

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

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FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1997

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER 0-20928  
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VAALCO ENERGY, INC.

(Exact name of small business issuer as specified 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

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

As of August 11, 1997 there were outstanding 15,466,527 shares of Common Stock, \$.10 par value per share, of the registrant.

VAALCO ENERGY, INC. AND SUBSIDIARIES

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VAALCO ENERGY, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS OF DOLLARS, EXCEPT PAR VALUE AMOUNTS)

<TABLE>  
<CAPTION>

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ASSETS

CURRENT ASSETS:

	JUNE 30, 1997	DECEMBER 31, 1996
	-----	-----
	(UNAUDITED)	
	<C>	<C>
Cash and equivalents .....	\$ 1,434	\$ 1,055
Advances - related party .....	--	1,916
Marketable securities - related party .....	--	777
Receivables:		
Trade .....	1,455	103

Accounts with partners .....	110	190
Other .....	752	1,177
Materials and supplies .....	391	387
Prepaid expenses and other .....	34	9
	-----	-----
Total current assets .....	4,176	5,614
	-----	-----
PROPERTY AND EQUIPMENT-SUCCESSFUL EFFORTS METHOD		
Wells, platforms and other production facilities .....	46,866	46,866
Wells in progress .....	--	--
Undeveloped acreage .....	840	808
Equipment and other .....	355	342
	-----	-----
	48,061	48,016
Accumulated depreciation, depletion and amortization .....	(46,678)	(46,383)
	-----	-----
Net property and equipment .....	1,383	1,633
	-----	-----
OTHER ASSETS:		
Funds in escrow .....	378	119
Other long-term assets .....	132	370
	-----	-----
TOTAL .....	\$ 6,069	\$ 7,736
	=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable .....	\$ 1,987	\$ 1,862
Accrued liabilities .....	1,095	1,280
Current portion of debt obligations .....	198	3,918
	-----	-----
Total current liabilities .....	3,280	7,060
	-----	-----
FUTURE ABANDONMENT COSTS .....	4,942	4,942
OTHER LONG TERM LIABILITIES .....	--	1,000
	-----	-----
Total liabilities .....	8,222	13,002
	-----	-----
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIT:		
Preferred stock, \$25 par value, 10% cumulative dividend .....		
500,000 authorized shares; 90,000 shares issued and outstanding	2,250	2,250
Common stock, \$.10 par value, 15,000,000 authorized shares;		
8,870,864 shares issued of which 5,395 are in the treasury		
in 1997 and 1996 .....	887	887
Additional paid-in capital .....	11,261	11,401
Accumulated deficit .....	(16,538)	(19,707)
Net unrealized loss on non-current marketable securities .....	--	(84)
Less treasury stock, at cost .....	(13)	(13)
	-----	-----
Total stockholders' deficit .....	(2,153)	(5,266)
	-----	-----
TOTAL .....	\$ 6,069	\$ 7,736
	=====	=====

</TABLE>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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

<TABLE>  
<CAPTION>

	Three Months Ended June 30,		Six Months Ended June 30,	
	1997	1996	1997	1996
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
REVENUES:				
Crude oil sales .....	\$ 820	\$ 292	\$ 1,715	\$ 2,163
Gain on sale of assets .....	1	1,140	3,332	1,140
	-----	-----	-----	-----
Total revenues .....	821	1,432	5,047	3,303

OPERATING COSTS AND EXPENSES:				
Production expenses .....	515	209	872	1,431
Exploration costs .....	21	53	66	129
Depreciation, depletion and amortization and impairment of properties .....	268	23	302	618
General and administrative expenses ....	241	550	721	1,094
	-----	-----	-----	-----
Total operating costs and expenses ...	1,045	835	1,961	3,272
	-----	-----	-----	-----
OPERATING INCOME (LOSS) .....	(224)	597	3,086	31
OTHER INCOME (EXPENSES):				
Interest income .....	18	22	20	71
Interest expense and financing charges .	(19)	(73)	(116)	(153)
Other, net .....	48	(94)	95	(130)
	-----	-----	-----	-----
Total other income (expenses) .....	47	(145)	(1)	(212)
	-----	-----	-----	-----
NET INCOME (LOSS) .....	(177)	452	3,085	(181)
Preferred dividends .....	0	(56)	(56)	(113)
	-----	-----	-----	-----
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS .....	\$ (177)	\$ 396	\$ 3,029	\$ (294)
	=====	=====	=====	=====
INCOME (LOSS) PER COMMON SHARE .....	\$ (0.02)	\$ 0.04	\$ 0.3	\$ (0.03)
	=====	=====	=====	=====
WEIGHTED AVERAGE COMMON SHARES				
OUTSTANDING .....	8,865,469	8,865,469	8,865,469	8,865,469
	=====	=====	=====	=====

</TABLE>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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

<TABLE>  
<CAPTION>

	Six Months Ended June 30,	
	1997	1996
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
<S>	<C>	<C>
Net income (loss) .....	\$ 3,085	\$ (181)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization .....	302	618
Seismic and exploration costs .....	66	115
Gain on sale of assets .....	(3,332)	(1,140)
Change in assets and liabilities that provided (used) cash:		
Funds in Escrow .....	(8)	--
Accounts with partners .....	(315)	(1162)
Trade receivables .....	(1,352)	(131)
Other receivables .....	425	(156)
Crude oil inventory .....	--	971
Materials and supplies .....	(64)	135
Prepaid expenses and other .....	(25)	50
Accounts payable .....	819	430
Accrued liabilities .....	(424)	(387)
	-----	-----
Net cash used in operating activities .....	(823)	(838)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Seismic and exploration costs .....	(66)	(158)
Additions to property and equipment .....	(108)	(453)
Proceeds from sale of assets .....	4,672	1,825
Net cash provided by investing activities .....	4,498	1,343
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings .....	--	1,000
Repayments of debt obligations .....	(4,720)	(700)

Advances from related parties (net) .....	1,424	3
	-----	-----
Net cash provided by (used in) financing activities .....	(3,296)	303
	-----	-----
NET CHANGE IN CASH AND EQUIVALENTS .....	379	808
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD .....	1,055	701
	-----	-----
CASH AND EQUIVALENTS AT END OF PERIOD .....	\$ 1,434	\$ 1,509
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Net cash paid for interest .....	\$ 231	\$ 158
	=====	=====
Depletion costs previously capitalized in crude oil inventory	\$ --	\$ 533
	=====	=====

</TABLE>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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VAALCO ENERGY, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED JUNE 30, 1997  
(UNAUDITED)

1. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

2. CURRENT DEVELOPMENTS

In July 1997, the Company completed a private placement of four million shares of common stock. Certain selling shareholders accounted for 500,000 of the private placement shares. The private placement resulted in \$3.2 million net proceeds to the Company. Concurrent with the private placement of equity, the Company redeemed all of the issued and outstanding shares of its 10% Cumulative Series A Preferred Stock. Payment of the redemption price and payment of accrued and unpaid dividends were satisfied by the issuance of an aggregate of 2,740,663 shares of Common Stock.

Also, in July 1997, the Company amended its Certificate of Incorporation to increase the number of shares of Common Stock it is authorized to issue. As a result of such amendment, the Company is authorized to issue 50,000,000 shares of Common Stock of which 15,466,527 shares were issued and outstanding on August 11, 1997.

Effective August 1, 1997, Mr. Robert L. Gerry, III was elected Chairman of the Board of the Company. Mr. Gerry was previously vice chairman of Nuevo Energy Company. Mr. Gerry will also serve as the Company's Chief Executive Officer. Mr. C. W. Alcorn resigned as Chairman of the Board but will remain a director of the Company.

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

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In the Philippines, the Company announced a farmout in the fourth quarter of 1996 which will result in a \$7.0 million 3-D seismic survey program over acreage held by the Company. The seismic acquisition commenced in February 1997 and at July 31, 1997 was 67% completed. See "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations."

On April 4, 1997, in Gabon, the Company executed the previously announced farm-in agreement with Western Atlas Afrique, Ltd. for the acquisition of seismic and drilling of a well on the Etame Contract. See "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations."

### 3. DEBT OBLIGATIONS

In December 1996, the Company issued \$0.6 in debt associated with the acquisition of certain properties in the Gulf of Mexico. The loan is secured by an assignment of revenue interests ranging from 45% to 65% in certain properties. The loan is recourse only to the assigned revenue interests, and is not guaranteed by the Company. The balance on the note at June 30, 1997 was \$0.2 million.

The Company retired certain debt of its Philippines subsidiaries in April 1997.

### EARNINGS PER SHARE

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

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

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

#### CAPITAL RESOURCES AND LIQUIDITY

Historically, the Company's primary source of capital resources has been from its production operations in the Philippines, asset sales and the issuance of debt. The Company continues to produce the Nido and Matinloc fields in the Philippines at approximately 675 BOPD.

Through a diversification program undertaken by management, the Company acquired producing assets in the Gulf of Mexico and two interests in Gabon. The Company has also accumulated approximately 1,603 acres in the Wilcox trend of Goliad County, Texas.

In order to execute the diversification program, the Company has, among other activities, been actively seeking farmout partners to progress the development of its prospects. In this regard, the Company has successfully entered into farmout agreements in one of its Gabon blocks and in its Philippines blocks in exchange for carried work programs. For the domestic acquisition program, the Company has relied on the private placement of equity and issuance of debt to raise capital for these acquisitions. A more detailed description of the Company's activities is described below.

In July 1997, the Company completed a private placement of four million shares of common stock. Certain selling shareholders accounted for 500,000 of the private placement shares. The private placement resulted in \$3.2 million net proceeds to the Company. Concurrent with the private placement of equity, the

Company redeemed all of the issued and outstanding shares of its 10% Cumulative Series A Preferred Stock. Payment of the redemption price and payment of accrued and unpaid dividends were satisfied by the issuance of an aggregate of 2,740,663 shares of Common Stock.

Also, in July 1997, the Company amended its Certificate of Incorporation to increase the number of shares of Common Stock it is authorized to issue. As a result of such amendment, the Company is authorized to issue 50,000,000 shares of Common Stock of which 15,466,527 shares were issued and outstanding on August 11, 1997.

#### United States

In December 1996, the Company issued \$618,000 in debt associated with the acquisition of certain properties in the Gulf of Mexico. The loan is secured by an assignment of revenue interests in certain of the properties. The loan is recourse only to the assigned revenue interests, and is not guaranteed by the Company. The balance of the note as of June 30, 1997 was \$199,000. The Gulf of Mexico properties consist of interests in seven offshore fields in ten lease blocks. Four of the platforms in three of the fields, High Island blocks A-313, A-314 and A-280, are being operated by VAALCO. The balance of the package consists of non-operated interests in the West Cameron, Vermilion and Ship Shoal areas of the Gulf of Mexico. No significant capital expenditures are anticipated in 1997 for these properties.

In October 1994, the Company acquired a working interest in approximately 1,200 acres in Goliad County, Texas, in exchange for cash and warrants to purchase shares of the Company's Common Stock, \$.10 par value per share (the "Common Stock"). The warrants have a term of three years and will consist of the right to purchase 200,000 shares of Common Stock at an exercise price of \$2.50 per share and 200,000 shares of Common Stock at an exercise price of \$5.00 per share, subject to the terms and conditions of the acquisition agreement. A working interest in an additional 403 acres was acquired during 1996. The Company has an average 76% net revenue interest in the acreage and plans to analyze this property in 1997 for potential drilling locations. The three year lease has no drilling obligation requirements. Capital expenditures for 1997 will depend upon the outcome of analysis currently being done on the area.

#### Gabon

In July 1995, the Company acquired two blocks offshore Gabon, the Equata block and the Etame block. Both blocks contain previous discoveries that the Company is currently evaluating to determine their commercial viability. The Company and its partners have an obligation to the Government of Gabon to obtain approximately 1,500 line kilometers of seismic data and to drill one well on the Etame block during the three-year term of the license.

In April 1997, the Company entered into an agreement with Western Atlas Afrique, Ltd., a subsidiary of Western Atlas, which will perform the required seismic surveys and pay a disproportionate 80% of the cost, up to \$4.7 million, of the estimated \$5.8 million (dry hole cost) commitment well to earn a 65% interest in the concession. The Company and its partners will be responsible for 20% of the cost (35% over \$4.7 million) of the commitment well. VAALCO's share of the dry hole cost of the commitment well is estimated to be \$0.7 million. At June 1997, the Company completed the above mentioned acquisition of seismic data over the property. These data are currently being processed to determine the best location for drilling a well. The Company has contracted a drilling rig for the first quarter of 1998 to drill the well.

#### Philippines

In October 1996, VAALCO and the other Service Contract No. 14 and Service Contract No. 6 consortium members entered into a farmout agreement wherein the farmee, an Australian company, is required to shoot a \$7.0 million 3-D seismic program over the service contracts during 1997. The Australian farmee company will earn a 35% interest in the blocks for performing the work. In addition, the Australian company has the option to drill two wells, one on each Service Contract, to earn up to an additional 25% interest in each Service Contract. Seismic acquisition under the farmout agreement commenced in February 1997 and was 67% completed at July 31, 1997. No significant capital expenditures are anticipated by the Company in 1997 for the Philippines operations.

In March 1997, the Company sold its Gulf of Cambay concession and its 4% net profits interest in the CY-OS/2 concession, both in India, to Hardy Oil & Gas (UK) Limited for \$2.5 million. The Company applied \$1.0 million of the proceeds from the sale to complete the payment of the non-recourse loan made to the Company by Hardy in 1996. The remainder of the note was paid in April 1997. 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, asset sales and cash flows from operations to provide the required capital for funding future operations. While there can be no assurance that the Company will be successful in raising new financing, management believes that the prospects the Company has in hand will enable it to attract sufficient capital to fund required oil and gas activities. Cash FlowsNet cash provided by investing activities for the six months ended June 30, 1997 was \$4.5 million, an increase of \$3.2 million, as compared to \$1.3 million for the same period in 1996. The 1997 amount reflects cash received from the sale of marketable securities and the sale of the Company's interest in India. Net cash used in financing activities for the six months ended June 30, 1997 was \$3.3 million, as compared to net cash provided by financing activities of \$0.3 million for the same period in 1996. The 1997 amount reflects the payment of the Company's long term debt.

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

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

RESULTS OF OPERATIONS

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

THREE MONTHS ENDED JUNE 30, 1997 COMPARED TO THREE MONTHS ENDED JUNE 30, 1996

REVENUES

Total crude oil and gas sales for the three months ended June 30, 1997 were \$0.8 million, an increase of \$0.5 million, as compared to \$0.3 million for the same period in 1996. The 1996 revenues relate to the Company's oil production in the Philippines. 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 gain on sale of assets of \$1.1 million, recognized in the three months ended June 30, 1996, was associated with the sale of the Company's interest in the PY-3 field in India.

OPERATING COSTS AND EXPENSES

Production expenses for the three months ended June 30, 1997 were \$0.5 million, an increase of \$0.3 million, as compared to \$0.2 million for the same period in 1996. The increase is primarily due to production costs incurred in 1997 relating to the Gulf of Mexico operations.

General and administrative expenses for the three months ended June 30, 1997 were \$0.2 million, a decrease of \$0.2 million, or 56%, as compared to \$0.6 million for the same period in 1996. The decrease is primarily due to reduced overhead costs in the Philippines and overhead reimbursements in Gabon and the Gulf of Mexico.

No preferred dividends were paid or accrued in the three months ending June 30, 1997. As part of the agreement to redeem the preferred stock in July, the preferred shareholders waived the right to preferred dividends beyond March 31, 1997.

Other net income increased by \$0.2 million to \$0.05 million for the three months ending June 30, 1997 from a loss of \$0.1 million for the comparable period in 1996. Certain inventory adjustments in 1996 accounted for the increase.

#### NET INCOME

Net loss attributable to common stockholders for the three months ended June 30, 1997 was \$0.2 million, compared to net income attributable to common stockholders of \$0.4 million for the same period in 1996. The 1996 income results from the recognition of a gain on the sale of assets associated with the sale of the Company's interest in the PY-3 field in India.

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

#### SIX MONTHS ENDED JUNE 30, 1997 COMPARED TO SIX MONTHS ENDED JUNE 30, 1996

##### REVENUES

Total crude oil and gas sales for the six months ended June 30, 1997 were \$1.7 million, a decrease of \$0.5 million, or 21%, as compared to \$2.2 million for the same period in 1996. The 1996 revenues relate to the Company's oil production in the Philippines, and included a final crude oil sale from the West Linapacan "A" Field. 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 gain on sale of assets of \$3.3 million, recognized in the six months ended June 30, 1997, was associated with the sale of marketable securities and the sale of the Company's interest in India. The gain on sale of assets of \$1.1 million, recognized in the six months ended June 30, 1996, was associated with the sale of the Company's interest in the PY-3 field in India.

##### OPERATING COSTS AND EXPENSES

Production expenses for the six months ended June 30, 1997 were \$0.9 million, a decrease of \$0.5 million, or 39%, as compared to \$1.4 million for the same period in 1996. The decrease is primarily due to reduced operating costs in the Philippines, offset by production costs incurred in 1997 relating to the Gulf of Mexico operations.

Depletion for 1997 relates to the Gulf of Mexico properties. No depletion expense was recorded in 1997 for the Philippine properties, as the property was fully depleted. The 1996 amount represents depletion of the Philippine properties.

General and administrative expenses for the six months ended June 30, 1997 were \$0.7 million, a decrease of \$0.3 million, or 34%, as compared to \$1.1 million for the same period in 1996. The decrease is primarily due to reduced overhead costs in the Philippines and overhead reimbursements in Gabon and the Philippines.

Preferred dividends decreased from \$0.11 million to \$0.06 million due to the termination of dividend payments at March 31, 1997.

Other net income increased by \$0.2 million to \$0.0 million for the six months ending June 30, 1997 from a loss of \$0.2 million for the comparable period in 1996. Certain inventory adjustments in 1996 accounted for the increase.

#### NET INCOME

Net income attributable to common stockholders for the six months ended June 30, 1997 was \$3.0 million, compared to net loss attributable to common stockholders of \$0.3 million for the same period in 1996. The 1997 income results from the recognition of a gain associated with the sale of marketable securities and the sale of the Company's interest in India.

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PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES

In July 1997, the Company completed a private placement of four million shares of common Stock at a price of \$1.00 per share to certain accredited investors. Certain selling shareholders accounted for 500,000 of the private placement shares. The private placement resulted in \$3.2 million net proceeds to the Company. The Company also issued warrants to purchase 345,325 shares of Common Stock at an exercise price of \$1.00 per share to the placement agent for services rendered in connection with the private placement.

Concurrent with the private placement of equity, the Company redeemed all of the issued and outstanding shares of its 10% Cumulative Series A Preferred Stock. Payment of the redemption price and payment of accrued and unpaid dividends were satisfied by the issuance of an aggregate of 2,740,663 shares of Common Stock.

The Company claimed exemption from registration under the Securities Act of 1933, as amended, of such warrants and shares issued by the Company under Section 4(2) of such Act as a transaction by an issuer not involving any public offering.

In July 1997, the Company amended its Certificate of Incorporation to increase from 15,000,000 to 50,000,000 the number of shares of Common Stock authorized for issuance. See Item 4, "Submission of Matters to a Vote of Security Holders".

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

By written consent dated July 10, 1997, in lieu of a special meeting of stockholders, holders of an aggregate of 6,042,750 shares of Common approved an amendment to the Company's Certificate of Incorporation to increase from 15,000,000 to 50,000,000 the number of shares of Common Stock authorized for issuance.

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit 3.1 Certificate of Amendments to Certificate of Incorporation, dated July 14, 1997, of the Company.

Exhibit 3.2 Certificate of Amendments to Certificate of Designation of 10% Cumulative Preferred Stock, Series A dated July 14, 1997, of the Company.

Exhibit 10.1 Resignation Rights Agreement, dated July 28, 1997, by and among the Company, Jefferies & Company, Inc. and the investors listed therein.

27. Financial Data Schedule

(b) Reports on Form 8-K  
None.

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SIGNATURES

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

VAALCO ENERGY, INC.  
(Registrant)

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

Dated August 13, 1997



VAALCO ENERGY INC.

CERTIFICATE OF AMENDMENT  
TO  
CERTIFICATE OF INCORPORATION

Pursuant to Section 242 of the  
General Corporation Law of the State of Delaware

VAALCO Energy Inc. (the "Company"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, does hereby certify:

FIRST: That the Board of Directors of the Company, pursuant to a unanimous written consent dated July 10, 1997, adopted the following resolution that set forth certain amendments to the Certificate of Incorporation of the Company (the "Certificate"):

RESOLVED, that the Board deems it advisable and in the best interest of the Company that the number of authorized shares of the Company's Common Stock, par value \$0.10 per share (the "Common Stock"), be increased to 50,000,000 shares and that to effect such increase Article Four of the Company's Certificate of Incorporation, as amended (the "Certificate of Incorporation"), be amended to read in its entirety as follows:

"ARTICLE FOUR

The aggregate number of shares which the corporation has authority to issue is 50,500,000, of which 50,000,000 shares shall be a class designated as Common Stock with a par value of \$0.10 per share, and 500,000 shares shall be a class designated as Preferred Stock with a par value of \$25.00 per share. The Board of Directors is authorized, subject to limitations prescribed by law and the provisions of this Article Four, to provide for the issuance of shares of Preferred Stock in series, and, by filing a certificate pursuant to the applicable law of the State of Delaware, to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences and rights of the shares of each series and the qualifications, limitations or restrictions thereof.

The authority of the Board with respect to each series shall include, but not be limited to, determination of the following:

(a) The number of shares constituting that series and the distinctive designation of that series;

(b) The dividend rate on the shares of that series, whether dividends shall be cumulative, and if so, from which date or dates, and the relative rights of priority, if any, of payment of dividends on shares of that series;

(c) Whether that series shall have voting rights, in addition to the voting rights provided by law, and, if so, the terms of such voting rights;

(d) Whether that series shall have conversion privileges, and, if so, the terms and conditions of such conversion, including provision for adjustment of the conversion rate in such events as the Board of Directors shall determine;

(e) Whether or not the shares of that series shall be redeemable, and, if so, the terms and conditions of such redemption, including the date or date upon or after which they shall be redeemable, and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates;

(f) Whether that series shall have a sinking fund for the redemption or purchase of shares of that series, and, if so, the terms and amount of such sinking fund;

(g) The rights of the shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding up of the corporation, and the relative rights of priority, if any, of payment of shares of that series;

(h) Any other relative rights, preferences and limitations of that series.

Dividends on outstanding shares of Preferred Stock shall be paid or declared and set apart for payment before any dividends shall be paid or declared and set apart for payment on the common shares with respect to the same dividend period.

If upon any voluntary or involuntary liquidation, dissolution or winding up of the corporation, the assets available for distribution to holders of shares of Preferred Stock of all series shall be insufficient to pay such holders the full preferential amount to which they are entitled, then such assets shall be distributed ratably among the shares of all series of Preferred Stock in accordance with the respective preferential amounts (including unpaid cumulative dividends, if any) payable with respect thereto."

SECOND: That in lieu of a special meeting and vote of stockholders, certain holders of outstanding shares of Common Stock of the Company entitled to vote on the amendments of the Certificate have given their written consent to such amendments of the Certificate in accordance with the provisions of Section 228 of the General Corporation Law of the State of Delaware. Written notice has been given as provided in such Section 228 to those stockholders of the Company who have not so consented in writing.

THIRD: That the aforesaid amendments to the Certificate were duly adopted in accordance with the applicable provisions of Sections 242 and 228 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, said Company has caused this certificate to be signed by its undersigned duly authorized officer this \_\_\_\_ day of July, 1997.

VAALCO ENERGY INC.

Charles W. Alcorn, Jr.,  
Chairman and Chief Executive Officer

VAALCO ENERGY INC.

CERTIFICATE OF AMENDMENT  
TO  
CERTIFICATE OF DESIGNATIONS  
of  
10% CUMULATIVE PREFERRED STOCK, SERIES A

Pursuant to Section 242 of the  
General Corporation Law of the State of Delaware

VAALCO Energy Inc. (the "Company"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, does hereby certify:

FIRST: That the Board of Directors of the Company, pursuant to a unanimous written consent dated July 10, 1997, adopted the following resolution that set forth certain amendments to the Certificate of Designations (the "Certificate") of 10% Cumulative Preferred Stock, Series A (the "Series A Preferred"), of the Company:

RESOLVED, that the Board deems it advisable and in the best interest of the Company to amend in certain respects the Certificate of Designations of 10% Cumulative Preferred Stock, Series A (the "Certificate of Designations") of the Company and that to effect certain amendments paragraph (ii)(b) of the Certificate of Designations is amended to read in its entirety as follows:

"(b) Any dividend payments made with respect to the Series A Preferred shall be made in cash; PROVIDED, HOWEVER, that the Corporation may, at the election of the Board of Directors, subject to and in accordance with the provisions herein, duly authorize and issue additional fully paid and nonassessable shares of Common Stock par value \$.10 per share of the Corporation ("Common Shares") in lieu of the payment in cash of all or any portion of the dividend otherwise payable on any dividend payment date. If the Corporation elects to issue Common Shares in lieu of the payment in cash of such dividend with respect to any dividend payment date, (1) the Corporation shall give notice of such election to the holders of shares of Series A Preferred not less than 15 nor more than 60 days prior to such dividend payment date; (2) the Corporation shall execute, issue and deliver on such dividend payment date to each holder of record on the related record date, a stock certificate dated such dividend payment date representing such number of Common Shares as equals the quotient of the dollar amount of the dividend declared divided by \$1.00 per Common Share; and (3) the due issuance of such Common Shares shall constitute full payment of such dividend; PROVIDED, HOWEVER, that, in lieu of the issuance of any fractional Common Shares, the Corporation shall pay, on such dividend payment date, to each holder of shares of Series A Preferred who would otherwise be entitled to a fractional Common Share as a dividend on the aggregate number of shares of Series A Preferred held by such holder on the related record date, an amount in cash equal to the fractional amount multiplied by \$1.00 per Common Share."

RESOLVED, that the Board deems it advisable and in the best interest of the Company to amend in certain respects the Certificate of Designations and that to effect certain amendments paragraph (v)(b) of the Certificate of Designations is amended to read in its entirety as follows:

"(b) The redemption price shall be paid in cash; PROVIDED, HOWEVER, that the Corporation may, at the election of the Board of Directors, subject to and in accordance with the provisions herein, duly authorize and issue additional fully paid and nonassessable shares of Common Stock par value \$.10 per share of the Corporation ("Common Shares") in lieu of the payment in cash of any portion of the redemption price otherwise payable on the redemption date. If the Corporation elects to issue Common Shares in lieu of the payment in cash of the redemption price with respect to any redemption date, the Corporation shall execute, issue and deliver on such redemption date to each holder of record of Series A Preferred to be redeemed on the related record date, a stock certificate dated such redemption date representing such number of Common Shares as equals the quotient of the dollar amount of the redemption price divided by \$1.00 per the Common Share; and the due issuance of such Common Shares shall constitute full payment of such redemption price; PROVIDED, HOWEVER, that, in lieu of the issuance of any fractional Common Shares, the Corporation shall pay, on such redemption date, to each holder of shares of Series A Preferred who would otherwise be entitled to a fractional Common Share as part of the redemption price on the aggregate number of shares of Series A Preferred held by such holder on the related record date, an amount in cash equal to the fractional amount multiplied by \$1.00 per Common Share."

SECOND: That in lieu of a special meeting and vote of stockholders,

certain holders of outstanding shares of Common Stock of the Company entitled to vote on the amendments of the Certificate have given their written consent to such amendments of the Certificate in accordance with the provisions of Section 228 of the General Corporation Law of the State of Delaware. Written notice has been given as provided in such Section 228 to those stockholders of the Company who have not so consented in writing.

That in lieu of a special meeting and vote of holders of the Series A Preferred, all of the holders of outstanding shares of Series A Preferred entitled to vote on the amendments of the Certificate have given their written consent, voting as a class, to such amendments of the Certificate in accordance with the provisions of Section 228 of the General Corporation Law of the State of Delaware.

THIRD: That the aforesaid amendments to the Certificate were duly adopted in accordance with the applicable provisions of Sections 242 and 228 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, said Company has caused this certificate to be signed by its undersigned duly authorized officer this \_\_\_\_ day of July, 1997.

VAALCO ENERGY INC.

Charles W. Alcorn, Jr.,  
Chairman and Chief Executive Officer

## REGISTRATION RIGHTS AGREEMENT

This REGISTRATION RIGHTS AGREEMENT (this "Agreement"), dated as of July 28, 1997, by and among VAALCO Energy, Inc., a Delaware corporation (the "Company"), Jefferies & Company, Inc. ("Jefferies") and the individuals and entities listed on EXHIBIT A hereto (collectively, the "Stockholders");

## W I T N E S S E T H:

WHEREAS, the Company, certain selling stockholders and each of the Stockholders have entered into a Subscription Agreement (the "Subscription Agreement") relating to the purchase by Stockholders of an aggregate of 4,000,000 shares (the "Shares") of Common Stock, par value \$.10 per share ("Common Stock"), of the Company;

WHEREAS, in order to induce the Stockholders to enter into the Subscription Agreement, the Company has agreed to grant certain registration rights to the Stockholders with respect to the Shares;

WHEREAS, in connection with the private placement of the Shares with the Stockholders, the Company has granted to Jefferies a warrant to purchase 345,325 shares of Common Stock (the "Warrant Shares") at an exercise price of \$1.00 per share; and

WHEREAS, the Company has agreed to grant certain registration rights to Jefferies with respect to the Warrant Shares;

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

## 1. DEFINITIONS.

As used herein, the following terms have the indicated meanings, unless the context otherwise requires:

"Act" means the Securities Act of 1933, as amended.

"Commission" means the Securities and Exchange Commission.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Holder" means a Stockholder who owns Registrable Securities or any permitted transferee thereof who owns Registrable Securities.

"Registrable Securities" means the Shares, the Warrant Shares and any other securities issued or issuable by the Company with respect to the Shares or the Warrant Shares by way of a stock dividend or other distribution or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or reorganization. Any Registrable Securities will cease to be such when (i) a registration statement covering such Registrable Securities has been declared effective by the Securities and Exchange Commission and such Registrable Securities have been disposed of pursuant to such effective registration statement, (ii) such Registrable Securities may be distributed to the public pursuant to Rule 144 (or any similar provision then in force) under the Act or (iii) the Company has delivered a new certificate or other evidence of ownership for such Registrable Securities not bearing the legend required pursuant to the Subscription Agreement or the Warrant to Purchase Common Stock regarding the Warrant Shares and such Registrable Securities may be resold to the public without restriction under the Act in accordance with Rule 144(k).

"Selling Holder" means a Stockholder or permitted transferee thereof who is selling Registrable Securities pursuant to a registration statement.

## 2. PIGGY-BACK REGISTRATION.

(a) If the Company proposes to file a registration statement under the Act with respect to an offering by the Company of any class of equity security, including any security convertible into or exchangeable for any equity securities (other than (i) a registration statement on Form S-4 or S-8 (or any substitute form for comparable purposes that may be adopted by the Commission), (ii) a registration statement filed in connection with an exchange offer or an offering of securities solely to the Company's existing security holders or (iii) in connection with the registration statement that is on a form pursuant to which an offering of the Registrable Securities cannot be registered), then the Company shall in each case give written notice of such proposed filing to the Holders at least 30 days before the anticipated filing date, and such notice shall offer the Holders the opportunity to register such number of Registrable Securities as each such Holder may request. Upon the written request of any Holder received by the Company within 15 business days after the date of the Company's delivery of its notice to the Holders of its intention to file such a registration statement, the Company shall, subject to the conditions and in

accordance with the procedures set forth herein, use its best efforts to cause the managing underwriter or underwriters, if any, of a proposed underwritten offering to permit the Registrable Securities requested by the Holder to be included in the registration statement for such offering on the same terms and conditions as any similar securities of the Company included therein (a "Piggy-Back Registration"). Notwithstanding the foregoing, if the managing underwriter or underwriters of an offering indicates in writing to the Holders who have requested that their Registrable Shares be included in such offering, its reasonable belief that because of the size of the offering intended to be made, the inclusion of the Registrable Securities requested to be included might reasonably be expected to jeopardize the success of the offering of the securities of the Company to be offered and sold by the Company for its own account, then the amount of securities to be offered for the account of the Holders shall be reduced on a pro rata basis with all sellers (whether or not such sellers are Holders) other than the Company to the extent necessary to reduce the total amount of securities to be included in such offering to the amount recommended by such managing underwriter or underwriters. The Company will bear all Registration Expenses (as hereinafter defined) in connection with a Piggy-Back Registration.

(b) The Company may, without the consent of any Selling Holder, withdraw any registration statement prior to the effectiveness thereof and abandon any proposed offering initiated by the Company, notwithstanding the request of a Holder to participate therein in accordance with this Section 2, if the Company determines that such action is in the best interests of the Company.

(c) Notwithstanding anything contained herein to the contrary, the Company will have no obligation under this Section 2 to register any Registrable Securities unless at least 20,000 shares of Registrable Securities in the aggregate are requested to be included in such offering.

### 3 DEMAND REGISTRATION RIGHTS.

(a) If at any time the Current Market Price (as hereinafter defined) is equal to or exceeds \$4.00 per share and the Holders of at least 30,000 shares of the Registrable Securities make a written request to the Company that the Company effect the registration of such Registrable Securities under the Act, then the Company shall, within 15 days of the receipt of such request, give written notice of such request to all other Holders, and such notice shall offer the Holders the opportunity to register such number of Registrable Securities as each such Holder may request (a "Demand Registration"). Upon the written request of Holders of at least 300,000 shares of the Registrable Securities received by the Company within 15 business days after the date of the Company's delivery of its notice to the Holders as described in this Section 3, the Company will, as promptly as reasonably practicable prepare and file with the Commission a registration statement ("DEMAND REGISTRATION STATEMENT") covering such proposed sale of all such Registrable Shares requested to be so registered. The Company will bear all Registration Expenses (as hereinafter defined) in connection with a Demand Registration.

(b) Subject to paragraph (d) below, the Company will use its best efforts to have the Demand Registration Statement declared effective by the Commission as soon as practicable after the filing thereof and to maintain the effectiveness thereof for 90 days (or until all Registrable Shares covered thereby have been sold, if such sales are completed before the end of the 90-day period).

(c) The Company shall only be required to provide three effective Demand Registrations hereunder.

(d) The Company will be entitled to postpone the filing of the Demand Registration Statement, and to suspend sales under the Demand Registration Statement, for: (i) an aggregate number of days not exceeding 120 days, if the Company determines in its sole discretion that the Demand Registration Statement or the offering covered thereby would interfere with or require public disclosure of any financing, acquisition, corporate reorganization or other transaction involving the Company or any of its subsidiaries; (ii) an aggregate number of days not exceeding 180 days, if (A) a registration statement was filed by the Company in connection with an underwritten public offering by the Company of any securities within the 90 days preceding the date of the request or (B) the Commission requires such postponement or suspension; PROVIDED HOWEVER, that in computing the 90-day period for which the Company is required to maintain the effectiveness of the Demand Registration Statement, the period of any such suspension shall not be included. The Company shall give prompt written notice to the Selling Holders of any such postponement or suspension and shall likewise give prompt written notice to the Selling Holders of termination of such postponement or suspension. The Selling Holders hereby agree to postpone the sale of any Registrable Shares pursuant to the Demand Registration Statement during any suspension of sales of the Common Stock thereunder by the Company.

### 4. RESTRICTIONS ON PUBLIC SALE BY HOLDER OF REGISTRABLE SECURITIES.

To the extent not inconsistent with applicable law, each Holder whose Registrable Securities are included in a registration statement pursuant to Section 2 or 3 agrees not to effect any public sale or distribution of the

security being registered or a similar security of the Company, or any securities convertible into or exchangeable or exercisable for such securities, including a sale pursuant to Rule 144 under the Act, during the 90-day period (or such shorter period as may be required by the Company or the managing underwriter or underwriters with respect to any officer or director or shareholder of the Company) beginning on the effective date of a registration statement (except, in each case, as part of such registration), if and to the extent requested by the Company in the case of a non-underwritten public offering or if and to the extent requested by the managing underwriter or underwriters in the case of an underwritten public offering.

#### 5. REGISTRATION PROCEDURES.

Whenever the Holders have requested that any Registrable Securities be included in a registration pursuant to Section 2 or 3 hereof, the Company shall (unless such registration statement is not filed or is withdrawn) use its best efforts to effect the registration and the sale of such Registrable Securities as soon as reasonably practicable, and in connection with any such request, the Company shall (unless such registration statement is not filed or is withdrawn):

(a) (i) prior to filing a registration statement or prospectus or any amendments or supplements thereto, furnish to each Selling Holder and counsel selected by each Selling Holder copies of all such documents proposed to be filed, which documents will be subject to the review of such counsel, (ii) furnish to each Selling Holder, prior to filing a registration statement, copies of such registration statement as proposed to be filed, and thereafter furnish to each Selling Holder such number of copies of such registration statement, each amendment and supplement thereto (in each case including all exhibits thereto), the prospectus included in such registration statement (including each preliminary prospectus) and such other documents as any Selling Holder may reasonably require in order to facilitate the disposition of the Registrable Securities owned by the Selling Holder, and (iii) after the filing of the registration statement, promptly notify each Selling Holder of Registrable Securities covered by such registration statement of any stop order issued or threatened by the Commission and take all reasonable actions required to prevent the entry of such stop order or to remove it if entered;

(b) use its best efforts to register or qualify such Registrable Securities under such other securities or blue sky laws of such jurisdictions as each Selling Holder reasonably requests and do any and all other acts and things which may be reasonably necessary or advisable to enable the Selling Holder to consummate the disposition in such jurisdictions of the Registrable Securities owned by the Selling Holder; PROVIDED, HOWEVER, that the Company will not be required to (i) qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this paragraph (b), (ii) subject itself to taxation in any such jurisdiction where it is not then so subject or (iii) consent to general service of process in any such jurisdiction;

(c) use its best efforts to cause such Registrable Securities to be registered with or approved by such other governmental agencies or authorities as may be necessary by virtue of the business and operations of the Company to enable the Selling Holder thereof to consummate the disposition of such Registrable Securities;

(d) notify the Selling Holder, at any time when a prospectus relating thereto is required to be delivered under the Act, of the occurrence of an event requiring the preparation of a supplement or amendment to such prospectus so that, as thereafter delivered to the purchasers of such Registrable Securities, such prospectus will not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading and promptly make available to the Selling Holder any such supplement or amendment;

(e) enter into or arrange for the furnishing of customary agreements and documents (including an underwriting agreement in customary form) and take such other actions as are reasonably required in order to expedite or facilitate the disposition of such Registrable Securities;

(f) make available for inspection by each Selling Holder, any underwriter participating in any disposition pursuant to such registration statement and any attorney, accountant or other professional retained by the Selling Holder or underwriter (collectively, the "Inspectors"), all financial and other records, pertinent corporate documents and properties of the Company and its subsidiaries (collectively, the "Records") as shall be reasonably necessary to enable them to exercise their due diligence responsibility, and cause the Company's and its subsidiaries' officers, directors and employees to supply all information reasonably requested by any such Inspector in connection with such registration statement. Each Selling Holder agrees that information obtained by it as a result of such inspections that is material and deemed confidential shall not be used by it as the basis for any market transactions in securities of the Company unless and until such is made generally available to the public. The Selling Holder further agrees that it will, upon learning that disclosure of such Records is sought in a court of competent jurisdiction, give notice to the Company and allow the Company, at the Company's expense, to undertake appropriate action to prevent disclosure of the Records deemed confidential;

(g) otherwise comply with all applicable rules and regulations of the Commission, and make available to its security holders, as soon as reasonably practicable, an earnings statement covering a period of 12 months, beginning within three months after the effective date of the registration statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Act; and

(h) use its reasonable efforts to cause all such Registrable Securities to be quoted on the Nasdaq Market System, if the Common Stock is then so quoted, or to be listed on any securities exchange on which the Common Stock is then listed.

The Company may require the Selling Holder as to which any registration is being effected to furnish to the Company such information regarding the Selling Holder and the distribution of such Registrable Securities as the Company may from time to time reasonably request in writing and such other information as may be legally required in connection with such registration.

In no event shall the Company be required to amend any registration statement filed pursuant to this Agreement after it has become effective or to amend or supplement any prospectus to permit the continued disposition of shares of Common Stock owned by a Selling Holder registered under any such registration statement beyond the period during which the Company is required to maintain the effectiveness thereof pursuant to the terms of this Agreement.

Each Selling Holder agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in Section 5(d) hereof, the Selling Holder will forthwith discontinue disposition of Registrable Securities pursuant to the registration statement covering such Registrable Securities until the Selling Holder's receipt of the copies of the supplemented or amended prospectus contemplated by Section 5(d) hereof, and, if so directed by the Company, the Selling Holder will deliver to the Company (at the Company's expense) all copies, other than permanent file copies then in the Selling Holder's possession, of the prospectus covering such Registrable Securities current at the time of receipt of such notice. Each Selling Holder also agrees to notify the Company of any event relating to the Selling Holder that occurs that would require the preparation of a supplement or amendment to the prospectus so that such prospectus will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading.

As used herein, the term "Current Market Price" per share of Common Stock or any other security at any date shall mean, on any date of determination (a) the average of the daily closing sale price for the 10 trading days immediately preceding such date if the security has been listed on the New York Stock Exchange, the American Stock Exchange or other national exchange or the Nasdaq National Market for at least 10 trading days prior to such date, (b) if such security is not so listed or traded, the average of the daily closing bid price for the 10 trading days immediately preceding such date if the security has been quoted on a national over-the-counter market for at least 10 trading days, and (c) otherwise, the value of the security most recently determined as of a date within the six months preceding such day by the Company's Board of Directors.

#### 6. REGISTRATION EXPENSES.

All expenses incident to the Company's performance of or compliance with this Agreement, including, without limitation, all registration and filing fees, fees and expenses of compliance with securities or blue sky laws (including fees and disbursements of counsel in connection with blue sky qualifications of the Registrable Securities), rating agency fees, printing expenses, messenger and delivery expenses, internal expenses (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the fees and expenses incurred in connection with the listing of the securities to be registered on the Nasdaq Market System and all securities exchanges on which similar securities issued by the Company are then quoted or listed, and fees and disbursements of counsel for the Company and its independent certified public accountants (including the expenses of any special audit or comfort letters required by or incident to such performance), securities act liability insurance (if the Company elects to obtain such insurance), the fees and expenses of any special experts retained by the Company in connection with such registration, and fees and expenses of other persons retained by the Company, in connection with each registration hereunder (but not including any underwriting discounts or commissions attributable to the sale of Registrable Securities (which are hereinafter referred to as "Selling Expenses")) and the reasonable fees and expenses of one counsel for the Selling Holders, (collectively, the "Registration Expenses") will be borne by the Company in the event of a registration of Registrable Securities pursuant to Section 2 or 3 hereof. All Selling Expenses shall be borne solely by the Selling Holders.

#### 7. INDEMNIFICATION; CONTRIBUTION.

(a) INDEMNIFICATION BY THE COMPANY. To the extent permitted by applicable law, the Company agrees to indemnify and hold harmless each Selling Holder, its

officers, directors, partners, attorneys and agents and each person, if any, who controls a Selling Holder within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, from and against any and all losses, claims, damages (whether in contract, tort or otherwise), liabilities and expenses (including reasonable costs of investigation) whatsoever (as incurred or suffered) arising out of or based upon any untrue statement or alleged untrue statement of a material fact contained in any registration statement or prospectus relating to the Registrable Securities or in any amendment or supplement thereto or in any preliminary prospectus, or arising out of or based upon any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages, liabilities or expenses arise out of, or are based upon, any such untrue statement or omission or allegation thereof based upon information furnished in writing to the Company by such Selling Holder or on behalf of such Selling Holder expressly for use therein and PROVIDED, that with respect to any untrue statement or omission or alleged untrue statement or omission made in any preliminary prospectus, the indemnity agreement contained in this paragraph shall not apply to the extent that any such loss, claim, damage, liability or expense results from the fact that a current copy of the prospectus was not sent or given to the person asserting any such loss, claim, damage, liability or expense at or prior to the written confirmation of the sale of the Registrable Securities concerned to such person if it is determined that the Company had previously provided such Selling Holder with such current copy of the prospectus, it was the responsibility of such Selling Holder to provide such person with such current copy of the prospectus and such current copy of the prospectus would have cured the defect giving rise to such loss, claim, damage, liability or expense. The Company also agrees to indemnify any underwriters of the Registrable Securities, their officers, partners and directors and each person who controls such underwriters on substantially the same basis as that of the indemnification of the Selling Holder provided in this Section 7 or such other indemnification customarily obtained by underwriters at the time of offering.

(b) CONDUCT OF INDEMNIFICATION PROCEEDINGS. If any action or proceeding (including any governmental investigation) shall be brought or asserted against a Selling Holder (or its officers, directors, partners, attorneys or agents) or any person controlling such Selling Holder in respect of which indemnity may be sought from the Company, the Company shall assume the defense thereof, including the employment of counsel reasonably satisfactory to such Selling Holder, and shall assume the payment of all expenses. Each Selling Holder or any controlling person of a Selling Holder shall have the right to employ separate counsel in any such action and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Selling Holder or such controlling person unless (i) the Company has agreed to pay such fees and expenses or (ii) the named parties to any such action or proceeding (including any impleaded parties) include both the Selling Holder or such controlling person and the Company, and the Selling Holder or such controlling person shall have been advised by counsel that there may be one or more legal defenses available to such Selling Holder or such controlling person which are different from or additional to those available to the Company (in which case, if such Selling Holder or such controlling person notifies the Company in writing that it elects to employ separate counsel at the expense of the Company, the Company shall not have the right to assume the defense of such action or proceeding on behalf of such Selling Holder or such controlling person) or (iii) the use of counsel chosen by the Company to represent the Selling Holder would present such counsel with a conflict of interest or (iv) the Company shall not have employed counsel satisfactory to the Selling Holder to represent the Selling Holder within a reasonable time after notice of the institution of such action; it being understood, however, that the Company shall not, in connection with any one such action or proceeding or separate but substantially similar or related actions or proceedings in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the fees and expenses of more than one separate firm of attorneys (together with appropriate local counsel) at any time for each Selling Holder, which firm shall be designated in writing by such Selling Holder). The Company shall not be liable for any settlement of any such action or proceeding effected without the Company's written consent, but if settled with its written consent, or if there be a final judgment for the plaintiff in any such action or proceeding, the Company agrees to indemnify and hold harmless each Selling Holder and controlling person from and against any loss or liability (to the extent stated above) by reason of such settlement or judgment. The Company shall not, without the prior written consent of the Selling Holder, settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the Selling Holders are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each Selling Holder from all liability arising out of such claim, action, suit or proceeding.

(c) INDEMNIFICATION BY HOLDER OF REGISTRABLE SECURITIES. Each Selling Holder agrees to indemnify and hold harmless the Company, its directors and officers and each person, if any, who controls the Company within the meaning of either Section 15 of the Act or Section 20 of the Exchange Act, to the same extent as the foregoing indemnity from the Company to the Selling Holder, but only with respect to information furnished in writing by the Selling Holder or

on the Selling Holder's behalf expressly for use in any registration statement or prospectus relating to the Registrable Securities, or any amendment or supplement thereto, or any preliminary prospectus. In case any action or proceeding shall be brought against the Company or its directors or officers, or any such controlling person, in respect of which indemnity may be sought against a Selling Holder, such Selling Holder shall have the rights and duties given to the Company, and the Company or its directors or officers or such controlling person shall have the rights and duties given to a Selling Holder, by the preceding paragraph. The Selling Holder also agrees that it will enter into an indemnity agreement to indemnify and hold harmless underwriters of the Registrable Securities, their officers and directors and each person who controls such underwriters on substantially the same basis as that of the indemnification of the Company provided in this Section 7(c). Notwithstanding the foregoing, the liability of a Selling Holder pursuant to this Section 7(c) shall not exceed the amount of the aggregate proceeds of the Registrable Securities of the Selling Holder.

(d) CONTRIBUTION. If the indemnification provided for in this Section 7 is unavailable to the Company or a Selling Holder in respect of any losses, claims, damages, liabilities or judgments referred to herein, then each such indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities and judgments (i) as between the Company and such Selling Holder on the one hand and the underwriters on the other, in such proportion as is appropriate to reflect the relative benefits received by the Company and a Selling Holder on the one hand and the underwriters on the other from the offering of the Registrable Securities, or if such allocation is not permitted by applicable law, in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company and such Selling Holder on the one hand and of the underwriters on the other in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities or judgments, as well as any other relevant equitable considerations and (ii) as between the Company, on the one hand, and a Selling Holder on the other, in such proportion as is appropriate to reflect the relative fault of the Company and of such Selling Holder in connection with such statements or omissions, as well as any other relevant equitable considerations. The relative benefits received by the Company and a Selling Holder on the one hand and the underwriters on the other shall be deemed to be in the same proportion as the total proceeds from the offering (net of underwriting discounts and commissions but before deducting expenses) received by the Company and such Selling Holder bear to the total underwriting discounts and commissions received by the underwriters, in each case as set forth in the table on the cover page of the prospectus. The relative fault of the Company and such Selling Holder on the one hand and of the underwriters on the other shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company and such Selling Holder or by the underwriters. The relative fault of the Company on the one hand and of such Selling Holder on the other shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by such party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company and each Selling Holder agree that it would not be just and equitable if contribution pursuant to this Section 7(d) were determined by pro rata allocation (even if the underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. The amount paid or payable by an indemnified party as a result of the losses, claims, damages, liabilities, or judgments referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 7(d), no underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Registrable Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission, and a Selling Holder shall not be required to contribute any amount in excess of the amount of the total price at which the Registrable Securities of the Selling Holder were offered to the public. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

(e) INDEMNIFICATION PAYMENTS. The indemnification and contribution required by this Section 7 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or expense, loss, damage or liability are incurred.

#### 8. PARTICIPATION IN UNDERWRITTEN REGISTRATIONS.

No person may participate in any underwritten registration hereunder

unless such person (a) agrees to sell such person's securities on the basis provided in any underwriting arrangements approved by the persons entitled hereunder to approve such arrangements and (b) completes and executes all questionnaires, powers of attorney, custody agreements, indemnities, underwriting agreements and other documents reasonably required by the Company or managing underwriter under the terms of such underwriting arrangements and this Agreement.

9. RULE 144 AND REPORTS.

The Company covenants that, upon any registration statement covering Company securities becoming effective, it will file the reports required to be filed by it under the Act and the Exchange Act and the rules and regulations adopted by the Commission thereunder (or, if the Company is not required to file such reports, it will, upon the request of any Holder of Registrable Securities, make publicly available other information so long as necessary to permit sales under Rule 144), and it will take such other action as any Holder of Registrable Securities may reasonably request, all to the extent required from time to time to enable such Holder to sell Registrable Securities without registration under the Act within the limitation of the exemptions provided by (a) Rule 144 under the Act, as such Rule may be amended from time to time, or (b) any similar rule or regulation hereafter adopted by the Commission. Upon the request of any Holder of Registrable Securities, the Company will deliver to such Holder a written statement as to whether it has complied with such requirements.

10. MISCELLANEOUS.

(a) BINDING EFFECT. Unless otherwise provided herein, the provisions of this Agreement shall be binding upon and accrue to the benefit of the parties hereto and their respective heirs and legal representatives and permitted transferees, successors and assigns. The rights and obligations of a Holder hereunder cannot be assigned or transferred without the prior written consent of the Company except by will or intestacy or by operation of law.

(b) AMENDMENT. This Agreement may be amended or terminated only by a written instrument signed by the Company and each of the Holders.

(c) APPLICABLE LAW. The internal laws of the State of New York (without regard to choice of law provisions thereof) shall govern the interpretation, validity and performance of the terms of this Agreement.

(d) NOTICES. All notices provided for herein shall be in writing and shall be deemed to have been duly given if delivered personally or sent by registered or certified mail, postage prepaid:

(i) if to the Company, to:

VAALCO Energy, Inc.  
4600 Post Oak Place, Suite 309  
Houston, Texas 77027  
Attention: General Counsel

with a copy to:

Fulbright & Jaworski L.L.P.  
1301 McKinney, Suite 5100  
Houston, Texas 77010  
Attention: Mr. Roger K. Harris

(ii) if to Jefferies & Company, Inc.:

Jefferies & Company, Inc.  
650 Fifth Avenue, 4th Floor  
New York, New York 10019

with a copy to:

Vinson & Elkins, L.L.P.  
2300 First City Tower  
1001 Fannin  
Houston, Texas 77002-6760  
Attention: Mr. T. Mark Kelly

(iii) if to the Stockholders, to the respective addresses set forth on EXHIBIT A hereto.

(e) COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one instrument.

(f) SEVERABILITY. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants, and restrictions of this Agreement shall remain in full force and effect.

[SIGNATURES BEGIN ON THE FOLLOWING PAGE]

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

VAALCO ENERGY, INC.

By:  
Name:  
Title:

JEFFERIES & COMPANY, INC.

By:  
Name:  
Title:

STOCKHOLDERS:

EXHIBIT A

NAME OF SHAREHOLDER	NUMBER OF SHARES
Jacob D. Landry 1636 Arabella New Orleans, Louisiana 70115	100,000
Boyd L. Jefferies & Sharon K. Jefferies JTWOS 731 Cemetery Lane Aspen, Colorado 81611	50,000
Emmett M. Murphy IRA Rollover 1555 Texas Commerce Bank Tower 201 Main Street, Suite 1555 Fort Worth, Texas 76102	200,000
Centennial Energy Partners, L.P. 900 Third Avenue New York, New York 10022	250,000
Tercentennial Energy Partners, L.P. 900 Third Avenue New York, New York 10022	175,000
Quadrennial Partners, LLC 900 Third Avenue New York, New York 10022	50,000
Investment II, LLC 900 Third Avenue New York, New York 10022	25,000
L. Zachary Landry c/o Three Sticks Capital Management 111 Congress Avenue, Suite 1600 Austin, Texas 78701	30,000
Three Sticks Capital Management c/o L. Zachary Landry	300,000

111 Congress Avenue, Suite 1600  
Austin, Texas 78701

Sands Partnership No. 1 920,000  
c/o A. Baron Cass, III  
5005 LBJ Freeway  
Lockbox #119  
Dallas, Texas 75244

Sandpiper & Co. 1,500,000  
c/o Metropolitan Life Insurance Company  
Separate Account EN  
State Street Research and Management Company  
Legal Department  
One Financial Center  
Boston, Massachusetts 02111

David D. May 50,000  
646 Steamboat Road  
Greenwich, Connecticut 06820

Sanford B. Prater 100,000  
646 Steamboat Road  
Greenwich, Connecticut 06820

Philip J. Hempleman 250,000  
646 Steamboat Road  
Greenwich, Connecticut 06820

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THE FINANCIAL DATA SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE BALANCE SHEETS AND CONSOLIDATED STATEMENTS OF OPERATIONS FROM THE COMPANY'S REPORT ON FORM 10-Q FOR THE PERIOD ENDED JUNE 30, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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