of property, natural resources and equipment, pollution and other environmental damage, clean-up responsibilities, regulatory investigation and penalties and suspension of operations. The Company's production facilities are also subject to hazards inherent in marine operations, such as capsizing, sinking, grounding, collision and damage from

severe weather conditions. The relatively deep offshore drilling conducted by the Company overseas involves increased drilling risks of high pressures and mechanical difficulties, including stuck pipe, collapsed casing and separated cable. The impact that any of these risks may have upon the Company is increased due to the low number of producing properties owned by the Company. The Company and operators of properties in which it has an interest maintain insurance against some, but not all, potential risks; however, there can be no assurance that such insurance will be adequate to cover any losses or exposure for liability. The occurrence of a significant unfavorable event not fully covered by insurance could have a material adverse effect on the Company's financial condition and results of operations. Furthermore, the Company cannot predict whether insurance will continue to be available at a reasonable cost or at all.

UNCERTAINTIES IN ESTIMATING RESERVES AND FUTURE NET CASH FLOWS

There are numerous uncertainties inherent in estimating quantities of proved oil and gas reserves, including many factors beyond the control of the Company. Reserve engineering is a subjective process of estimating the underground accumulations of oil and gas that cannot be measured in an exact manner. The estimates in this document are based on various assumptions required by the Commission, including unescalated prices and costs and capital expenditures, and, therefore, are inherently imprecise indications of future net revenues. Actual future production, revenues, taxes, operating expenses, development expenditures and quantities of recoverable oil and gas reserves may vary substantially from those assumed in the estimates. Any significant variance in these assumptions could materially affect the estimated quantity and value of reserves set forth in this document. In addition, the Company's reserves may be subject to downward or upward revision based upon production history, results of future development, availability of funds to acquire additional reserves, prevailing oil and gas prices and other factors. Moreover, the calculation of the estimated present value of the future net revenue using a 10% discount rate as required by the Commission is not necessarily the most appropriate discount factor based on interest rates in effect from time to time and risks associated with the Company's reserves or the oil and gas industry in general.

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

The estimated future net revenues attributable to the Company's net proved reserves are prepared in accordance with Commission guidelines, and are not intended to reflect the fair market value of the Company's reserves. In accordance with the rules of the Commission, the Company's reserve estimates are prepared using period end prices received for oil and gas. Future reductions in prices below those prevailing at year end 1997 would result in the estimated quantities and present values of the Company's reserves being reduced.

A substantial portion of the Company's proved reserves are or will be subject to service contracts, production sharing contracts and other arrangements. The quantity of oil and gas the Company will ultimately receive under these arrangements will differ based on numerous factors, including the price of oil and gas, production rates, production costs, cost recovery provisions

and local tax and royalty regimes. Changes in many of these factors do not affect estimates of U.S. reserves in the same way they affect estimates of proved reserves in foreign jurisdictions, or will have a different affect on reserves in foreign countries than in the United States. As a result, proved reserves in foreign jurisdictions may not be comparable to proved reserve estimates in the United States.

FOREIGN OPERATIONS

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

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

Certain of the Company's producing properties are located offshore Palawan Island in the Philippines, and, consequently, a portion of the Company's assets is subject to regulation by the government of the Philippines. Although there has been unrest and uncertainty in the Philippines, to date, the country's

Office of Energy Affairs has been largely unaffected by political changes. The Company has operated in the Philippines since 1985 and believes that it has good relations with the current Philippine government. However, there can be no assurance that present or future governmental regulation in the Philippines will not materially adversely affect the operations or cash flows of the Company.

All of the Company's current Philippine producing properties are located in fields covered under Service Contract No. 14. To obtain favorable tax treatment, at least 15 percent of Service Contract No. 14 must be owned by Philippine nationals. Residents of the Philippines currently own in excess of 15% of Blocks A, B, C and D of Service Contract 14, including 71% of Block C. The Company's ability to export oil produced in the Philippines is restricted by the terms of Service Contract No. 14. The Company currently sells its oil production within the Philippines and therefore may be exposed to foreign currency risk.

INVESTMENT IN HUNT

While there is no assurance that the Hunt transaction will close, upon consummation of the Hunt transaction, the Company will be a limited partner in Hunt. All decisions concerning the operations of Hunt will be made by the general partner without the consent or input of the limited partners. Accordingly, the Company will not be able to influence decisions with respect to operations of Hunt, including decisions regarding the purchase of concessions and other interests, exploration and development operations (including the location, testing, completing or plugging and abandoning of wells, as well as the gathering of seismic and other geophysical data), farm out and other participation agreements, the acquisition or sale of real and personal property, insurance coverage, bank and other financings and other matters significant to the operations of Hunt.

The exploration activity of Hunt is ongoing. To date, Hunt's exploration activities have not resulted in the discovery of any commercial oil or gas reserves. No assurance can be given that Hunt's activities will result in commercial production or that the Company will realize a return on its investment in Hunt. Hunt's operations are subject to risks applicable to the oil and gas industry in general as well as to risks inherent in foreign operations, and are subject to many of the risks disclosed herein under "Risk Factors" including, without limitation, "--Foreign Operations," "--Volatility of Oil and Gas Prices anD Markets," "--Replacement of Reserves," "--Drilling Risks," "--Operating Hazards and UninsurED Risks," "--Uncertainties in Estimating Reserves and Future Net Cash Flows," "--EnvironmentaL and Other Regulations" and "--Acquisition Risks."

ENVIRONMENTAL AND OTHER REGULATIONS

The Company's business is regulated by the laws and regulations of the United States, Philippines and Gabon. In addition, if the Hunt transaction is successfully closed, VAALCO will own a 7.5% limited partner interest in Hunt, which does business in and is subject to the laws and regulations of other foreign countries. These laws and governmental regulations, which cover matters including drilling operations, taxation and environmental protection, may be changed from time to time in response to economic or political conditions. See "--Foreign Operations."

The Company's domestic operations are subject to numerous laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. The Company's domestic operations could result in liability for personal injuries, property damage, oil spills, discharge of hazardous materials, remediation and clean-up costs and other environmental damages. In addition, the Company could be liable for environmental damages caused by previous property owners. As a result, substantial liabilities to third parties or governmental entities may be incurred, the payment of which could have a material adverse effect on the Company's financial condition, results of operations and liquidity. The Company maintains insurance coverage for its operations, including limited coverage for sudden environmental damages, but does not believe that insurance coverage for environmental damages that occur over time is available at a reasonable cost. Moreover, the Company does not believe that insurance coverage for the full potential liability that could be caused by sudden environmental damages is available at a reasonable cost. Accordingly, the Company may be subject to liability or may lose substantial portions of its properties in the event of certain environmental damages. The Company could incur substantial costs to comply with environmental laws and regulations.

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

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

The recent trend toward stricter standards in environmental legislation and regulation in the U.S. is likely to continue. For instance, legislation has been introduced in Congress that would reclassify certain exploration and production wastes as "hazardous wastes" which would make the reclassified wastes subject to much more stringent handling, disposal and clean-up requirements. If such legislation were enacted, it could have a significant impact on the operating costs of the Company, as well as the oil and gas industry in general. Initiatives to further regulate the disposal of oil and gas wastes are also pending in certain states, and these various initiatives could have a similar impact on the Company.

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

ACQUISITION RISKS

The Company intends to continue acquiring oil and gas properties. Although the Company performs a review of the acquired properties that it believes is consistent with industry practices, such reviews are inherently incomplete. It generally is not feasible to review in depth every individual property involved in each acquisition. Ordinarily, the Company will focus its due diligence efforts on the higher valued properties and will sample the remainder. However, even an in-depth review of all properties and records may not necessarily reveal existing or potential problems nor will it permit a buyer to become sufficiently familiar with the properties to assess fully their deficiencies and capabilities. Inspections may not be performed on every well, and structural or environmental problems, such as ground water contamination, are not necessarily observable even when an inspection is undertaken. The Company may be required to assume preclosing liabilities, including environmental liabilities, and may acquire interests in properties on an "as is" basis. There can be no assurance that the Company's acquisitions will be successful.

RELIANCE ON KEY PERSONNEL

The Company is highly dependent upon its executive officers and key employees, particularly Messrs. Gerry, Walston and Scheirman. Moreover, the Company's investment in the Paramount joint venture is highly dependent upon Robert Schneeflock. The unexpected loss of the services of any of these individuals could have a detrimental effect on the Company.

The Company has entered into employment agreements with Messrs. Gerry and Scheirman which will terminate in August 1998. The Company does not maintain key man life insurance on any of its employees.

FORWARD-LOOKING INFORMATION AND RISK FACTORS

Items 1, 2, 3 and 7 of this document include forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Although the Company believes the expectations reflected in such forward looking statements are based upon reasonable assumptions, the Company can give no assurance these expectations will be achieved. Important factors which could cause actual results to differ materially from the Company's expectations include general economic, business and market conditions, the volatility of the price of oil and gas, competition, development and operating costs and the factors that are disclosed in conjunction with the forward looking statements included herein.

ITEM 2. PROPERTIES

PHILIPPINES

The Company has an interest in two service contracts in the Philippines. Service Contract No. 14 covers 158,000 offshore acres and Service Contract No. 6 covers 131,000 offshore acres. In January 1996, the Company suspended production operations in the West Linapacan "A" Field due to a significant decline in oil production caused by increasing water intrusion. However, the Company continues to produce the Nido and Matinloc fields; with a total gross production for 1997 of approximately 835 BOPD.

PRODUCING FIELDS

Nido Field

This field is covered by Service Contract No. 14 and has four producing wells. These wells have been producing since 1979, and through the year ended

December 31, 1997 had produced an aggregate of approximately 17.0 MMBbls of oil. The field is produced using the cyclic method under which the field is shut in for a period of time (generally 60 days) and then opened up to produce (generally four to five days). Under this cyclical method, the four wells in the field produced at an equivalent rate of 417 BOPD during 1997. The Company has an approximate 34.1% working interest and an approximate 26.4% net revenue interest in the field, subject to proportionate reduction upon SOCDET's successful completion of its obligations under the farm out discussed below.

Matinloc Field

This field is located within the contract area covered by Service Contract No. 14 and has three producing wells. The field had produced an aggregate production of approximately 10.3 MMBbls from 1982 through 1991. Production was suspended from the field in 1991 until it was

reactivated in 1995. At December 31, 1997 the field had produced an aggregate of 10.6 MMBbls. During 1997, the field produced approximately 153 MBbls or 418 BOPD. The Company has an approximate 58.7% working interest and an approximate 43.3% net revenue interest in the field, subject to proportionate reduction upon SOCDET's successful completion of its obligations under the farm out discussed below.

During 1997, SOCDET, an Australian oil company, acquired 132,000 line kilometers of 3-D seismic data over Service Contracts No. 14 and No. 6 in exchange for a farm out of interests in the Service Contracts. Upon completion of the seismic shoot, SOCDET will earn a 35% interest in the Service Contracts. In addition, SOCDET has the option to drill two wells, one on each block, to earn an additional 25% interest in each Service Contract. The Company expects the seismic data to be processed and interpreted in the first half of 1998, and for exploration wells to be drilled in the second half of 1998 or early 1999. No significant capital expenditures are anticipated by the Company in 1998 for the Philippines operations.

NON-PRODUCING FIELDS

West Linapacan "A" Field

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

The field was placed on production in May of 1992. In January 1996, the Company suspended production operations in the field after total production of 8.8 million barrels due to high water production levels.

Galoc Field

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

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

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

GABON

Gabon is a former French colony and was a member of OPEC. Production from the country is approximately 300 MBbls/day of oil with Shell Gabon and Elf Gabon SA as the largest producers. The country has a population of approximately two million, making it relatively under-populated compared to its neighbors. For this reason, the standard of living is quite high relative to many West African nations, and the country is politically stable. The French Foreign Legion maintains a presence in the country due to the large quantities of minerals that France still imports from Gabon, notably uranium.

VAALCO has an interest in two offshore blocks in Gabon, the Etame Block and the Equata Block. Interests in these blocks were obtained pursuant to production sharing contracts providing for a three-year term which commenced in July 1995. VAALCO initially held a 51% interest in the production sharing contracts and is designated the operator of the blocks. As a result of the participation agreement discussed below, VAALCO currently owns a 17.9% interest in the production sharing contract covering Etame block.

Etame Block

The Etame Block is a 3,073 square kilometer block containing two former Gulf Oil Company discoveries, the North and South Tchibala discoveries. These discoveries consist of subsalt reservoirs that lie in approximately 250 feet of water depth, 20 miles offshore. In April 1997, the Company entered into a participation agreement with Western Atlas Afrique, Ltd. ("Western Atlas"), a subsidiary of Western Atlas International, Inc., to conduct a 320 square kilometer seismic survey at Western Atlas' sole cost and to pay a disproportionate 80% of the cost, up to $4.7 million, of the estimated $5.8 million (dry hole cost) commitment well. In return for these payments, Western Atlas earns a 65% interest in the production sharing contract. The Company and its partners will be responsible for 20% of the cost (35% over $4.7 million) of the commitment well. VAALCO's share of the dry hole cost of the commitment well is estimated to be $0.7 million. In June 1997, Western Atlas completed the above mentioned acquisition of seismic data over the property. This data has been processed, and the Company expects to begin drilling the commitment well in April 1998. The consortium of companies owning the Etame Block production sharing contract have the right to renew the production sharing contract for three additional years subject to compliance with the terms of the production sharing contract, including a commitment to drill two additional wells and to perform a 2-D seismic survey. The consortium has several large structures identified on the block in addition to the commitment well. It is anticipated that the consortium will renew the production sharing contract regardless of the outcome of the currently planned well.

Equata Block

The Equata Block is a 50 square kilometer development block over a discovery made in 1974. The discovery lies in 160 feet of water approximately 10 miles offshore at a subsurface depth of 3,000 feet. A 3-D seismic survey was shot over the discovery by Sun Oil Company in 1987. VAALCO and its partners are seeking a third party to drill two appraisal wells to prove the discovery's upside potential prior to committing to develop the discovery. If the discovery can be successfully farmed out under the requested terms, VAALCO would retain an approximate 20-25% interest in the development project. To date, VAALCO and its partners have not been successful in identifying a farm in candidate. The consortium of companies owning the Equata Block production sharing contract have the right to renew the production sharing contract for three additional years subject to compliance with the terms of the production sharing contract, including a commitment to drill two additional wells and to perform a 2-D seismic survey. There are currently no further commitments under the production sharing contract to the government on the block and given other opportunities, VAALCO does not anticipate attempting to appraise the block further or renew the contract without a farm in partner.

DOMESTIC PROPERTIES

Brazos County Prospects

In 1997, the Company acquired working interests in approximately 6,800 acres in Brazos County, Texas, where the Company intends to participate in the drilling of extended-reach horizontal wells in the underlying Buda and Georgetown formations. In January 1998, the Company participated for a 25% working interest in the re-entry of an existing well to the Buda formation on a 200-acre prospect in Brazos County. The well is currently suspended pending installation of a pumping unit. The Company has sufficient acreage for approximately 15 additional exploratory drilling prospects in both the Buda and Georgetown formations and has budgeted to drill four wells during 1998 for a total gross cost to drill and complete of $1.1 million per well. The Company expects to sell a portion of its working interests to industry partners so that it retains a 25-30% interest in the wells to be drilled. The Company expects to begin drilling the first horizontal exploratory well in the Georgetown formation in 1998.

Goliad County, Texas

VAALCO has acquired approximately 1,200 acres in two blocks, one located immediately east of the Goliad townsite in Goliad County, Texas, and the other located immediately west of the townsite. The acreage consists of approximately 70 leases and is located within an area of the Wilcox trend that has recently seen a considerable amount of leasing, 3-D seismic and drilling activity.

In January 1998, the Company entered into a farm out agreement with an industry partner over 1,000 acres of its Goliad acreage whereby it will recover its lease costs and assign a 75% working interest to its partner. The Company will retain certain overriding royalties and a 25% working interest in the acreage.

Other Domestic Properties

The Company also owns certain non-operated interests in the Vermilion and Ship Shoal areas of the Gulf of Mexico, which accounted for less than 5% of the Company's production during the year ended December 31, 1997. No significant capital expenditures are anticipated in 1998 for these properties.

AGGREGATE PRODUCTION

Additional production data (net to the Company) for all of the Company's operations for the years 1997 and 1996 are as follows:

COMPANY OWNED PRODUCTION

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,					
	1997			1996		
	BOE(1)	BBL	MCF	BOE(1)	BBL	MCF
<S>	<C>	<C>	<C>	<C>	<C>	
Average Daily Production (Oil in BOPD, gas in MCFD)	563	239	1,945	347	347	--
Average Sales Price ($/unit)	$ 12.93	$ 10.86	$ 2.41	$ 8.83	$ 8.83	--
Average Production Cost ($/unit)	$ 7.68	$ 8.59	$ 1.17	$ 7.81	$ 7.81	--

</TABLE>

(1) BOE is barrels of oil equivalent with 6 Mcf of gas equal to 1 Bbl of oil.

RESERVE INFORMATION

Reserve reports as of December 31, 1997 and 1996 have been opined on by Netherland Sewell & Associates, independent petroleum engineers.

<TABLE>
<CAPTION>

	As of December 31,	
	1997	1996
<S>	<C>	<C>
CRUDE OIL		
Proved Developed Reserves (MBbls)	1,535	215
Proved Undeveloped Reserves (MBbls)	--	--
Total Proved Reserves (MBbls)	1,535	215
GAS		
Proved Developed Reserves (MMcf)	--	1,094
Standardized measure of discounted future net cash flows at 10% (in thousands)	$ 2,749	$ 2,838

</TABLE>

The 1996 data relates to the Philippine properties and the Gulf of Mexico properties. The 1997 data relates only to the Philippines properties, as the Gulf of Mexico properties were sold December 31, 1997. The standardized measure of discounted cash flows does not include the costs of abandoning the Company's non-producing properties.

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

In accordance with the guidelines of the Commission, the Company's estimates of future net cash flow from the Company's properties and the present value thereof are made using oil and

natural gas contract prices in effect as of year end and are held constant throughout the life of the properties except where such guidelines permit alternate treatment, including the use of fixed and determinable contractual price escalations. The contract price as of December 31, 1996 was $11.00 per Bbl. for oil and $3.89 per Mcf for gas. The contract price as of December 31, 1997 was $10.00 per Bbl. of oil for the Philippine reserves. See "Financial Statements and Supplementary Data" for certain additional information concerning the proved reserves of the Company.

DRILLING HISTORY

The Company drilled or participated in the drilling of no wells in the periods ended December 31, 1997 and 1996. The Company had no wells in progress at December 31, 1997.

ACREAGE AND PRODUCTIVE WELLS

Below is the total acreage under lease and the total number of productive oil and gas wells of the Company as of December 31, 1997:

<TABLE>
<CAPTION>

	UNITED STATES		INTERNATIONAL	
	GROSS	NET(1)	GROSS	NET(1)
	(In thousands)			
<S>	<C>	<C>	<C>	<C>
Developed acreage..................	13.3	2.5	16.0	4.6
Undeveloped acreage................	8.0	7.6	1,069.8	266.2
Productive gas wells...............	2	0.1	--	--
Productive oil wells...............	5	0.3	7	3.1

</TABLE>

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

OFFICE SPACE

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

ITEM 3. LEGAL PROCEEDINGS

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

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

None.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

GENERAL

The Company's Common Stock trades on the OTC Bulletin Board. The following table sets forth the range of high and low sales prices of the Common Stock for the periods indicated. The prices represent adjusted prices between dealers, do not include retail markups, markdowns or commissions and do not necessarily represent actual transactions. As of December 31, 1997 there were approximately 90 holders of record of the Company's Common Stock.

PERIOD	HIGH	LOW
1996:		
First Quarter................................	$ 1.31	$ 0.13
Second Quarter...............................	1.00	0.31

Third Quarter...............................	0.44	0.25
Fourth Quarter..............................	0.44	0.16
1997:		
First Quarter...............................	$ 0.72	$ 0.33
Second Quarter..............................	1.06	0.63
Third Quarter...............................	3.56	1.00
Fourth Quarter..............................	2.78	1.50
1998:		
First Quarter (through March 23, 1998).......	$ 3.13	$ 1.81

On March 23, 1998, the last reported sale price of the Common Stock on the OTC Bulletin Board was $2.50 per share.

DIVIDENDS

The Company has not paid cash dividends and does not anticipate paying cash dividends on the Common Stock in the foreseeable future. The Company presently intends to retain its funds for operation and expansion of its business. If the Hunt transaction closes, the declaration and payment by the Company of any dividends on its Common Stock in the future and the amount thereof will depend upon the Company's operating results, financial condition, cash requirements, future prospects and other factors deemed relevant by the Company's Board of Directors. The declaration and payment of dividends on the Common Stock will be subject to approval of a majority of the Board of Directors, including, if the Hunt transaction closes, at least one director designated by the holders of the New Preferred Stock.

The 10% Cumulative Series A Preferred Stock ("Preferred Stock") accrued a cumulative dividend of 10% per annum (an aggregate of $225,000 per year), payable prior to any dividends on the Common Stock. The Company declared dividends of $225,000 and $56,500 on the Preferred Stock for 1996 and 1997 respectively. These dividends were paid with Common Stock in July 1997. The Preferred Stock and all accrued but unpaid dividends were retired in July 1997 through the issuance of an aggregate of 2,740,663 shares of Common Stock.

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

CAPITAL RESOURCES AND LIQUIDITY

Historically, the Company's primary source of capital resources has been from cash flows from operations, assets sales, private sales of equity, bank borrowings and purchase money debt. During 1994 and 1995, the Company's primary source of cash flow was sales of production from the West Linapacan "A" Field. In 1996 and 1997, cash flow was derived predominantly from asset sales, including the sale of marketable securities, and the private placement of Common Stock. During 1997, the Company sold marketable securities of a subsidiary for proceeds of $3.4 million and sold the balance of its assets in India for a gain of $2.5 million. Also during 1997, the Company redeemed all of the issued and outstanding shares of its Preferred Stock by issuing an aggregate of 2,740,663 shares of Common Stock to the holders of such preferred stock in satisfaction of the redemption price and payment of accrued and unpaid dividends. The Company also issued additional shares of Common Stock in satisfaction of certain consulting agreements. In connection with the redemption of the Preferred Stock in 1997, the Company also issued 3.5 million shares of Common Stock in a private placement for net proceeds of $3.2 million. In September 1997, the Company issued 100,000 shares of Common Stock as payment for certain lease acquisition costs associated with interests acquired in Goliad County, Texas in 1996. The Company currently has no outstanding debt.

The Company's primary uses of capital have been to fund acquisitions and to fund its exploration and development operations. The Company's expenditures for exploration and development were $0.9 million in 1997 and 1996, respectively.

The partnership agreement of Hunt obligates the Company to contribute, when requested by Hunt, up to $6.1 million to fund Hunt's exploration program. In addition, if Hunt discovers oil, the Company may be required to contribute an additional $7.5 million to fund the appraisal of the discovery. The 1818 Fund has agreed that 1818 Oil Corp. will immediately prior to the closing, deposit cash in the amount of $13.6 million (or such lesser amount as is required to fund the ongoing commitments to Hunt) with a commercial bank. The cash will be pledged as cash collateral to secure a letter of credit payable to Hunt for cash calls associated with the partnership. If Hunt does not call such capital contributions as provided in the partnership agreement of Hunt, the cash collateral will be released to the Company.

The Company has committed to invest $3.0 million in the Paramount joint venture, of which $0.7 million has already been funded as of the date of this filing. There can be no assurance that the Company will realize a return on this investment or that the Company's investment in the Paramount joint venture will be successful.

The 1818 Fund has agreed to acquire for cash an additional $5.0 million of common stock of VAALCO ("Common Stock") at a price per share equal to the lesser of $2.50 per share and the price paid by investors net of placement fees. A minimum of $5.0 million of Common Stock must be privately placed with investors for the 1818 Fund to acquire the additional $5.0 million of Common Stock. These amounts will be used to fund the Company's capital expenditure program, including investments in the Paramount joint venture and possible future acquisitions, and for general corporate purposes. There can be no assurances that the private placement will be successfully completed.

Substantially all of the Company's crude oil and natural gas is sold at the well head at posted or index prices under short term contracts, as is customary in the industry. For the years ended December 31, 1997 and 1996, one purchaser of the Company's crude oil accounted for essentially all of the Company's total crude oil sales. During 1997, a second purchaser accounted for in excess of 90 percent of the Company's domestic gas sales. The Company markets its crude oil share under an agreement with SeaOil, a local Philippines refiner. While the loss of this buyer might have a material effect on the Company in the near term, management believes that the Company would be able to obtain other customers for its crude oil.

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

During 1998, if the Hunt transaction closes, the Company anticipates that it will make capital expenditures on oil and gas properties (other than through Hunt) of approximately $8.0 million, including a contribution of $2.3 million to the Paramount joint venture (net of $0.7 million already funded) and for exploration activities in Brazos and Goliad counties, but excluding potential acquisitions. The Company believes that if the Hunt transaction closes, the net proceeds of the private placement and the 1818 Fund Investment, together with funding under the letter of credit facility to Hunt, will be sufficient to fund the Company's capital budget through 1998.

The Company does not expect that the cost of converting its computer systems to year 2000 compliance will be material to its financial condition. The Company believes that it will be able to achieve year 2000 compliance by the end of 1999, and does not currently anticipate any disruption in its operations as the result of any failure by the Company to be in compliance. The Company is currently in the process of determining if its' customers and suppliers are year 2000 compliant.

RESULTS OF OPERATIONS

The Company's results of operations are dependent upon the difference between prices received for its oil and gas production and the costs to find and produce such oil and gas. Oil and gas prices have been and are expected in the future to be volatile and subject to fluctuations based on a number of factors beyond the control of the Company. Recent events in Asia have created reduced demands for oil products in the region, which has substantially reduced the price

the Company receives for its Philippines production relative to world oil prices, which are also substantially below prices in 1997. Although the Company expects the supply and demand imbalances to correct themselves over time, no assurances can be made as to the time required for such imbalances to correct themselves. In addition, the Company's production in the Philippines (representing substantially all of the Company's oil production since 1994) is from mature offshore fields with high production costs. The Company's margin on sales from these fields (the price received for oil less the production costs for the oil) is lower than the margin on oil production from many other areas. As a result, the profitability of the Company's production in the Philippines is affected more by changes in oil prices than production located in other areas. See "Risk Factors--Volatility of Oil and Gas Prices and Markets."

The Company's results of operations are also affected by currency exchange rates. As of January 1, 1998, the Company and Seaoil, the purchaser of the Company's Philippines production, have agreed that 20% of the price of oil paid by Seaoil to the Company will be paid in Philippine pesos at the prevailing rate, up to 40 pesos to the dollar. A decrease in the exchange rate of pesos to the dollar will have the effect of reducing the price received for oil (in U.S. dollars). This reduction will be partially offset because certain operating costs paid by the Company and Seaoil are paid in Philippine pesos.

A substantial portion of the Company's oil production is located offshore of the Philippines. Since 1996, the Company has produced into barges, which transport the oil to market. Due to weather and other factors, the Company's production is generally highest during the first and fourth quarters of the year. From 1994 to 1996, the Company stored its Philippines production in storage vessels, and sold the production approximately four times a year. The Company deferred operating expenses in the Philippines until production was sold, and recognized its revenues and operating expenses when the oil was sold. As a result, a portion of costs and revenues from production during one year is not recognized until the next year. The Company sold approximately 108 MBbls of oil in January 1996, and recognized $1.8 million in revenues and $1.5 million in operating costs during 1996 that reflected production in 1995.

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

YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996

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

CASH FLOWS

Net cash used in operating activities for 1997 was $0.9 million, as compared to net cash used in operating activities of $1.7 million in 1996.

Net cash provided by investing activities for 1997 was $3.7 million, as compared to net cash provided by investing activities of $1.1 million in 1996. Both amounts reflect cash received from the sale of marketable securities and the sale of assets in India.

Net cash used in financing activities for 1997 was $0.5 million, as compared to net cash provided by financing activities of $0.9 million in 1996. The 1997 amount contains proceeds from the issuance of Common Stock, offset by debt repayments. The 1996 amount reflects proceeds from a non-recourse loan received in conjunction with the sale of VAALCO Energy (India), Inc., and from a loan to purchase certain properties in the Gulf of Mexico. These amounts are partially offset by the payment of a portion of the Company's debt obligations.

REVENUES

Total oil and gas sales for 1997 were $2.3 million, a decrease of $0.5 million, or 17%, as compared to $2.7 million for 1996. The 1997 revenues include revenues relating to the Philippines as well as oil and gas revenues relating to the Company's Gulf of Mexico operations. The 1996 revenues include $1.8 million from oil produced in 1995 but sold in 1996. The Company continues to produce the Nido and Matinloc fields at approximately 835 BOPD.

The gain on sale of assets of $4.2 million, recognized in 1997, was associated with the sale of the Company's interest in several blocks in India, the sale of an investment in a Philippines company and the sale of the Gulf of Mexico properties. The 1996 gain on sale of assets of $1.0 million was from the sale of certain interests in India.

OPERATING COSTS AND EXPENSES

Production expenses for 1997 were $1.4 million, a decrease of $0.3 million, or 18%, as compared to $1.7 million for 1996. The decrease is primarily due to declining operating costs in 1997 as a result of the suspension of production at the West Linapacan "A" Field in 1996.

Exploration costs for 1997 were $0.05 million, a decrease of $0.2 million as compared to $0.3 million for the same period in 1996. The decrease is primarily due to costs incurred in 1996 associated with the Company's Gabon project.

Depreciation, depletion and amortization of properties for 1997 was $0.5 million, a decrease of $0.1 million, or 20%, as compared to $0.6 million in 1996. The 1996 amount includes an adjustment for depletion costs that were capitalized in crude oil inventory at December 31, 1995. The 1997 depletion costs were primarily associated with the Company's Gulf of Mexico production, as the properties in the Philippines have been fully depleted.

General and administrative expenses for 1997 were $1.8 million, a decrease of $0.5 million, or 20%, as compared to $2.3 million for 1996. The decrease is primarily due to reduced overhead costs in the Philippines.

OPERATING INCOME

Operating income for 1997 was $2.7 million, an increase of $3.8 million as compared to a $1.1 million operating loss for 1996. The above mentioned decreases in operating expenses, depreciation, depletion and amortization of properties and general and administrative expenses, coupled with the gain on sales of certain assets by the Company were the primary reason for gain in operating income.

OTHER INCOME (EXPENSE)

Interest expense and financing charges for 1997 were $0.2 million, a decrease of $0.1 million, or 39%, as compared to $0.3 million in 1996. This was primarily due to the repayment of debt in 1997.

Other, net decreased $1.0 million in 1997 as compared to 1996. This was primarily due to the gain on the sale of certain securities in 1996.

NET INCOME

Net income attributable to common stockholders for 1997 was $2.3 million, an increase of $2.9 million as compared to net loss of $0.6 million in 1996. The 1997 net income was the result of lower operating costs and general and administrative expenses, coupled with the gain on sales of certain assets by the Company.

ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated balance sheets of VAALCO Energy, Inc. and its subsidiaries ("VAALCO") as of December 31, 1997 and 1996, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the years then ended. These financial statements are the responsibility of VAALCO's management. Our responsibility is to express an opinion on the financial statements based on our audits.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of VAALCO at December 31, 1997 and 1996, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

Deloitte & Touche LLP
Houston, Texas
March 26, 1998

VAALCO ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS OF DOLLARS, EXCEPT PAR VALUE AMOUNTS)

<TABLE>
<CAPTION>

	December 31,	
	1997	1996
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	3,379	$ 1,055
Advances-related party	--	1,916
Marketable securities-related party	--	777
Receivables:		
Trade	1,527	103
Accounts with partners	--	190
Other	655	1,177
Materials and supplies, net of allowance for inventory obsolescence of $ 4 and $9 at 1997 and 1996, respectively	361	387
Prepaid expenses and other	6	9

Total current assets	5,928	5,614
PROPERTY AND EQUIPMENT-SUCCESSFUL EFFORTS METHOD		
Wells, platforms and other production facilities	46,977	46,866
Undeveloped acreage	867	808
Equipment and other	242	342
	48,086	48,016
Accumulated depreciation, depletion and amortization	(46,330)	(46,383)
Net property and equipment	1,756	1,633
OTHER ASSETS:		
Other long-term assets	129	119
Advances-related party	42	--
Other investments	300	--
Funds in escrow	412	370
TOTAL	8,567	$ 7,736
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	2,346	$ 1,862
Accounts with partners	566	--
Accrued liabilities	130	1,280
Deferred income tax	86	--
Current portion of debt obligations	--	3,918
Total current liabilities	3,128	7,060
FUTURE ABANDONMENT COSTS	4,277	4,942
OTHER LONG-TERM LIABILITIES	--	1,000
Total liabilities	7,405	13,002
COMMITMENTS AND CONTINGENCIES (Note 9)		
STOCKHOLDERS' EQUITY (DEFICIT):		
Preferred stock, $25 par value, 10% cumulative dividend, 500,000 authorized shares; 0 and 90,000 shares issued and outstanding in 1997 and 1996, respectively	--	2,250
Common stock, $.10 par value, 50,000,000 and 15,000,000 authorized shares; 15,571,922 and 8,870,864 shares issued in 1997 and 1996 respectively, of which, 5,395 are in the treasury in 1997 and 1996	1,557	887
Additional paid-in capital	16,905	11,401
Accumulated deficit	(17,287)	(19,707)
Net unrealized loss on noncurrent marketable securities	--	(84)
Less treasury stock, at cost	(13)	(13)
Total stockholders' equity (deficit)	1,162	(5,266)
TOTAL	8,567	$ 7,736

</TABLE>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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

	Year Ended December 31,	
	1997	1996
REVENUES:		

Oil and gas sales	$ 2,273	$ 2,732
Gain on sale of assets	4,164	1,030
Total revenues	6,437	3,762
OPERATING COSTS AND EXPENSES:		
Production expenses	1,426	1,735
Exploration costs	46	268
Depreciation, depletion and amortization	493	614
General and administrative expenses	1,821	2,276
Total operating costs	3,786	4,893
OPERATING INCOME (LOSS)	2,651	(1,131)
OTHER INCOME (EXPENSE):		
Interest income	85	132
Interest expense and financing charges	(175)	(285)
Other, net	(99)	925
Total other income (expense)	(189)	772
INCOME (LOSS) BEFORE TAXES	2,462	(359)
Income expense	(126)	--
NET INCOME (LOSS)	2,336	(359)
Preferred dividends	(56)	(225)
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ 2,280	$ (584)
BASIC INCOME (LOSS) PER COMMON SHARE	$ 0.19	$ (0.07)
DILUTED INCOME (LOSS) PER COMMON SHARE	$ 0.18	$ (0.07)
BASIC WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	11,839,423	8,865,469
DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	12,890,947	8,902,218

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

VAALCO ENERGY, INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1997 AND 1996
(IN THOUSANDS OF DOLLARS, EXCEPT SHARE DATA)

<TABLE>
<CAPTION>

	Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Unrealized Loss on Noncurrent Marketable	Treasury	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Capital	Deficit	Securities	Stock	(Deficit)
<S>	<C>	<C>	<C>		<C>	<C>	<C>	<C>	<C> <C>
Balance at January 1, 1996	90,000	2,250	8,865,469	887	11,401	(19,123)	(278)	(13)	(4,876)
Preferred Dividends	--	--	--	--	--	(225)	--	--	(225)
Net Loss	--	--	--	--	--	(359)	--	--	(359)
Unrealized loss on noncurrent Marketable securities	--	--	--	--	--	--	194	--	194

Balance at December 31, 1996	90,000	2,250	8,865,469	887	11,401	(19,707)	(84)	(13)	(5,266)
Preferred Dividends	--	--	--	--	--	(56)	--	--	(56)
Net Income	--	--	--	--	--	2,336	--	--	2,336
Unrealized loss on noncurrent Marketable securities	--	--	--	--	--	--	84	--	84
Retirement of Preferred Stock	(90,000)	(2,250)	2,740,663	1,976	--	--	--	--	
Issuance of Common Stock	--	--	3,960,395	396	3,528	--	--	--	3,924
Disposition of Subsidiary	--	--	--	--	--	140	--	--	140
Balance at December 31, 1997	--	--	15,566,52	$16,905	(17,287)	--	(13)	1,162	

</TABLE>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Year Ended December 31,	
	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 2,336	$ (359)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation, depletion and amortization	493	614
Provision for losses on accounts receivable	(318)	--
Provision for deferred income taxes	86	
Exploration costs	46	268
Gain on sale of assets	(4,164)	(1,030)
Change in assets and liabilities that provided (used) cash:		
Funds in escrow	(42)	(370)
Accounts with partners	251	(1,442)
Trade receivables	(1,424)	(103)
Other receivables	522	(227)
Crude oil inventory	--	980
Materials and supplies	(76)	194
Prepaid expenses and other	3	201
Accounts payable	1,631	(365)
Accrued liabilities	(331)	(69)
Other	84	--
Net cash used in operating activities	(903)	(1,708)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Exploration costs	(46)	(268)
Additions to property and equipment	(995)	(588)
Proceeds from sale of assets	5,178	1,825
Other (net)	(440)	169
Net cash provided by investing activities	3,697	1,138
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	--	1,618
Repayments of debt obligations	(4,919)	(700)
Advances from related parties (net)	1,231	6
Proceeds from the issuance of common stock	3,218	--
Net cash (used in) provided by financing activities	(470)	924
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,324	354
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,055	701
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 3,379	$ 1,055

	1997	1996
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Net cash paid for interest	$ 290	$ 184
Depletion costs capitalized in crude oil inventory	$--	$ 531
Non-Cash items:		
Redemption of 90,000 shares of $25 par value preferred stock by issuance of 2.25 million common shares	$(2,250)	$ --
Issuance of 490,663 common shares for unpaid dividends	$ (491)	$ --
Issuance of 355,000 common shares for accrued liabilities	$ (355)	$ --
Issuance of 100,000 common shares for lease acquisition costs	$ (100)	$ --

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

VAALCO ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1997 AND 1996 (in thousands of dollars, unless otherwise indicated)

1. COMPANY DEVELOPMENTS

VAALCO Energy, Inc. ("VAALCO" or the "Company") explores for, develops and produces crude oil and natural gas through certain subsidiaries. Historically, the Company's primary source of capital resources has been from its production operations in the Philippines, assets sales and the issuance of debt.

VAALCO owns producing properties and conducts exploration activities internationally in the Philippines and domestically in the Texas Gulf Coast area and the Gulf of Mexico, and has recently begun international exploration activities in Gabon in West Africa. In October, 1997 the Company entered into an agreement with Paramount Petroleum, Inc. ("Paramount"), a corporation owned by Robert Schneeflock, to jointly engage in the exploration of oil and gas properties in the United States, primarily in the onshore Gulf Coast area, including Alabama, Mississippi and Louisiana. On December 31, 1997, the Company sold substantially all of its reserves in the Gulf of Mexico. In February 1998, in principal and subject to closing, VAALCO agreed to acquire a 7.5% interest in Hunt Overseas Exploration Company, L.L.P., which has exploration prospects in a number of international areas.

2. ORGANIZATION

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CASH AND CASH EQUIVALENTS - For purposes of the consolidated statement of cash flows, the Company and its subsidiaries consider all highly liquid debt instruments

purchased with an original maturity of three months or less to be cash equivalents. For the years ended December 31, 1997 and 1996, no payments were made for income taxes, and cash paid for interest was $290 and $184, respectively.

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

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

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

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

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

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

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

Office and miscellaneous equipment.................. 3 - 5 years

Leasehold improvements.............................8 - 12 years

In connection with the annual estimate of the Company's oil and gas reserves for the fiscal years ended December 31, 1997 and 1996, the Company's independent petroleum engineers estimated proved oil reserves at December 31, 1997 and 1996 to be 1.5 million and 0.2 million barrels, of which 1.5 million and 0.2 million are classified as proved developed, net to the Company, respectively. Proved gas reserves were estimated to be 1,094 MMcf at December 1996. The Company had no gas reserves at December 31, 1997. The proved developed reserves for 1996 relate to the Company's Philippine operations and to the interests in the Gulf of Mexico. The 1997 proved developed reserves relate to the Company's Philippine operations.

MARKETABLE SECURITIES - All of the Company's marketable securities are classified as "available for sale" and accordingly, are reflected in the Consolidated Balance Sheets at fair market value, with the aggregate unrealized loss included in shareholders' equity. Cost for determining gains and losses on sales of marketable securities is determined on the FIFO method. Marketable securities consisted of the following:

<TABLE>
<CAPTION>

	December 31, 1996				
			Fair Market	Gross Unrealized Holding	
	Shares	Cost	Value	Gains	Losses
<S>	<C>	<C>	<C>	<C>	<C>
Common stocks:					

APMC	2,377,460,000	$ 861	$ 777	$ --	$ 84

</TABLE>

In February 1997, the Company sold all of its APMC stock. The Company owned no marketable securities as of December 31, 1997.

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

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

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

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

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

CONCENTRATIONS OF CREDIT RISK - The Company's interests were located overseas in certain offshore areas of the Philippines and Gabon. In December 1996, the Company acquired its first domestic producing properties consisting of interests in eight platforms in the federal waters of the offshore Gulf of Mexico. Interests in five of these platforms were sold December 31, 1997.

Substantially all of the Company's crude oil and natural gas is sold at the well head at posted or index prices under short term contracts, as is customary in the industry. For the years ended December 31, 1997 and 1996, one purchaser of the Company's crude oil accounted for essentially all of the Company's total crude oil sales. During 1997, a second purchaser accounted for in excess of 90 percent of the Company's domestic gas sales. The Company markets its crude oil share under an agreement with SeaOil, a local Philippines refiner. While the loss of this buyer might have a material effect on the Company in the near term, management believes that the Company would be able to obtain other customers for its crude oil.

USE OF ESTIMATES IN FINANCIAL STATEMENT PREPARATION - The preparation of financial statements in conformity with generally accepted accounting principles requires estimates and assumptions that affect the reported amounts of assets and liabilities as well as certain disclosures. The Company's financial statements include amounts that are based on management's best estimates and judgments. Actual results could differ from those estimates.

RECLASSIFICATIONS - Certain amounts from 1996 have been reclassified to conform to the 1997 presentation.

4. ACCRUED LIABILITIES

	December 31, 1997	December 31, 1996
Interest	$ --	$ 115
Other	130	1,165
	$ 130	$ 1,280

5. DEBT OBLIGATIONS AND FINANCING ARRANGEMENTS

	December 31,	
	1997	1996
Note payable - Bank	$ ---	$3,300
Note payable - Other	---	618
Less current portion	3 ---	(3,918)
Long-term portion	$ ---	$ ---

The Company entered into a credit agreement on June 23, 1993 to borrow $6 million, at an interest rate of LIBOR plus 2%, from a European institutional lender. At December 31, 1996, $3.3 million was outstanding. The loan was paid in full during 1997.

In December 1996, the Company issued $0.6 in debt associated with the acquisition of certain properties in the Gulf of Mexico. The loan was paid in full during 1997.

6. STOCKHOLDERS' EQUITY (DEFICIT)

The Company had the right to redeem any or all of its outstanding shares of Preferred Stock at any time for $25 per share plus accrued unpaid dividends. In July 1997, the Company redeemed all of the issued and outstanding shares of its 10% Cumulative Series A Preferred Stock by issuing an aggregate of 2,740,663 shares of Common Stock to the holders of such preferred stock in satisfaction of the redemption price and payment of accrued and unpaid dividends.

An officer and director of the Company was granted options to purchase 75,000 shares of Common Stock of the Company, and was also granted 75,000 stock appreciation rights ("SARs"), all at an exercise price of $10.25 per share. One-third of such options and SAR's vest at the end of each of the three years of the contract term, and are exercisable for five years from the date of vesting. As of December 31, 1997, the options and SAR's were completely vested, and none of the options and SAR's had been exercised. In 1996 additional options were granted to this officer and director for 1,000,000 shares of the Common Stock of

the Company at exercise prices of $0.375 per share for 400,000 shares, $0.50 for 300,000 shares and $1.00 for 300,000 shares. The options vest over a term of three years and may be exercised for five years from the vesting date. As of December 31, 1997, the officer and director had vested interests in 270,000 shares at $0.375 per share, 150,000 shares at $0.50 per share and 100,000 shares at $1.00 per share. None of the options had been exercised as of December 31, 1997.

Another officer of the Company has been granted warrants to purchase shares of the Company's Common Stock. The warrants are for a term of five years and will consist of the right to purchase 250,000 shares of Common Stock at an exercise price of $0.50 per share; 250,000 shares of Common Stock at an exercise price of $2.50 per share; 250,000 shares of Common Stock at an exercise price of $5.00 per share; and 250,000 shares of Common Stock at an exercise price of $7.50 per share. The warrants were completely vested at December 31, 1997. None of the warrants had been exercised as of December 31, 1997.

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

An investment banking firm was granted 345,325 warrants to purchase the Company's Common Stock on July 31, 1997 in connection with the private placement of 3.5 million shares of Common Stock. The warrants have a term of five years from the date of issuance and consist of the right to purchase shares at $1.00 per share. None of the warrants had been exercised as of December 31, 1997.

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

<TABLE>
<CAPTION>

	Vested Options/ Warrants Exercisable	Shares Under Option	Weighted Average Exercise Price

<S>	<C>	<C>	<C>
Balance, December 31, 1995	450,000	475,000	$4.73
Granted	1,225,000	2,000,000	2.24
Exercised	--	--	--
Forfeited	--	--	--
Balance, December 31, 1996	1,675,000	2,475,000	2.73
Granted	1,165,325	1,345,325	0.72
Exercised	--	--	--
Forfeited	400,000	400,000	3.75
Balance, December 31, 1997	2,440,325	3,420,325	1.82

</TABLE>

The following table summarizes information about stock options outstanding as of December 31, 1997:

<TABLE>
<CAPTION>

	Options Outstanding				Options Exercisable	
	Range of Exercise Prices	Number Outstanding At 12/31/97	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable At 12/31/97	Weighted-Average Exercise Price
<S>	<C> <C>	<C>	<C>	<C>	<C>	<C>
	$ 0.375 to 1.00	2,595,325	4.66 years	$ 0.65	1,615,325	$ 0.66
	1.01 to 2.50	250,000	3.75 years	2.50	250,000	2.50
	2.51 to 5.00	250,000	3.75 years	5.00	250,000	5.00
	5.01 to 10.25	325,000	3.38 years	8.13	325,000	8.13
	$ 0.375 to 10.25	3,420,325	4.40 years	$ 1.82	2,440,325	$ 2.29

</TABLE>

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123) encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value as determined by generally recognized option pricing models such as the Black-Scholes model or the binomial model. Because of the inexact and subjective nature of deriving non-freely traded employee stock option values using these methods, the Company has adopted the disclosure-only provisions of SFAS No. 123 and continues to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant date for awards consistent with the provisions of SFAS No. 123, the Company's net income and diluted income per share would have been reduced to the pro forma amounts indicated below.

	1997
Net income	
As reported	$ 2,280
Pro forma	2,263
Earnings per share	
Basic as reported	0.19
Diluted as reported	0.18
Pro forma basic	0.19
Pro forma diluted	0.18

The provision of SFAS No. 123 had no material effect for 1996.

The pro forma fair value of options at date of grant was estimated using the Black-Scholes model and the weighted average assumptions are as follows:

	1997	1996
Expected life (years)	5	5
Interest rate	6.50%	6.50%
Volatility	159%	68%
Dividend yield	0%	0%
Weighted average fair value at		

grant date	$ 0.58	$ 0.12

During 1997, the Company implemented Statement of Financial Accounting Standards No. 128 - "Earnings per Share," ("SFAS No. 128"), which establishes the requirements for presenting earnings per share ("EPS"). SFAS No. 128 requires the presentations of "basic" and "diluted" EPS on the face of the income statement. The following reconciliation is presented as a reconciliation of the numerators and denominators of basic and diluted earnings per share computations.

<TABLE>
<CAPTION>

	For the Year Ended December 31, 1997		
	Per-Share Amount	Income (Numerator)	Shares (Denominator)
<S>	<C>	<C>	<C>
BASIC EPS			
Income attributable to common shareholders	0.19	2,280	11,839
EFFECT OF DILUTED SECURITIES			
Common Stock options	(0.01)	--	1,052
DILUTED EPS			
Income attributable to common shareholders	0.18	2,280	12,891

	For the Year Ended December 31, 1996		
	Per-Share Amount	Income (Numerator)	Shares (Denominator)
BASIC EPS			
Income attributable to common shareholders	(0.07)	(584)	8,865
EFFECT OF DILUTED SECURITIES			
Common Stock options	--	--	37
DILUTED EPS			
Income attributable to common shareholders	(0.07)	(584)	8,902

</TABLE>

Options excluded from the above calculation, as they are anti-dilutive, are 800 and 1,600 for 1997 and 1996, respectively.

7. INCOME TAXES

The Company and its domestic subsidiaries file a consolidated United States income tax return. Certain subsidiaries' operations are also subject to Philippine income taxes. The Company incurred certain deferred tax liabilities in the Philippines associated with foreign exchange gains by its subsidiaries.

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

	Year Ended December 31, 1997	1996
U.S. federal:		
Current	40	--
Deferred	(40)	--
Philippine:		
Current	--	--
Deferred	126	--
Total	126	--

The primary differences between the financial statement and tax bases of assets and liabilities at December 31, 1997 and 1996 are as follows:

Year ended December 31,

	1997	1996
Deferred Tax Liabilities:		
Unrealized foreign exchange gain	$ 126	$ --
Deferred Tax Assets:		
Reserves not currently deductible	1,047	1,184
Foreign tax credits	--	7,087
Operating loss carryforwards	3,773	7,465
Alternative minimum tax credit carryover	40	--
Other assets (liabilities), net	108	355
	4,968	16,091
Valuation allowance	(4,928)	(16,091)
	40	--
Net deferred tax liability	$ 86	$ --

Pretax income (loss) is comprised of the following:

	Year Ended December 31,	
	1997	1996
United States	$ 3,287	$(212)
Foreign (Philippine)	(825)	(147)
	$ 2,462	$(359)

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

	Year ended December 31,	
	1997	1996
Consolidated U.S. at 35%	$ 862	$ (74)
Philippine at 42%	--	(62)
Deferred tax asset utilization	10,427	(51)
Change in valuation allowance	(11,163)	187
Total	$ 126	$--

The Internal Revenue Service, ("IRS") examined the Company and its U.S. subsidiaries, for the years up to and including 1993, resulting in certain adjustments proposed by the IRS. The Company settled the examination with the IRS Appeals Office in January 1998, resulting in a tax liability of $130 plus accrued interest of $43, and a carryback refund claim of $173 rising principally from the filing of amended returns utilizing creditable Philippines taxes as deductions.

At December 31, 1997, the Company and its subsidiaries had no foreign tax credit ("FTC") carryforwards for United States tax purposes.

At December 31, 1997, the Company and its subsidiaries had net operating loss ("NOL") carryforwards of approximately $10.8 million for United States income tax purposes. A full valuation allowance has been provided against this NOL

8. RELATED-PARTY TRANSACTIONS

A subsidiary of VAALCO loaned funds to certain officers of the Company, and advanced funds to parties related to an officer of a wholly owned subsidiary of the Company, for the purpose of acquiring 3.5% and 10.4%, respectively, of the outstanding common stock of Alcorn Petroleum and Minerals Corporation ("APMC"). Certain officers, directors and stockholders of the Company were also

officers, directors and stockholders of APMC. In February 1997 the shares were sold and the loans repaid. The loans and the advances are as follows:

	December 31,	
	1997	1996
Advances-related party	$ --	$ 1,916

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

A subsidiary of the Company has a note receivable from an officer, director and stockholder of the Company which bears interest at 9% per annum and is due in monthly installments through December 1, 2002. The balance of the note was $42 and $48 at December 31, 1997 and 1996, respectively.

General and administrative expenses for consulting services to companies, owned by certain officers or stockholders, were $50 and $360 for the years ended December 31, 1997 and 1996, respectively.

9. COMMITMENTS AND CONTINGENCIES

In July 1995, the Company acquired two blocks offshore Gabon, the Equata block and the Etame block. Both blocks contain previous discoveries that the Company is currently evaluating to determine their commercial viability. The Company and its partners have an obligation to the Government of Gabon to obtain approximately 1,500 line kilometers of seismic data and to drill one well on the Etame block during the three-year term of the license. In April 1997, the Company entered into a participation agreement with Western Atlas Afrique, Ltd. ("Western Atlas") a subsidiary of Western Atlas International, Inc., to conduct a 320 square kilometer seismic survey at Western Atlas' sole cost and to pay a disproportionate 80% of the cost, up to $4.7 million, of the estimated $5.8 million (dry hole cost) commitment well. In return for these payments, Western Atlas earns a 65% interest in the production sharing contract. The Company and its partners will be responsible for 20% of the cost (35% over $4.7 million) of the commitment well. VAALCO's share of the dry hole cost of the commitment well is estimated to be $0.7 million.

In June 1997, Western Atlas completed the above mentioned acquisition of seismic data over the property. This data has been processed, and the Company expects

to begin drilling the commitment well in March 1998. The consortium of companies owning the Etame Block production sharing contract have the right to renew the production sharing contract for three additional years subject to compliance with the terms of the production sharing contract, including a commitment to drill two additional wells and to perform a 2-D seismic survey. The consortium has several large structures identified on the block in addition to the commitment well. It is anticipated that the consortium will renew the production sharing contract regardless of the outcome of the currently planned well.

In October, 1997 the Company entered into an agreement with Paramount Petroleum, Inc. ("Paramount"), a corporation owned by Robert Schneeflock, to jointly engage in the exploration of oil and gas properties in the United States, primarily in the onshore Gulf Coast area, including Alabama, Mississippi and Louisiana. On December 31, 1997, the Company sold substantially all of its reserves in the Gulf of Mexico.

10. SUBSEQUENT EVENT

In February 1998, the Company agreed in principal, and subject to closing, to acquire from The 1818 Fund II, L.P. (the "1818 Fund") all of the outstanding capital stock of 1818 Oil Corp. ("1818 Corp.") in exchange for 10,000 shares of Convertible Preferred Stock, Series A ("New Preferred Stock") of VAALCO. The assets of 1818 Corp. consist of a 7.5% limited partnership interest ("Hunt Partnership Interest") in Hunt Exploration Company, L.L.P. ("Hunt"), a partnership that explores for high risk, large reserve accumulations, generally targeting deposits which pre-drilling seismic and other data indicate to have potential in excess of 100 MMBOE. Hunt has entered into production sharing contracts and other arrangements which entitle it to explore for oil, both onshore and offshore, in various countries including Argentina, Canada, Ethiopia, Ghana, Niger and Peru. The general partner of Hunt is Hunt Overseas Operating Company, a subsidiary of Hunt Oil Company, which has extensive experience in international exploration and development operations. The closing of the transaction is subject among other things, to the Company raising $10 million of additional capital through a private placement of Common Stock. There can be no assurance that the Company will successfully raise the new capital or that the Hunt transaction will close. If the Hunt transaction does close, it will be accounted for as a reverse acquisition, and 1818 Corp. will be the acquiring entity for accounting purposes.

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

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

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

	Year Ended December 31, 1997	1996
Costs incurred during the year:		
Exploration	$ 46	$ 268
Acquisition	720	746
Total	$766	$1,014

Exploration and development costs above for 1997 and 1996 include $0 and $13, respectively, related to the Company's former India operations. Also included in the above table for 1997 and 1996 are exploration costs of $46 and $255, respectively, related to the Company's prospects located offshore Gabon for which no reserves are currently attributable. The acquisition costs in 1996 relate to the Company's interest in the Gulf of Mexico. The acquisitions costs in 1997 relate to the Company's leases located in Brazos County, Texas.

CAPITALIZED COSTS RELATING TO OIL AND GAS PRODUCING ACTIVITIES:

	Year ended December 31, 1997	1996
Capitalized costs	$ 47,844	$ 47,674
Accumulated depreciation, depletion, and amortization	(46,117)	(46,122)
Net capitalized costs	$ 1,727	$ 1,552

Of the above capitalized costs for 1996, $746 are attributable to the Company's acquired properties in the Gulf of Mexico, while $330 and $297 are attributable to the Company's Goliad County, Texas properties for 1997 and 1996, respectively. Other domestic costs include $860 attributable to the Company's Brazos County acreage. Costs attributable to the Company's Gabon properties are $537 and $510 for 1997 and 1996, respectively.

RESULTS OF OPERATIONS FOR OIL AND GAS PRODUCING ACTIVITIES:

	Year Ended December 31, 1997	1996
Oil and gas sales	$ 2,273	$ 2,732
Production expenses	(1,426)	(1,735)
Exploration expenses	(46)	(268)
Depreciation, depletion and amortization	(484)	--
	317	729
Income tax expense	(111)	--
Net income from oil and gas		

producing activities (excluding interest expense and general and administrative expenses)	$ 206	$ 729

Proved Reserves

The following tables set forth the net proved reserves of VAALCO Energy, Inc. (which excludes the interests of the Philippine government and the other consortium members) as of December 31, 1997 and 1996, and the changes therein during the periods then ended.

	Oil (MBbls)	Gas (Mmcf)
PROVED RESERVES:		
BALANCE AT DECEMBER 31, 1995	4,848	--
Production	(60)	--
Discoveries, extensions and other additions	--	1,094
Sales of reserves in place	(4,647)	--
Revisions	74	--
BALANCE AT DECEMBER 31, 1996	215	1,094
Production	(86)	(710)
Discoveries, extensions and other additions	--	--
Sales of reserves in place	--	(384)
Revisions	1,406	--
BALANCE AT DECEMBER 31, 1997	1,535	--

In April 1996, the Company sold substantially all of its proved undeveloped reserves. In December 1997, the Company sold all of its gas reserves. Production volumes are based on oil and gas sales.

PROVED DEVELOPED RESERVES	Oil (MBbls)	Gas (MMcf)
Balance at December 31, 1995	201	1,094
Balance at December 31, 1996	215	
Balance at December 31, 1997	1,535	--

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

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

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

The future cash flows are based on sales prices and costs in existence at the dates of the projections, excluding the interests of the Philippine government and the other consortium members. Future production costs do not include overhead charges allowed under joint operating agreements or headquarters general and administrative overhead expenses. Future development costs include amounts accrued attributable to future abandonment when the wells become uneconomic to produce. The standardized measure of discounted cash flows for 1996 do not include the costs of abandoning the Company's non-producing properties.

<TABLE>
<CAPTION>

	Philippines		Gulf of Mexico		Total	
	December 31,		December 31,		December 31,	
	1997	1996	1997	1996	1997	1996
<S>	<C>	<C>	<C>	<C>	<C>	<C>

Future cash inflows	$ 15,353	$ 2,363	$ --	$ 4,251	$ 15,353	$ 6,614
Future production costs .	(10,180)	(1,023)	--	(1,122)	(10,180)	(2,145)
Future development costs	(2,414)	(1,000)	--	(673)	(2,414)	(1,673)
Future income tax expense	--	--	--	--	--	--
Future net cash flows ...	2,759	340	--	2,456	2,759	2,796
Discount to present value at 10% annual rate	(10)	126	--	(84)	(10)	42
Standardized measure of discounted future net cash flows	$ 2,749	$ 466	$ --	$ 2,372	$ 2,749	$ 2,838

</TABLE>
Future development costs at December 31, 1997 and 1996 includes $2.4 and $1.7 million, respectively, for future abandonment costs which has been accrued by the Company. Due to the availability of net operating loss carryforwards, there are no future income tax expenses attributable to the Company's reserves.

CHANGES IN STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS:

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

	Philippines		Gulf of Mexico		Total	
	December 31,		December 31,		December 31,	
	1997	1996	1997	1996	1997	1996
BALANCE AT BEGINNING OF						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
PERIOD	$ 466	$(1,305)	$ 2,372	$ --	$ 2,838	$(1,305)
Sales of oil and gas, net of production costs	(164)	(997)	(683)	--	(847)	(997)
Net changes in prices and production costs	(872)	929	--	--	(872)	929
Revisions of previous quantity estimates	2,860	454	--	--	2,860	454
Purchase (Sale) of reserves in place, net of taxes	--	--	(1,689)	2,372	(1,689)	2,372
Changes in estimated future development costs	178	1,045	--	--	178	1,045
Development costs incurred during the period	--	--	--	--	--	--
Accretion of discount	47	(140)	--	--	47	(140)
Net change in income taxes .	77	--	--	--	77	--
Change in production rates (timing) and other	175	480	--	--	157	480
BALANCE AT END OF PERIOD ...	$ 2,749	$ 466	$ --	$2,372	$ 2,749	$ 2,838

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

In accordance with the guidelines of the U.S. Securities and Exchange

Commission, the Company's estimates of future net cash flow from the Company's properties and the present value thereof are made using oil and natural gas contract prices in effect as of year end and are held constant throughout the life of the properties except where such guidelines permit alternate treatment, including the use of fixed and determinable contractual price escalations. The contract price as of December 31, 1996

was $11.00 per Bbl for oil and $3.89 per Mcf for gas. The contract price as of December 31, 1997 was $10.00 per Bbl of crude oil for the Philippine reserves .

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

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

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

None.

PART III

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

2.1 Stock Acquisition Agreement and Plan of Reorganization dated February 17, 1998 by and among the Company and the 1818 Fund, II, L.P. (incorporated herein by reference to the Company's report on Form 8-K filed March 4, 1998 (file no. 000-20928))

3.1f Certificate of Incorporation of the Company, as amended. 3.2 a Bylaws of the Company, as amended. 4.1 f Certificate of Designation of 10% Cumulative Preferred Stock, Series A (contained in Exhibit 3.1 hereto).

10.1a Service Contract No. 6, dated September 1, 1973, among the Petroleum Board of the Republic of the Philippines and Mosbacher Philippines Corporation, ET AL, as amended.

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

10.3a Service Contract No. 14, dated December 17, 1975, among the Petroleum Board of the Republic of the Philippines and Philippines--Cities Service, Inc., ET AL, as amended.

10.4a Operating Agreement, dated July 17, 1975, among Philippines-Cities Service, Inc., Husky (Philippines) Oil, Inc., Oriental Petroleum and Minerals Corporation, Philippines-Overseas Drilling & Oil Development Corporation, Basic Petroleum and Minerals, Inc., Landoil Resources Corporation, Westrans Petroleum, Inc. and Philippine National Oil Company, as amended.

10.5a Production Sharing Agreement for Petroleum Exploration, Development and Production in Belize, dated September 1, 1992, between the Government of Belize and Exeter Oil and Gas, Ltd.

10.6a West Linapacan Trustee and Paying Agent Agreement, dated June 17, 1992, between Bankers Trust Company and Alcorn (Production) Philippines Inc.

10.7a Memorandum of Understanding, dated April 2, 1979, among the Bureau of Energy Development of the Republic of the Philippines and Philippines--Cities Service, Inc., ET AL.

10.8a+ Employment Agreement between the Company and Charles W. Alcorn, Jr. dated March 1, 1992.

10.9a+ Employment Agreement between the Company and Virgil A. Walston, Jr. dated March 1, 1992.

10.10a+ Employment Agreement between the Company and W. Russell Scheirman dated March 15, 1993.

10.11a+ Consulting Agreement between the Company and Alcorn Production Company dated February 15, 1988, as amended.

10.12a+ Consulting Agreement between the Company and V.A. Walston & Associates, Inc. dated February 15, 1988, as amended.

10.13a Indemnity Agreement entered into among the Company and certain of its officers and directors listed therein.

10.14b Production Sharing Contract, dated December 30, 1994, between The Government of India and Oil & Natural Gas Corporation LTD. and VAALCO Energy, Inc., Hindustan Oil Exploration Company Limited and TATA Petrodyne Private Limited.

10.15b Letter Agreement, dated October 3, 1994, between VAALCO Energy, Inc. and Allegro Investments, Inc.

10.16b Stock Purchase Warrant to Purchase Shares of Common Stock of VAALCO Energy, Inc., dated October 3, 1994, between VAALCO Energy, Inc. and Allegro Investments, Inc.

10.17b Stock Purchase Warrant to Purchase Shares of Common Stock of VAALCO Energy, Inc., dated October 3, 1994, between VAALCO Energy, Inc. and Allegro Investments, Inc.

10.18b Stock Purchase Warrant to Purchase Shares of Common Stock of VAALCO Energy, Inc., dated October 3, 1994, between VAALCO Energy, Inc. and Allegro Investments, Inc.

10.19c Exploration and Production Sharing contract between the Republic of Gabon and VAALCO Gabon (Equata), Inc. dated July 7, 1995.

10.20c Exploration and Production Sharing contract between the Republic of Gabon and VAALCO Gabon (Etame), Inc. dated July 7, 1995.

10.21c Deed of Assignment and Assumption between VAALCO Gabon (Etame), Inc., VAALCO Energy (Gabon), Inc. and Petrofields Exploration & Development Co., Inc. dated September 28, 1995.

10.22c Deed of Assignment and Assumption between VAALCO Gabon (Equata), Inc., VAALCO Production (Gabon), Inc. and Petrofields Exploration & Development Co., Inc. dated September 8, 1995.

10.23d Letter Agreement dated February 13, 1996 between VAALCO Energy, Inc. and Hardy Oil & Gas (UK) Limited.

10.24e Letter of Intent for Etame Block, Offshore Gabon dated January 22, 1997 between the Company and Western Atlas International, Inc.

10.25e Farm In Agreement for Service Contract No. 14 Offshore Palawan Island, Philippines dated September 24, 1996 between the Company and SOCDET Production PTY, Ltd.

10.26e Letter Agreement between the Company and Northstar Interests LLC. dated December 5, 1996.

10.27f Registration Rights Agreement, dated July 28, 1997, by and among the Company, Jefferies & Company, Inc. and the investors listed therein.

10.28 Warrant Agreement to Purchase Shares of Common Stock of VAALCO Energy, Inc., dated July 31, 1997, between VAALCO Energy, Inc. and Jefferies & Company, Inc.

10.29 Employment Agreement between the Company and W. R. Scheirman dated March 15, 1996, as amended.

10.30 Employment Agreement between the Company and Robert L. Gerry, III dated August 1, 1997.

21.1a List of subsidiaries.

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

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

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

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

(e) Filed as an exhibit to the Company's Form 10-KSB for the year ended December 31, 1996.

(f) Filed as an exhibit to the Company's Form 10-QSB for the quarterly period ended June 30, 1997.

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

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

SIGNATURES

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

VAALCO ENERGY, INC.
(Registrant)

By /s/W. RUSSELL SCHEIRMAN

W. RUSSELL SCHEIRMAN, PRESIDENT,
CHIEF FINANCIAL OFFICER AND DIRECTOR

Dated March 25, 1998

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

	SIGNATURE	TITLE
By:	/s/ROBERT L, GERRY, III Robert L. Gerry, III.	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)
By:	/s/VIRGIL A. WALSTON, JR. Virgil A. Walston, Jr.	Vice Chairman of the Board, Chief Operating Officer and Director
By:	/s/W. RUSSELL SCHEIRMAN W. Russell Scheirman	President, Chief Financial Officer and Director (Principal Financial Officer and Principal Accounting Officer)
By:	Charles W. Alcorn, Jr.	Director
By:	Arne R. Nielsen	Director

EXHIBIT 10.29

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT (this "agreement") is made and entered into effective this 15th day of March, 1996, between VAALCO ENERGY, INC., a Delaware corporation duly authorized to transact business in the State of Texas (the "Company") and W. RUSSELL SCHEIRMAN, II, an individual residing in the City of Houston and State of Texas ("Executive").

W I T N E S S T H:

WHEREAS, Executive has certain expertise in the administration and management of the day-to-day affairs of business entities.

WHEREAS, it is the desire of the Company to utilize the services and advice of Executive, on a full-time basis, in connection with the administration and management of the day-to-day affairs of the Company upon the conditions and for the terms set forth hereinbelow,

and

WHEREAS, it is the desire of Executive be retained upon the conditions and for the terms set forth hereinbelow.

NOW, THEREFORE, IN CONSIDERATION of the premises and mutual promises and covenants contained herein, the parties hereto hereby agree as follows:

1. TERM. By this Agreement, the Company retains Executive for a period of three (3) years beginning on March 15, 1996 and ending on August 1, 1998 (the "Section 1 Termination Date"), unless this Agreement is either renewed or sooner terminated as hereinafter provided.

2. COMPENSATION. For all services rendered under this Agreement, Executive shall be compensated as follows:

A. ANNUAL COMPENSATION. The Company shall pay Executive for his services rendered pursuant to this Agreement an annual salary in the amount of One Hundred and Sixty Thousand Dollars ($160,000.00), to be paid in semi-monthly payments of Six Thousand Six Hundred Sixty Six Dollars and Sixty Six Cents ($6,666.66) each.

B DIRECTORS FEES. Executive shall receive directors fees, in addition to his compensation, at the same rate as other directors or outside directors, if any.

C. DISCRETIONARY BONUS. Executive shall be entitled to a bonus in addition to Executive's Annual Compensation at the discretion of the Board of

Directors of the Company as to amount and timing.

3. BENEFITS. The Company agrees that Executive shall be included or offered to be included in the following benefits:

A. MEDICAL AND DISABILITY. The Company's hospital, surgical and medical and dental benefit plan and key man disability benefits plan adopted by the Company under the terms and conditions no less favorable than those applicable to other Executive officers of the Company.

B. LIFE INSURANCE. The Company's Group Term Life Insurance Policy. Such insurance shall be in the amount of Seventy Thousand and no/100 Dollars ($70,000.00). Executive shall be entitled to designate, at his sole discretion the beneficiary or beneficiaries of such insurance.

C. PENSION AND STOCK OPTION PLANS. Executive shall have the option to purchase 1,000,000 shares under the following terms and conditions:

OPTIONS FOR 400,000 SHARES

PRICE	$0.375 PER SHARE [ ] Being the closing bid price of the stock on March 14, 1996 the last day of trading prior to the commencement of this contract.
VESTING	200,000 at March 15, 1996 70,000 at March 14, 1997 70,000 at March 14, 1998 60,000 at August 1, 1998 Exercisable for five years from

TERM	the date of vesting.
OPTIONS FOR	300,000 SHARES
PRICE	$0.50/SHARE
VESTING	150,000 shares at March 14, 1997 150,000 shares at March 14, 1998 [ ]

TERM	Exercisable for five years from the date of vesting
OPTIONS FOR	300,000 SHARES
PRICE	$1.00/SHARE [ ]
VESTING	100,000 shares at March 14, 1997 100,000 shares at March 14, 1998 [ ] 100,000 shares at August 1, 1998
TERM	Exercisable for five years from the date of vesting

D. SICK PAY. Executive shall be entitled to 5/6 days per month of employment during the term of this Agreement as sick days for personal and family illness.

E. VACATION. Executive shall be entitled to three (3) weeks of paid vacation per year of service to the Company. The timing of such vacation shall be approved by the Chairman of the Board of the Company (the "Chairman") and Executive shall be entitled to cumulate such vacation time during the term of this Agreement to a maximum of thirty (30) days. In no event however, shall Executive be entitled to take vacation time off in excess of three (3) weeks without

the prior approval of the Chairman, which approval may be withheld at the sole and absolute discretion of the Chairman.

F. HOLIDAYS. Executive shall be entitled to paid holidays in accordance with established Company policy in addition to Sick Pay and Vacation.

All Benefits set forth in this Section 3 shall commence on the Effective Date hereof.

4. REIMBURSEMENT OF EXPENSES INCURRED BY EXECUTIVE. The Company shall pay or reimburse Executive for all reasonable and necessary business expenses for traveling, entertainment and such other reasonable and necessary expenses paid or incurred by Executive in connection with the performance of his services hereunder. Payments by the Company will be made for all expenses upon presentation of an expense statement, vouchers or other supporting information required by the Company.

5. DUTIES OF EXECUTIVE.

A. DUTIES.Executive shall hold the titles and offices of the President and Chief Financial Officer of the Company and Executive shall remain as one (1) of the three (3) inside members of the Board of Directors during the term of this Agreement. Executive shall have general supervision, direction and control of the day-to-day affairs and business of the Company, which shall include, but not be limited to those duties commensurate with Executive's abilities and expertise as may be assigned to him from time to time by the Company's Board of Directors or as may be provided in the Bylaws of the Company.

It is recognized and acknowledged by the Company and acknowledged by the Company that the duties of the Executive shall not include the ability of Executive to raise capital or venture funds for the Company.

B. DEVOTION OF TIME. Executive warrants that he is free to enter into the terms of this Agreement, that he has no obligations inconsistent herewith

and that he will devote his best efforts and full time during normal business hours to the business of the Company during the term or any renewal term hereof.

6. INDEMNIFICATION. The Company shall indemnify and hold harmless Executive for all costs and losses sustained by Executive in connection with his services in discharge of his duties under this Agreement, save and except that the Company shall not be obligated to Indemnify Executive in connection with Executive's willful or wanton misconduct.

7. WORKING CONDITIONS. The Company shall provide Executive with facilities and services as are suitable to Executive's position or required for the performance of his duties.

8. RENEWAL. This Agreement shall be automatically renewed, with ninety (90) days prior written notice to Executive, for a period of one (1) year from the Section 1 Termination Date (such Date as so extended being termed the "Renewal Termination Date").

9. TERMINATION. This Agreement shall be terminated immediately upon the occurrence of any one of the following events:

A. BUSINESS DISCONTINUATION. The occurrence of circumstances that make it impossible or impractical for the business of the Company to be continued.

B. DEATH. The death of Executive.

C. INCAPACITY. The continued incapacity on the part of Executive to perform his duties for a continuous period of one hundred eighty (180) days or more, unless waived by the Company.

D. MISCONDUCT. The entry of a final and non-appealable judgment by a court of competent jurisdiction to the effect that Executive, in connection with his services for the Company, committed any act or omission which was criminal, or constituted willful or wanton misconduct (the day on which such judgment becomes non-appealable hereinafter being termed the "Section 9D Termination Date"). Only termination pursuant to this Section 9D

shall be deemed to be termination for cause.

E. EXECUTIVE. Executive shall be entitled to terminate this Agreement upon thirty (30) days prior written notice to the Company. The date on which such termination becomes effective hereinafter being termed the "Section 9E Termination Date".

10. EFFECT OF TERMINATION.

A. FOR CAUSE. In the event of the termination of this Agreement by the Company for any of the reasons set forth in Section 9D:

i. Executive shall be entitled to further

compensation under Sections 2A and 2C above only to the extent earned prior to the Section 9D Termination Date, computed pro rata, up to and including the Section 9D Termination Date;

(ii) With respect to the plans and policies referred to in Section 3 above, and except as provided by law, Executive's coverage as an active Executive of the Company shall cease on the Section 9D Termination Date; and

(iii)Executive shall be relieved of all duties and obligations under this Agreement, as of the Section 9D Termination Date.

B. BY EXECUTIVE. In the event of the termination of this Agreement by Executive as set forth in Section 9E:

(i) Executive shall be entitled to further compensation under

Section 2A, 2B, and 2CC above only to the extent earned prior to the Section 9E Termination Date, computed pro rata, up to and including the Section 9E Termination Date;

(ii) With respect to the Plans and Policies referred to in Section 3 above, and except as provided by law, Executive's coverage as an

active employee of the Company shall cease on the Section 9E Termination Date; and

(iii) Executive shall be relieved of all duties and obligations under this Agreement as of the Section 9E Termination Date.

C. OTHER CIRCUMSTANCES. In all cases of termination other than for cause under Section 9D and termination by Executive under Section 9E, Executive (or his estate) shall be entitled to a lump sum payment equal to the remaining compensation due Executive under Section 2A through the Section 1 Termination Date or the Renewal Termination Date, as the case may be. Such a termination shall not extinguish or otherwise effect Executive's rights, compensation or benefits under Section 2,3,4,6 or 8 of this Agreement and such lump sum payment shall be due and payable to Executive by the Company on the date of such termination.

11. NON-DISCLOSURE OF CONFIDENTIAL INFORMATION.Executive recognizes that the Company's business interests require a confidential relationship between the Company and Executive and the protection and confidential treatment of the Company's technology, trade secrets, know-how, inventions and other knowledge of or pertaining to its business that will be conceived or learned by Executive in the course of his employment hereunder including, without limitation, lists of the Company's customers, suppliers, price lists, commission schedules, processes, plans, research, information and methods of doing business, all of which are hereinafter jointly termed "confidential information". Accordingly, Executive agrees to keep secret and to treat confidentially all of the Company's confidential information, whether patentable, patented or not, and not to use or aid others in using such confidential information in competition with the Company for so long as the confidential or secret nature of such confidential information shall continue under applicable law. Upon termination of this Agreement, Executive agrees to surrender promptly to the Company all papers, documents, writings and other property produced by him or coming into his possession by or through his employment and relating to the confidential information referred to in this paragraph 11, and Executive understands and agrees that all such materials will at all times remain the exclusive property of the Company.

12. NOTICES. All notices, requests, demands or other communications provided for by this Agreement shall be in writing and shall be deemed to have been given when mailed at any general or branch United States Post Office enclosed in a certified postpaid envelope, return receipt requested and addressed at the address of the respective party stated below or such changed address as the party may have fixed by notice:

TO THE COMPANY:	VAALCO Energy, Inc. 4600 Post Oak Place Suite 309 Houston, Texas 77027
TO EXECUTIVE:	W. Russell Scheirman, II 1745 North Boulevard Houston, Texas 77098

Any notice of change of address shall only be effective, however when received.

13. SUCCESSORS AND ASSIGNS. This Agreement shall inure to the benefit of and be binding upon the Company, its predecessors, agents, successors and assigns, including, without limitation, any entity which may acquire all or substantially all of the Company's assets and business or into which the Company may be consolidated or merged, and Executive, his heirs, executors, administration and legal representatives. Executive may assign his rights to payment, but not his obligations, under this Agreement.

14. REMEDIES. If any party hereto commences any action at law or in equity to enforce or interpret the terms of this Agreement and prevails, such prevailing party shall be entitled to reasonable attorney's fees, costs and necessary disbursements in addition to any other relief to which such prevailing party may be entitled.

15. APPLICABLE LAW. This Agreement shall be construed under and in accordance with the laws of the State of Texas.

16. OTHER AGREEMENTS. This Agreement supersedes all prior understandings and agreements between the parties. This Agreement my not be amended orally, but only in writing signed by the parties hereto.

17. NON-WAIVER. No delay or failure by either party in exercising any right under this Agreement, and no partial or single exercise of this right, shall constitute a waiver of that or any other right.

18. HEADINGS. Headings or captions in this Agreement are for convenience only and shall not be used to interpret or construe its provisions.

19. SEVERABILITY. If any portion of this Agreement is found to be illegal or unenforceable then the remaining portions of this Agreement shall be read as if the illegal or unenforceable provision had been deleted from this Agreement, ab initio.

20. COUNTERPARTS. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

EXECUTED as of the date first above written.

ATTEST:	VAALCO ENERGY, INC.
________________________	BY:___________________________ NAME:_________________________

TITLE:________________________

WITNESS: EXECUTIVE

- --------------------------- ------------------------------

W. RUSSELL SCHEIRMAN, II

EXHIBIT 10.30

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT (this "agreement") is made and entered into this 1ST DAY OF AUGUST, 1997, between VAALCO ENERGY, INC., a Delaware corporation duly authorized to transact business in the State of Texas (the "Company") and ROBERT L. GERRY, III an individual residing in the City of Houston and State of Texas ("Executive").

W I T N E S S T H:

WHEREAS, Executive has certain expertise in the administration and management of the day-to-day affairs of business entities.

WHEREAS, it is the desire of the Company to utilize the services and advice of Executive, on a full-time basis, in connection with the administration and management of the day-to-day affairs of the Company upon the conditions and for the terms set forth hereinbelow,

and

WHEREAS, it is the desire of Executive be retained upon the conditions and for the terms set forth hereinbelow.

NOW, THEREFORE, IN CONSIDERATION of the premises and mutual promises and covenants contained herein, the parties hereto hereby agree as follows:

1. TERM. By this Agreement, the Company retains Executive for a period of one (1) year beginning on August 1, 1997 and ending on July 31, 1998 (the "Section 1 Termination Date"), unless this Agreement is either renewed or sooner terminated as hereinafter provided.

2. COMPENSATION. For all services rendered under this Agreement, Executive shall be compensated as follows:

A. ANNUAL COMPENSATION. The Company shall pay Executive for his services rendered pursuant to this Agreement an annual salary in the amount of Two Hundred Twenty Five Thousand Dollars ($225,000.00), to be paid in semi-monthly payments of Nine Thousand Three Hundred Seventy Five Dollars ($9,375.00) each.

B DIRECTORS FEES. Executive shall receive directors fees, in addition to his compensation, at the same rate as other directors or outside directors, if any.

C. DISCRETIONARY BONUS. Executive shall be entitled to a bonus in addition to Executive's Annual Compensation at the discretion of the Board of Directors of the Company as to amount and timing.

3. BENEFITS. The Company agrees that Executive shall be included or offered to be included in the following benefits:

A. MEDICAL AND DISABILITY. The Company's hospital, surgical and medical and dental benefit plan and key man disability benefits plan adopted by the Company under the terms and conditions no less favorable than those applicable to other Executive officers of the Company.

B. LIFE INSURANCE. The Company's Group Term Life Insurance Policy. Such insurance shall be in the amount of Seventy Thousand and no/100 Dollars ($70,000.00). Executive shall be entitled to designate, at his sole discretion the beneficiary or beneficiaries of such insurance.

C. PENSION AND STOCK OPTION PLANS. Executive shall have the option to purchase 1,000,000 shares under the following terms and conditions:

OPTIONS FOR	1,000,000 SHARES
PRICE	$0.625 PER SHARE [ ] Being the closing bid price of the stock on May 5, 1997 the last day of trading prior to the date of this contract

VESTING	500,000 at August 1, 1997 500,000 at July 31, 1998
TERM	Exercisable for five years from the date of vesting.

D. SICK PAY. Executive shall be entitled to Ten (10) days per year of employment during the term of this Agreement as sick days for personal and family illness.

E. VACATION. Executive shall be entitled to three (3) weeks of paid vacation per year of service to the Company. The timing of such vacation shall be approved by the Chairman of the Board of the Company (the "Chairman") and Executive shall be entitled to cumulate such vacation time during the term of this Agreement to a maximum of thirty (30) days. In no event however, shall Executive be entitled to take vacation time off in excess of three (3) weeks without the prior approval of the Chairman, which approval may be withheld at the sole and absolute discretion of the Chairman.

F. HOLIDAYS. Executive shall be entitled to paid holidays in accordance with established Company policy in addition to Sick Pay and Vacation.

All Benefits set forth in this Section 3 shall commence on the Effective Date hereof.

4. REIMBURSEMENT OF EXPENSES INCURRED BY EXECUTIVE. The Company shall pay or reimburse Executive for all reasonable and necessary business expenses for traveling, entertainment and such other reasonable and necessary expenses paid or incurred

by Executive in connection with the performance of his services hereunder. Payments by the Company will be made for all expenses upon presentation of an expense statement, vouchers or other supporting information required by the Company.

5. DUTIES OF EXECUTIVE.

A. DUTIES.Executive shall hold the titles and offices of Chief Executive Officer of the Company and Executive shall be elected as one (1) of the four (4) inside members of the Board of Directors and serve as Chairman of the Board during the term of this Agreement. Executive shall have general supervision, direction and control of the day-to-day affairs and business of the Company, which shall include, but not be limited to those duties commensurate with Executive's abilities and expertise as may be assigned to him from time to time by the Company's Board of Directors or as may be provided in the Bylaws of the Company.

B. DEVOTION OF TIME. Executive warrants that he is free to enter into the terms of this Agreement, that he has no obligations inconsistent herewith and that he will devote his best efforts and full time during normal business hours to the business of the Company during the term or any renewal term hereof.

6. INDEMNIFICATION. The Company shall indemnify and hold harmless Executive for all costs and losses sustained by Executive in connection with his services in discharge of his duties under this Agreement, save and except that the Company shall not be obligated to Indemnify Executive in connection with Executive's willful or wanton misconduct.

7. WORKING CONDITIONS. The Company shall provide Executive with facilities and services as are suitable to Executive's position or required for the performance of his duties.

8. RENEWAL. This Agreement shall be automatically renewed, with thirty (30) days prior written notice to Executive, for a period of one (1) year from the Section 1 Termination Date (such Date as so extended being termed the "Renewal Termination Date").

9. TERMINATION. This Agreement shall be terminated immediately upon the occurrence of any one of the following events:

A. BUSINESS DISCONTINUATION. The occurrence of circumstances that make it impossible or impractical for the business of the Company to be continued.

B. DEATH. The death of Executive.

C. INCAPACITY. The continued incapacity on the part of Executive to perform his duties for a continuous period of one hundred eighty (180) days or more, unless waived by the Company.

D. MISCONDUCT. The entry of a final and non-appealable judgment by a court of competent jurisdiction to the effect that Executive, in connection with his services for the Company, committed any act or omission which was criminal, or constituted willful or wanton misconduct (the day on which such judgment becomes non-appealable hereinafter being termed the "Section 9D Termination Date"). Only termination pursuant to this Section 9D shall be deemed to be termination for cause.

E. EXECUTIVE. Executive shall be entitled to terminate this Agreement upon thirty (30) days prior written notice to the Company. The date on which such termination becomes effective hereinafter being termed the "Section 9E Termination Date".

10. EFFECT OF TERMINATION.

A. FOR CAUSE. In the event of the termination of this Agreement by the Company for any of the reasons set forth in Section 9D:

i. Executive shall be entitled to further compensation under Sections 2A and 2C above only to the extent earned prior to the Section 9D Termination Date, computed pro rata, up to and including the Section 9D Termination Date;

(ii) With respect to the plans and policies referred to in Section 3 above, and except as provided by law, Executive's coverage as an active Executive of the Company shall cease on the Section 9D Termination Date; and

(iii) Executive shall be relieved of all duties and obligations under this Agreement, as of the Section 9D Termination Date.

B. BY EXECUTIVE. In the event of the termination of this Agreement by Executive as set forth in Section 9E:

(i) Executive shall be entitled to further compensation under Section 2A, 2B, and 2C above only to the extent earned prior to the Section 9E Termination Date, computed pro rata, up to and including the Section 9E Termination Date;

(ii) With respect to the Plans and Policies referred to in Section 3 above, and except as provided by law, Executive's coverage as an active employee of the Company shall cease on the Section 9E Termination Date; and

(iii) Executive shall be relieved of all duties and obligations under this Agreement as of the Section 9E Termination Date.

C. OTHER CIRCUMSTANCES. In all cases of termination other than for cause under Section 9D and termination by Executive under Section 9E, Executive (or his estate) shall be entitled to a lump sum payment equal to the remaining compensation due Executive under Section 2A through the Section 1 Termination Date or the Renewal Termination Date, as the case may be. Such a termination shall not extinguish or otherwise effect Executive's rights, compensation or benefits under Section 2,3,4,6 or 8 of this Agreement and such lump sum payment shall be due and payable to Executive by the Company on the date of such termination.

11. NON-DISCLOSURE OF CONFIDENTIAL INFORMATION.Executive recognizes that the Company's business interests require a confidential relationship between the Company and Executive and the protection and confidential treatment of the Company's technology, trade secrets, know-how, inventions and other knowledge of or pertaining to its business that will be conceived or learned by Executive in the course of his employment hereunder including, without limitation, lists of the Company's customers, suppliers, price lists, commission schedules, processes, plans, research, information and methods of doing business, all of which are hereinafter jointly termed "confidential information". Accordingly, Executive agrees to keep secret and to treat confidentially all of the Company's confidential information, whether patentable, patented or not, and not to use or aid others in using such

confidential information in competition with the Company for so long as the confidential or secret nature of such confidential information shall continue under applicable law. Upon termination of this Agreement, Executive agrees to surrender promptly to the Company all papers, documents, writings and other property produced by him or coming into his possession by or through his employment and relating to the confidential information referred to in this paragraph 11, and Executive understands and agrees that all such materials will at all times remain the exclusive property of the Company.

12. NOTICES. All notices, requests, demands or other communications provided for by this Agreement shall be in writing and shall be deemed to have been given when mailed at any general or branch United States Post Office enclosed in a certified postpaid envelope, return receipt requested and addressed at the address of the respective party stated below or such changed address as the party may have fixed by notice:

TO THE COMPANY:	VAALCO Energy, Inc. 4600 Post Oak Place Suite 309 Houston, Texas 77027
TO EXECUTIVE:	Robert L. Gerry, III 2114 Kingston Court Houston, Texas 77019

Any notice of change of address shall only be effective, however when received.

13. SUCCESSORS AND ASSIGNS. This Agreement shall inure to the benefit of and be binding upon the Company, its predecessors, agents, successors and assigns, including, without limitation, any entity which may acquire all or substantially all of the Company's assets and business or into which the Company may be consolidated or merged, and Executive, his heirs, executors, administration and legal representatives. Executive may assign his rights to payment, but not his obligations, under this Agreement.

14. REMEDIES. If any party hereto commences any action at law or in equity to enforce or interpret the terms of this Agreement and prevails, such prevailing party shall be entitled to reasonable attorney's fees, costs and necessary disbursements in addition to any other relief to which such prevailing party may be entitled.

15. APPLICABLE LAW. This Agreement shall be construed under and in accordance with the laws of the State of Texas.

16. OTHER AGREEMENTS. This Agreement supersedes all prior understandings and agreements between the parties. This Agreement my not be amended orally, but only in writing signed by the parties hereto.

17. NON-WAIVER. No delay or failure by either party in exercising any right under this Agreement, and no partial or single exercise of this right, shall constitute a waiver of that or any other right.

18. HEADINGS. Headings or captions in this Agreement are for convenience only and shall not be used to interpret or construe its provisions.

19. SEVERABILITY. If any portion of this Agreement is found to be illegal or unenforceable then the remaining portions of this Agreement shall be read as if the illegal or unenforceable provision had been deleted from this Agreement, ab initio.

20. COUNTERPARTS. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

EXECUTED as of the date first above written.

ATTEST:	VAALCO ENERGY, INC.
________________________	BY:__________________________
	NAME:_________________________
	TITLE:__________________________
WITNESS:	EXECUTIVE
- ---------------------------	------------------------------
	ROBERT L. GERRY, III

EXHIBIT 10.28

THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE OFFERED FOR SALE, SOLD OR OTHERWISE DISPOSED OF IN THE UNITED STATES OR TO UNITED STATES PERSONS EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT FILED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT.

VOID AFTER 5:00 P.M., NEW YORK TIME, ON July 31, 2002, OR IF NOT A BUSINESS DAY, AS DEFINED HEREIN, AT 5:00 P.M., NEW YORK TIME, ON THE NEXT BUSINESS DAY.

WARRANT TO PURCHASE
COMMON STOCK OF

VAALCO ENERGY, INC.

This certifies that, for good and valuable consideration, the sufficiency of which is hereby acknowledged, Jefferies & Company, Inc., and its registered, permitted assigns (collectively, the "Warrantholder"), is entitled to purchase from Vaalco Energy, Inc., a corporation incorporated under the laws of the state of Delaware (the "Company"), subject to the terms and conditions hereof, at any time before 5:00 P.M., New York time, on July 31, 2002, (or, if such day is not a Business Day, at or before 5:00 P.M., New York time, on the next following Business Day), 345,325 shares of fully paid and nonassessable Common Stock, par value $.10 per share at the Exercise Price. The Exercise Price and the number of shares purchasable hereunder are subject to adjustment from time to time as provided in Article III hereof.

ARTICLE I

SECTION 1.01: DEFINITION OF TERMS. As used in this Warrant, the following capitalized terms shall have the following respective meanings:

(a) BUSINESS DAY: A day other than a Saturday, Sunday or other day on which banks in the State of New York are authorized by law to remain closed.

(b) COMMON STOCK: Common Shares, $.10 par value, of the Company.

(c) COMMON STOCK EQUIVALENTS: Securities that are convertible into or exercisable for shares of Common Stock.

(d) EXCHANGE ACT: The Securities Exchange Act of 1934, as amended.

(e) EXERCISE PRICE: U.S. $1.00 per Warrant Share, as such price may be adjusted from time to time pursuant to Article III hereof.

(f) EXPIRATION DATE: 5:00 P.M., New York time, on July 31, 2002, or if such day is not a Business Day, the next succeeding day which is a Business Day.

(g) HOLDER: A Holder of Warrants.

(h) NASD: National Association of Securities Dealers, Inc., and NASDAQ: NASD Automatic Quotation System.

(i) PERSON: An individual, partnership, joint venture, corporation, trust, unincorporated organization or government or any department or agency thereof.

(j) SEC: The Securities and Exchange Commission or any other federal agency at the time administering the Securities Act or the Exchange Act.

(k) SECURITIES ACT: The Securities Act of 1933, as amended.

(l) WARRANTS: This Warrant and all other warrants that may be issued in its or their place (together evidencing the right to purchase an aggregate of 345,325 shares of Common Stock), originally issued to Jefferies & Company, Inc.

(m) WARRANTHOLDER: The person(s) or entity(ies) to whom this Warrant is originally issued, or any successor in interest thereto, or any assignee or transferee thereof, in whose name this Warrant is registered upon the books to be maintained by the Company for that purpose.

(n) WARRANT SHARES: Common Stock, Common Stock Equivalents and other securities purchased or purchasable upon exercise of the Warrants.

(o) $ or DOLLARS: United States dollars.

ARTICLE II

DURATION AND EXERCISE OF WARRANT

SECTION 2.01: DURATION OF WARRANT. The Warrantholder may exercise this Warrant at any time and from time to time before 5:00 P.M., New York time, on the Expiration Date. If this Warrant is not exercised on the Expiration Date, it shall become void, and all rights hereunder shall thereupon cease.

SECTION 2.02: EXERCISE OF WARRANT.

(a) The Warrantholder may exercise this Warrant, in whole or in part, as follows:

(i) by presentation and surrender of this warrant to the Company at its corporate office at 4600 Post Oak Place, Suite 309, Houston, Texas 77027, or at the office of its stock transfer agent, if any, with the Subscription Form annexed hereto duly executed and accompanied by payment of the full Exercise Price for each Warrant Share to be purchased by means of a cashiers or certified check; or

(ii) By presentation and surrender of this Warrant to the Company at its principal executive offices with a Cashless Exercise Form annexed hereto duly executed (a "Cashless Exercise"). In the event of a Cashless Exercise, the Warrantholder shall exchange its warrant for that number of shares of Common Stock determined by multiplying the number of Warrant Shares by a fraction, the numerator of which shall be the amount by which the then current market price per share of Common Stock exceeds the Exercise Price, and the denominator of which shall be the then current market price per share of Common Stock. For purposes of any computation under this Section 2.02(a)(ii), the then current market price per share of Common Stock at any date shall be deemed to be the last sale price of the Common Stock on the business day prior to the date of the Cashless Exercise or, in case no such reported sales take place on such day, the average of the last reported bid and asked prices of the Common Stock on such day, in either case on the principal national securities exchange on which the Common Stock is admitted to trading or listed, or if not listed or admitted to trading on any such exchange, the representative closing bid price of the Common Stock as reported by NASDAQ, or other similar organization if NASDAQ is no longer reporting such information, or if not so available, the fair market price of the Common Stock as determined by the Board of Directors in good faith.

(b) Upon receipt of this Warrant with the Subscription Form fully executed and accompanied by payment of the aggregate Exercise Price for the Warrant Shares for which this Warrant is then being exercised, or, in the case of Section 2.02(a)(ii), with the Cashless Exercise Form duly executed, the Company shall cause to be issued certificates for the total number of whole shares of Common Stock for which this Warrant is being exercised (adjusted to reflect the effect of the anti-dilution provisions contained in Article III hereof, if any, and as provided in Section 2.04 hereof) in such denominations as are requested for delivery to the Warrantholder, and the Company shall thereupon deliver such certificates to the Warrantholder. The Warrantholder shall be deemed to be the holder of record of the shares of Common Stock issuable upon such exercise, notwithstanding that the stock transfer books of the Company shall then be closed or that certificates representing such shares of Common Stock may not then be actually delivered to the Warrantholder. If at the time this Warrant is exercised, a Registration Statement is not in effect to register under the Securities Act the Warrant Shares issuable upon exercise of this Warrant, the Company may require the Warrantholder to make such representations, and may place such legends on certificates

representing the Warrant Shares, as may be reasonably required in the opinion of counsel to the Company to permit the Warrant Shares to be issued without such registration.

(c) In case the Warrantholder shall exercise this Warrant with respect to less than all of the Warrant Shares that may be purchased under this Warrant, the Company shall execute a new warrant in the form of this Warrant for the balance of such Warrant Shares and deliver such new warrant to the Warrantholder.

(d) The Company shall pay any and all stock transfer and similar taxes which may be payable in respect of the issue of this Warrant or in respect of the issue of any Warrant Shares.

SECTION 2.03: RESERVATION OF SHARES. The Company hereby agrees that at all times there shall be reserved for issuance and delivery upon exercise of this Warrant such number of shares of Common Stock or other shares of capital stock of the Company from time to time issuable upon exercise of this Warrant. All such shares shall be duly authorized, and when issued upon such exercise, shall be validly issued, fully paid and non-assessable, free and clear of all liens, security interests, charges and other encumbrances or restrictions on sale and free and clear of all preemptive rights.

SECTION 2.04: FRACTIONAL SHARES. The Company shall not be required to issue any fraction of a share of its capital stock in connection with the exercise of this Warrant, and in any case where the Warrantholder would, except for the provisions of this Section 2.04, be entitled under the terms of this Warrant to receive a fraction of a share upon the exercise of this Warrant, the Company shall, upon the exercise of this Warrant and receipt of the Exercise Price, issue the greatest number of whole shares purchasable upon exercise of this Warrant for which payment in full of the Exercise Price has been received. The Company shall not be required to make any cash or other adjustment in respect of such fraction of a share to which the Warrantholder would otherwise be entitled.

SECTION 2.05: LISTING. Prior to the issuance of any shares of Common Stock upon exercise of this Warrant, the Company shall secure the listing of such shares of Common Stock upon each national securities exchange or automated quotation systems, if any, upon which shares of Common Stock are then listed (subject to official notice of issuance upon exercise of this Warrant) and shall maintain, so long as any other shares of Common Stock shall be so listed, such listing of all shares of Common Stock from time to time issuable upon the exercise of this Warrant; and the Company shall so list on each national securities exchange or automated quotation system, and shall maintain such listing of, any other shares of capital stock of the Company issuable upon the exercise of this Warrant if and so long as any shares of the same class shall be listed on such national securities exchange or automated quotation system.

ARTICLE III

ADJUSTMENT OF SHARES OF COMMON STOCK
PURCHASABLE AND EXERCISE PRICE

The Exercise Price and the number and kind of Warrant Shares shall be subject to adjustment from time to time upon the happening of certain events as provided in this Article III.

SECTION 3.01: MECHANICAL ADJUSTMENTS.

(a) If at any time prior to the exercise of this Warrant in full, the Company shall (i) declare a dividend or make a distribution on the Common Stock payable in shares of its Common Stock; (ii) subdivide, reclassify or recapitalize the outstanding Common Stock into a greater number of shares of Common Stock; (iii) combine, reclassify or recapitalize its outstanding shares of Common Stock into a smaller number of shares of Common Stock, or (iv) issue any shares of its capital stock by reclassification of its Common Stock (including any such reclassification in connection with a consolidation or a merger in which the Company is the continuing corporation), the Exercise Price in effect at the time of the record date of such dividend, distribution, subdivision, combination, reclassification or recapitalization shall be adjusted so that the Warrantholder shall be entitled to receive the aggregate number and kind of shares which, if this Warrant had been exercised in full immediately prior to such event, he would have owned upon such exercise and been entitled to receive by virtue of such dividend, distribution, subdivision, combination, reclassification or recapitalization. Any adjustment required by this paragraph 3.01(a) shall be made successively and become effective immediately after the record date, in the case of a dividend or distribution, or the effective date, in the case of a subdivision, combination, reclassification or recapitalization, to allow the purchase of such aggregate number and kind of shares.

(b) If at any time prior to the exercise of this Warrant in full, the Company shall (i) issue or sell any Common Stock or Common Stock Equivalents without consideration or for consideration per share of Common Stock less than the current market price per share of Common Stock on the date of such issuance or sale as defined in Section 3.01(e) (other than pursuant to employee benefit or compensation arrangements and other than pursuant to subscription rights, options or warrants which had a subscription, exercise, purchase or conversion price equal to or greater than the current market price per share on the effective date of issuance or grant of such rights, options or warrants) or (ii) fix a record date for the issuance of subscription rights, options or warrants to all holders of Common Stock entitling them to subscribe for or purchase shares of Common Stock (or Common Stock Equivalents) at a price (or having an exercise or conversion price per share) less than the current market price of the Common Stock (as determined pursuant to Section 3.01(e)) on the record date described below, the Exercise Price shall be adjusted so that the Exercise Price shall equal the price determined by multiplying the Exercise Price in effect immediately prior to the date of such sale or issuance (which date in the event of distribution to shareholders shall be deemed to be the record date set by the Company to determine shareholders entitled to participate in such distribution) by a fraction, the numerator of which shall be (i) the number of shares of Common Stock outstanding on the date of such sale or issuance, plus (ii) the number of

additional shares of Common Stock which the aggregate consideration received by the Company upon such issuance or sale (plus the aggregate of any additional amount to be received by the Company upon the exercise of such subscription rights, options or Warrants) would purchase at such current market price per share of the Common Stock immediately prior to the date of such issuance or sale; and the denominator of which shall be (i) the number of shares of Common Stock outstanding on the date of such issuance or sale, plus (ii) the number of additional shares of Common Stock offered for subscription or purchase (or into which the Common Stock equivalents so offered are exercisable or convertible). Any adjustments required by this paragraph 3.01(b) shall be made immediately after such issuance or sale or record date, as the case may be unless the offering period of such Common Stock or Common Stock Equivalents, or the period in which such rights, options or warrants may be exercised or converted, shall expire in 90 days or less, in which case such event shall be given effect immediately after the expiration of such period based upon the number of shares of Common Stock (or Common Stock Equivalents) actually delivered; provided that should any Warrant be exercised during such period, the number of shares of Common Stock issuable upon such exercise shall be recalculated giving effect to any adjustment made at the end of such period in respect of such event and an appropriate number of additional shares of Common Stock shall be issued in respect of such exercise. Such adjustments shall be made successively whenever such event shall occur. In the event that such period shall be greater than 90 days, then to the extent that shares of Common Stock (or Common Stock Equivalents) are not delivered after the expiration of such subscription rights, options or warrants, the Exercise Price shall be readjusted to the Exercise Price which would then be in effect had the adjustments made upon the issuance of such rights, options or warrants been made upon the basis of delivery of only the number of shares of Common Stock (or Common Stock Equivalents) actually delivered.

(c) If at any time prior to the exercise of this Warrant in full, the Company shall fix a record date for the issuance or making a distribution to all holders of the Common Stock (including any such distribution to be made in connection with a consolidation or merger in which the Company is to be the continuing corporation) of evidences of its indebtedness, any other securities of the Company or any cash, property or other assets or securities, including without limitation shares of a subsidiary's capital stock (excluding a common stock dividend, combination, reclassification, recapitalization or issuance referred to in Section 3.01(a)), regular cash dividends or cash distributions in the ordinary course of business or subscription rights, options or warrants for Common Stock or Common Stock Equivalents (excluding those referred to in Section 3.01(b)) (any such nonexcluded event being herein called a "Special Dividend"), the Exercise Price shall be decreased immediately after the record date for such Special Dividend to a price determined by multiplying the Exercise Price then in effect by a fraction, the numerator of which shall be the then current market price of the Common Stock (as defined in Section 3.01(e)) on such record date less the fair market value (as determined by the Company's Board of Directors) of the evidences of indebtedness, securities or property, or other assets issued or distributed in such Special Dividend applicable to one share of Common Stock or of such subscription rights or warrants applicable to one share of Common Stock, and the denominator of which shall be the then current market price per share of Common Stock (as so determined). Any adjustment required by this paragraph 3.01(c) shall be made successively effective on the record date for the Special Dividend and

in the event that such distribution is not so made, the Exercise Price shall again be adjusted to be the Exercise Price that was in effect immediately prior to such record date.

(d) If at any time prior to the exercise of this Warrant in full, the Company shall make a distribution to all holders of the Common Stock of stock of a subsidiary or securities convertible into or exercisable for such stock, then in lieu of an adjustment in the Exercise Price or the number of Warrant Shares purchasable upon the exercise of this Warrant, each Warrantholder, upon the exercise hereof at any time after such distribution, shall be entitled to receive from the Company, such subsidiary or both, as the Company shall determine, the stock or other securities to which such Warrantholder would have been entitled if such Warrantholder had exercised this Warrant immediately prior thereto, all subject to further adjustment as provided in this Article III, and the Company shall reserve, for the life of the Warrant, such securities of such subsidiary or other corporation; provided, however, that no adjustment in respect of dividends or interest of such stock or other securities shall be made during the term of this Warrant or upon its exercise.

(e) Whenever the Exercise Price payable upon exercise of each Warrant is adjusted pursuant to one or more of paragraphs (a), (b) and (c) of this Section 3.01, the Warrant Shares shall simultaneously be adjusted by multiplying the number of Warrant Shares initially issuable upon exercise of each Warrant by the Exercise Price in effect on the date thereof and dividing the product so obtained by the Exercise Price, as adjusted.

(f) For the purpose of any computation under this Section 3.01, the current market price per share of Common Stock at any date shall be deemed to be the average of the daily closing prices for 20 consecutive trading days commencing 30 trading days before such date. The closing price for each day shall be the last sale price regular way or, in case no such reported sales take place on such day, the average of the last reported bid and asked prices regular way, in either case on the principal national securities exchange on which the Common Stock is admitted to trading or listed, or if not listed or admitted to trading on such exchange, the representative closing bid price as reported by NASDAQ, or other similar organization if NASDAQ is no longer reporting such information, or if not so available, the fair market price as determined in good faith by the Board of Directors of the Company.

(g) No adjustment in the Exercise Price shall be required unless such adjustment would require an increase or decrease of at least five cents ($.05) in such price; provided, however, that any adjustments which by reason of this paragraph (g) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Section 3.01 shall be made to the nearest cent or to the nearest one-hundredth of a share, as the case may be. Notwithstanding anything in this Section 3.01 to the contrary, the Exercise Price shall not be reduced to less than the then existing par value, if any, of the Common Stock as a result of any adjustment made hereunder.

(h) In the event that at any time, as a result of any adjustment made pursuant to Section 3.01(a), the Warrantholder thereafter shall become entitled to receive any shares of the Company other than Common Stock, thereafter the number of such other shares so receivable upon exercise of any Warrant shall be subject to adjustment from time to time in

a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Common Stock contained in Section 3.01(a).

(i) In the case of an issue of additional Common Stock or Common Stock Equivalents for cash, the consideration received by the Company therefor, without deducting therefrom any discount or commission or other expenses paid by the Company for any underwriting of, or otherwise in connection with, the issuance thereof, shall be deemed to be the amount received by the Company therefor. To the extent that such issuance shall be for a consideration other than cash, then, except as herein otherwise expressly provided, the amounts of such consideration shall be deemed to be the fair value of such consideration at the time of such issuance as reasonably determined in good faith by the Board of Directors of the Company (but without deduction of any compensation, discounts or expenses paid or incurred by the Company for, and in the underwriting of, or otherwise in connection with, the issuance thereof). The term issue shall include the sale or other disposition of shares held by or on account of the Company or in the treasury of the Company but until so sold or otherwise disposed of such shares shall not be deemed outstanding.

SECTION 3.02: NOTICES OF ADJUSTMENT. Whenever the number of Warrant Shares or the Exercise Price is adjusted as herein provided, the Company shall prepare and deliver forthwith to the Warrantholder a certificate signed by its President, and by any Vice President, Treasurer or Secretary, setting forth the adjusted number of shares purchasable upon the exercise of this Warrant and the Exercise Price of such shares after such adjustment, setting forth a brief statement of the facts requiring such adjustment and setting forth the computation by which adjustment was made. The certificate of any independent firm of public accountants of recognized standing selected by the Board of Directors of the Company shall be conclusive evidence of the arithmetic correctness of any computation made under this Section 3.

SECTION 3.03: NO ADJUSTMENT FOR DIVIDENDS. Except as provided in Section 3.01 of this Agreement, no adjustment in respect of any cash dividends shall be made during the term of this Warrant or upon the exercise of this Warrant.

SECTION 3.04: PRESERVATION OF PURCHASE RIGHTS IN CERTAIN TRANSACTIONS. In case of any consolidation or merger of the Company with or into another corporation (other than a merger with a subsidiary in which the Company is the continuing corporation and that does not result in any reclassification, capital reorganization or other change of outstanding shares of Common Stock) or in case of any sale, lease, transfer or conveyance to another corporation of the property and assets of the Company as an entirety or substantially as an entirety, the Company shall, as a condition to such transaction cause such successor or purchasing corporation, as the case may be, to execute with the Warrantholder an agreement granting the Warrantholder the right thereafter, upon payment of the Exercise Price in effect immediately prior to such transaction, to receive upon exercise of this Warrant the kind and amount of shares and other securities and property which he would have owned or have been entitled to receive as a result of such transaction had this Warrant been exercised immediately prior to such action. Such agreement shall provide for adjustments in respect of such shares of stock and other securities and property, which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Article III and shall provide that such rights may be exercised at any time prior to the Expiration Date. In the event that in connection with any such

transaction, additional shares of Common Stock shall be issued in exchange, conversion, substitution or payment, in whole or in part, for, or of, a security of the Company other than Common Stock, any such issue shall be treated as an issue of Common Stock covered by the provisions of Article III. The provisions of this Section 3.04 shall similarly apply to successive reclassifications, capital reorganizations, consolidations, mergers, sales or conveyance.

SECTION 3.05: FORM OF WARRANT AFTER ADJUSTMENTS. The form of this Warrant need not be changed because of any adjustments in the Exercise Price or the number or kind of the Warrant Shares, and Warrants theretofore or thereafter issued may continue to express the same price and number and kind of shares as are stated in the Warrant, as initially issued.

SECTION 3.06: TREATMENT OF WARRANTHOLDER. Prior to due presentment for registration of transfer of this Warrant, the Company may deem and treat the Warrantholder as the absolute owner of this Warrant (notwithstanding any notation of ownership or other writing hereon) for all purposes and shall not be affected by any notice to the contrary.

ARTICLE IV

OTHER PROVISIONS RELATING TO

RIGHTS OF WARRANTHOLDER

SECTION 4.01: NO RIGHTS AS SHAREHOLDERS: NOTICE TO WARRANTHOLDERS. Nothing contained in this Warrant shall be construed as conferring upon the Warrantholder or his or its transferees the right to vote or to receive dividends or to consent or to receive notice as a shareholder in respect of any meeting of shareholders for the election of directors of the Company or of any other matter, or any rights whatsoever as shareholders of the Company. The Company shall give notice to the Warrantholder by registered mail if at any time prior to the expiration or exercise in full of the Warrants, any of the following events shall occur:

(a) the Company shall authorize the payment of any dividend to all holders of Common Stock;

(b) the Company shall authorize the issuance to all holders of Common Stock of any additional shares of Common Stock or Common Stock Equivalents or of rights, options or warrants to subscribe for or purchase Common Stock or Common Stock Equivalents or of any other subscription rights, options or warrant;

(c) a dissolution, liquidation or winding up of the Company; or

(d) a capital reorganization or reclassification of the Common Stock (other than a subdivision or combination of the outstanding Common Stock) or any consolidation or merger of the Company with or into another corporation (other than a consolidation or merger in which the Company is the continuing corporation and that does not result in any reclassification or change of Common Stock outstanding) or in the case of any sale or conveyance to another corporation of the property of the Company as an entirety or substantially as an entirety.

Such giving of notice shall be completed at least 15 Business Days prior to the date fixed as a record date or effective date or the date of closing of the Company's stock transfer books for the determination of the shareholders entitled to such dividend, distribution, or subscription rights, or for the determination of the shareholders entitled to vote on such proposed merger, consolidation, sale, conveyance dissolution, liquidation or winding up. Such notice shall specify such record date or the date of closing the stock transfer books, as the case may be. Failure to provide such notice shall not affect the validity of any action taken in connection with such dividend, distribution or subscription rights, or proposed merger, consolidation, sale, conveyance, dissolution, liquidation or winding up.

SECTION 4.02: LOST, STOLEN, MUTILATED OR DESTROYED WARRANTS. If this Warrant is lost, stolen, mutilated or destroyed, the Company may, upon receipt by the Company of evidence of ownership reasonably satisfactory to it and on such terms as to indemnity or otherwise as it may in its discretion impose (which shall, in the case of a mutilated Warrant, include the surrender thereof), issue a new Warrant of like denomination and tenor as, and in substitution for, this Warrant.

SECTION 4.03: SPLIT-UP, COMBINATION, EXCHANGE AND TRANSFER OF WARRANTS. This Warrant may be split up, combined or exchanged for another Warrant or Warrants containing the same terms to purchase a like aggregate number of Warrant Shares. If the Warrantholder desires to split up, combine or exchange this Warrant, he or it shall make such request in writing delivered to the Company and shall surrender to the Company this Warrant and any other Warrants to be so split-up, combined or exchanged. Upon any such surrender for a split-up, combination or exchange, the Company shall execute and deliver to the person entitled thereto a Warrant or Warrants, as the case may be, as so requested. The Company shall not be required to effect any split-up, combination or exchange which will result in the issuance of a Warrant entitling the Warrantholder to purchase upon exercise a fraction of a share of Common Stock or a fractional Warrant.

SECTION 4.04: REGISTRATION RIGHTS. The Warrant and the Warrant Shares, once issued, are subject to the rights and benefits of the Registration Rights Agreement dated, July 31, 1997, between the Company, Jefferies & Company, Inc., and others; provided, however, that notwithstanding anything in such Registration Rights Agreement to the contrary, the Company hereby consents to the transfer of the registration rights contained therein with respect to the Warrant and the Warrant Shares to the extent that transfers of the Warrant and the Warrant Shares are permitted hereunder.

ARTICLE V
OTHER MATTERS

SECTION 5.01: AMENDMENTS AND WAIVERS. The provisions of this Warrant, including the provisions of this sentence, may not be amended, modified or supplemented, and waiver or consents to departures from the provisions hereof may not be given unless the Company has obtained the written consent of Holders of at least a majority of the outstanding Warrants. Holders shall be bound by any consent authorized by this Section whether or not Certificates representing such Warrants have been marked to indicate such consent.

SECTION 5.02: GOVERNING LAW. This Warrant shall be governed by and construed in accordance with the laws of the State of New York, U.S.A.

SECTION 5.03: SEVERABILITY. In the event that any one or more of the provisions contained herein, or the application thereof in any circumstances, is held invalid, illegal or unenforceable, the validity, legality and enforceability of any such provisions in every other respect and of the remaining provisions contained herein shall not be affected or impaired thereby.

SECTION 5.04: ATTORNEYS' FEES. In any action or proceeding brought to enforce any provisions of this Warrant, or where any provisions hereof or thereof are validly asserted as a defense, the successful party shall be entitled to recover reasonable attorneys' fees and disbursements in addition to its costs and expenses and any other available remedy.

SECTION 5.05: COMPUTATIONS OF CONSENT. Whenever the consent or approval of Holders of a specified percentage of Warrants is required hereunder, Warrants held by the Company or its affiliates (other than the Warrantholder or subsequent Holders if they are deemed to be such affiliates solely by reason of their holdings of such Warrants) shall not be counted in determining whether such consent or approval was given by the Holders of such required percentage.

SECTION 5.06: NOTICE. Any notices or certificates by the Company to the Holder and by the Holder to the Company shall be deemed delivered if in writing and delivered in person or by registered mail (return receipt requested) to the Holder addressed to him in care of Jefferies & Company, Inc., 650 Fifth Avenue, 4th Floor, New York, New York 10019, or, if the Holder has designated by notice in writing to the Company any other address, to such other address, and if to the Company, addressed to it at:

4600 Post Oak Place, Suite 309
Houston, Texas 77027

The Company may change its address by written notice to the Holder and the Holder may change its address by written notice to the Company.

SECTION 5.07: INVESTMENT REPRESENTATION OF THE HOLDER. By accepting delivery of this Warrant, the Holder represents to the Company that it has acquired this Warrant solely for its own account for investment and not with a view to distribution or sale in violation of the Securities Act, but subject, nevertheless, to any requirement of law that the disposition of the Holder's property be at all times within its control. The Holder represents that it understands that this Warrant has been issued in a transaction that is exempt from the registration requirements of the Securities Act and that this Warrant must be held by the Holder and may not be resold unless subsequently registered under the Securities Act or an exemption from such registration is available.

SECTION 5.08: CURRENCY. All amounts used in this Agreement are expressed in U.S. Dollars unless otherwise specified.

IN WITNESS WHEREOF, this Warrant has been duly executed by the Company under its corporate seal as of the ______ day of ___________________, 1997.

VAALCO ENERGY, INC.

By:________________________________

Name:______________________________

Title:_____________________________

Attest:______________________________

Secretary

ASSIGNMENT

(To be executed only upon assignment of Warrant Certificate)

For value received,_____________ hereby sells, assigns and transfers unto _______________the within Warrant Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint ___________________________ attorney to transfer said Warrant Certificate on the books of the within-named Company with respect to the number of Warrants set forth below, with full power of substitution in the premises:

Name(s) of ASSIGNEE(s)	ADDRESS	NO. OF WARRANTS

And if said number of Warrants shall not be all the Warrants represented by the Warrant Certificate, a new Warrant Certificate is to be issued in the name of said undersigned for the balance remaining of the Warrants registered by said Warrant Certificate.

Dated:_________________________, 19

Note: The above signature should correspond exactly with the name on the face of this Warrant Certificate

SUBSCRIPTION FORM

(To be executed upon exercise of Warrant)

:

The undersigned hereby irrevocably elects to exercise the right of purchaser represented by the within Warrant Certificate for, and to purchase thereunder,____________________________ shares of Common Stock, as provided for therein, and tenders herewith payment of the purchase price in full in the form of cash or a certified or official bank check for the amount of $________________________ .

Please issue a certificate or certificates for such Common Stock in the name of, and pay any cash for any fractional share to:

Name

(Please print Name, Address and Social Security No.)

Signature

Note: The above signature should correspond exactly with the name on the first page of this Warrant Certificate or with the name of the assignee appearing in the assignment form below.

And if said number of shares shall not be all the shares purchasable under the within Warrant Certificate, a new Warrant Certificate is to be issued in the name of said undersigned for the balance remaining of the shares purchasable thereunder rounded up to the next higher number of shares.

CASHLESS EXERCISE FORM

(To be executed upon exercise of Warrant pursuant to Section 2.02(a)(ii))

The undersigned hereby irrevocably elects to Exchange its Warrant for such shares of Common Stock pursuant to the Cashless Exercise provisions of the within Warrant Certificate, as provided for in Section 2.02(a)(ii) of such Warrant Certificate.

Please issue a certificate or certificates for such Common Stock in the name of:

Name

(Please print Name, Address and Social Security No.)

Signature

NOTE: The above signature should correspond exactly with the name on the first page of this Warrant Certificate or with the name of the assignee appearing in the assignment form below.

And if said number of shares shall not be all the shares exchangeable or purchasable under the within Warrant Certificate, a new Warrant Certificate is to be issued in the name of the undersigned for the balance remaining of the shares purchasable rounded up to the next higher number of shares.