

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

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, 2002

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.

(Exact name of small business issuer as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

77027
(Zip Code)

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

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 x No__.

As of August 14, 2002 there were outstanding 20,761,869 shares of
Common Stock, \$.10 par value per share, of the registrant. In addition, as of
August 14, 2002 there were outstanding 10,000 shares of Preferred Stock
convertible into 27,500,000 shares of Common Stock.

VAALCO ENERGY, INC. AND SUBSIDIARIES

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VAALCO ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in thousands of dollars, except par value amounts)

<TABLE>
<CAPTION>
December 31,
2001

June 30,
2002

-----	<C>	<C>
<S>		
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$	7,057
9,804		\$
Funds in escrow		6,203
38		
Receivables:		
Trade		204
179		
Other		146
255		
Materials and supplies, net of allowance for inventory obsolescence of \$5		728
324		
Prepaid expenses and other		142
34		
	-----	----
Total current assets		14,480
10,634		
	-----	----

PROPERTY AND EQUIPMENT-SUCCESSFUL EFFORTS METHOD		
Wells, platforms and other production facilities		2,751
2,648		
Undeveloped acreage		515
459		
Work in progress		14,904
6,692		
Equipment and other		110
98		
	-----	----
		18,280
9,897		
Accumulated depreciation, depletion and amortization		(2,133)
(2,026)		
	-----	----
Net property and equipment		16,147
7,871		
	-----	----

OTHER ASSETS:		
Deferred tax asset		392
393		
Other long-term assets		42
50		
	-----	----

TOTAL	\$	31,061
18,948		\$
	=====	
=====		
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$	8,860
1,173		\$
Accounts with partners		9,300
4,323		
Income taxes payable		2
30		
	-----	----
Total current liabilities		18,162
5,526		
	-----	----

MINORITY INTEREST		13
13		
FUTURE ABANDONMENT COSTS		3,294
3,294		
	-----	----

Total liabilities		21,469
8,833		
	-----	----

STOCKHOLDERS' EQUITY:		

Preferred stock, \$25 par value, 500,000 shares authorized; 10,000 shares issued and outstanding in 2002 and 2001	250	
Common stock, \$.10 par value, 100,000,000 authorized shares 20,767,264 and 20,749,964 shares issued in 2002 and 2001 of which 5,395 are in the treasury	2,077	
Additional paid-in capital	43,114	
Subscription receivable	(1,896)	
Accumulated deficit	(33,941)	
Less treasury stock, at cost	(12)	
Total stockholders' equity	9,592	
TOTAL	\$ 31,061	\$
18,948		

See notes to consolidated financial statements.

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VAALCO ENERGY, INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED OPERATIONS
(Unaudited)
(in thousands of dollars, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June	
	2002	2001	2002	
REVENUES:				
Oil and gas sales	\$ 328	\$ 517	\$ 472	\$
Gain on sale of assets	--	--	--	
Total revenues	328	517	472	
OPERATING COSTS AND EXPENSES:				
Production expenses	125	216	220	
Exploration expense	9	--	9	
Depreciation, depletion and amortization	102	49	107	
General and administrative expenses	165	537	698	
Total operating costs and expenses	401	802	1,034	
OPERATING LOSS	(73)	(285)	(562)	
OTHER INCOME (EXPENSE):				
Interest income	36	84	45	
Equity loss in unconsolidated entities	--	(12)	--	

Other, net (2)	(7)	--	(9)	
-----	-----	-----	-----	-----
Total other income (expense) (225)	29	72	36	
-----	-----	-----	-----	-----
LOSS BEFORE TAXES (325)	(44)	(213)	(526)	
Income tax expense 17	--	2	2	
-----	-----	-----	-----	-----
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS (342)	\$ (44)	\$ (215)	\$ (528)	\$
=====	=====	=====	=====	
LOSS PER COMMON SHARE: BASIC AND DILUTED (0.02)	\$ (0.00)	\$ (0.01)	\$ (0.03)	\$
=====	=====	=====	=====	
WEIGHTED AVERAGE COMMON SHARES: BASIC AND DILUTED 20,745	20,746	20,745	20,746	
=====	=====	=====	=====	

</TABLE>

See notes to consolidated financial statements.

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VAALCO ENERGY, INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS
(Unaudited)
(in thousands of dollars)

<TABLE>
<CAPTION>

	Six Months Ended June 30,	
	2002	2001
	-----	-----
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (528)	\$ (342)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, depletion and amortization	107	52
Equity loss in unconsolidated entities	--	445
Exploration expense	9	--
Gain on sale of assets	--	(215)
Change in assets and liabilities that provided (used) cash:		
Funds in escrow	(6,165)	715
Trade receivables	(25)	(69)
Accounts with partners	4,977	410
Other receivables	109	19
Materials and supplies	(404)	(2)
Prepaid expenses and other	(108)	(90)
Accounts payable and accrued liabilities	7,687	2,325
Income taxes payable	(29)	(8)
	-----	-----
Net cash provided by operating activities	5,630	3,240
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disposals of property and equipment		1,023
Exploration expense	(9)	--
Additions to property and equipment	(8,383)	(5,056)
Investment in unconsolidated entities		169
Other	10	3
	-----	-----
Net cash used in investing activities	(8,382)	(3,861)
	-----	-----

CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock	5	--
	-----	-----
Net cash provided by financing activities	5	--
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,147)	(621)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	9,804	12,440
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 7,057	\$ 11,819
	=====	=====
Cash Income Taxes Paid	\$ --	\$ 21
	=====	=====

</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, 2002
(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 consisting of normal recurring accruals which the Company deems necessary for a fair presentation of its financial position, results of operations and cash flows for the interim period. Such results are not necessarily indicative of results to be expected for the full year. 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, 2001.

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. VAALCO owns producing properties and conducts exploration activities as operator of consortiums internationally in the Philippines and Gabon. Domestically, the Company has interests in the Texas Gulf Coast area.

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

2. RECENT DEVELOPMENTS

In the fourth quarter of 2001, the Company, as Operator, announced its intent to develop the Etame discovery located offshore of the Republic of Gabon. Based upon estimates by the Company's independent reserve engineers, the Company booked 6.1 million barrels of proven undeveloped oil reserves at December 31, 2001 representing \$23.1 million of net present value of future cash flows in conjunction with the plan to develop the field.

The budget for the field development is \$50.2 million dollars (\$15.2 million net to the Company) to complete and gravel pack three existing wells with subsea wellheads, and to lay flowlines to connect the wells to a 1.1 million barrel floating production storage and offloading tanker ("FPSO"). Major contracts for the FPSO, wellheads, flowlines, and the drilling rig have been awarded and entered into to perform the project. A semi-submersible drilling rig is currently on location having completed two of the three wells. The rig is currently completing the third well for the project. At the date of this filing, the flowline installation vessel was on location installing the flowlines from the wells to the location where the FPSO will be moored. The FPSO had completed retrofitting in Singapore and was under sail to the project area, with an anticipated arrival date on location of August 29, 2002. Barring any unforeseen delays the project is expected to come online during September 2002.

To fund its share of the development project, the Company has entered into a line of credit for \$10.0 million with the International Finance Corporation ("IFC"), a subsidiary of the World Bank. The loan agreement was signed on April 19, 2002. The first draw of \$7.0 million was

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2002
(Unaudited)

made in early July. The balance of the loan is expected to be funded prior to project startup. Prior to project completion date, the IFC loan is guaranteed by the Company via cash received from a loan from the 1818 Fund II, L.P. (the "1818 Fund"). At June 30, 2002, the Company had \$6.2 million of funds in escrow to secure letters of credit associated with the Gabon development project.

The 1818 Fund loan will be in the form of a \$10 million subordinated note secured by a second lien on certain collateral with respect to the Company's investment in VAALCO Gabon (Etame), Inc. including the \$10 million cash collateral to support the Company's guarantee of the IFC loan. The interest rate on the loan is 10%. In conjunction with receiving the 1818 Fund loan, the Company issued on June 10, 2002 15 million warrants which will entitle the holder to purchase one share of the Company's Common Stock at a price of \$0.50 per share, 7.5 million of which will be cancelled if project completion occurs on the Etame Block. Management has allocated \$1.896 million of the anticipated proceeds from the loan to the warrants, which has been accounted for in the equity section of the balance sheet as additional paid-in capital with a corresponding offset in Subscriptions Receivable. The allocation is based on the relative fair values of the loan and warrants. The valuation of the warrants is based on a Black Scholes model valuation of the warrants, adjusted for liquidity issues associated with any potential sale of such large volume of shares. The Company has formed an independent committee of the Board of Directors, which has received a fairness opinion with regards to the terms of the 1818 Fund loan. The Company drew \$7.0 million under both the IFC loan facility and the 1818 Loan facility in July 2002.

3. EARNINGS PER SHARE

The weighted average common shares outstanding represent those of historical VAALCO for the applicable periods.

The Company accounts for earnings per share in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128 - "Earnings per Share," which establishes the requirements for presenting earnings per share ("EPS"). SFAS No. 128 requires the presentation of "basic" and "diluted" EPS on the face of the income statement. Basic EPS is calculated using the average number of common shares outstanding during each period. Diluted EPS assumes the conversion of preferred stock to common stock and the exercise of all stock options having exercise prices less than the average market price of the common stock using the treasury stock method. The Company's preferred stock is convertible into 27,500,000 shares of common stock. As all of the convertible securities were anti-dilutive at June 30, 2002, basic EPS is equal to diluted EPS.

4. RECENT ACCOUNTING PRONOUNCEMENTS

On July 20, 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." The Statements will change the accounting for business combinations and goodwill in two significant ways. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method will be prohibited. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Thus, amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of that statement, which for the Company was January 1, 2002. The adoption of these statements did not have a material effect on the Company's financial position, results of operations or cash flows.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible, long-lived assets and the associated asset retirement costs. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred by capitalizing it as part of the carrying amount of the long-lived assets. As required by SFAS No. 143, the Company will adopt this new accounting standard on January 1, 2003. The Company is currently evaluating the effects of adopting this pronouncement.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement establishes a single accounting model for the impairment or disposal of long-lived assets. As required by SFAS No. 144, the Company adopted this new standard on January 1, 2001. The adoption of this statement did not have a material effect on the Company's financial position, results of operation or cash flows.

In April 2002 the Financial Accounting Standards Board ("FASB") issued Statement on Financial Accounting Standards ("SFAS") No. 145, "Recission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections", to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that are similar to sale-leaseback transactions. The statement also amends other existing pronouncements. This statement is effective for fiscal years beginning after May 15, 2002. The impact of adopting this statement on the consolidated financial position or results of operations is not expected to be material.

In June 2002 the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which addresses accounting and reporting for costs associated with exit and disposal activities and replaces Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". This statement is effective for exit or disposal activities that are initiated after December 31, 2002. The impact of adopting this statement on the consolidated financial position or results of operations is not expected to be material.

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VAALCO ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2002
(Unaudited)

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

This report includes "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"). All statements other than statements of historical fact included in this report (and the exhibits hereto), including without limitation, statements regarding the Company's financial position and estimated quantities and net present values of reserves, are forward looking statements. The Company can give no assurances that the assumptions upon which such statements are based will prove to have been correct. Important factors that could cause actual results to differ materially from the Company's expectations ("Cautionary Statements") are disclosed in the section "Risk Factors" included in the Company's Forms 10-KSB and other periodic reports filed under the Exchange Act, which are herein incorporated by reference. All subsequent written and oral forward looking statements attributable to the Company or persons acting on its behalf are expressly qualified by the Cautionary Statements.

INTRODUCTION

The Company's results of operations are dependent upon the difference between prices received for its oil and gas production and the costs to find and produce such oil and gas. Oil and gas prices have been and are expected in the future to be volatile and subject to fluctuations based on a number of factors beyond the control of the Company. The Company does not presently engage in any hedging activities and has no plans to do so in the near future.

The Company is participating in the development of the Etame Block, which the Company operates on behalf of a consortium of five companies offshore of the Republic of Gabon. The Company is administering a \$50.2 million budget (\$15.2 million net to the Company) to execute the development project. Substantially all of the Company's capital resources and personnel will be dedicated to the completion of the development project in 2002.

The Company's production in the Philippines is from mature offshore fields with high production costs. The Company's margin on sales from these fields (the price received for oil less the production costs for the oil) is lower than the margin on oil production from many other areas. As a result, the profitability of the Company's production in the Philippines is affected more by changes in oil prices than production located in other areas.

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

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

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

CRITICAL ACCOUNTING POLICIES

The following describes the critical accounting policies used by VAALCO in reporting its financial condition and results of operations. In some cases, accounting standards allow more than one alternative accounting method for reporting, such is the case with accounting for oil and gas activities described below. In those cases, the Company's reported results of operations would be different should it employ an alternative accounting method.

Successful Efforts Method of Accounting for Oil and Gas Activities.

The Securities and Exchange Commission ("SEC") prescribes in Regulation SX the financial accounting and reporting standards for companies engaged in oil and gas producing activities. Two methods are prescribed: the successful efforts method and the full cost method. Like many other oil and gas companies, VAALCO has chosen to follow the successful efforts method. Management believes that this method is preferable, as the Company has focused on exploration activities wherein there are risk associated with future success and as such earnings are best represented by attachment to the drilling operations of the company.

Costs of successful wells, development dry holes and leases containing productive reserves are capitalized and amortized on a unit-of-production basis over the life of the related reserves. Estimated future abandonment and site restoration costs, net of anticipated salvage values, are amortized on a unit of production basis over the life of the related reserves. Other exploration costs, including geological and geophysical expenses applicable to undeveloped leasehold, leasehold expiration costs and delay rentals are expensed as incurred.

In accordance with accounting under successful efforts, the Company reviews proved oil and gas properties for indications of impairment whenever events or circumstances indicate that the carrying value of its oil and gas properties may not be recoverable. When it is determined that an oil and gas property's estimated future net cash flows will not be sufficient to recover its carrying amount, an impairment charge must be recorded to reduce the carrying amount of the asset to its estimated fair value. This may occur if a field discovers lower than anticipated reserves or if commodity prices fall below a level that significantly effects anticipated future cash flows on the field. The Company determines if an impairment has occurred through either identification of adverse changes or as a result of the annual review of all fields. For the year ended December 31, 2001, impairments of \$567,145 were recognized. No impairments have been recognized in 2002.

Undeveloped Acreage.

At June 30, 2002, the Company had undeveloped acreage on its balance sheet totaling \$515,000, representing costs that are not being amortized pending evaluation of the respective leasehold for future development. Unproved properties are assessed quarterly for impairment in value, with any impairment charged to expense.

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VAALCO ENERGY, INC. AND SUBSIDIARIES
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 cash flows from operations, private sales of equity, borrowings and purchase money debt. In 2002 and 2001, the Company's primary uses of capital have been to fund its exploration and development operations in Gabon.

The Company produces oil from the Matinloc and Nido fields in the South China Sea, the Philippines. During the year ended December 31, 2001, total production from the fields was approximately 308,000 gross barrels (69,000 barrels net) of oil. For the six months ended June 2002 production from the fields was 135,745 gross barrels (29,000 net barrels) of oil. Substantially all of the Company's crude oil and natural gas is sold at the well head at posted or index prices under short-term contracts, as is customary in the industry. The Company markets its share of crude oil under an agreement with Caltex, 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.

Domestically, the Company produces from wells in Brazos County, Texas. Domestic production is sold under two contracts, one for oil and one for gas. The Company has access to several alternative buyers for oil and gas sales domestically.

The Company elected to terminate its joint venture with Paramount Petroleum, Inc., effective June 1, 2001. The joint venture focused on domestic onshore prospects in Mississippi, Alabama and Louisiana. In connection with the wind up of the joint venture, the Company received \$169,000 in cash, a receivable for \$47,000 representing its share of cash in the joint venture and \$259,000 of undeveloped acreage representing its proportionate 93.75% working interest in kind in all remaining prospects within the joint venture. Final completion of assignment documentation is ongoing. The Company has an interest in production from two small gas discoveries drilled by the joint venture.

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 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 2002, the Company anticipates that it will make capital expenditures on oil and gas properties of approximately \$14.5 million, all in Gabon. The Company has entered into a line of credit for its subsidiary VAALCO Gabon (Etame), Inc. in the amount of \$10.0 million with the IFC to partially fund its share of the development project, which loan agreement was signed on April 19, 2002. Prior to project completion, the IFC loan is to be guaranteed by the Company and cash collateralized with proceeds from a loan from the 1818 Fund. Project completion requires gross project production of 14,250 BOPD and gross proved reserves of 16.5 million barrels and compliance with financial covenants and other conditions, which may not be achieved. The IFC requires project completion to occur prior to March 31, 2003.

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

The 1818 Fund loan will be in the form of a \$10 million subordinated note secured by a second lien on certain collateral with respect to the Company's investment in VAALCO Gabon (Etame), Inc. including the \$10 million cash collateral to support the Company's guarantee of the IFC loan. The interest rate on the loan is 10%. In conjunction with receiving the 1818 Fund loan, the Company issued on June 10, 2002 15 million warrants which will entitle the holder to purchase one share of the Company's Common Stock at a price of \$0.50 per share, 7.5 million of which will be cancelled if project completion occurs on the Etame Block. Management has allocated \$1.896 million of the anticipated proceeds from the loan to the warrants, which has been accounted for in the equity section of the balance sheet as additional paid-in capital with a corresponding offset in Subscriptions Receivable. The allocation is based on the relative fair values of the loan and warrants. The valuation of the warrants is based on a Black Sholes model valuation of the warrants, adjusted for liquidity issues associated with any potential sale of such large volume of shares. The Company has formed an independent committee of the Board of Directors, which has received a fairness opinion with regards to the terms of the 1818 Fund loan. The Company drew \$7.0 million under both the IFC loan facility and the 1818 Loan facility in July 2002.

RESULTS OF OPERATIONS

Three months ended June 30, 2002 compared to three months ended June 30, 2001

Revenues

Total revenues were \$328 thousand for the three months ended June 30, 2002 compared to \$517 thousand for the comparable period in 2001. Higher crude oil and gas prices were realized in 2001.

Operating Costs and Expenses

Total production expenses for the three months ended June 30, 2002 were \$125 thousand compared to \$216 thousand during the same period in 2001. Exploration expense of \$9 thousand for seismic reinterpretation was incurred in the Philippines during the three months ending June 30, 2002. Depreciation, depletion and amortization for the three months ending June 30, 2002 was \$102 thousand compared to \$49 thousand for the same period in 2001 due to higher depletion rates per barrel. General and administrative expenses for the three

months ended June 30, 2002 and 2001 were \$165 thousand and \$537 thousand. Overhead reimbursements associated with the capital expenditure program in Gabon during 2002 accounted for the decrease in general and administrative costs.

Other Income (Expense)

Interest income of \$36 thousand was received from amounts on deposit in 2002 compared to \$84 thousand in the quarter ended June 30, 2001. The decrease can be attributed to smaller balances on deposit in 2002 when compared to 2001 and lower interest rates in 2002. With the termination of the Paramount Joint Venture in June 2001, there was no equity gain or loss for unconsolidated entities in the second quarter of 2002, compared to an equity loss in unconsolidated entities in the quarter ended June 30, 2001 of \$12 thousand.

Income Taxes

Income tax of \$2 thousand for the quarter ending June 30, 2001 was associated with activity in the Philippines. No taxes were due in quarter ending June 30, 2002.

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

Net Loss

Net loss attributable to common stockholders for the three months ended June 30, 2002 was \$44 thousand, compared to a net loss attributable to common stockholders of \$215 thousand for the same period in 2001. The lower net loss in 2002 was primarily due to lower general administrative costs.

Six months ended June 30, 2002 compared to six months ended June 30, 2001

Revenues

Total revenues were \$472 thousand for the six months ended June 30, 2002 compared to \$1,049 thousand for the comparable period in 2001. Higher product prices, plus a gain on the resale of certain interests acquired in Gabon in 2001 contributed to the higher 2001 revenues.

Operating Costs and Expenses

Total production expenses for the six months ended June 30, 2002 were \$220 thousand compared to \$309 thousand for the same period in 2001. Expenditures in 2001 included additional activity at the Nido field. Exploration expense of \$9 thousand for seismic reinterpretation was incurred in the Philippines during the six months ending June 30, 2002. Depreciation, depletion and amortization increased from \$52 thousand in the six months ended June 30, 2001 to \$107 thousand in the six months ended June 30, 2002 due to higher depletion rates per barrel oil equivalent from the Brazos County wells. General and administrative expenses for the six months ended 2002 and 2001 were \$698 thousand and \$788 thousand. The Company benefited from overhead reimbursements associated with capital expenditure programs in Gabon in both 2002 and 2001.

Other Income (Expense)

Interest income of \$45 thousand was received from amounts on deposit in 2002 compared to \$222 thousand in the six months ended June 30, 2001. The decrease can be attributed to smaller balances on deposit in 2002 when compared to 2001 and lower interest rates in 2002. The equity loss in unconsolidated entities in the six months ended June 30, 2001 was \$445 thousand. The loss reported in the six months ended June 30, 2001 was associated with the Paramount joint venture and consisted of the write off of unsold prospect costs. The joint venture was terminated on June 30, 2001.

Income Taxes

The Company incurred \$2 thousand in income tax expense associated with activity in the Philippines, in the six months ended June 30, 2002, compared to \$17 thousand in 2001 due to greater taxable profits in 2001.

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

Net Loss

Net loss attributable to common stockholders for the six months ended June 30, 2002 was \$528 thousand, compared to a net loss attributable to common stockholders of \$342 thousand for the same period in 2001. In 2001, the Company benefited from the gain on the resale of certain assets acquired in Gabon.

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES.

On June 10, 2002, the Company issued warrants to purchase 15 million shares of common stock at a price of \$0.50 per share, 7.5 million of which the Company will receive back if project completion occurs on the Etame Block. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Capital Resources and Liquidity." The warrants were issued in connection with a loan from the 1818 Fund, the proceeds of which are used to collateralize a loan with IFC. The warrants are exercisable for five years from the date of issuance. Half of the warrants issued are immediately exercisable, and warrants to purchase 7.5 million shares of common stock are not exercisable for two years from the date of issuance. The issuance of the warrants was exempt pursuant to Section 4(2) of the Securities Act of 1933.

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

At the annual meeting of stockholders held on June 6, 2002 the Common and Preferred Stockholders elected two Class I Directors and the Preferred Stockholders, voting as a class, elected one additional Class I Director to serve on the Company's Board of Directors. The stockholders also approved the appointment of Deloitte & Touche as auditors of the Company. The votes cast for each of the Class I directors proposed by the Company's definitive proxy statement on Schedule 14A, out of a total of 48,244,569 shares of Common Stock deemed to be outstanding and entitled to vote at the annual meeting, and 10,000 shares of Preferred Stock outstanding and entitled to vote at the annual meeting, were as follows:

<TABLE>
<CAPTION>

Directors Elected by Common and Preferred Stockholders -----	Votes Cast For -----	Votes Cast Against -----	Abstentions -----
<S>	<C>	<C>	<C>
W. Russell Scheirman	44,470,419	3,500	0
Arne R. Nielsen	44,470,419	3,500	0
 Directors Elected by Preferred Stockholders -----	 Votes Cast For -----	 Votes Cast Against -----	 Abstentions -----
Lawrence C. Tucker	10,000	0	0

</TABLE>

Regarding the proposal to approve the appointment of Deloitte & Touche as the Company's auditors, 44,473,919 votes were cast for the proposal, 0 votes were cast against the proposal and 0 votes abstained from voting.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

3. Articles of Incorporation and Bylaws
 - 3.1 Restated Certificate of Incorporation (incorporated by reference to exhibit 4.1 to the Company's Registration Statement on Form S-3 filed with the Commission on July 15, 1998, Reg. No. 333-59095).
 - 3.2 Certificate of Amendment to Restated Certificate of Incorporation (incorporated by reference to exhibit 4.2 to the Company's Registration Statement on Form S-3 filed with the Commission on July 15, 1998, Reg. No. 333-59095).
 - 3.3 Bylaws (incorporated by reference to exhibit 4.3 to the Company's Registration Statement on Form S-3 filed with the Commission on July 15, 1998, Reg. No. 333-59095).
 - 3.4 Amendment to Bylaws (incorporated by reference to exhibit 4.4 to the Company's Registration Statement on Form S-3 filed with the Commission on July 15, 1998, Reg. No. 333-59095).

- 3.5 Designation of Convertible Preferred Stock, Series A (incorporated by reference to exhibit 4.1 to the Company's Report on Form 8-K filed with the Commission on May 6, 1998, File No. 000-20928)
- 4. Instruments Defining the Rights of Holders
 - 4.1 Warrant granted to 1818 Fund II, L.P. to purchase 7,500,000 shares, par value \$.10, of common stock of the Company dated June 10, 2002.
 - 4.2 Warrant, subject to vesting requirements, granted to 1818 Fund II, L.P. to purchase 7,500,000 shares, par value \$.10, of common stock of the Company dated June 10, 2002.
- 10. Material Agreements
 - 10.1 Loan Agreement between VAALCO Gabon (Etame), Inc. and International Finance Corporation dated April 19, 2002.
 - 10.2 Subordinated Credit Agreement dated as of June 10, 2002, between VAALCO Energy, Inc. and 1818 Fund II, L.P.
 - 10.3 Guarantee Agreement between VAALCO Energy, Inc. and International Finance Corporation dated May 28, 2002.

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- 10.4 Trustee and Paying Agent Agreement by and between VAALCO Gabon (Etame), Inc., J.P. Morgan Trustee and Depositary Company Limited and JPMorgan Chase Bank, London Branch, dated June 26, 2002.

- (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
(on behalf of the Registrant and as the
principal financial officer)

August 19, 2002

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EXHIBIT INDEX

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

VAALCO ENERGY, INC.
COMMON STOCK PURCHASE WARRANT

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

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

2. Exercise of Warrant; Payment of Taxes.

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

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

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

1818 Common Stock Purchase Warrant

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

2.2 Conversion Right.

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

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

2.3 Warrant Shares Certificate. A stock certificate or certificates for the Warrant Shares specified in the Exercise Form shall be

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

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

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3. Restrictions on Transfer; Restrictive Legends.

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

3.2 Legends.

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

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

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

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

4. Reservation and Registration of Shares. The Company covenants and agrees as follows:

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

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

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

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

5. Anti-dilution and Other Adjustments. The Exercise Price and the

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

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

5.2 Issuance of Common Stock or Common Stock Equivalents Below Exercise Price.

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

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

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

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

as determined mutually by the Board of Directors and the Majority Warrantholders or, if the Board of Directors and the Majority Warrantholders shall fail to agree, at the Company's expense by an appraiser chosen by the Board of Directors and reasonably acceptable to the Majority Warrantholders.

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

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

5.4 Credit Agreement Adjustments.

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

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

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

required to be adjusted pursuant to this Section 5.4(b) and at the same time an adjustment is required to be made pursuant to Section 5.4(a), then the adjustment required to be made under this Section 5.4(b) shall be made before giving effect to the adjustment required under Section 5.4(a).

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

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

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

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

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

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

(a) the Company shall declare a dividend (or any other

distribution) on its shares of Common Stock;

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

(c) there shall occur a Transaction; or

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

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

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

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

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

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

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

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

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

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

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"Board of Directors" means the Board of Directors of the Company.

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

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

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

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

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

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

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

"Credit Agreement" has the meaning set forth in Section 1 of this Warrant.

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

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

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"Exercise Form" means an Exercise Form in the form annexed hereto as Exhibit A.

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

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

"First Sale of Production" has the meaning set forth in the Loan Agreement between VAALCO Gabon (Etame), Inc. and the International Finance Corporation dated April 19, 2002.

"Issue Date" has the meaning set forth in Section 5.2 of this Warrant.

"Market Price" means, as of the date of determination, (a) if the Common Stock is listed on a national securities exchange, the closing price per share of Common Stock on such date published in The Wall Street Journal (National Edition) or, if no such closing price on such date is published in The Wall Street Journal (National Edition), the average of the closing bid and asked prices on such date, as officially reported on the principal national securities exchange on which the Common Stock is then listed or admitted to trading; or (b) if the Common Stock is not then listed or admitted to trading on any national securities exchange but is designated as a national market system security by the National Association of Securities Dealers, Inc., the last trading price of the Common Stock on such date; or (c) if there shall have been no trading on such date or if the Common Stock is not designated as a national market system security by the National Association of Securities Dealers, Inc., the average of the reported closing bid and asked prices of the Common Stock on such date as shown by the National Market System of the National Association of Securities Dealers, Inc. Automated Quotations System and reported by any member firm of the New York Stock Exchange selected by the Company; or (d) if none of (a), (b) or (c) is applicable, a market price per share determined mutually by the Board of Directors and the Majority Warrantholders or, if the Board of Directors and the Majority Warrantholders shall fail to agree, at the Company's expense by an appraiser chosen by the Board of Directors and reasonably acceptable to the

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

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

"New Issuance" has the meaning set forth in Section 5.2 of this Warrant.

"New Issue Price" has the meaning set forth in Section 5.2 of this Warrant.

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

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

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

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

"Relevant Date" has the meaning set forth in Section 5.2 of this Warrant.

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

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

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

"Warrant Share Number" has the meaning set forth in Section 5.1 of this Warrant.

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

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

12. Miscellaneous.

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

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

12.2 Binding Effect; Benefits. This Warrant shall inure to the benefit of and shall be binding upon the Company and the Warrantholder and their respective permitted successors and assigns. Nothing in this Warrant, expressed or implied, is intended to or shall confer on any person other than the Company

and the Warrantholder, or their respective permitted successors or assigns, any rights, remedies, obligations or liabilities under or by reason of this Warrant.

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

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

(a) if to the Company:

VAALCO Energy, Inc.
4600 Post Oak Place, Suite 309
Houston, TX 77027-0130
Attention: Russell Scheirman

with a copy to:

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

(b) if to the Warrantholder:

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

with a copy to:

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

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

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

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

12.7 No Rights or Liabilities as Stockholders. Nothing contained in this Warrant shall be determined as conferring upon the Warrantholder any rights as a stockholder of the Company or as imposing any liabilities on the Warrantholder to purchase any securities whether such liabilities are asserted by the Company or by creditors or stockholders of the Company or otherwise.

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

[Remainder of this page intentionally left blank]

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IN WITNESS WHEREOF, the Company has caused this Warrant to be signed

by its duly authorized officer.

VAALCO ENERGY, INC.

By: _____
Name:
Title:

Dated: June 10, 2002

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Exhibit A

EXERCISE FORM

(To be executed upon exercise of this Warrant)

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

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

Dated: _____

Signature _____

(Print Name)

(Street Address)

(City) (State) (Zip Code)

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[Clawback Warrant]

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

VAALCO ENERGY, INC.
COMMON STOCK PURCHASE WARRANT

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

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

2. Exercise of Warrant; Payment of Taxes.

2.1 Exercise of Warrant.

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

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

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

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

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

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

2.2 Conversion Right.

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

(b) The Conversion Right may be exercised by the

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

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

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

3. Restrictions on Transfer; Restrictive Legends.

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

3.2 Legends.

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

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

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

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

4. Reservation and Registration of Shares. The Company covenants and agrees as follows:

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

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

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

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

5. Anti-dilution and Other Adjustments. The Exercise Price and the number of Warrant Shares to be received upon exercise of this Warrant shall be subject to adjustment as follows:

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

5.2 Issuance of Common Stock or Common Stock Equivalents Below Exercise Price.

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

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

(b) In case at any time any shares of Common Stock or Common Stock Equivalents or any rights or options to purchase any shares of Common Stock or Common Stock Equivalents shall be issued or sold for

consideration other than cash, the consideration received therefor shall be deemed to be the amount received by the Company therefor, without deduction therefrom of any expenses incurred or any underwriting commissions or concessions or discounts paid or allowed by the Company in connection therewith, as determined mutually by the Board of Directors and the Majority Warrantholders or, if the Board of Directors and the Majority Warrantholders shall fail to agree, at the Company's expense by an appraiser chosen by the Board of Directors and reasonably acceptable to the Majority Warrantholders.

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

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

5.4 Credit Agreement Adjustments.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(c) there shall occur a Transaction; or

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

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

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

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

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

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

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

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appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock on the exercise of the Warrant from time to time outstanding, and (iii) will not take any action which results in any adjustment of the Exercise Price if the total number of shares of Common Stock (or Other Securities) issuable after the action upon the exercise of the Warrant would exceed the total number of shares of Common Stock (or Other

Securities) then authorized by the Company's Certificate of Incorporation and available for the purpose of issuance upon such exercise.

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

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

"Board of Directors" means the Board of Directors of the Company.

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

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

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

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

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

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

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

"Credit Agreement" has the meaning set forth in Section 1 of this Warrant.

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

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

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

"Exercise Form" means an Exercise Form in the form annexed hereto as Exhibit A.

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

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

"First Sale of Production" has the meaning set forth in the Loan Agreement between VAALCO Gabon (Etame), Inc. and the International Finance Corporation dated April 19, 2002.

"Issue Date" has the meaning set forth in Section 5.2 of this Warrant.

"Market Price" means, as of the date of determination, (a) if the Common Stock is listed on a national securities exchange, the closing price per share of Common Stock on such date published in The Wall Street Journal (National Edition) or, if no such closing price on such date is published in The

Wall Street Journal (National Edition), the average of the closing bid and asked prices on such date, as officially reported on the principal national securities exchange on which the Common Stock is then listed or admitted to trading; or (b) if the Common Stock is not then listed or admitted to trading on any national securities exchange but is designated as a national market system security by the National Association of Securities Dealers, Inc., the last trading price of the Common Stock on such date; or (c) if there shall have been no trading on such date or if the Common Stock is not designated as a national market system security by the National Association of Securities Dealers, Inc., the average of the reported closing bid and asked prices of the Common Stock on such date as shown by the National Market System of the National Association of Securities Dealers, Inc. Automated Quotations System and reported by any member firm of the New York Stock Exchange selected by the Company; or (d) if none of (a), (b) or (c) is applicable, a market price per share determined mutually by the Board of Directors and the Majority Warrantholders or, if the Board of Directors and the Majority Warrantholders shall fail to agree, at the Company's expense by an appraiser chosen by the Board of Directors and reasonably acceptable to

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

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

"New Issuance" has the meaning set forth in Section 5.2 of this Warrant.

"New Issue Price" has the meaning set forth in Section 5.2 of this Warrant.

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

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

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

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

"Relevant Date" has the meaning set forth in Section 5.2 of this Warrant.

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

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

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

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"Warrant Share Number" has the meaning set forth in Section 5.1 of this Warrant.

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

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

12. Miscellaneous.

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

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

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

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

(a) if to the Company:

VAALCO Energy, Inc.
4600 Post Oak Place, Suite 309
Houston, TX 77027-0130
Attention: Russell Scheirman

with a copy to:

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

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(b) if to the Warrantholder:

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

with a copy to:

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

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

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

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

12.7 No Rights or Liabilities as Stockholders. Nothing contained in this Warrant shall be determined as conferring upon the Warrantholder any

rights as a stockholder of the Company or as imposing any liabilities on the Warrantholder to purchase any securities whether such liabilities are asserted by the Company or by creditors or stockholders of the Company or otherwise.

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

[Remainder of this page intentionally left blank]

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

VAALCO ENERGY, INC.

By: _____
Name:
Title:

Dated: June 10, 2002

1818 Clawback Warrant

Exhibit A

EXERCISE FORM

(To be executed upon exercise of this Warrant)

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

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

Dated: _____

Signature _____

(Print Name)

(Street Address)

(City) (State) (Zip Code)

1818 Clawback Warrant

INVESTMENT NUMBER 11090

LOAN AGREEMENT

between

VAALCO GABON (ETAME), INC.

and

INTERNATIONAL FINANCE CORPORATION

Dated April 19, 2002

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LOAN AGREEMENT

AGREEMENT, dated April ___, 2002, between:

- (1) VAALCO GABON (ETAME), INC., a corporation organized and existing under the laws of the State of Delaware, the United States of America (the "Borrower"); and
- (2) INTERNATIONAL FINANCE CORPORATION, an international organization

established by Articles of Agreement among its member countries including the Republic of Gabon ("IFC").

ARTICLE I

DEFINITIONS AND INTERPRETATION

Section 1.01. General Definitions. Wherever used in this Agreement, the following terms have the meanings opposite them:

"1818 Fund"	1818 Fund II, L.P., a limited partnership organized and existing under the laws of Delaware;
"1818 Fund Subordination Agreement"	the agreement entitled "Subordination and Intercreditor Agreement" dated on or about the date of this Agreement between the Sponsor, the 1818 Fund and IFC;
"Accidental Discharge Prevention and Oil Spill Contingency Plan"	an accidental discharge prevention plan and an oil spill contingency plan to be prepared by Tinworth Limited in accordance with the FPSO Contract, and acceptable to IFC, to prevent unintentional discharges of gas, liquids and solids to the environment; and that includes details of training and drills;
"Accounting Principles"	United States Generally Accepted Accounting Principles (US-GAAP) promulgated by the Financial and Accounting Standards Board,
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	together with its pronouncements thereon from time to time, and applied on a consistent basis;
"Affiliate"	in respect of any Person, any other Person directly or indirectly Controlling, Controlled by or under common Control with, such Person;
"Affiliate Loans"	any loan provided to the Borrower by any of its Affiliates, including the Sponsor, each of which loans shall be unsecured and subordinated to the Loan on terms and conditions satisfactory to IFC;
"Agreed Environmental and Social Requirements"	(i) the Environmental, Health and Safety Guidelines;
	(ii) the Environmental and Social Policies;
	(iii) the Environmental Review Summary;
	(iv) the Environmental Impact Assessment; and
	(v) the Environmental Plans, once such plans have been prepared and submitted to IFC in accordance with this Agreement;
"Annual Monitoring Report"	the report to be submitted to IFC pursuant to Section 6.03 (d) of this Agreement, in the form provided by Patricia Miller of IFC's Environment and Social Division, with a cover letter dated November 9, 2001, and as accepted by the Borrower, by the letter of its President dated February 21, 2002, which form is incorporated herein by reference and which may be updated from time to time in accordance with Section 6.01(r);
"Auditors"	Deloitte Touche or such other firm that the Borrower appoints from time to time as its auditors pursuant to Section 6.01 (d)

"Authority"	any national, supranational, regional or local government or governmental, administrative, fiscal, judicial, or government-owned body, department, commission, authority, tribunal, agency or entity, or central bank (or any Person, whether or not government owned and howsoever constituted or called, that exercises the functions of a central bank);
"Authorization"	any consent, registration, filing, agreement, notarization, certificate, license, approval, permit, authority or exemption from, by or with any Authority, whether given by express action or deemed given by failure to act within any specified time period and all corporate, creditors' and stockholders' approvals or consents;
"Authorized Investments"	(a) cash in hand and/or time deposits in Dollars with the VAALCO Accounts Bank or the Escrow Account Bank, as the case may be; (b) Dollar-denominated commercial paper maturing in 270 days or less from the date of issuance which at the time of acquisition is rated A-1 or better by Standard & Poor's Ratings Group or P-1 or better by Moody's Investor Service, Inc.; and (c) Dollar-denominated bank instruments maturing within one year after their acquisition, issued by Eligible Banks;
"Authorized Representative"	any natural person who is duly authorized by the Borrower to act on its behalf for the purposes specified in, and whose name and a specimen of whose signature appear on, the Certificate of Incumbency and Authority most recently delivered by the Borrower to IFC;
"Business Day"	a day when banks are open for business in New York, New York or, solely for the purpose of determining the Interest Rate other than pursuant to Section 3.03 (d) (ii) (Interest), London, England;
"CEMAC"	the Central African Economic and Monetary Community;
"Certificate of Incumbency and Authority"	a certificate provided to IFC by the Borrower in the form of Schedule 1;
"Charter"	(i) with respect to the Borrower, the articles of incorporation and bylaws and/or such other constitutive documents, howsoever called, or (ii) with respect to any Person (other than a natural person or the Borrower), the articles of incorporation and bylaws and/or such other constitutive documents, howsoever called, of that Person;
"Coflexip Contracts"	the Fabrication and Installation Contracts (Flowlines/Connectors) between (i) the Borrower and Coflexip Stena Offshore International, and (ii) the Borrower and Coflexip Stena Offshore Ltd, each of which is dated as of February 19, 2002;
"Control"	the power to direct the management or policies of a Person, directly or indirectly, whether through the ownership of shares or other securities, by contract or otherwise, provided that the direct or

indirect ownership of fifty-one per cent (51%) or more of the voting share capital of a Person is deemed to constitute control of that Person, and "Controlling" and "Controlled" have corresponding meanings;

"Crude Sharing Agreement" any agreement entered into between the Operator and a Project Partner pursuant to Section 6.01 (aa);

"Cuttings/Mud Disposal Plan" a cuttings/mud disposal plan to be prepared by the Drilling Contractor, and acceptable to IFC, detailing how and where disposal will take place;

"Debenture" the agreement entitled "Debenture" dated on or about the date of this Agreement between the Borrower and IFC;

"Delaware" the State of Delaware, United States of America;

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"Derivative Transaction" any swap agreement, cap agreement, collar agreement, futures contract, forward contract or similar arrangement with respect to interest rates, currencies or commodity prices;

"Development Plan" the development and production program relating to the EEA submitted by the Borrower and approved by the GOG on November 8, 2001, providing for completion of three of the four existing wells and the construction of production facilities and the installation of an FPSO;

"Disbursement" any disbursement of the Loan;

"Dollars" and "\$" the lawful currency of the United States of America;

"Drilling Contract" at any time, the agreement entered into by the Borrower for drilling activities conducted for the Project, the first of which is dated February 25, 2002 and is between the Borrower and TransOcean Offshore International Ventures Ltd., which is duly organized and existing under the laws of the Cayman Islands;

"Drilling Contractor" at any time, the contractor under the Drilling Contract then in effect;

"Eligible Bank" a bank in England, with an office in London, having capital, surplus and undistributed profits of at least US\$500,000,000 (or the equivalent thereof in any other currency) and a long-term debt rating of A or better by Standard & Poor's Ratings Group or A3 or better by Moody's Investors Service, Inc.;

"Environmental Plans" the Accidental Discharge Prevention and Oil Spill Contingency Plan, the Cuttings/Mud Disposal Plan, the Hazardous Material and Waste Management Plan and the Health and Safety Plan for Drilling Activities;

"Environmental and

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"Social Policies" IFC Operating Policy 4.01 Environmental Assessment Policy (October 1998), IFC Policy Statement on Child and Forced Labor (March 1998), and the Policy on Disclosure of Information (September 1998), copies of which have been delivered to, and receipt of which has been acknowledged by, the Borrower by letter dated October 8, 2001, which policies are incorporated herein by

reference;

"Environmental, Health and Safety Guidelines"

Offshore Oil and Gas Guideline, December 22, 2000 and General Health and Safety Guideline, July 1, 1998, copies of which have been delivered to, and receipt of which have been acknowledged by, the Borrower by letter dated October 8, 2001, which policies are incorporated herein by reference;

"Environmental Impact Assessment" or "EIA"

the Environmental Impact Assessment, Etame Marine Permit, Gabon, September 2001, prepared by Sound Environmental Solutions, Inc. on behalf of the Borrower;

"Environmental Review Summary" or "ERS"

the Environmental Review Summary dated October 15, 2001 prepared by IFC and approved by the Borrower;

"Escrow Account Agreement"

an agreement dated on or about the date of this agreement between IFC, the Sponsor and the Escrow Account Bank called the "Escrow Account Agreement" pursuant to which the Sponsor Escrow Account will be established, operated and maintained;

"Escrow Account Bank"

JP Morgan Chase Bank, London Branch, with which the Sponsor Escrow Account will be established, operated and maintained under the Escrow Account Agreement, or such successor entity as may be appointed pursuant to the Escrow Account Agreement;

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"Etame Accounts"

the Etame Revenue Account, the Etame Operating Account and the Tinworth Escrow Account;

"Etame Accounts Agreement"

the agreement entitled the "Etame Field Trustee and Paying Agent Agreement" dated on or about the date of this Agreement, between the Borrower and the Etame Accounts Bank, pursuant to which the Etame Accounts will be established, operated and maintained;

"Etame Accounts Bank"

JP Morgan Chase Bank, London Branch, with which the Etame Accounts will be established, operated and maintained under the Etame Accounts Agreement, or such successor entity as may be appointed pursuant to the Etame Accounts Agreement;

"Etame Field"

the area 45 kilometers offshore of the southern coast of Gabon identified as the "Delimited Area" (Zone Delimitée) in the PSC, which contains hydrocarbon accumulations, in relation to which the EEA has been granted by GOG;

"Etame Field Assets"

all of the Borrower's right, title and interest (except for those arising solely in its capacity as the Operator) in the present and future assets used in connection with the development, maintenance and/or operation of the Etame Field;

"Etame Operating Account"

an interest-bearing account to be established, operated and maintained by the Borrower with the Etame Accounts Bank, in accordance with the Etame Accounts Agreement into which from time to time amounts remaining in Etame Revenue Account after payment of the GOG's share shall be deposited and from which the fees for the Etame Accounts Bank shall be paid and Tinworth Escrow Account shall be funded and maintained, with the balance being

distributed to the Project Partners in accordance with their pro rata shares under the JOA;

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"Etame Revenue Account" an interest-bearing account to be established, operated and maintained by the Borrower with the Etame Accounts Bank, in accordance with the Etame Accounts Agreement, into which gross proceeds from the export sales of oil from the Etame Field shall be deposited and from which GOG's share of such revenue shall be paid;

"Event of Default" any one of the events specified in Section 7.02 (Events of Default);

"Exclusive Exploitation Authorization" or "EEA" the Exclusive Exploitation Authorization granted to the Borrower with respect to the Etame Field through an edict by the Minister in charge of Mines, Energy, Petroleum and Hydraulic Resources of Gabon on July 17, 2001, for a term of at least ten (10) years;

"Existing Assets" the value of assets listed in the Project Cost Account up to a maximum of \$9.36 million for the Borrower's share of costs associated with the exploration and development of the Etame Field;

"Financial Plan" the proposed sources of financing for the Project set out in Section 2.02 (b) (Project Cost and Financial Plan);

"First Sale of Production" the date on which proceeds from the sale of production from the Etame Field are first received in the Etame Revenue Account;

"Fiscal Quarter" any consecutive three-month period ending on March 31, June 30, September 30 and December 31, which may be changed from time to time as a result of permitted changes to the Borrower's or Sponsor's respective Fiscal Years, as the case may be;

"Fiscal Year" the accounting year of the Borrower or the Sponsor, commencing each year on January 1 and ending on the following December 31, or such other period as the Borrower or the Sponsor, as the case may be, with IFC's consent, from time to time designates as its accounting year;

"FPSO" a registered floating production storage and offloading tanker facility and its mooring system;

"FPSO Contract" the Contract for the Provision and Operation of an FPSO for the Etame Field dated August 20, 2001;

"Fred. Olsen Guarantee" the Guarantee dated September 14, 2001, issued by Fred. Olsen Energy ASA and Prosafe ASA, jointly and severally, in favor of the Borrower guaranteeing the obligations of Tinworth Limited under the FPSO Contract;

"Full Field Development Plan" the document prepared by the Borrower and submitted to IFC for its approval prior to date of this Agreement that describes the activities of the full development of the Etame Field;

"Gabon" Republic of Gabon;

"GOG" the government of the Republic of Gabon;

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"Guarantee Agreement" the agreement entitled "Guarantee Agreement" dated on or about the date of this Agreement between the Sponsor and IFC;

"Hazardous Material and Waste Management Plan" a hazardous material and waste management plan to be prepared by Tinworth Limited in accordance with the FPSO Contract;

"Health and Safety Plan for Drilling Activities" health and safety plans to be prepared by the Drilling Contractor in accordance with the Drilling Contract;

"IFC's Base Case" the cash flow forecast calculated in accordance with the financial model agreed between the Borrower and IFC on April 1, 2002, which shall be updated by the Borrower in accordance with Section 6.05;

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"Increased Costs" the net incremental costs of, or reduction in return to, IFC in connection with the making or maintaining of the Loan that result from any change in any applicable law or regulation or directive (whether or not having force of law) or in its interpretation or application by any Authority charged with its administration that, after the date of this Agreement, imposes on IFC any condition regarding the making or maintaining of the Loan;

"Increased Costs Certificate" a certificate provided from time to time by IFC certifying the amount of, and circumstances giving rise to, the Increased Costs;

"Independent Engineer" Netherland Sewell and Associates, Inc. (NSAI) or other such independent reservoir engineer based in the United States with a good reputation in the international oil and gas industry, as IFC may appoint from time to time to carry out the Reserve Certification and other services reasonably required by IFC (the fees and expenses of all of which services shall be for the account of the Borrower);

"Interest Determination Date" except as otherwise provided in Section 3.03 (d) (ii) (Interest), the second Business Day before the beginning of each Interest Period;

"Interest Payment Date" March 15, June 15, September 15 or December 15 in any year;

"Interest Period" each period of three (3) months, in each case beginning on an Interest Payment Date and ending on the day immediately before the next following Interest Payment Date, except in the case of the first period applicable to each Disbursement when it means the period beginning on the date on which that Disbursement is made and ending on the day immediately before the next following Interest Payment Date;

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"Interest Rate" for any Interest Period, the rate at which interest is payable on the Loan during that Interest Period, determined in accordance with Section 3.03 (Interest);

"Joint Operating Agreement" or "JOA" the Joint Operating Agreement dated April 4, 1997, between the Borrower and the other Project Partners, as amended January 15, 2001;

"LIBOR" the British Bankers' Association ("BBA") interbank offered rates for deposits in Dollars which appear on the relevant page of the Telerate Service (currently page 3750) or, if not available, on the relevant pages of any other service (such as Reuters Service or Bloomberg Financial Markets Service) that displays such BBA rates; provided that if BBA for any reason ceases (whether permanently or temporarily) to publish interbank offered rates for deposits in Dollars, "LIBOR" shall mean the rate determined pursuant to Section 3.03 (d) (Interest);

"Lien" any mortgage, pledge, charge, assignment, hypothecation, security interest, title retention, preferential right, trust arrangement, right of set-off, counterclaim or banker's lien, privilege or priority of any kind having the effect of security, any designation of loss payees or beneficiaries or any similar arrangement under or with respect to any insurance policy or any preference of one creditor over another arising by operation of law;

"Loan" the loan specified in Section 3.01 (The Loan) or, as the context requires, its principal amount from time to time outstanding;

"Marketing Contract" at any time, the agreement entered into by the Borrower for the marketing and transportation of the Borrower's share of the oil produced from the Etame Field, substantially in the form delivered to IFC as a condition of Disbursement in accordance with Section 5.01(a) (ii);

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"Material Adverse Effect" a material adverse effect on:

- (i) the Borrower or the Sponsor or their respective assets or properties;
- (ii) the Borrower's or Sponsor's business prospects or financial condition;
- (iii) the implementation of the Project or the Financial Plan; or
- (iv) the ability of the Borrower or the Sponsor to comply with their respective obligations under this Agreement or any other Transaction Document or Project Document;

"Material Contracts" the PSC, the JOA, the FPSO Contract, the Fred. Olsen Guarantee, the Marketing Contracts in effect from time to time, the EEA, the Drilling Contract and the Etame Accounts Agreement;

"Minimum Escrow Amount" on any calculation date, the aggregate amount of all Disbursements made under the Loan, including on the date of any Disbursement, the amount of such requested Disbursement;

"Minimum Retention Amount" on any calculation date, the aggregate of all scheduled amounts of principal, interest and fees payable in respect of the Loan during the next three (3) months or, if no such payment is due, the aggregate of all scheduled amounts of principal, interest and fees payable on the next occurring scheduled date for repayment of principal of the Loan;

"MOF Loan

Authorization"	the Authorization of the Minister of Finance of Gabon of the financing contemplated by this Agreement, in form and substance acceptable to IFC;
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"MOH Loan Authorization"	the Authorization of the Minister of Mines, Energy, Petroleum and Hydraulic Resources of Gabon of the financing contemplated by this Agreement, in form and substance acceptable to IFC;
"Non-Project Activity"	any activity other than the Project, carried on in Gabon or elsewhere by the Borrower (either alone or in association with a third party);
"Officer"	any of the President, Chief Executive Officer, Chief Financial Officer or Chief Operating Officer (or their functional equivalents) of the Borrower or the Sponsor, as the case may be;
"Official"	any officer of a political party or candidate for political office in Gabon or any officer or employee (i) of the GOG (including any legislative, judicial, executive or administrative department, agency or instrumentality thereof), (ii) of any local Authority in Gabon or (iii) of a public international organization;
"Operator"	the party designated as such pursuant to the PSC and the JOA, which, as of the date of this Agreement, is the Borrower;
"Person"	any natural person, corporation, company, partnership, firm, voluntary association, joint venture, trust, unincorporated organization, Authority or any other entity whether acting in an individual, fiduciary or other capacity;
"PanAfrican Gabon"	PanAfrican Energy Gabon Corporation, a company incorporated under the laws of Delaware;
"Phase One Completion Date"	the last day of the month on which IFC notifies the Borrower in writing that, based on the Borrower's own certification and, if IFC so requires, concurring certifications from the Auditors (in the case of subparagraph (g) below) and the Independent Petroleum Engineer (in the case of

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subparagraph (c) below), IFC is reasonably satisfied that the following are true:

- (a) in accordance with the Development Plan, the Borrower has properly reentered and completed three (3) of the four (4) existing wells and constructed and/or installed all associated facilities needed to achieve the extraction of oil from the Etame Field, and these facilities have passed all relevant commissioning and other tests in accordance with good international oil industry practice and are fully operational;
- (b) the oil produced per day from such three (3) wells has averaged 14,250 barrels for the previous 90 days and oil sold per day from such three (3) wells has averaged 9,500 barrels for the previous 60 days;

- (c) the Proved Reserves and Proved Developed Reserves of Etame Field, as certified by the Independent Engineer are at least 30 million barrels and 16.5 million barrels, respectively, each amount adjusted, if necessary, to include any oil produced from the Etame Field prior to date of such Reserve Certification;
- (d) there shall be no outstanding claims by contractors for amounts which payment is due and owing in respect of the construction and installation of the facilities described in the Development Plan (other than claims being contested in good faith and with respect to which adequate reserves have been set aside);
- (e) all sites, equipment and facilities described in the Development Plan have been acquired, developed, constructed and become fully operational in accordance with the relevant provisions of the Agreed

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Environmental and Social Requirements in all respects;

- (f) the Environmental Plans shall have been implemented;
- (g) the VAALCO Retention Account shall have a balance equal to at least the Minimum Retention Amount;
- (h) all Authorizations required in the reasonable opinion of IFC (including the necessary approvals from the GOG and/or CEMAC, if any) for the normal operation of the Project and the performance by each of the Borrower and the Sponsor of their respective obligations under the Transaction Documents and the Project Documents shall have been obtained and remain in full force and effect;
- (i) no Event of Default or Potential Event of Default shall have occurred and be continuing;
- (j) the Minimum Levels for DSCR, LOL and LOF for all years covered by the IFC Base Case shall have been achieved;
- (k) a Marketing Contract, satisfactory to IFC, shall have been executed and be in effect;
- (l) all the Security shall have been duly created and perfected at least one (1) month prior to the First Sale of Production and shall have remained perfected;
- (m) the Borrower shall have delivered a notice, signed by an Authorized Representative, certifying to IFC that the requirements of paragraphs (a) through (l) above have been fulfilled; and if IFC so requires, at the Borrower's cost and expense, concurring certifications from the Auditors (as to

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paragraph (g) and the Independent Engineer (as to paragraph (c));

"Pledge of Shares" the agreement entitled "Pledge of Shares Agreement" dated on or about the date of this Agreement among the Borrower, the Sponsor and IFC;

"Potential Event of Default" any event or circumstance which would, with notice, lapse of time, the making of a determination or any combination thereof, become an Event of Default;

"Production Sharing Contract" or "PSC" the Exploration and Production Sharing Contract dated as of July 7, 1995, between the Government of Gabon and the Borrower and PanAfrican Gabon (under its former name VAALCO Energy (Gabon), Inc.), collectively as the Contractor, as amended by an undated agreement between the Government of Gabon and the Borrower with retroactive effect to July 7, 2001;

"Prohibited Payments" any offer, gift, payment, promise to pay or authorization of the payment of any money or anything of value, directly or indirectly, to or for the use or benefit of any Official (including to or for the use or benefit of any other Person if the Borrower or Sponsor knows, or has reasonable grounds for believing, that the other Person would use such offer, gift, payment, promise or authorization of payment for the benefit of any such Official), for the purpose of influencing any act or decision or omission of any Official in order to obtain, retain or direct business to, or to secure any improper benefit or advantage for, the Borrower, its Affiliates or any other Person; provided that any such offer, gift, payment, promise or authorization of payment shall not be considered a Prohibited Payment if, in IFC's reasonable opinion, it (i) is lawful under applicable written laws and regulations or (ii) is made for the purpose of expediting or securing the performance

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of a routine governmental action (as such term is construed under applicable law);

"Project" the project described in Section 2.01 (The Project);

"Project Cost Account" the account of all recoverable costs as permitted under Section 26.10 of the PSC incurred by the Borrower in the development of the Etame Field on or before September 30, 2001, and submitted to IFC on April 3, 2002;

"Project Documents"

- (a) the Production Sharing Contract;
- (b) the Joint Operating Agreement;
- (c) the FPSO Contract;
- (d) the Fred. Olsen Guarantee
- (e) the Purchase Order (subsea trees) between the Borrower and Kvaerner Oilfield Products dated October 10, 2001;
- (f) the Coflexip Contracts;
- (g) the Drilling Contract, in effect from time to time;
- (h) the Management Contract between the Borrower and Mustang Engineering dated August 8, 2001;

- (i) the Marketing Contract, in effect from time to time;
- (j) the Etame Accounts Agreement;
- (k) the Exclusive Exploitation Authorization; and
- (l) the Crude Sharing Agreements, in effect from time to time, if any;

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"Project Partners" at any time, the Borrower and the other Parties (as such term is defined in the JOA) under the JOA, which, as of the date of this Agreement, are: PanAfrican Gabon, Sasol Petroleum International (Pty) Ltd., PetroEnergy Resources Corporation, Nissho Iwai Corporation, Western Atlas Afrique Ltd. and the Government of Gabon/Energy Africa;

"Proved Developed Reserves" at any date, those Proved Reserves that are expected to be recovered from existing wells and installed facilities within the Etame Field;

"Proved Reserves" at any date, the estimated quantities of hydrocarbons which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved Reserves are limited to those quantities of hydrocarbons which can be estimated, with reasonable certainty, to be recoverable commercially at current prices and costs, under existing regulatory practices and with existing conventional equipment and operating methods (taking into account applicable laws and regulations to which the Borrower is subject);

"Reserve Certification" the certification of the Etame Field's Proved Reserves and Proved Developed Reserves prepared from time to time by the Independent Engineer, including projected capital expenditures, operating expenses, annual production profiles and the economic life of the Etame Field;

"Restricted Payments" all payments, including interest and principal, on Affiliate Loans, dividends, transfers of funds and other distributions on share capital (whether in cash, shares, or in kind) and any purchase, redemption or other acquisition of shares by the Borrower;

"Security" (a) a first ranking security interest in all of the Borrower's proceeds and receivables relating to and from the sale of its share

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(other than solely in its capacity as the Operator) of oil production from the Etame Field;

- (b) a first ranking security interest in the funds (including any Authorized Investments made with such funds) held from time to time in the VAALCO Accounts;
- (c) an assignment by way of security of the Borrower's rights, title and interest (other than solely in its capacity as the Operator) in and under the Material Contracts;
- (d) a first ranking security interest over

any and all of the Borrower's rights, title and interest (other than solely in its capacity as the Operator) in all other Etame Field Assets;

- (e) a first ranking security interest over the funds (including any Authorized Investments made with such funds) held in the Sponsor Escrow Account;
- (f) an assignment by way of security of all rights and claims to any compensation or other special payments in respect of the Etame Field other than those arising in the normal course of Etame Field operations which are payable to the Borrower (other than solely in its capacity as the Operator) by the GOG or any of its agencies or by any other party and for whatever reason;
- (g) assignment by way of security of all rights, title and interest in and to the Borrower's share (other than solely in its capacity as the Operator) of the Etame Field-related insurance policies and any proceeds thereof;
- (h) a first ranking pledge by the Sponsor of all its shares in the Borrower; and

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- (i) an assignment of all Affiliate Loans by the Sponsor;

"Security Documents"

the documents providing for the IFC Security consisting of:

- (i) the Debenture;
- (ii) the Pledge of Shares;
- (iii) a letter from the GOG consenting to the creation of the Security; and
- (iv) the 1818 Fund Subordination Agreement;

"Subordination and Share Retention Agreement"

the agreement entitled "Subordination and Share Retention Agreement" dated on or about the date of this Agreement between the Borrower, the Sponsor and IFC;

"Sponsor"

VAAALCO Energy Inc., a corporation organized and existing under the laws of Delaware;

"Sponsor Escrow Account"

an interest-bearing account to be opened and maintained in the Escrow Account Bank under the Escrow Account Agreement, in which account the Sponsor shall maintain a balance equal to at least the Minimum Escrow Amount as security for the obligations of the Sponsor to IFC under the Guarantee Agreement;

"Spread"

0.75% per annum until the Phase One Completion Date and beginning on the Phase One Completion Date and thereafter 4.25% per annum;

"Subsidiary"

with respect to any Person, any entity:

- (i) over 50% of whose capital is owned, directly or indirectly, by that Person;
- (ii) for which that Person may nominate or appoint a majority of the members of the

board of directors or such other body performing similar functions; or

(iii) which is otherwise effectively Controlled by that Person;

"Taxes" any present or future taxes, withholding obligations, duties and other charges of whatever nature levied by any Authority;

"Texas" the State of Texas, United States of America;

"Tinworth Escrow Account" an interest-bearing account for the benefit of Tinworth Limited, which shall not have a balance of a principal amount in excess of \$2,500,000, to be established, operated and maintained by the Borrower with the Etame Accounts Bank, in accordance with the Etame Accounts Agreement;

"Tinworth Limited" Tinworth Limited, a company incorporated under the laws of Bermuda;

"Transaction Documents" (i) this Agreement;

(ii) the Guarantee Agreement;

(iii) the Security Documents;

(iv) the Subordination and Share Retention Agreement;

(v) the VAALCO Accounts Agreement; and

(vi) the Escrow Account Agreement;

"VAALCO Accounts" the VAALCO Retention Account and the VAALCO Operating Account;

"VAALCO Accounts Agreement" the agreement entitled "VAALCO Accounts Agreement" dated the date of this agreement, between IFC, the Borrower and the VAALCO Accounts Bank, pursuant to which the VAALCO

Accounts will be established, operated and maintained;

"VAALCO Accounts Bank" JP Morgan Chase Bank, London Branch, with which the VAALCO Accounts will be established, operated and maintained under the VAALCO Accounts Agreement, or such successor entity as may be appointed pursuant to the VAALCO Accounts Agreement;

"VAALCO Operating Account" an interest-bearing account to be established, operated and maintained by the Borrower with the VAALCO Accounts Bank, into which disbursements of the IFC Loan are to be made and into which the Dollar proceeds of the Borrower's share of the net proceeds generated from the export sales of oil from the Project will be deposited, minus the payment of royalties to the GOG in accordance with the PSC and any other payments required in accordance with the Etame Accounts Agreement;

"VAALCO Retention Account" an interest-bearing account to be established, operated and maintained by the Borrower with the VAALCO Accounts Bank, in which a balance equal to at least the Minimum Retention Amount shall be maintained;

"Western Atlas Agreement" the Conveyance of Production Payment from

Western Atlas Afrique, Ltd. to Western Atlas International, Inc. dated December 29, 2000, and the Stock Purchase Agreement between Western Atlas International, Inc., as seller, and the Borrower, as purchaser, dated January 4, 2001;

"World Bank"

the International Bank for Reconstruction and Development, an international organization established by Articles of Agreement among its member countries.

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Section 1.02. Financial Definitions. (a) Wherever used in this Agreement, unless the context otherwise requires, the following terms have the meanings opposite them:

"Agreed Oil Price"

as of any calculation date, the most recently published World Bank oil price forecast in constant dollars or, in the absence thereof, any other oil price to be agreed upon by the Borrower and IFC;

"Current Liabilities"

with respect to the Borrower or the Sponsor, the aggregate of all liabilities of the Borrower or the Sponsor, as the case may be, falling due on demand or within one year (including the portion of Long-term Debt falling due within one year);

"Debt"

with respect to the Borrower or the Sponsor, the aggregate of all obligations (whether actual or contingent) of the Borrower or the Sponsor, as the case may be, to pay or repay money including, without limitation:

- (i) all Indebtedness for Borrowed Money;
- (ii) the aggregate amount then outstanding of all liabilities of any party to the extent the Borrower or the Sponsor, as the case may be, guarantees them or otherwise directly or indirectly obligates itself to pay them;
- (iii) all liabilities of the Borrower or the Sponsor, as the case may be, (actual or contingent) under any conditional sale or a transfer with recourse or obligation to repurchase, including, without limitation, by way of discount or factoring of book debts or receivables; and
- (iv) all liabilities of the Borrower or the Sponsor, as the case may be (actual or contingent) under its respective Charter, any resolution of its respective shareholders, or any agreement or other document binding on the Borrower or the

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Sponsor, as the case may be, to redeem any of its respective shares;

"Debt Service Coverage Ratio" or "DSCR"

- (a) for any calculation date, the Current Period DSCR shall be the ratio obtained by dividing (i) the Net Cash Flow of the Borrower for the four (4) previous consecutive Fiscal Quarters (provided that, for each of the first three (3) Fiscal Quarters following the First Sale of Production, the Net Cash Flow shall be annualized from the date of the First Sale of Production through the subject Fiscal Quarter) by (ii) the Borrower's aggregate scheduled interest and principal payments in respect of all Long-term

Debt (excluding any Affiliate Loans)
for same four (4) Fiscal Quarters;

- (b) for any calculation date, the Future Period DSCR shall be the ratio obtained by dividing (i) the Net Cash Flow of the Borrower for the four (4) previous consecutive Fiscal Quarters (provided that, for each of the first three (3) Fiscal Quarters following the First Sale of Production, Net Cash Flow shall be annualized from the date of the First Sale of Production through the subject Fiscal Quarter) by (b) the Borrower's aggregate scheduled interest and principal payments in respect of all Long-term Debt (excluding any Affiliate Loans) for the next succeeding four (4) Fiscal Quarters;
- (c) For the purposes of sub-paragraph (a)(ii) and (b)(ii) above, for the computation of interest payable during any period for which the applicable rate is not yet determined, that interest shall be computed at the rate in effect at the time of the relevant date of calculation; and

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- (d) The term "DSCR" shall apply to both the Current Period DSCR and the Future Period DSCR;

"Discount Rate"

ten per cent (10%) per annum;

"Indebtedness for
Borrowed Money "

with respect to the Borrower or the Sponsor, all obligations of the Borrower or the Sponsor, as the case may be, to repay money including, without limitation, with respect to:

- (i) borrowed money;
- (ii) the outstanding principal amount of any bonds, debentures, notes, loan stock, commercial paper, acceptance credits, bills or promissory notes drawn, accepted, endorsed or issued by the Borrower or the Sponsor, as the case may be;
- (iii) any credit to the Borrower or the Sponsor from a supplier of goods or services under any installment purchase or other similar arrangement with respect to goods or services (except trade accounts that are payable in the ordinary course of business and included in Current Liabilities);
- (iv) non-contingent obligations of the Borrower or the Sponsor to reimburse any other Person with respect to amounts paid by the Borrower or the Sponsor, as the case may be, to that Person under a letter of credit or similar instrument (excluding any letter of credit or similar instrument issued for the benefit of the Borrower or the Sponsor, as the case may be, with respect to trade accounts that are payable in the ordinary course of business and included in Current Liabilities);
- (v) amounts raised under any other transaction having the financial effect of a borrowing

and which would be classified as a borrowing (and not as an off-balance sheet financing) under the Accounting Principles including, without limitation, under leases or similar arrangements entered into primarily as a means of financing the acquisition of the asset leased;

- (vi) the amount of the Borrower's or the Sponsor's obligations, as the case may be, pursuant to Derivative Transactions which consist of swap, collar and cap agreements entered into in connection with other Debt of the Borrower or the Sponsor, respectively, provided that for the avoidance of double counting and for so long as any such swap, collar or cap agreement is in effect, that Debt will be included in Indebtedness for Borrowed Money pursuant to the terms of the relevant Derivative Transaction and not the terms of the agreement providing for that Debt when it was incurred; and
- (vii) any premium payable on a mandatory redemption or replacement of any of the foregoing obligations;

"Life of Field Coverage Ratio" or "LOF"

for any calculation date, the ratio obtained by dividing (i) the present value at the Discount Rate of the projected Net Cash Flow derived from the Proved Reserves of the Etame Field as certified in the most recent Reserve Certification and calculated using the Agreed Oil Price, for the period commencing on such calculation date through the longest economic life of said field as certified in such Reserve Certification; by (ii) the aggregate amount of principal outstanding and any overdue interest and penalty charges owing on that date on all Long-term Debt of the Borrower (excluding any Affiliate Loans);

"Life of Loan Coverage

Ratio" or "LOL"

for any calculation date, the ratio obtained by dividing (i) the present value at the Discount Rate of the projected Net Cash Flow derived from the Proved Reserves of the Etame Field as certified in the most recent Reserve Certification and calculated using the Agreed Oil Price, for the period commencing on such calculation date through the final scheduled maturity date of the Loan; by (ii) the aggregate amount of principal outstanding and any overdue interest and penalty charges owing on that date on all Long-term Debt of the Borrower (excluding any Affiliate Loans);

"Long-term Debt"

with respect to the Borrower or the Sponsor, that part of the Debt of the Borrower or the Sponsor, as the case may be, the final maturity of which, by its terms or the terms of any agreement relating to it, falls due more than one year after the date of its incurrence;

"Long-term Debt to Equity Ratio"

at any calculation date, with respect to the Sponsor, the result obtained by dividing the Sponsor's Long-term Debt by the Sponsor's Shareholder Equity;

"Minimum Levels"

at any date on or after the Phase One

Completion Date, shall be 1.5 with respect to the DSCR, 1.8 with respect to the LOL and 2.0 with respect to the LOF;

"Net Cash Flow" or "NCF"

for any calculation period, the sum of all Shareholders' Equity contributions in cash and all proceeds received from the sale of the Borrower's share (other than solely in its capacity as the Operator) of oil production from the Etame Field, less the Borrower's share (other than solely in its capacity as the Operator) of operating costs, transportation costs, cash fund contributions as required under the PSC, taxes, royalties and capital expenditures paid for the same period in respect of oil production, but before any payments in respect of Debt (whether principal, interest or other fees and charges) for the same period; and

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"Shareholders' Equity"

with respect to the Borrower or the Sponsor, the aggregate of:

- (i) the amount paid up on the share capital of the Borrower or the Sponsor, as the case may be; and
- (ii) the amount standing to the credit of the reserves of the Borrower or the Sponsor, as the case may be (including, without limitation, any share premium account, capital redemption reserve funds and any credit balance on the accumulated profit and loss account);

after deducting from that aggregate (A) any debit balance on the profit and loss account or impairment of the issued share capital of the Borrower or the Sponsor, as the case may be (except to the extent that deduction with respect to that debit balance or impairment has already been made), (B) amounts set aside for dividends or taxation (including deferred taxation), and (C) amounts attributable to capitalized items such as goodwill, trademarks, deferred charges, licenses, patents and other intangible assets; and

"Short-term Debt"

all Debt other than Long-term Debt.

Section 1.03. Financial Calculations. (a) All financial calculations to be made under, or for the purposes of, this Agreement and any other Transaction Document shall be determined in accordance with the Accounting Principles and, except as otherwise required to conform to any provision of this Agreement, shall be calculated from the then most recently issued quarterly financial statements which the Borrower is obligated to furnish to IFC under Section 6.03 (a) (Reporting Requirements) or, in the case of financial calculations related to the Sponsor, the most recently quarterly financial statements which the Sponsor is obligated to furnish under Section 16.04 (g) of the Subordination and Share Retention Agreement.

(b) Where quarterly financial statements are used for the purpose of making certain financial calculations and those statements are with respect to the last quarter of a Fiscal Year then, at IFC's option, those calculations may instead be made from the audited financial statements for the relevant Fiscal Year.

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(c) If any material adverse change in the financial condition of the Borrower or the Sponsor has occurred after the end of the period covered by the financial statements used to make the relevant financial calculations, that material adverse change shall also be taken into account in calculating the relevant figures.

Section 1.04. Interpretation. In this Agreement, unless the context otherwise requires:

- (a) headings are for convenience only and do not affect the interpretation

of this Agreement;

(b) words importing the singular include the plural and vice versa;

(c) a reference to an Annex, Article, party, Schedule or Section is a reference to that Article or Section of, or that Annex, party or Schedule to, this Agreement;

(d) a reference to a document includes an amendment or supplement to, or replacement or novation of, that document but disregarding any amendment, supplement, replacement or novation made in breach of this Agreement; and

(e) a reference to a party to any document includes that party's successors and permitted assigns.

Section 1.05. Business Day Adjustment. When the day on or by which a payment is due to be made is not a Business Day, that payment shall be made on or by the next succeeding Business Day. Interest, fees and charges (if any) shall continue to accrue for the period from the due date that is not a Business Day to that next succeeding Business Day.

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ARTICLE II

THE PROJECT, PROJECT COST AND FINANCIAL PLAN

Section 2.01. The Project. The project to be financed consists of the development of the Etame Field in the Etame Marin block, 45 km offshore of the southern coast of Gabon. The project involves the re-entering and completing of three existing wells, the drilling and completing of up to three additional wells and installing of flowlines to connect the wells to a FPSO capable of processing up to 30,000 barrels per day and storing up to 1.1 million barrels of oil.

Section 2.02. Project Cost and Financial Plan.* (a) The total estimated cost of the Project is approximately \$123 million, of which approximately \$37 million represents the Borrower's share of the costs, including funding for working capital, interest during construction and approximately \$9 million of Existing Assets.

<TABLE>

<CAPTION>

PROJECT COSTS	PROJECT TOTAL	VAALCO SHARE	%

<S>	<C>	<C>	<C>
PROJECT COSTS - TO ACHIEVE FIRST OIL			
Facilities	23,800	7,230	19%
Well completions	19,400	5,890	16%
Working Capital	9,280	2,820	8%
Existing Assets	30,840	9,360	25%
Interest During Construction		560	2%
Sub Total	83,320	25,860	70%
PROJECT COSTS - POST FIRST OIL			
Drilling	30,000	8,430	23%
Facilities	10,000	2,810	7%
Sub Total	40,000	11,240	30%
TOTAL	123,320	37,100	100%

</TABLE>

* For purposes of this Section, an exchange rate of XAF 740.00 = \$1.00 has been assumed.

(b) The proposed sources of financing for the Borrower's share of the Project are as follows:

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FINANCIAL PLAN	in \$000s	%
IFC Loan	10,000	27%
Existing Sponsor Advance	400	1%

Sub Total	10,400	28%
VAALCO existing equity	8,960	24%

VAALCO new equity and funding	17,740	48%

Sub Total	26,700	72%
TOTAL	37,100	100%

ARTICLE III

THE LOAN

Section 3.01. The Loan. Subject to the provisions of this Agreement, IFC agrees to lend, and the Borrower agrees to borrow, the Loan, being an amount not to exceed ten million Dollars (\$10,000,000).

Section 3.02. Disbursement Procedure. (a) The Borrower may request Disbursements by delivering to IFC, at least ten (10) Business Days prior to the proposed date of Disbursement, a Disbursement request substantially in the form of Schedule 2 and a receipt substantially in the form of Schedule 3.

(b) Each Disbursement shall be made by IFC at a bank in New York, New York for further credit to the VAALCO Operating Account or any other place acceptable to IFC, all as specified by the Borrower in the relevant Disbursement request.

(c) Each Disbursement (other than the last one) shall be made in an amount of not less than two million Dollars (\$2,000,000).

Section 3.03. Interest. Subject to the provisions of Section 3.04 (Default Rate Interest), the Borrower shall pay interest on the Loan in accordance with this Section 3.03:

(a) During each Interest Period, the Loan (or, with respect to the first Interest Period for each Disbursement, the amount of that Disbursement) shall bear interest at the applicable Interest Rate for that Interest Period.

(b) Interest on the Loan shall accrue from day to day, be prorated on the basis of a 360-day year for the actual number of days in the relevant Interest

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Period and be payable in arrears on the Interest Payment Date immediately following the end of that Interest Period; provided that with respect to any Disbursement made less than fifteen (15) days before an Interest Payment Date, interest on that Disbursement shall be payable commencing on the second Interest Payment Date following the date of that Disbursement.

(c) The Interest Rate for any Interest Period shall be the rate which is the sum of:

- (i) the Spread; and
- (ii) LIBOR on the Interest Determination Date for that Interest Period for three (3) months (or, in the case of the first Interest Period for any Disbursement, for one (1) month, two (2) months or three (3) months, whichever period is closest to the duration of the relevant Interest Period (or, if two periods are equally close, the longer one)) rounded upward to the nearest three decimal places.

(d) If, for any Interest Period IFC cannot determine LIBOR by reference to the Telerate Service or any other service that displays BBA rates, IFC shall notify the Borrower and shall instead determine LIBOR:

- (i) on the second Business Day before the beginning of the relevant Interest Period by calculating the arithmetic mean (rounded upward to the nearest three decimal places) of the offered rates advised to IFC on or around 11:00 a.m., London time, for deposits in Dollars and otherwise in accordance with Section 3.03 (c) (ii), by any four (4) major banks active in Dollars in the London interbank market, selected by IFC; provided that if less than four quotations are received, IFC may rely on the quotations so received if not less than two (2); or
- (ii) if less than two (2) quotations are received from the banks in London in accordance with subsection (i) above, on the first day of the relevant Interest Period, by calculating the arithmetic mean (rounded upward to the nearest three decimal places) of the offered rates advised to IFC on or around 11:00 a.m. New York time, for loans in Dollars and otherwise in accordance with Section 3.03 (c) (ii), by a major bank or banks in New York, New York, selected by IFC.

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(e) On each Interest Determination Date for any Interest Period, IFC shall determine the Interest Rate applicable to that Interest Period and promptly notify the Borrower of that rate.

(f) The determination by IFC, from time to time, of the Interest Rate shall be final and conclusive and bind the Borrower (unless the Borrower shows to IFC's satisfaction that the determination involves manifest error).

Section 3.04. Default Rate Interest. (a) Without limiting the remedies available to IFC under this Agreement or otherwise (and to the maximum extent permitted by applicable law), if the Borrower fails to make any payment of principal or interest (including interest payable pursuant to this Section) or any other payment provided for in Section 3.07 (Fees) when due as specified in this Agreement (whether at stated maturity or upon acceleration), the Borrower shall pay interest on the amount of that payment due and unpaid at the rate which shall be the sum of two per cent (2%) per annum and the Interest Rate in effect from time to time;

(b) Interest at the rate referred to in Section 3.04 (a) shall accrue from the date on which payment of the relevant overdue amount became due until the date of actual payment of that amount (as well after as before judgment), and shall be payable on demand or, if not demanded, on each Interest Payment Date falling after any such overdue amount became due.

Section 3.05. Repayment. (a) The Borrower shall repay the Loan, on the following dates and amounts:

Date Payment Due -----	Principal Amount Due -----
June 15, 2003	\$ 1,000,000
September 15, 2003	\$ 1,000,000
December 15, 2003	\$ 1,000,000
March 15, 2004	\$ 1,000,000
June 15, 2004	\$ 750,000
September 15, 2004	\$ 750,000
December 15, 2004	\$ 750,000
March 15, 2005	\$ 750,000
June 15, 2005	\$ 500,000
September 15, 2005	\$ 500,000
December 15, 2005	\$ 500,000
March 15, 2006	\$ 500,000
June 15, 2006	\$ 250,000
September 15, 2006	\$ 250,000
December 15, 2006	\$ 250,000
March 15, 2007	\$ 250,000

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(b) Notwithstanding Section 3.05 (a) above, in the event the Borrower does not deliver to IFC by March 31, 2004, a Reserve Certification for the Etame Field certifying Proved Developed Reserves of at least 30 million barrels, the Borrower shall repay the Loan on the following dates and times:

Date Payment Due -----	Principal Amount Due -----
June 15, 2003	\$ 1,000,000
September 15, 2003	\$ 1,000,000
December 15, 2003	\$ 1,000,000
March 15, 2004	\$ 1,000,000
June 15, 2004	\$ 1,000,000
September 15, 2004	\$ 1,000,000
December 15, 2004	\$ 1,000,000
March 15, 2005	\$ 1,000,000
June 15, 2005	\$ 1,000,000
September 15, 2005	\$ 1,000,000

(c) The dates for repayment of principal of the Loan are intended to coincide with the Interest Payment Dates.

(d) Upon each Disbursement, the amount disbursed shall be allocated for repayment on each of the respective dates for repayment of principal set out in the table in Section 3.05 (a) (or, in the event the repayment schedule is shortened, in accordance with Section 3.05 (b), at such time) in amounts which are pro rata to the amounts of the respective installments shown opposite those dates in that table (with IFC adjusting those allocations as necessary so as to achieve whole numbers in each case).

Section 3.06. Prepayment. (a) the Borrower may prepay on any Interest Payment Date all or any part of the Loan, on not less than thirty (30) days' prior notice to IFC, but only if:

- (i) the Borrower simultaneously pays all accrued interest and Increased Costs (if any) on the amount of the Loan to be prepaid, together with the prepayment fee specified in Section 3.06 (c) and all other amounts then due and payable under this Agreement, including the amount payable under Section 3.11 (Unwinding Costs), if the prepayment is not made on an Interest Payment Date;
- (ii) for a partial prepayment, that prepayment is an amount not less than two million Dollars (\$2,000,000); and

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- (iii) if requested by IFC, the Borrower delivers to IFC, prior to the date of prepayment, evidence satisfactory to IFC that all necessary Authorizations with respect to the prepayment have been obtained.

(b) If at any time after the Phase One Completion Date, the DSCR, LOL and/or LOF are not in compliance with the Minimum Levels, the Borrower shall prepay the Loan in an amount sufficient for such ratios to be equal to or greater than the Minimum Levels no later than thirty (30) days after the date such non-compliance first occurred and:

- (i) the Borrower shall simultaneously pay all accrued interest and Increased Costs (if any) on the amount of the Loan to be prepaid, together with all other amounts then due and payable under this Agreement, including the amount payable under Section 3.11 (Unwinding Costs), if the prepayment is not made on an Interest Payment Date;
- (ii) no prepayment fee shall be payable; and
- (iii) if requested by IFC, the Borrower shall deliver to IFC, prior to the date of prepayment, evidence satisfactory to IFC that all necessary Authorizations with respect to the prepayment have been obtained.

(c) On the date of any prepayment of the Loan in accordance with Section 3.06 (a), the Borrower shall pay a prepayment fee consisting of an amount in Dollars equal to the relevant percentage of the amount to be prepaid, such percentage being determined as follows:

- (i) two percent (2%), if the prepayment occurs on or before the date corresponding to the second anniversary of the date of this Agreement;
- (ii) one percent (1%) if the prepayment occurs after the second anniversary of the date of this Agreement but on or before the third anniversary thereof; and
- (iii) one-half percent (1/2 %) if the prepayment occurs after the third anniversary of the date of this Agreement but on or before the fourth anniversary thereof.

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(d) Amounts of principal prepaid under this Section shall be applied by IFC to all the respective outstanding installments of principal of the Loan in inverse order of maturity.

(e) Upon delivery of a notice in accordance with Section 3.06 (a), the Borrower shall make the prepayment in accordance with the terms of that notice.

(f) Any principal amount of the Loan prepaid under this Agreement may not be re-borrowed.

Section 3.07. Fees. (a) The Borrower shall pay to IFC a commitment fee at the rate of one-half of one per cent (1/2%) per annum on that part of the Loan which from time to time has not been disbursed or canceled. The commitment fee shall:

- (i) begin to accrue on the date of this Agreement;
- (ii) be pro rated on the basis of a 360-day year for the actual number of days elapsed; and
- (iii) be payable quarterly, in arrears, on the Interest Payment Dates in each year, the first such payment to be due on June 15, 2002.

(b) The Borrower shall also pay to IFC a front-end fee of \$150,000, to be paid upon the earlier of (x) the date which is thirty (30) days after the date of this Agreement and (y) the date immediately preceding the date of the first Disbursement.

Section 3.08. Currency and Place of Payments. (a) The Borrower shall make all payments of principal, interest, fees, and any other amount due to IFC under this Agreement in Dollars, in same day funds, to Citibank, N.A., 111 Wall Street, New York, New York, U.S.A., ABA#021000089, for credit to IFC's account number 36085579, or at such other bank or account in New York as IFC from time to time designates. Payments must be received in IFC's designated account no later than 1:00 p.m. New York time.

(b) The tender or payment of any amount payable under this Agreement (whether or not by recovery under a judgment) in any currency other than Dollars shall not novate, discharge or satisfy the obligation of the Borrower to pay in Dollars all amounts payable under this Agreement except to the extent that (and as of the date when) IFC actually receives funds in Dollars in the account specified in, or pursuant to, Section 3.08 (a).

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(c) The Borrower shall indemnify IFC against any losses resulting from a payment being received or an order or judgment being given under this Agreement in any currency other than Dollars or any place other than the account specified in, or pursuant to, Section 3.08 (a). The Borrower shall, as a separate obligation, pay such additional amount as is necessary to enable IFC to receive, after conversion to Dollars at a market rate and transfer to that account, the full amount due to IFC under this Agreement in Dollars and in the account specified in, or pursuant to, Section 3.08 (a).

(d) Notwithstanding the provisions of Section 3.08 (a) and Section 3.08 (b), IFC may require the Borrower to pay (or reimburse IFC) for any Taxes, fees, costs, expenses and other amounts payable under Section 3.14 (a) (Taxes) and Section 3.15 (Expenses) in the currency in which they are payable, if other than Dollars.

Section 3.09. Allocation of Partial Payments. If at any time IFC receives less than the full amount then due and payable to it under this Agreement, IFC may allocate and apply the amount received in any way or manner and for such purpose or purposes under this Agreement as IFC in its sole discretion determines, notwithstanding any instruction that the Borrower may give to the contrary.

Section 3.10. Increased Costs. On each Interest Payment Date, the Borrower shall pay, in addition to interest, the amount which IFC from time to time notifies to the Borrower in an Increased Costs Certificate as being the aggregate Increased Costs of IFC accrued and unpaid prior to that Interest Payment Date.

Section 3.11. Unwinding Costs. (a) If IFC incurs any cost, expense or loss as a result of the Borrower:

- (i) failing to borrow in accordance with a request for Disbursement made pursuant to Section 3.02 (Disbursement Procedure), or to prepay in accordance with a notice of prepayment or pursuant to Section 3.06 (b); or
- (ii) prepaying all or any portion of the Loan on a date other than an Interest Payment Date;

then the Borrower shall immediately pay to IFC the amount which IFC from time to time notifies to the Borrower as being the amount of those costs, expenses and losses incurred.

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(b) For the purposes of this Section, "costs, expenses or losses" include any premium, penalty or expense incurred to liquidate or obtain third party deposits or borrowings in order to make, maintain or fund all or any part of the Loan.

Section 3.12. Suspension or Cancellation by IFC. (a) IFC may, by notice to the Borrower, suspend the right of the Borrower to Disbursements or cancel the undisbursed portion of the Loan in whole or in part:

- (i) if the first Disbursement has not been made by September 30, 2002 or such other date as the parties agree;
- (ii) if any Event of Default has occurred and is continuing or if the Event of Default specified in Section 7.02 (f) (Events of Default) is, in the reasonable opinion of IFC, imminent;
- (iii) if any event or condition has occurred and is continuing which has or can reasonably be expected to have a Material Adverse Effect;
or

(iv) on or after December 31, 2003.

(b) Upon the giving of any such notice, the right of the Borrower to any further Disbursement shall be suspended or canceled, as the case may be. The exercise by IFC of its right of suspension shall not preclude IFC from exercising its right of cancellation, either for the same or any other reason specified in Section 3.12 (a). Upon any cancellation the Borrower shall, subject to paragraph (d) of this Section 3.12, pay to IFC all fees and other amounts accrued (whether or not then due and payable) under this Agreement up to the date of that cancellation. A suspension shall not limit any other provision of this Agreement.

(c) Any portion of the Loan that is canceled under this Section 3.12 may not be reborrowed.

(d) In the case of a partial cancellation of the Loan pursuant to paragraph (a) of this Section 3.12, or Section 3.13 (a) below, interest on the amount then outstanding of the Loan remains payable as provided in Section 3.03 (Interest).

Section 3.13. Cancellation by the Borrower. (a) The Borrower may, by notice to IFC, irrevocably request IFC to cancel the undisbursed portion of the Loan on the date specified in that notice (which shall be a date not earlier than thirty (30) days after the date of that notice).

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(b) IFC shall, by notice to the Borrower, cancel the undisbursed portion of the Loan effective as of that specified date if, subject to Section 3.12 (d) above:

- (i) IFC has received all fees and other amounts accrued (whether or not then due and payable) under this Agreement up to such specified date; and
- (ii) if any amount of the Loan is then outstanding, IFC is reasonably satisfied that the Borrower has sufficient long-term funding available, on terms satisfactory to IFC, to cause the Phase One Completion Date to occur as scheduled.

(c) Any portion of the Loan that is canceled under this Section 3.13 may not be reborrowed.

Section 3.14. Taxes. (a) The Borrower shall pay or cause to be paid all Taxes other than taxes, if any, payable on the overall income of IFC on or in connection with the payment of any and all amounts due under this Agreement that are now or in the future levied or imposed by any Authority of Gabon, the United Kingdom or the United States of America or by any organization of which Gabon, the United Kingdom or the United States of the America is a member or any jurisdiction through or out of which a payment is made.

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

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

(d) If Section 3.14 (c) applies and IFC so requests, the Borrower shall deliver to IFC official tax receipts evidencing payment (or certified copies of them) within thirty (30) days of the date of that request.

Section 3.15. Expenses. (a) The Borrower shall pay or, as the case may be, reimburse IFC or its assignees any amount paid by them on account of, all

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taxes (including stamp taxes), duties, fees or other charges payable on or in connection with the execution, issue, delivery, registration or notarization of the Transaction Documents and any other documents related to this Agreement or any other Transaction Document.

(b) The Borrower shall pay promptly, on demand, to IFC or as IFC may direct:

- (i) the fees and expenses of IFC's technical consultants (including, without limitation, the Independent Engineer) and the public accountants, incurred in connection with the investment by IFC provided for under this Agreement;

- (ii) the reasonable fees and expenses of IFC's counsel in Gabon, France, Delaware, London, England and New York, New York and any other relevant jurisdictions, incurred in connection with:
 - (A) the preparation of the investment by IFC provided for under this Agreement and any other Transaction Document;
 - (B) the preparation and/or review, execution and, where appropriate, translation and registration of the Transaction Documents and any other documents related to them;
 - (C) the giving of any legal opinions required by IFC under this Agreement and any other Transaction Document;
 - (D) the administration by IFC of the investment provided for in this Agreement or otherwise in connection with any amendment, supplement or modification to, or waiver under, any of the Transaction Documents; and
 - (E) the registration (where appropriate) and the delivery of the evidences of indebtedness relating to the Loan and its disbursement;
- (iii) within thirty (30) days of the date of the first Disbursement of the Loan and in each calendar year thereafter, in advance, on each anniversary of the date of the first

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Disbursement, upon receipt of a statement from IFC, the amount of fifteen thousand Dollars (\$15,000) on account of IFC's expenses in carrying out its annual supervision review of the Borrower and the Project; and

- (iv) the costs and expenses incurred by IFC in relation to efforts to enforce or protect its rights under any Transaction Document, or the exercise of its rights or powers consequent upon or arising out of the occurrence of any Event of Default or Potential Event of Default, including legal and other professional consultants' fees on a full indemnity basis.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

Section 4.01. Representations and Warranties. The Borrower represents and warrants that:

(a) the Borrower is a company duly incorporated and validly existing under the laws of Delaware, and has the corporate power - and has obtained all required Authorizations - to own its assets, conduct its business as presently conducted and to enter into, and comply with its obligations under, the Transaction Documents to which it is a party or will, in the case of any Transaction Document not executed as at the date of this Agreement, when that Transaction Document is executed, have the corporate power to enter into, and comply with its obligations under, that Transaction Document;

(b) each Transaction Document to which the Borrower is a party has been, or will be, duly authorized and executed by the Borrower and constitutes, or will, when executed constitute, a valid and legally binding obligation of the Borrower, enforceable in accordance with its terms;

(c) neither the making of any Transaction Document to which the Borrower is a party nor (when all the Authorizations referred to in Section 5.01(d) (Conditions of Disbursement) have been obtained) the compliance with its terms will conflict with or result in a breach of any of the terms, conditions or provisions of, or constitute a default or require any consent under, any indenture, mortgage, agreement or other instrument or arrangement to which the Borrower is a party or by which it is bound, or violate any of the terms or provisions of the

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Borrower's Charter or any Authorization, judgment, decree or order or any statute, rule or regulation applicable to the Borrower;

(d) to the best of the Borrower's knowledge after due inquiry:

- (i) subject to clauses (ii) and (iii) below, all the Authorizations (other than Authorizations that are of a routine nature and are obtained in the ordinary course of business) needed by the Borrower as of the date of this Agreement to conduct its business,

carry out the Project and execute, and comply with its obligations under, this Agreement and each of the other Transaction Documents to which it is a party have been obtained and are in full force and effect;

(ii) the Borrower is working with IFC to determine whether any further Authorizations from any Authority of the GOG and/or CEMAC are necessary to comply with this Agreement and the other Transaction Documents to which it is a party. If IFC concludes any such Authorizations are necessary, the Borrower shall promptly apply for such Authorizations; and

(iii) the Borrower has the necessary Authorization from the Minister of Commerce of Gabon to maintain a branch office in Gabon and to renew such branch office every two years and the Borrower is in the process of renewing its registration for its branch office, which registration the Borrower reasonably believes will be issued in the ordinary course of business by such Minister;

(e) the Borrower's Charter has not been amended since June 4, 1995;

(f) neither the Borrower nor any of its property enjoys any right of immunity from set-off, suit or execution with respect to its assets or its obligations under any Transaction Document;

(g) since December 31, 2001, the Borrower:

(i) has not suffered any change that has a Material Adverse Effect or incurred any substantial loss or liability;

(ii) has not undertaken or agreed to undertake any substantial obligation;

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(h) the financial statements of the Borrower for the period ending on December 31, 2001:

(i) have been prepared in accordance with the Accounting Principles, and present fairly the financial condition of the Borrower as of the date as of which they were prepared and the results of the Borrower's operations during the period then ended;

(ii) disclose all liabilities (contingent or otherwise) of the Borrower, and the reserves, if any, for such liabilities and all unrealized or anticipated liabilities and losses arising from commitments entered into by the Borrower (whether or not such commitments have been disclosed in such financial statements);

(i) the Borrower is not a party to, or committed to enter into, any contract which would or might affect the judgment of a prospective investor other than the FPSO Contract;

(j) the Borrower has no outstanding Lien on any of its assets other than Liens arising by operation of law, and no contracts or arrangements, conditional or unconditional, exist for the creation by the Borrower of any Lien, except for the Security and the lien to be created on the Tinworth Escrow Account pursuant to the FPSO Contract and the Etame Accounts Agreement;

(k) all tax returns and reports of the Borrower required by law to be filed have been duly filed and all Taxes, obligations, fees and other governmental charges upon the Borrower, or its properties, or its income or assets, which are due and payable or to be withheld, have been paid or withheld, other than those presently payable without penalty or interest;

(l) the Borrower is not engaged in nor, to the best of its knowledge after due inquiry, threatened by, any litigation, arbitration or administrative proceedings, the outcome of which could reasonably be expected to have a Material Adverse Effect;

(m) to the best of its knowledge and belief after due inquiry, the Borrower is not in violation of any statute or regulation of any Authority;

(n) no judgment or order has been issued which has or may reasonably be expected to have a Material Adverse Effect;

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(o) (i) to the best of its knowledge and belief, after due inquiry, the Borrower is not in violation of any of the Agreed Environmental and Social Requirements; and

(ii) the Borrower has not received nor is it aware of any complaint,

order, directive, claim, citation or notice from any Authority with respect to any matter of the Borrower's compliance with the relevant environmental, health and safety laws and regulations in effect in Gabon such as, without limitation, air emissions, discharges to surface water or ground water, noise emissions, solid or liquid waste disposal, or the use, generation, storage, transportation or disposal of toxic or hazardous substances or wastes;

(p) neither Borrower nor Sponsor nor any of their respective Affiliates, nor any Person acting on its or their behalf, has made, with respect to the Project or any transaction contemplated by this Agreement, any Prohibited Payment;

(q) it is the Operator of the Project;

(r) it owns, solely in its own name, a working interest under the PSC equal to at least 30.35% during the exploration phase and at least 28.07% during the production phase, free and clear of all Liens and any other interests of any other Person including Pan African Gabon;

(s) all written information regarding the Borrower, the Sponsor, their respective Affiliates and the Project furnished to IFC prior to or contemporaneously herewith, by or on behalf of the Borrower, was and continues to be true and accurate (other than projections and other forward looking statements that the Borrower believes to be reasonable) and does not contain any information that is misleading in any material respect nor does it omit any information the omission of which makes the information contained in it misleading in any material respect;

(t) it is not incorporated or otherwise organized under the laws of, and does not have a registered office or place of business in, the United Kingdom;

(u) it is not engaged in any business activity outside the scope of the PSC;

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(v) as of the date of this Agreement, neither the GOG nor any of its Authorities has exercised the GOG's preference rights under Article 24 or Article 25 of the PSC and the Borrower has no reason to believe any such exercise is contemplated;

(w) except as specified in the Western Atlas Agreements, the Borrower has no partnership, profit-sharing or royalty agreement or other similar arrangement whereby the Borrower's income or profits might be shared with any other Person;

(x) none of the representations and warranties in this Section 4.01 omits any matter the omission of which makes any of such representations and warranties misleading.

Section 4.02. IFC Reliance. The Borrower acknowledges that it makes the representations and warranties in Section 4.01 (Representations and Warranties) with the intention of inducing IFC to enter into this Agreement and that IFC enters into this Agreement on the basis of, and in full reliance on, each of such representations and warranties.

ARTICLE V

CONDITIONS OF DISBURSEMENT

Section 5.01. Conditions of First Disbursement The obligation of IFC to make the first Disbursement is subject to the fulfillment prior to or concurrently with the making of that first Disbursement of the following conditions:

(a) the following agreements, together with any amendments to such agreements entered into after the date hereof including the amendment required under Section 5.01 (t) hereof, each in form and substance satisfactory to IFC, have been entered into by all parties to them and have become (or, as the case may be, remain) unconditional and fully effective in accordance with their respective terms (except for this Agreement having become unconditional and fully effective, if that is a condition of any of those agreements), and IFC has received a copy of each of those agreements to which it is not a party:

(i) each Transaction Document; and

(ii) each Project Document (except for the Marketing Contract for which a form acceptable to IFC shall be provided);

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(b) IFC's Security has been duly created and perfected as: (i) first ranking security interests in the VAALCO Operating Account, the VAALCO Retention Account and the Sponsor Escrow Account and the respective funds held therein; (ii) a security interest in all of the Borrower's rights, title and interest (other than solely in its capacity as the Operator) in the Etame Revenue Account and the Etame Operating Account, subject to the interests of the GOG, Tinworth Limited and the Etame Accounts Bank to the extent expressly provided in the Etame Accounts Agreement; (iii) a first ranking pledge by the Sponsor of all its shares in the Borrower; and (iv) an assignment by way of security of all rights, title and interest in and to the Borrower's share of Project-related insurance policies and any proceeds thereof;

(c) the Borrower has obtained, and provided to IFC copies of, all Authorizations (including, without limitation, the MOF Loan Authorization and the MOH Loan Authorization) that are necessary as of the date of this Agreement for:

- (i) the Loan;
- (ii) the business of the Borrower as it is presently carried on and is contemplated to be carried on;
- (iii) the Project and the implementation of the Financial Plan;
- (iv) the due execution, delivery, validity and enforceability of, and performance by the Borrower of its obligations under, this Agreement and the other Transaction Documents, the Project Documents and any other documents necessary or desirable to the implementation of any of those agreements or documents; and
- (v) the remittance to IFC or its assigns in Dollars of all monies payable with respect to the Transaction Documents;

and all those Authorizations are in full force and effect;

(d) IFC has received a legal opinion satisfactory in form and substance to IFC, from IFC's counsel in Gabon and concurred in by counsel for the Borrower, relating to the transactions contemplated by this Agreement;

(e) IFC has received a legal opinion satisfactory in form and substance to IFC, from its special counsel on English law matters, and concurred with by counsel for the Borrower and the Sponsor, with regard to this Agreement

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and other Transaction Documents and Project Documents governed by English Law;

(f) IFC has received a legal opinion satisfactory in form and substance to IFC, from its special counsel in New York, New York, and concurred in by counsel for the Borrower and the Sponsor, with regard to this Agreement and other Transaction Documents and Project Documents;

(g) IFC has received a legal opinion satisfactory in form and substance to IFC, from Texas counsel for the Borrower and the Sponsor, with regard to this Agreement and the other Transaction Documents and the Project Documents;

(h) IFC has received a certification from the Auditors confirming that, as at a date not earlier than sixty (60) days prior to the date of first Disbursement, the Borrower is in compliance with the provisions of Section 6.01 (c) (Affirmative Covenants) and containing a brief description of the systems and records in place;

(i) IFC has received copies of all insurance policies required to be obtained pursuant to Section 6.04 (Insurance) and Annex A prior to the date of first Disbursement, and a certification of the Borrower's insurers or insurance agents confirming that such policies are in full force and effect and all premiums then due and payable under those policies have been paid;

(j) IFC has received the fees specified in Section 3.07 (Fees) required to be paid before the date of the first Disbursement;

(k) if IFC so requires, IFC has received the reimbursement of all invoiced fees and expenses of IFC's counsel as provided in Section 3.15 (b) (ii) (Expenses) or confirmation that those fees and expenses have been paid directly to that counsel;

(l) IFC has received a copy of the authorization to the Auditors referred to in Section 6.01(e) (Affirmative Covenants);

(m) IFC has received a Certificate of Incumbency and Authority;

(n) the Borrower has delivered to IFC evidence, substantially in the form of Schedule 4, of appointment of an agent for service of process pursuant to Section 8.05 (d) (Applicable Law and Jurisdiction);

(o) IFC has received the Cuttings/Mud Disposal Plan and the Health and Safety Plan for Drilling Activities;

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(p) the Borrower has established the Etame Accounts and the VAALCO Accounts in accordance with the Etame Accounts Agreement and the VAALCO Accounts Agreement, respectively;

(q) IFC has received satisfactory evidence that the Sponsor has established the Sponsor Escrow Account Agreement in accordance with the Escrow Account Agreement and has funded and is maintaining a balance in the Sponsor Escrow Account equal at least to the amount of the first requested Disbursement;

(r) IFC has received satisfactory evidence of the acknowledgement of the EIA by the GOG;

(s) the Borrower has renewed its branch office registration in Gabon and is duly maintaining such branch office;

(t) Tinworth Limited and the Borrower shall have entered into an amendment to the FPSO Contract that provides, inter alia, (A) the security for the Borrower's obligations under the FPSO Contract shall be limited to the Tinworth Escrow Account and (B) for the assignment of the FPSO Contract and of the Fred. Olsen Guarantee to IFC;

(u) IFC has received satisfactory evidence that the GOG has confirmed the Borrower's working interest under the PSC, held solely in its own name, is equal to at least 30.35% during the exploration phase and at least 28.07% during the production phase and the GOG has approved the respective names and working interest percentages of each of the other Project Partners, as of the date of such approval.

Section 5.02. Conditions of All Disbursements. The obligation of IFC to make any Disbursement, including the first Disbursement, is also subject to the conditions that:

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

(b) the proceeds of that Disbursement are, at the date of the relevant request, needed by the Borrower for the purpose of the Project, or will be needed for that purpose within six (6) months of that date or are needed to reimburse the Borrower for Project costs, excluding Existing Assets, incurred in connection with the Financial Plan;

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(c) since the date of this Agreement, nothing has occurred and is continuing that has or can reasonably be expected to have a Material Adverse Effect;

(d) since December 31, 2001, the Borrower has not incurred any material loss or liability (except such liabilities as may be incurred in accordance with Section 6.02 (Negative Covenants));

(e) the representations and warranties made in Article IV are true and correct in all material respects on and as of the date of that Disbursement with the same effect as if those representations and warranties had been made on and as of the date of that Disbursement (but in the case of Section 4.01 (c) (Representations and Warranties), without the words in parentheses);

(f) the proceeds of that Disbursement are not in reimbursement of, or to be used for, expenditures in the territories of any country which is not a member of the World Bank or for goods produced in or services supplied from any such country;

(g) IFC has received (if it so requires) a legal opinion or opinions in form and substance satisfactory to IFC, of IFC's counsel in Gabon, New York, New York, London, England and/or Texas, and concurred in by counsel for the Borrower in the relevant jurisdiction(s), with respect to any matters relating to that Disbursement;

(h) after giving effect to that Disbursement, the Borrower would not be in violation of:

(i) its Charter;

(ii) any provision contained in any document to which the Borrower is a party (including this Agreement) or by which the Borrower is bound; or

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

(i) the Borrower has certified to IFC that no amendment has been made to the Borrower's Charter since June 14, 1995, or if any such amendment was made, IFC has received a copy of the Borrower's amended Charter and determined, in its reasonable judgment, that it is not inconsistent with the

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provisions of any Transaction Document and does not have or may not reasonably be expected to have a Material Adverse Effect;

(j) IFC has received satisfactory evidence that the Project is in compliance with Agreed Environmental and Social Requirements;

(k) the representations and warranties made by the Sponsor in Section 4.01 of the Guarantee Agreement and in Section 16.01 of the Subordination and Share Retention Agreement, respectively, are true and correct in all material respects on and as of the date of that Disbursement with the same effect as if those representations and warranties had been made on and as of the date of that Disbursement;

(l) IFC has received satisfactory evidence that the Sponsor has funded and is maintaining a balance in the Sponsor Escrow Account equal to at least the Minimum Escrow Amount in accordance with the Escrow Account Agreement; and

(m) IFC has received satisfactory evidence that, on and as of the date of that Disbursement, Sponsor's Long-term Debt to Equity Ratio does not exceed 70:30.

Section 5.03. Borrower's Certification. The Borrower shall deliver to IFC with respect to each request for Disbursement:

(a) certifications, in the form included in Schedule 2 signed by an Authorized Representative, relating to the conditions specified in Section 5.02 (Conditions of All Disbursements) (other than the condition in Section 5.02 (g)) expressed to be effective as of the date of that relevant Disbursement; and

(b) such evidence as IFC may reasonably request of the proposed utilization of the proceeds of that Disbursement or the utilization of the proceeds of any prior Disbursement.

Section 5.04. Conditions for IFC Benefit. The conditions in Section 5.01 through Section 5.03 are for the benefit of IFC and may be waived only by IFC in its sole discretion.

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ARTICLE VI

PARTICULAR COVENANTS

Section 6.01. Affirmative Covenants. Unless IFC otherwise agrees, the Borrower shall:

(a) carry out the Project and conduct its business with due diligence and efficiency and in accordance with (i) good international oil industry practices and standards; (ii) sound financial and business practices generally accepted in the international oil industry; (iii) the Full Field Development Plan; and (iv) all applicable laws and regulations;

(b) cause the financing specified in the Financial Plan to be applied exclusively to the Project and use its best efforts to cause the Phase One Completion Date to occur before March 31, 2003;

(c) maintain an accounting and control system, management information system and books of account and other records, which together adequately reflect truly and fairly the financial condition of the Borrower and the results of its operations in conformity with the Accounting Principles;

(d) maintain at all times a firm of internationally recognized independent public accountants acceptable to IFC as auditors of the Borrower;

(e) irrevocably authorize, in the form of Schedule 5, the Auditors (whose fees and expenses shall be for the account of the Borrower) to communicate directly with IFC at any time regarding the Borrower's accounts and operations, and provide to IFC a copy of that authorization, and, no later than thirty (30) days after any change in Auditors, issue a similar authorization to the new Auditors and provide a copy thereof to IFC;

(f) upon IFC's request, such request to be made with reasonable prior notice to the Borrower, except if an Event of Default or Potential Event of Default is continuing or if special circumstances so require, permit representatives of IFC, during normal office hours, to:

- (i) visit the Project site and any of the premises where the business of the Borrower is conducted;
- (ii) inspect all facilities, plant and equipment comprised in the Project;

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- (iii) have access to the Borrower's books of account and records; and
- (iv) have access to those employees and agents of the Borrower who have or may have knowledge of matters with respect to which IFC seeks information;

(g) design, construct, operate, maintain and monitor all of its sites, plant, equipment and facilities in accordance with the Agreed Environmental and Social Requirements and any other applicable environmental, social and occupational health and safety laws, rules and regulations (including any international treaty obligations, if any) of the GOG and the local Gabonese authorities;

(h) no less than sixty (60) days before the First Sale of Production, provide IFC with the Hazardous Material and Waste Management Plan and the Accidental Discharge and Prevention and Oil Spill Contingency and implement and comply with the same;

(i) from time to time, execute, acknowledge and deliver or cause to be executed, acknowledged and delivered such further instruments as may reasonably be requested by IFC for perfecting or maintaining in full force and effect the Security or for re-registering the Security or otherwise to enable the Borrower to comply with its obligations under the Transaction Documents;

- (j) (i) obtain and maintain in force (and where appropriate, renew in a timely manner) all Authorizations (including, without limitation, any Authorizations from any Authority of the GOG and/or CEMAC) that are necessary for the implementation of the Project, the carrying out of the Borrower's business and operations generally and the compliance by the Borrower with all its obligations under the Transaction Documents and the Project Documents; and

- (ii) comply with all the conditions and restrictions contained in, or imposed on the Borrower by, those Authorizations;

(k) on and after the Phase One Completion Date, maintain a balance in the VAALCO Retention Account equal to at least the Minimum Retention Amount in accordance with the VAALCO Accounts Agreement;

(l) at least thirty (30) days prior to the First Sale of Production, deliver to IFC a signed copy of the Marketing Contract then in effect, which

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shall be substantially the same in form and substance as the form marketing contract provided to, and approved by, IFC as a condition of first Disbursement; and enter into and maintain in effect at all times thereafter a Marketing Contract substantially similar to such form marketing contract;

(m) pay all royalties and all Taxes including license and other fees, which are properly assessed against it, not later than the due date therefore;

(n) maintain at all times on and after the Phase One Completion Date, the DSCR, LOL and LOF at or above the Minimum Levels;

(o) ensure that the funds in the VAALCO Accounts are used only as permitted in accordance with the Transaction Documents and that the funds in the Etame Accounts are used only as permitted in accordance with the Etame Accounts Agreement;

(p) consult with IFC prior to the appointment by the Borrower of an expert or arbitrator pursuant to the provisions of any Project Document to resolve any disputes referred to in Section 6.03 (j);

(q) make the ERS or, as appropriate, information contained in the ERS, available to all those who request it from the Borrower;

(r) periodically review the form of the Annual Monitoring Report and advise IFC as to whether modification of the form is necessary based on any changes in

the Project, and revise the form as agreed with IFC;

(s) at all times duly maintain (i) its corporate existence in the State of Delaware; and (ii) any qualifications for doing business in Gabon and Texas under the laws of Gabon and Texas, respectively, and comply, in a timely manner, with all the laws applicable to it;

(t) ensure that the interest rate of the Affiliate Loans shall not, at any time, be higher than the interest rate specified under this Agreement and that the term of the Affiliate Loans shall not be any shorter than the term of the Loan;

(u) until the Phase One Completion Date occurs, ensure the Sponsor maintains a balance in the Sponsor Escrow Account equal to at least the Minimum Escrow Amount and has a Long-term Debt to Equity Ratio not in excess of 70:30;

(v) contemporaneously with the execution of this Agreement, provide the Sponsor, the 1818 Fund and the VAALCO Accounts Bank with a copy of this Agreement;

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(w) in the event the GOG or any of its Authorities elects to exercise its preference rights under Article 24 and/or Article 25 of the PSC, ensure that any payments made by the GOG and/or its Authorities, following the exercise of such rights, are paid to the Etame Revenue Account or, if required to be paid elsewhere, are transferred promptly to the Etame Revenue Account;

(x) comply with all of its obligations under the Project Documents and at all times maintain and enforce its rights under the Project Documents;

(y) other than as required under Section 35 of the PSC, export its entire share (other than solely in its capacity as the Operator) of the oil produced from the Etame Field and receive Dollar-denominated sales proceeds therefor;

(z) ensure adequate segregation of costs including financing thereof incurred in connection with the Project and any Non-Project Activity for the purpose of the books of account and other records in conformity with applicable law, the PSC, the JOA and any other relevant agreement and in accordance with the Accounting Principles; and

(aa) prior to the election by any Project Partner to take any of its share of oil production from the Etame Field in kind, ensure that such Project Partner has entered into a Crude Sharing Agreement with the Operator that provides, inter alia, that all proceeds from the sale of such oil are deposited directly into the Etame Revenue Account, such agreement to be satisfactory in form and substance to IFC.

Section 6.02. Negative Covenants. Unless IFC otherwise agrees, the Borrower shall not:

(a) make any Restricted Payments:

- (i) prior to the Phase One Completion Date;
- (ii) if, either prior to or after making such Restricted Payment, an Event of Default or Potential Event of Default shall occur or be continuing; or
- (iii) on a day which is fewer than fifteen (15) days after the repayment dates specified in Section 3.05;

provided always that if the Borrower is permitted to make any Restricted Payments pursuant to this Section 6.02 (a), such Restricted Payments shall be made in accordance with the terms of the VAALCO Accounts Agreement;

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(b) incur expenditures or commitments for expenditures for fixed or other non-current assets, other than those required for carrying out the Project or necessary for repairs, replacements and maintenance of satisfactory operating conditions that are essential to the Borrower's business or operations, unless those expenditures or commitments are incurred after the Phase One Completion Date and do not exceed an aggregate amount equivalent to one million Dollars (\$1,000,000) in any Fiscal Year;

(c) incur, assume or permit to exist any Debt except:

- (i) the Loan; and
- (ii) the Affiliate Loans; and
- (iii) Short-term Debt incurred in the ordinary course of business

which, when aggregated with contingent liabilities arising from the discounting of trade receivables, would not exceed at any one time outstanding one million Dollars (\$1,000,000);

(d) enter into any agreement or arrangement to lease any property or equipment of any kind, except the FPSO Contract and leases of land/buildings and equipment, as necessary to carry on the Borrower's business and operate the Project;

(e) enter into any Derivative Transaction or assume the obligations of any party to any Derivative Transaction unless the Derivative Transaction is consistent with a hedging program previously approved by IFC, which approval shall not be unreasonably withheld;

(f) enter into any agreement or arrangement to guarantee or, in any way or under any condition, assume or become obligated for all or any part of any financial or other obligation of another Person except as required by the terms of the JOA;

(g) create or permit to exist any Lien on any property, revenues or other assets, present or future, of the Borrower, except for:

(i) the Security;

(ii) the naming of IFC as loss payee under the Borrower's insurance policies and/or the Borrower's share of the

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insurance policies related to the Etame Field (other than solely in its capacity as the Operator);

(iii) the Lien to be created under the FPSO Contract and the Etame Accounts Agreement on the Tinworth Escrow Account; and

(iv) any Lien arising from any tax, assessment or other governmental charge or other Lien arising by operation of law, in each case if the obligation underlying any such Lien is not yet due or, if due, is being contested in good faith by appropriate proceedings so long as:

(A) those proceedings do not involve any substantial danger of the sale, forfeiture or loss of any part of the Project, title thereto or any interest therein, nor interfere in any material respect with the use or disposition thereof or the implementation of the Project or the carrying on of the business of the Borrower; and

(B) the Borrower has set aside adequate reserves sufficient to promptly pay in full any amounts that the Borrower may be ordered to pay on final determination of any such proceedings;

(h) enter into any transaction except in the ordinary course of business on the basis of arm's-length arrangements (including, without limitation, transactions whereby the Borrower might pay more than the ordinary commercial price for any purchase or might receive less than the full ex-works commercial price (subject to normal trade discounts) for its products);

(i) establish any sole and exclusive purchasing or sales agency;

(j) enter into any partnership, profit-sharing or royalty agreement or other similar arrangement whereby the Borrower's income or profits are, or might be, shared with any other Person;

(k) enter into any management contract or similar arrangement whereby its business or operations are managed by any other Person;

(l) form or have any Subsidiary;

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(m) make or permit to exist loans or advances to, or deposits (except commercial bank deposits in the ordinary course of business) with, other Persons or investments in any Person or enterprise other than as permitted by the VAALCO Accounts Agreement, the Etame Accounts Agreement and Section 4.8 of the JOA and the Accounting Procedures set forth in Exhibit "A" to the JOA;

(n) change its Charter in any manner which would be inconsistent with the provisions of any Transaction Document;

(o) change its Fiscal Year;

(p) change in any material way the nature or scope of the Project or change the nature of its present or contemplated business or operations;

(q) sell, transfer, lease or otherwise dispose of all or a substantial part of its assets, other than inventory, whether in a single transaction or in a series of transactions, related or otherwise other than assets that have been worn out or obsolete and are replaced or upgraded or that are no longer required for the purposes of carrying out the Project, in each case in the ordinary course of business and in a manner consistent with the Transaction Documents;

(r) undertake or permit any merger, spin-off, consolidation or reorganization;

(s) terminate, amend or grant any waiver with respect to any provision of any Project Document; provided that the Borrower may from time to time amend or grant waivers with respect to (i) provisions of a Project Document (other than the PSC, JOA and the Etame Accounts Agreement) if necessary for the implementation and safe and efficient operation of the Project so long as such amendments or waivers have no Material Adverse Effect and do not change any material provisions such as the parties to such Project Documents, pricing and payment and term, etc.; and (ii) provisions of the PSC and/or the JOA solely for the purposes of effectuating a permitted transfer of interests thereunder by one of the other Project Partners but in no event by the Borrower;

(t) prepay (whether voluntarily or involuntarily) any Affiliate Loan, unless the Borrower gives IFC at least thirty (30) days advance notice of its intention to make the proposed prepayment and, if IFC so requires, the Borrower contemporaneously prepays a proportion of the Loan equivalent to the proportion of the Affiliate Loans relating to the Project being prepaid, such prepayment to be made in accordance with the provisions of Section 3.06 (Prepayment) except that there shall be no minimum amount or advance notice period for that prepayment;

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(u) use the proceeds of any Disbursement in the territories of any country which is not a member of the World Bank or for reimbursements of expenditures in those territories or for goods produced in or services supplied from any such country;

(v) engage in any business activity outside the scope of the PSC and with respect to activities within the scope of the PSC, any business activity that might hinder the completion and normal operations of the Project or the Borrower's ability to perform fully its obligations under the Transaction Documents and Project Documents;

(w) make (and shall not authorize or permit any Affiliate or any other Person, acting on its behalf to make) with respect to the Project or any transaction contemplated by this Agreement, any Prohibited Payment. The Borrower further covenants that should IFC notify the Borrower of its concerns that there has been a violation of the provisions of this Section or of Section 4.01 (p) of this Agreement, it shall cooperate in good faith with IFC and its representatives in determining whether such a violation has occurred, and shall respond promptly and in reasonable detail to any notice from IFC, and shall furnish documentary support for such response upon IFC's request; and

(x) reduce its working interest under the PSC below 30.35% during the exploration phase and below 28.07% during the production phase.

Section 6.03. Reporting Requirements. Unless IFC otherwise agrees, the Borrower shall:

(a) as soon as available but in any event within sixty (60) days after the end of each Fiscal Quarter, deliver to IFC:

- (i) two (2) copies of the Borrower's complete financial statements for such quarter prepared in accordance with the Accounting Principles;
- (ii) until the Full Field Development Plan has been implemented, a report, in the form attached as Schedule 6, on the progress in implementation of the Project, including any factors that have or could reasonably be expected to have a Material Adverse Effect;
- (iii) after the Full Field Development Plan has been implemented, a report on any factors that have or could reasonably be expected to have a Material Adverse Effect;

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- (iv) a certificate from an Officer of the Borrower attaching a

description of available data on monthly rates for oil, gas and water production and injection rates and other items of maintenance and improvements and extraordinary items relating to the Project; and

- (v) a statement of all transactions during that quarter between the Borrower and each of its Affiliates, if any, and a certification by an Officer of the Borrower that those transactions were on the basis of arm's-length arrangements;

(b) as soon as available but in any event within ninety (90) days after the end of each Fiscal Year, deliver to IFC:

- (i) two (2) copies of its complete and audited financial statements for that Fiscal Year (which are in agreement with its books of account and prepared in accordance with the Accounting Principles), together with the Auditors' audit report on them, all in form satisfactory to IFC;
- (ii) a management letter and such other communication from the Auditors to the Borrower or its management commenting, with respect to that Fiscal Year, on, among other things, the adequacy of the Borrower's financial control procedures, accounting systems and management information system and on the deficiencies, if any, that the Auditors consider material in the Borrower's financial accounting and other systems, management and accounts;
- (iii) a report by the Auditors certifying that, on the basis of its financial statements, the Borrower was in compliance with the financial ratios and financial covenants contained in Sections 6.01 (Affirmative Covenants) and 6.02 (Negative Covenants) as of the end of that Fiscal Year or, as the case may be, detailing any non-compliance;
- (iv) a report by the Borrower on its operations during that Fiscal Year, in the form of, and addressing the topics listed in, Schedule 7;
- (v) a statement by the Borrower of all transactions between the Borrower and each of its Affiliates, if any, during that

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Fiscal Year, and a certification by an Officer of the Borrower that those transactions were on the basis of arm's-length arrangements; and

- (vi) a certification from an Officer of the Borrower that, to the best of such Officer's knowledge after due inquiry, there exists no Event of Default or Potential Event of Default or, if such event exists, specifying its nature, the period of its existence and what action the Borrower proposes to take with respect to it;

(c) deliver to IFC, promptly following receipt, a copy of any management letter or other communication sent by the Auditors (or any other accountants retained by the Borrower) to the Borrower or its management in relation to the Borrower's financial, accounting and other systems, management or accounts, if not provided pursuant to Section 6.03 (b) (ii);

(d) within ninety (90) days after the end of each Fiscal Year, deliver to IFC an Annual Monitoring Report, confirming compliance with the applicable national or local requirements, the Agreed Environmental and Social Requirements, together with (A) the action being taken to ensure compliance and (B) a written report verifying the contents of that annual monitoring report, prepared by an independent third party consultant of the Borrower, acceptable to IFC;

(e) as soon as possible but no later than three (3) days after its occurrence, notify IFC by facsimile of any incident or accident which has or may reasonably be expected to have an adverse effect on the environment, health or safety, including, without limitation, explosions, spills or workplace accidents which result in death, serious or multiple injury or major pollution, specifying, in each case, the nature of the incident or accident, the on-site and off-site impacts arising or likely to arise therefrom and the measures the Borrower is taking or plans to take to address those impacts; and keep IFC informed of the on-going implementation of those measures;

(f) give notice to IFC, concurrently with the Borrower's notification to its stockholders, of any meeting of its stockholders, such notice to include the agenda of the meeting; and, as soon as available, deliver to IFC two (2) copies of:

- (i) all notices, reports and other communications of the Borrower to its stockholders, whether any such communication has been made on an individual basis or by

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way of publication in a newspaper or other communication medium; and

- (ii) the minutes of all stockholders' meetings;

(g) give notice to IFC of any meetings of the Operating Committee and the Technical Committee (as each such term is defined in the JOA) and the Technical Consulting Committee (as such term is defined in PSC); and, as soon as available, deliver to IFC two (2) copies of:

- (A) all notices, reports and other communications material to the Etame Field distributed in connection with such meetings; and
- (B) the minutes of all such meetings;

(h) deliver copies to IFC of all Work Programs and Budgets (as such term is defined in the JOA) for the Etame Field approved by the Operating Committee pursuant to the JOA;

(i) promptly notify IFC of any proposed change in the nature or scope of the Project or the business or operations of the Borrower and of any event or condition which has or may reasonably be expected to have a Material Adverse Effect;

(j) promptly upon becoming aware of (i) any litigation or administrative proceedings before any Authority or arbitral body to which the Borrower is or may become a party; (ii) any material dispute with any Authority or any other Project Partner; (iii) any technical or other material disputes with any other third party under any Project Document; (iv) the occurrence of any event of force majeure under any Project Document, notify IFC by facsimile of that event specifying the nature of that litigation, the proceedings or the event and the steps the Borrower is taking or proposes to take with respect thereto;

(k) promptly upon the occurrence of an Event of Default or Potential Event of Default, notify IFC by facsimile specifying the nature of that Event of Default or Potential Event of Default and any steps the Borrower is taking to remedy it;

(l) provide to IFC, in a timely manner, the insurance certificates and other information referred to in Section 6.04 (d) (Insurance);

(m) following the Phase One Completion Date, provide to IFC a Reserve Certification, at the Borrower's expense, within sixty (60) days of the

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end of each Fiscal Year and, from time to time but no more than two (2) times per Fiscal Year, as otherwise reasonably requested by IFC, provided that:

- (i) if IFC or the Borrower fails to dispute the accuracy of the Reserve Certification within a period of 30 days from the Reserve Certification being provided, the parties will be deemed to have accepted the Reserve Certification for the purposes of determining Proved Reserves and Proved Developed Reserves for the period covered by the Reserve Certification;
- (ii) if IFC notifies the Borrower or the Borrower notifies IFC (such notice to IFC to be given at the same time as the Borrower provides the Reserve Certification to IFC) that it disputes the accuracy of the information contained in the Reserve Certification, IFC and the Borrower, shall use all reasonable endeavors to resolve the dispute within a period of 30 days from the Reserve Certification being provided;
- (iii) if the parties cannot resolve the dispute within the 30 day period specified in Section 6.03(m) (ii), the dispute shall be determined by an independent consultant, having internationally recognized experience and expertise in the determination of petroleum reserves (deemed to be acting as an expert and not as an arbitrator), who shall be selected by IFC with the consent of the Borrower, (such consent not to be unreasonably withheld);
- (iv) if the Borrower disputes IFC's selection in good faith within 10 days of being notified by IFC of its selection, the independent consultant shall be selected by the then President of the Society of Petroleum Engineers (UK); and

- (v) the independent consultant shall be directed to provide a written determination on the dispute within a period of 60 days from the date of his appointment and that decision shall be binding on the parties and shall constitute the agreement on Proved Reserves and Proved Developed Reserves for the period covered by the Reserve Certification.

(n) within sixty (60) days of each Financial Year, provide IFC with a copy of the IFC Base Case in accordance with Section 6.05;

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(o) promptly notify IFC if (i) the GOG or any of its Authorities notifies the Borrower that the GOG is exercising its preference rights under Article 24 and/or Article 25 of the PSC or (ii) the Borrower has reason to believe the GOG and/or any of its Authorities intends to exercise such rights; and

(p) promptly provide to IFC such other information as IFC from time to time requests about the Borrower, its assets and the Project.

Section 6.04. Insurance.

(a) Insurance Requirements and Borrower's Undertakings. Unless IFC otherwise agrees, the Borrower shall:

- (i) insure and keep insured, with financially sound and reputable insurers, all its assets and business against all insurable losses to include the insurances specified in Annex A and any insurance required by law;
- (ii) punctually pay any premium, commission and any other amounts necessary for effecting and maintaining in force each insurance policy;
- (iii) promptly notify the relevant insurer of any claim by the Borrower under any policy written by that insurer and diligently pursue that claim;
- (iv) comply with all warranties under each policy of insurance;
- (v) not do or omit to do, or permit to be done or not done, anything which might prejudice the Borrower's, or, where IFC is a loss payee or an additional named insured, IFC's right to claim or recover under any insurance policy; and
- (vi) not vary, rescind, terminate, cancel or cause a material change to any insurance policy;

provided always that if at any time and for any reason any insurance required to be maintained under this Agreement shall not be in full force and effect, then IFC shall thereupon or at any time while the same is continuing be entitled (but have no such obligation) on its own behalf to procure such insurance at the expense of the Borrower and to take all such steps to minimize hazard as IFC may consider expedient or necessary.

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(b) Policy Provisions. Each insurance policy required to be obtained pursuant to this Section 6.04 shall be in English language, be on terms and conditions acceptable to IFC, and shall contain cut-through provisions, together with provisions to the effect that:

- (i) no policy can expire nor can it be canceled or suspended by the Borrower or the insurer for any reason (including failure to renew the policy or to pay the premium or any other amount) unless IFC and, in the case of expiration or if cancellation or suspension is initiated by the insurer, the Borrower receive at least forty-five (45) days' notice (or such lesser period as IFC may agree in respect of cancellation, suspension or termination in the event of war and kindred peril) prior to the effective date of termination, cancellation or suspension;
- (ii) IFC and all contractors working at the Project site during the construction phase are named as additional named insured on all liability policies obtained by the Borrower pursuant to Annex A and, to the best of the Borrower's efforts, on any liability policies obtained by third parties in connection with the Project;
- (iii) where relevant, all its provisions (except those relating to

limits of liability) shall operate as if they were a separate policy covering each insured party;

- (iv) on every insurance policy on the Borrower's assets which are the subject of the Security and for business interruption or delayed start-up, IFC is named as loss payee for any claim of, or any series of claims arising with respect to the same event whose aggregate amount is, the equivalent of five hundred thousand Dollars (\$500,000) or more (which amount relates to the Etame Field as a whole and not just the Borrower's working interest therein).

(c) Application of Proceeds.

- (i) At its discretion, IFC may remit the proceeds of any insurance paid to it to the Borrower to repair or replace the relevant damaged assets or may apply such proceeds towards any amount payable to IFC under this Agreement, including to repay or prepay all or any part of the Loan in accordance with Section 3.06 (Prepayment); provided that

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there shall be no minimum amount or notice period or prepayment fee for any such prepayment.

- (ii) The Borrower shall use any insurance proceeds it receives (whether from IFC or directly from the insurers) with respect to the Borrower's interest in the Etame Field Assets (other than solely in its capacity as the Operator) for loss of or damage to any asset solely to replace or repair that asset consistently with good international oil and gas practices.

(d) Reporting Requirements. Unless IFC otherwise agrees, the Borrower shall provide to IFC the following:

- (i) as soon as possible after its occurrence, notice of any event which entitles the Borrower to claim for an aggregate amount exceeding the equivalent of five hundred thousand Dollars (\$500,000) under any one or more insurance policies;
- (ii) within thirty (30) days after any insurance policy is issued to the Borrower, a copy of that policy incorporating any loss payee provisions required under Section 6.04 (b) (iv) (unless that policy has already been provided to IFC pursuant to Section 5.01 (i) (Conditions of First Disbursement));
- (iii) not less than ten (10) days prior to the expiry date of any insurance policy (or, for insurance with multiple renewal dates, not less than ten (10) days prior to the expiry date of the policy on the principal asset), a certificate of renewal from the insurer, insurance broker or agent confirming the renewal of that policy and the renewal period, the premium, the amounts insured for each asset or item and any changes in terms or conditions from the policy's issue date or last renewal, and confirmation from the insurer that provisions naming IFC as loss payee or additional named insured, as applicable remain in effect;
- (iv) such evidence of premium payment as IFC may from time to time request; and
- (v) any other information or documents on each insurance policy as IFC requests from time to time.

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Section 6.05. IFC Base Case. (a) The IFC Base Case shall be prepared, and the Net Cash Flow, DSCR, LOL and LOF determined, on the basis of assumptions determined in accordance with Section 6.05 (b). The IFC Base Case shall be updated by the Borrower, in accordance with the latest Reserve Certification and other relevant information, and submitted by the Borrower to IFC within sixty days (60) days of the end of each Fiscal Year, together with updated calculations of the DSCR, LOF and LOL as at the end of each such Fiscal Year and all future periods covered by the IFC Base Case.

(b) For the purpose of preparing the IFC Base Case and determining the Net Cash Flow, DSCR, LOL and LOF the technical assumptions will be determined by the Independent Engineer and set out in the most recent Reserve Certification.

ARTICLE VII

EVENTS OF DEFAULT

Section 7.01. Acceleration after Default. If any Event of Default occurs and is continuing (whether it is voluntary or involuntary, or results from operation of law or otherwise), IFC may, by notice to the Borrower, require the Borrower to repay the Loan or such part of the Loan as is specified in that notice. On receipt of any such notice, the Borrower shall immediately repay the Loan (or that part of the Loan specified in that notice) and pay all interest accrued on it, the prepayment fee specified in Section 3.06 on the amount of the Loan whose payment is accelerated, and any other amounts then payable under this Agreement. The Borrower waives any right it might have to further notice, presentment, demand or protest with respect to that demand for immediate payment.

Section 7.02. Events of Default. It shall be an Event of Default if:

(a) the Borrower fails to pay when due any part of the principal of, or interest on, the Loan or any fees payable in connection therewith and such failure continues for a period of five (5) days;

(b) the Borrower fails to pay when due any part of the principal of, or interest on, any loan from IFC to the Borrower other than the Loan and any such failure continues for the relevant period of grace provided for in the agreement providing for that loan;

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(c) the Borrower fails to comply with any of its obligations under this Agreement or any other Transaction Document or any other agreement between the Borrower and IFC (other than as set out in subsections (a) and (b) or as expressly addressed in this Section 7.02 below), and any such failure continues for a period of thirty (30) days after the date on which IFC notifies the Borrower of that failure or, if earlier, the date on which the Borrower becomes aware of such failure;

(d) any party to a Transaction Document (other than IFC or the Borrower) fails to observe or perform any of its obligations under that Transaction Document, and any such failure continues for a period of thirty (30) days after the date on which IFC notifies the Borrower of that failure or, if earlier, the date on which the Borrower becomes aware of such failure;

(e) any representation or warranty made in Article IV or in connection with the execution of, or any request (including a request for Disbursement) under, this Agreement or any other Transaction Document is found to be incorrect in any material respect;

(f) any Authority condemns, nationalizes, seizes, or otherwise expropriates all or any substantial part of the property or other assets of the Borrower or of its capital stock, or assumes custody or control of that property or other assets or of the business or operations of the Borrower or of its capital stock, or takes any action for the dissolution or disestablishment of the Borrower or any action that would prevent the Borrower or its officers from carrying on all or a substantial part of its business or operations;

(g) the Borrower:

(i) takes any step (including petition, giving notice to convene or convening a meeting) for the purpose of making, or proposes or enters into, any arrangement, assignment or composition with or for the benefit of its creditors;

(ii) ceases or threatens to cease to carry on its business or any substantial part of its business; or

(iii) is unable, or admits in writing its inability to pay its debts as they fall due or otherwise becomes insolvent;

(h) an order is made or an effective resolution passed or analogous proceedings taken for the Borrower's winding up, bankruptcy or dissolution or a petition is presented or analogous proceedings taken for the winding up or dissolution of the Borrower;

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(i) any encumbrancer lawfully takes possession, or a liquidator, judicial custodian, receiver, administrative receiver or trustee or any analogous officer is appointed, of the whole or any material part of the undertaking or assets of the Borrower or an attachment, sequestration, distress or execution (or analogous process) is levied or enforced upon or issued against any of the assets or property of the Borrower for an amount in excess of the equivalent of five hundred thousand Dollars (\$500,000) and is not discharged within thirty (30) days; or

(j) any other event occurs which under any applicable law would have an

effect analogous to any of those events listed in Section 7.02 (g), Section 7.02 (h) and Section 7.02 (i);

(k) the Borrower fails to pay any of its Debt (other than the Loan or any other loan from IFC to the Borrower) or to perform any of its obligations under any agreement pursuant to which there is outstanding any Debt, and any such failure continues for more than any applicable period of grace or any such Debt becomes prematurely due and payable or is placed on demand, provided such non-payment or non-performance will not be an Event of Default if (i) such non-payment or non-performance relates to a Debt not exceeding one hundred fifty thousand Dollars (\$150,000) and (ii) is being contested by the Borrower in good faith in a court of competent jurisdiction for reasons other than its inability to make due and punctual payment and for which the Borrower has set aside adequate reserves;

(l) any Authorization necessary for the Borrower to perform and observe its obligations under any Transaction Document, or to carry out the Project, is not obtained when required or is rescinded, terminated, lapses or otherwise ceases to be in full force and effect, including with respect to the remittance to IFC or its assignees, in Dollars, of any amounts payable under any Transaction Document, and is not restored or reinstated within thirty (30) days of notice by IFC to the Borrower requiring that restoration or reinstatement;

(m) any Security Document or any of its provisions:

(i) is revoked, terminated or ceases to be in full force and effect or ceases to provide the security intended or the priority contemplated under this Agreement, the 1818 Fund Subordination Agreement and/or the Subordination and Share Retention Agreement, without, in each case, the prior consent of IFC;

(ii) becomes unlawful or is declared void; or

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(iii) is repudiated or its validity or enforceability is challenged by any Person and any such repudiation or challenge continues for a period of thirty (30) days, during which period such repudiation or challenge has no effect;

(n) any Transaction Document (other than a Security Document) or any of its provisions:

(i) is revoked, terminated or ceases to be in full force and effect without, in each case, the prior consent of IFC, and that event, if capable of being remedied, is not remedied to the satisfaction of IFC within thirty (30) days of IFC's notice to the Borrower; or

(ii) becomes unlawful or is declared void;

(o) any Transaction Document (other than a Security Document) is repudiated or the validity or enforceability of any of its provisions at any time is challenged by any Person and such repudiation or challenge is not withdrawn within thirty (30) days of IFC's notice to the Borrower requiring that withdrawal; provided that no such notice shall be required or, as the case may be, the notice period shall terminate if and when such repudiation or challenge becomes effective;

(p) any Project Document;

(i) is breached by any party to it and that breach has or could reasonably be expected to have a Material Adverse Effect; or

(ii) is revoked, terminated or ceases to be in full force and effect without the prior consent of IFC, or performance of any of the material obligations under any such agreement becomes unlawful or any such agreement is declared to be void or is repudiated or its validity or enforceability at any time is challenged by any party to it;

(q) the Borrower ceases to be the Operator of the Project and the Person designated as the Operator is not acceptable to IFC;

(r) the Borrower's right to participate in the Etame Field is revoked;

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(s) Control of the Sponsor and/or the Borrower is transferred from the 1818 Fund to any Person without the consent of IFC, provided such consent shall not be unreasonably withheld if the proposed transferee has a proven technical record in the international oil industry, if relevant, sound financial standing

and, in IFC's reasonable judgment, a good reputation;

(t) the Borrower, the Sponsor and/or any of their respective Affiliates has been found by a judicial process or other official inquiry to have offered or given something of value to influence the action of an Official, or to have threatened injury to person, property or reputation, in connection with the Project in order to obtain or retain business or other improper advantage in the conduct of business;

(u) the Phase One Completion Date does not occur by March 31, 2003;

(v) a final judgment, order or arbitral award for the payment of money in excess of the equivalent of five hundred thousand Dollars (\$500,000) is rendered against the Borrower or any of its properties and that judgment, order or arbitral award continues to be unsatisfied for a period of thirty (30) days;

(w) the Borrower ceases to carry on its business; or the Project is abandoned by the Borrower or, following the Phase One Completion Date, the operation of the Project is interrupted for more than 180 consecutive days;

(x) any of the events specified in Section 7.02 (g) through (k) or in Section 7.02 (v) occur to the Sponsor or its properties, assets or share capital; provided that, in the case of Section 7.02 (k) and Section 7.02 (v), such event shall only be an Event of Default if the aggregate amount of the unpaid Debt or the final judgment, order or award, as the case may be, exceeds one million Dollars (\$1,000,000) or its equivalent;

(y) any amendment, waiver or termination of the Etame Accounts Agreement without IFC's prior written consent;

(z) at any time before the Phase One Completion Date occurs, the Sponsor's Long-term Debt to Equity Ratio exceeds 70:30;

(aa) at any time on or after the date of first Disbursement and before the Phase One Completion Date occurs, the balance in the Sponsor Escrow Account is less than the Minimum Escrow Amount; or

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(bb) at any time on or after the Phase One Completion Date occurs, the balance in the VAALCO Retention Account is less than the Minimum Retention Amount.

Section 7.03. Bankruptcy. If the Borrower is liquidated or declared bankrupt, the Loan, all interest accrued on it and any other amounts payable under this Agreement will become immediately due and payable without any presentment, demand, protest or notice of any kind, all of which the Borrower waives.

ARTICLE VIII

MISCELLANEOUS

Section 8.01. Saving of Rights. (a) The rights and remedies of IFC in relation to any misrepresentation or breach of warranty on the part of the Borrower shall not be prejudiced by any investigation by or on behalf of IFC into the affairs of the Borrower, by the execution or the performance of this Agreement or by any other act or thing which may be done by or on behalf of IFC in connection with this Agreement and which might, apart from this Section, prejudice such rights or remedies.

(b) No course of dealing or waiver by IFC in connection with any condition of Disbursement of the Loan under this Agreement shall impair any right, power or remedy of IFC with respect to any other condition of Disbursement, or be construed to be a waiver thereof; nor shall the action of IFC with respect to any Disbursement affect or impair any right, power or remedy of IFC with respect to any other Disbursement.

(c) Unless otherwise notified to the Borrower by IFC and without prejudice to the generality of Section 8.01 (b), the right of IFC to require compliance with any condition under this Agreement which may be waived by IFC with respect to any Disbursement is expressly preserved for the purposes of any subsequent Disbursement.

(d) No course of dealing and no failure or delay by IFC in exercising, in whole or in part, any power, remedy, discretion, authority or other right under this Agreement or any other agreement shall waive or impair, or be construed to be a waiver of or an acquiescence in, such or any other power, remedy, discretion, authority or right under this Agreement, or in any manner preclude its additional or future exercise; nor shall the action of IFC with respect to any default, or any acquiescence by it therein, affect or impair any right, power or remedy of IFC with respect to any other default.

Section 8.02. Notices. (a) Any notice, request or other communication to be given or made under this Agreement shall be in writing. Subject to Sections 6.03 (e), (j) and (k) (Reporting Requirements) and Section 8.05 (j) (Applicable Law and Jurisdiction), any such communication may be delivered by hand, airmail, facsimile or established courier service to the party's address specified below (or at such other address as such party notifies to the other party from time to time) and will be effective upon receipt.

For the Borrower:

VAALCO Gabon (Etame), Inc.
4600 Post Oak Place
Suite 309
Houston, TX 77027
United States of America.

Facsimile: 713-623-0982

Attention: President

For IFC:

International Finance Corporation
2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433
United States of America

Facsimile: (202) 974-4322

Attention: Director, Oil, Gas and Chemicals Department

With a copy (in the case of communications relating to payments) sent to the attention of the Senior Manager, Financial Operations Unit, at:

Facsimile: 202-974-4371.

(b) The Borrower shall ensure that any notices delivered pursuant to a Project Document that are to be provided to IFC, either directly or through the Borrower, shall be delivered by one of the methods specified in Section 8.02 (a).

Section 8.03. English Language. (a) All documents to be provided or communications to be given or made under this Agreement shall be in the English language.

(b) To the extent that the original version of any document to be provided, or communication to be given or made, to IFC under this Agreement or any other Transaction Document is in a language other than English, that document or communication shall be accompanied by an English translation certified by an Authorized Representative to be a true and correct translation of the original. IFC may, if it so requires, obtain an English translation of any document or communication received in another language other than English at the cost and expense of the Borrower. IFC may deem any such English translation to be the governing version between the Borrower and IFC.

Section 8.04. Term of Agreement. This Agreement shall continue in force until all monies payable under it have been fully paid in accordance with its provisions.

Section 8.05. Applicable Law and Jurisdiction. (a) This Agreement is governed by and shall be construed in accordance with the laws of England.

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

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

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

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

(f) The Borrower irrevocably waives:

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

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

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

(i) To the extent that the Borrower may, in any suit, action or proceeding brought in any of the courts referred to in Section 8.05 (b) or a court of Gabon, Delaware or elsewhere arising out of or in connection with this Agreement or any other Transaction Document to which the Borrower is a party, be entitled to the benefit of any provision of law requiring IFC in such suit, action or proceeding to post security for the costs of the Borrower, or to post a bond or to take similar action, the Borrower hereby irrevocably waives such benefit, in each case to the fullest extent now or in the future permitted under the

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laws of Gabon, Delaware or, as the case may be, the jurisdiction in which such court is located.

(j) The Borrower also irrevocably consents, if for any reason the Borrower's authorized agent for service of process of summons, complaint and other legal process in any action, suit or proceeding is not present in England, to service of such papers being made out of those courts by mailing copies of the papers by registered air mail, postage prepaid, to the Borrower at its address specified pursuant to Section 8.02 (Notices). In such a case, IFC shall also send by facsimile, or have sent by facsimile, a copy of the papers to the Borrower.

Section 8.06. Disclosure of Information. (a) IFC may disclose any documents or records of, or information about, this Agreement or any other Transaction Document, or the assets, business or affairs of the Borrower to:

- (i) its outside counsel, auditors and rating agencies,
- (ii) any other Person as IFC may deem appropriate in connection with any proposed sale, transfer, assignment or other disposition of IFC's rights under this Agreement or any Transaction Document or otherwise for the purpose of exercising any power, remedy, right, authority, or discretion relevant to this Agreement or any other Transaction Document.

(b) The Borrower acknowledges and agrees that, notwithstanding the terms of any other agreement between the Borrower and IFC, a disclosure of information by IFC in the circumstances contemplated by Section 8.06 (a) does not violate any

duty owed to the Borrower under this Agreement or under any such other agreement.

Section 8.07. Successors and Assignees. This Agreement binds and benefits the respective successors and assignees of the parties. However, the Borrower may not assign or transfer any of its rights or obligations under this Agreement without the prior consent of IFC.

Section 8.08. Amendments, Waivers and Consents. Any amendment or waiver of, or any consent given under, any provision of this Agreement shall be in writing and, in the case of an amendment, signed by the parties.

Section 8.09 Counterparts. This Agreement may be executed in several counterparts, each of which is an original, but all of which together constitute one and the same agreement.

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Section 8.10. Severability. To the fullest extent permitted by law, the invalidity or unenforceability of any provision of this Agreement in any jurisdiction shall not affect the validity or enforceability of any other provision hereof in such jurisdiction or of such or any other provision in any other jurisdiction.

Section 8.11. Rights of Third Parties. A Person who is not a party to this Agreement has no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce or enjoy the benefit of any term of this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be signed in their respective names as of the date first above written.

VAALCO GABON (ETAME), INC.

By : _____

Name : _____

Title : _____

INTERNATIONAL FINANCE CORPORATION

By : _____

Name : _____

Title : _____

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MINIMUM INSURANCE REQUIREMENTS

The Borrower shall effect and maintain the following insurance covers, at all times during the period of the Loan Agreement, under forms of policies and with insurers and reinsurers acceptable to IFC, in the following terms:

1. MARINE CARGO INSURANCE, (FOR IMPORTED PLANT AND EQUIPMENT) covering imports (and returns if applicable) of plant, equipment, machinery and materials to the Project site;

Cover is to be on the basis of Institute Cargo Clauses (A) plus War, plus Strike, Riot and Civil Commotion and should include a minimum of 60 days of storage on site.

Sum Insured : No less than the value of all plant, equipment and supplies, plus insurance and freight (CIF).

Deductibles : Not to exceed US\$ 50,000 each loss.

Insured : The Project Partners and IFC.

General : Cover to include 50/50 Clause.

2. CONSTRUCTION "ALL RISKS" ("CAR")/ BUILDERS' RISK

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Cover : All contract works executed and in the course of execution, materials and temporary works, against "all risks" of physical loss or damage, except as may be excluded in the policy.

Sum Insured : An amount sufficient to pay claims on a reinstatement basis.

Deductibles : In respect of any one occurrence, arising during the construction and testing period:

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i) from Storm, Tempest, Flood, Water Damage, Tsunami, Subsidence and Collapse Not more than US\$500,000

ii) from any other cause Not more than US\$500,000

Period of Cover : From (i) the date on which the flowlines are completed, which is expected to be on or about May 1, 2002, and during procurement, site preparation, construction, testing and commissioning and start-up and until entry into production or (ii) the commencement of the Operational Phase insurances as referred to herein, plus 12 months maintenance period.

Insured : The Project Partners, the Project contractors and suppliers and IFC.

General : a) Cover shall include transit within Gabon of locally procured goods and materials.
b) Claims will be paid in the currency in which the cost is incurred.
c) The insurers and reinsurers to waive all rights of subrogation against each insured party hereunder.

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d) Faulty Design coverage is to be included to the extent that coverage is available. The sum insured should be on a full replacement cost basis and should include any 'free issue' supplied to the management contractor such as start up electricity costs etc.

e) Both Ocean Marine and CAR covers shall carry a 50/50 hidden damage provision.

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3. OPERATIONAL INSURANCES:

A. COVERAGE:

Section A(i): Platform/Pipeline Physical Damage Insurance including Removal of Debris or Wreck.

Section A(ii): Removal of Debris and /or Wreck only.

Section B: Operator's Extra Expense.
Section C: Business Interruption/Extra Expense.
Section D(i): Umbrella Liabilities including liability arising from U.S. operations.
Section D(ii): Excess Umbrella Liabilities including liability arising from U.S. operations.
Section E: Limited Terrorist Coverage.
Section F: Hull & Machinery.

B. SUM INSURED/LIMIT OF LIABILITY

Section A(i): The replacement value of the property insured, but not to exceed the scheduled value, but a separate and additional limit up to \$5,000,000 any one occurrence in respect of Removal of Debris and/or Wreck, not to exceed the scheduled value.
Section A(ii): \$1,000,000 any one occurrence.

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Section B: \$25,000,000 (100%) any one occurrence, but \$10,000,000 (100%) any one occurrence in respect of Onshore U.S.A. Operations, and a separate and additional \$1,000,000 (100%) any one occurrence for Care, Custody and Control.
Section C: At a minimum, All Fixed Expenses, including principal, interest and fees under the Loan Agreement, for the agreed indemnity period
Section D(i): \$5,000,000 any one accident or occurrence and in the aggregate as applicable.
Section D(ii): \$20,000,000 any one accident or occurrence and in the aggregate as applicable.
Section E: As per agreed values and/or limits in the applicable sections herein.
Section F: Agreed Value (to be confirmed by IFC)

C. DEDUCTIBLES AND/OR EXCESS:

Section A(i): \$250,000 each loss or occurrence deductible excluding Total or Constructive Total Loss. The deductible applicable to the Nido CALM Buoy is \$150,000 each loss or occurrence, excluding Total or Constructive Total Loss.
Section A(ii): \$250,000 any one occurrence.
Section B: \$250,000 (100%) each loss or occurrence deductible, except \$100,000 each loss or occurrence deductible in respect of Onshore U.S.A. Operations and Care, Custody, and Control which shall be subject to a \$25,000 (100%) deductible each loss or occurrence.
Section C: Not more than 30 days.

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Section D(i): Excess of underlyings as per schedule, or \$100,000 self-insured retention, as applicable.
Section D(ii): Excess of Section Di.

Section E: As per the deductible and/or excess in the applicable sections.

Section F: To be agreed by IFC.

4. THIRD PARTY LIABILITY INSURANCE:

For construction and operational periods, third party liability insurances with a minimum limit of indemnity of US\$10,000,000 and shall include full cross liabilities.

5. MISCELLANEOUS

Other insurance which,

- a) is customary or necessary to comply with local or other requirements, such as contractual insuring responsibility, Workers' Compensation and Employers' Liability insurances in relation to all workmen employed at the Project or in connection with its operation; motor vehicle liability insurance for all vehicles owned, hired, leased, used or borrowed for use in Gabon in connection with the Project;
- b) is considered by the Borrower to be desirable or prudent, or required by IFC, such as Directors' and Officers' insurance; or
- c) are required by local legislation.

6. GENERAL

a) The Borrower shall procure that each policy effected pursuant to this schedule shall provide:

- i) Notice of assignment of the policies to IFC;

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- ii) cut-through clauses/assignment of reinsurance proceeds with respect to insurances governed by Gabonese law;
- iii) that policies are not to be canceled, lapsed, suspended or changed in any material respect without prior written notice (at least 30 days) to IFC and its agreement obtained, or such lesser period as may be specified from time to time in respect of war and kindred perils;
- iv) that the protection which is granted to IFC under the policies is not to be invalidated by any act or failure to act on the part of the Borrower, the Project Partners, the FPSO Operator or its contractors or subcontractors; and
- v) that IFC is not responsible to the insurers or reinsurers for the payment of insurance premiums or any other obligations of the Borrower.

b) Each policy effected pursuant to this Schedule:

- i) shall be maintained with such reputable insurers and reinsurers as may be approved by IFC;
- ii) shall be in such form and substance as is consistent with the obligations of the Borrower under this Annex, as may be approved by IFC, and
- iii) shall not include any provision for self-insurance, or any self-insurance retention except to the extent of the deductibles as specified in this Annex A.

c) The Borrower shall provide to IFC such information (including without limitation original policy documents and evidence of premium payment) as may be reasonably required.

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d) If at any time and for any reason any insurance required to be maintained under this Schedule is not in full force and effect then, without prejudice to the rights of IFC, IFC shall be entitled thereupon, or at any time whilst the same is continuing, to procure such insurance at the expense of

the Borrower.

- e) If IFC reasonably considers that, as a result of a material change in the identified risk exposure, any of the terms, conditions, amounts and deductibles of insurances procured pursuant to this Schedule are inadequate or inappropriate, IFC may require that the Borrower procure such amended and/or additional insurances as may be reasonably required to cover such material change.

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SCHEDULE 1
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FORM OF CERTIFICATE OF INCUMBENCY AND AUTHORITY

(See Section 1.01 and Section 5.01(m) of the Loan Agreement)

[Borrower's Letterhead]

[Date]

International Finance Corporation
2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433
United States of America

Attention: Director, Oil, Gas and Chemicals Department

Ladies and Gentlemen:

Certificate of Incumbency and Authority

With reference to the Loan Agreement between us, dated _____, ____ (the "Loan Agreement"), I, the undersigned [Chairman/Director] of VAALCO Gabon (Etame), Inc., (the "Borrower"), duly authorized to do so, hereby certify that the following are the names, offices and true specimen signatures of the persons [each] [any two] of whom are, and will continue to be, authorized:

(a) to sign on behalf of the Borrower the requests for the disbursement of funds provided for in Section 3.02 of the Loan Agreement;

(b) to sign the certifications provided for in Section 5.02 and Section 5.03 of the Loan Agreement; and

(c) to take any other action required or permitted to be taken, done, signed or executed under the Loan Agreement or any other agreement to which IFC and the Borrower may be parties.

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SCHEDULE 1
Page 2 of 2

*Name - - - - -	Office - - - - -	Specimen Signature - - - - -
_____	_____	_____
_____	_____	_____
_____	_____	_____

You may assume that any such person continues to be so authorized until you receive authorized written notice from the Borrower that they, or any of them, is no longer so authorized.

Yours truly,

VAALCO GABON (ETAME), INC.

By _____
[Chairman/Director]

* Designations may be changed by the Borrower at any time by issuing a new Certificate of Incumbency and Authority authorized by the Board of

FORM OF REQUEST FOR DISBURSEMENT

(See Section 3.02 and Section 5.03 of the Loan Agreement)

[Borrower's Letterhead]

[Date]

International Finance Corporation
2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433
United States of America

Attention: Director, Oil, Gas and Chemicals Department

Ladies and Gentlemen:

Investment No. 11090
Request for Loan Disbursement No. []*

1. Please refer to the Loan Agreement (the "Loan Agreement") dated _____, _____, between VAALCO Gabon (Etame), Inc. (the "Borrower") and International Finance Corporation ("IFC"). Terms defined in the Loan Agreement have their defined meanings whenever used in this request.

2. The Borrower irrevocably requests the disbursement on _____, _____ (or as soon as practicable thereafter) of the amount of _____ (_____) under the Loan (the "Disbursement") in accordance with the provisions of Section 3.02 of the Loan Agreement. You are requested to pay such amount to the account in [New York] of VAALCO Gabon (Etame), Inc. [Name of correspondent Bank], Account No. _____ at [Name and Address of Bank] [for further credit to the Borrower's Account No. _____ at [Name and address of Bank] in [London, England].

- -----
* Each to be numbered in series.

3. There is enclosed a signed but undated receipt for the amount of the Disbursement. The Borrower authorizes IFC to date such receipt with the date of actual disbursement by IFC.

4. For the purpose of Section 5.02 and Section 5.03 of the Loan Agreement, the Borrower certifies as follows:

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

(b) the proceeds of the Disbursement are at the date of this request needed by the Borrower for the purpose of the Project, or will be needed for that purpose within six (6) months of such date or are needed to reimburse the Borrower for Project costs, excluding Existing Assets, incurred in connection with the Financial Plan;

(c) since the date of the Loan Agreement nothing has occurred which has or could reasonably be expected to have a Material Adverse Effect;

(d) since December 31, 2001, the Borrower has not incurred any material loss or liability (except such liabilities as may be incurred by the Borrower in accordance with Section 6.02 of the Loan Agreement);

(e) the representations and warranties made in Article IV of the Loan Agreement are true on the date of this request and will be true on the date of Disbursement with the same effect as if such representations and warranties had been made on and as of each such date;

(f) the proceeds of the Disbursement are not in reimbursement of,

or to be used for, expenditures in the territories of any country which is not a member of the World Bank or for goods produced in or services supplied from any such country;

(g) after giving effect to the Disbursement, the Borrower will not be in violation of:

- (i) its Charter;
- (ii) any provision contained in any document to which the Borrower is a party (including the Loan Agreement) or by which the Borrower is bound; or

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SCHEDULE 2
Page 3 of 3

- (iii) any law, rule, regulation, Authorization or agreement or other document binding on the Borrower directly or indirectly, limiting or otherwise restricting the Borrower's borrowing power or authority or its ability to borrow; and

(h) the Borrower's Charter has not been amended since [insert date of latest amendment];

(i) the Project is in compliance with Agreed Environmental and Social Requirements; and

(j) as evidenced by the enclosed certification from an Officer of the Sponsor, (A) the Sponsor's Long-term Debt to Equity Ratio does not exceed 70:30, (B) the representations and warranties made by the Sponsor in Section 4.01 of the Guarantee Agreement and in Section 16.01 of the Subordination and Share Retention Agreement, respectively, are true on the date of this request and will be true on the date of Disbursement with the same effect as if such representations and warranties had been made on and as of such date; and (C) the Sponsor has funded and is maintaining a balance in the Sponsor Escrow Account equal to at least the Minimum Escrow Amount in accordance with the Escrow Account Agreement.

The above certifications are effective as of the date of this Request for Disbursement and shall continue to be effective as of the date of the Disbursement. If any of these certifications is no longer valid as of or prior to the date of the requested Disbursement, the Borrower undertakes to immediately notify IFC.

Yours truly,

VAALCO GABON (ETAME), INC.

By _____
Authorized Representative

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Copy to: Manager, Financial Operations Unit
International Finance Corporation

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SCHEDULE 3
Page 1 of 1

FORM OF LOAN DISBURSEMENT RECEIPT

(See Section 3.02 of the Loan Agreement)

[Borrower's Letterhead]

International Finance Corporation
2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433
United States of America

Attention: Manager, Financial Operations Unit

Ladies and Gentlemen:

Investment No. 11090

We, VAALCO Gabon (Etame), Inc., hereby acknowledge receipt on the date hereof, of the sum of _____ (____) disbursed to us by International Finance Corporation ("IFC") under the Loan of _____ (____) provided for in the Loan Agreement dated _____, 2002 between our company and International Finance Corporation.

Yours truly,

[NAME OF BORROWER]

By _____
Authorized Representative**

- -----
- * To correspond with number of the Disbursement request. See Schedule 2.
- ** As named in the Borrower's Certificate of Incumbency and Authority (see Schedule 1).

FORM OF SERVICE OF PROCESS LETTER
[Letterhead of Agent for Service of Process]
(See Section 5.01 (n) of the Loan Agreement)

[Date]

International Finance Corporation
2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433
Attention: Director, Oil, Gas and Chemicals Department

Re: [Gabon/_____]

Dear Sirs:

Reference is made to Section ____ of the Loan Agreement dated _____ (the "Loan Agreement") between VAALCO Gabon (Etame), Inc. (the "Borrower") and International Finance Corporation ("IFC"). Unless otherwise defined herein, capitalized terms used herein shall have the meaning specified in the Loan Agreement.

Pursuant to Section 8.05 (d) of the Loan Agreement, the Borrower has irrevocably designated and appointed the undersigned, _____ with offices currently located at _____ as its authorized agent to receive for and on its behalf service of process in any legal action or proceeding with respect to the Loan Agreement and the other Transaction Documents to which it is a party in the courts of England.

The undersigned hereby informs you that it has irrevocably accepted that appointment as process agent as set forth in Section 8.05 (d) of the Loan Agreement from _____ until _____ and agrees with you that the undersigned (i) shall inform IFC promptly in writing of any change of its address in _____, (ii) shall perform its obligations as such process agent in accordance with the relevant provisions of Section 8.05 (e) of the Loan Agreement, and (iii) shall forward promptly to the Borrower any legal process received by the undersigned in its capacity as process agent.

As process agent, the undersigned and its successor or successors agree to discharge the above-mentioned obligations and will not refuse fulfillment of such obligations as provided under Section 8.05 (e) of the Loan Agreement.

Very truly yours,

[_____]

By _____
Title:

FORM OF LETTER TO BORROWER'S AUDITORS

(See Section 5.01(1) and Section 6.01(e) of
the Loan Agreement)

[Borrower's Letterhead]

[Date]

[NAME OF AUDITORS]
[ADDRESS]

Ladies and Gentlemen:

We hereby authorize and request you to give to International Finance Corporation of 2121 Pennsylvania Avenue, N.W., Washington, D.C. 20433, United States of America ("IFC"), all such information as IFC may reasonably request with regard to the financial statements of the undersigned company, both audited and unaudited. We have agreed to supply that information and those statements under the terms of an Loan Agreement between the undersigned company and IFC dated _____, ____ (the "Loan Agreement"). For your information we enclose a copy of the Loan Agreement.

We authorize and request you to send two copies of the audited accounts of the undersigned company to IFC to enable us to satisfy our obligation to IFC under Section 6.03 (b) (i) of the Loan Agreement. When submitting the same to IFC, please also send, at the same time, a copy of your full report on such accounts in a form reasonably acceptable to IFC.

Please note that under Section 6.03 (b) (ii) and (iii) and Section 6.03 (c) of the Loan Agreement, we are obliged to provide IFC with:

(a) a copy of the annual and any other management letter or other communication from you to the undersigned company or its management commenting on, among other things, the adequacy of the undersigned company's financial control procedures and accounting and management information system; and

(b) a report by you certifying that, based upon its audited financial statements, the undersigned company was in compliance with the financial ratios and financial covenants contained in Sections 6.01 and 6.02 of the Loan Agreement as at the end of the relevant Fiscal Year or, as the case may be, detailing any non-compliance.

Please also submit each such communication and report to IFC with the audited accounts.

For our records, please ensure that you send to us a copy of every letter which you receive from IFC immediately upon receipt and a copy of each reply made by you immediately upon the issue of that reply.

Yours truly,

VAALCO GABON (ETAME), INC.

By _____
Authorized Representative

Enclosure

cc: Director
Oil, Gas and Chemicals Department
International Finance Corporation
2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433
United States of America

FORM OF PROGRESS REPORT RE: PROJECT IMPLEMENTATION

(See Section 6.03 (a) (iii) of the Loan Agreement)

The progress report shall include, but not be limited to:

- (1) Description of construction activity for the period covered by the report, including drilling, related field development activities and mobilization of capital equipment.
- (2) Updated timeline setting forth construction and operation milestones for the Full Development Plan, expected date of first oil and an explanation of any changes.
- (3) Forecast of expenditures for the period covered by the report, and an explanation of any changes from the approved Work Programs and Budget (as such term is defined in the JOA) for such period.
- (4) Expenditures to date and for the period.
- (5) Details of any event that is expected to delay implementation or result in a change in project costs.

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INFORMATION TO BE INCLUDED IN ANNUAL REVIEW OF OPERATIONS

(See Section 6.03 (b) (iv) of the Loan Agreement)

- (1) Sponsors and Shareholdings. Information on significant changes in share ownership of Borrower, the reasons for such changes, and the identity of major new shareholders and information on a change in the identity of the other Project Partners.
- (2) Country Conditions and Government Policy. Report on any material changes in conditions in Gabon, including government policy changes, that directly affect the Borrower (e.g. changes in government economic strategy, taxation, foreign exchange availability, price controls, and other areas of regulations.)
- (3) Management and Technology. Information on significant changes in (i) the Borrower's senior management or organizational structure, and (ii) technology used by the Borrower, including technical assistance arrangements.
- (4) Corporate Strategy. Description of any changes to the Borrower's corporate or operational strategy, including changes in products, degree of integration, and business emphasis.
- (5) Markets. Brief analysis of changes in Borrower's market conditions (both domestic and export), with emphasis on changes in market share and degree of competition.
- (6) Operating Performance. Discussion of major factors affecting the year's financial results (sales by value and volume, operating and financial costs, profit margins, capacity utilization, capital expenditure, etc.).

INVESTMENT NUMBER 11090

GUARANTEE AGREEMENT

BETWEEN

VAALCO ENERGY, INC.

AND

INTERNATIONAL FINANCE CORPORATION

DATED MAY 28, 2002

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GUARANTEE AGREEMENT

This Agreement is executed as a deed this 28th day of May, 2002, between VAALCO ENERGY INC., a corporation organized and existing under the laws of the State of Delaware, United States of America (the "Guarantor") and INTERNATIONAL FINANCE CORPORATION, an international organization established by Articles of Agreement among its member countries including the Republic of Gabon ("IFC").

WHEREAS:

(A) By a loan agreement dated April 19, 2002, as amended May 28, 2002 (as amended, the "Loan Agreement"), between IFC and VAALCO Gabon (Etime), Inc., a corporation organized and existing under the laws of the State of Delaware, United States of America (the "Borrower"), IFC has agreed to extend to the Borrower a loan (the "Loan") in a principal amount not to exceed ten million Dollars (\$10,000,000), subject to the terms and conditions set forth in the Loan Agreement.

(B) The Guarantor has been provided with, and hereby acknowledges receipt of, a copy of the Loan Agreement.

(C) It is a condition of the first disbursement of the Loan that the Guarantor has guaranteed the obligations of the Borrower in respect of the Loan on terms and conditions satisfactory to IFC.

(D) The Guarantor, as the owner of all of the equity interests in the share capital of the Borrower, will obtain benefits as a result of the Loan made to the Borrower under the Loan Agreement and, accordingly, desires to execute and deliver this Agreement.

(E) Each of the Guarantor and IFC intend this Agreement to take effect as a deed.

NOW, THEREFORE, the parties hereto agree as follows:

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ARTICLE I

DEFINITIONS AND INTERPRETATION

Section 1.01. Definitions. Terms defined in the Loan Agreement shall have the same meanings when used in this Agreement, unless the context otherwise requires.

Section 1.02. Guaranteed Obligations. In this Agreement the term "Guaranteed Obligations" means all debts and monetary liabilities of the Borrower to IFC under or in relation to the Loan Agreement or any other Transaction Document and in any capacity irrespective of whether the debts or liabilities:

- (a) are present or future;
- (b) are actual, contingent or otherwise;
- (c) are at any time ascertained or unascertained;
- (d) are owed or incurred by or on account of the Borrower alone, or severally or jointly with any other person;
- (e) are owed or incurred to or for the account of IFC alone, or severally or jointly with any other person;
- (f) are owed or incurred as principal, interest, fees, charges, taxes, duties or other imposts, damages (whether for breach of contract or tort or incurred on any other ground), losses, costs or expenses, or on any other account; or

(g) comprise any combination of the above.

Section 1.03. Interpretation. In this Agreement, unless the context otherwise requires:

- (a) headings are for convenience only and do not affect the interpretation of this Agreement;
- (b) words importing the singular include the plural and vice versa;

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(c) a reference to a natural person includes any company, partnership, trust, joint venture, association, corporation or other body corporate and any governmental authority or agency;

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(d) a reference to an Annex, Article, party, Schedule or Section is a reference to that Article or Section of, or that Annex, party, or Schedule to, this Agreement;

(e) a reference to a document includes an amendment or supplement to, or replacement or novation of, that document but disregarding any amendment, supplement, replacement or novation made in breach of this Agreement or the Loan Agreement; and

(f) a reference to a party to any document includes that party's successors and permitted assigns.

Section 1.04. Third Party Rights. No term of this Agreement is enforceable under the Contracts (Rights of Third Parties) Act 1999 by a person who is not a party to this Agreement.

ARTICLE II

GUARANTEE AND INDEMNITY

Section 2.01. Guarantee. The Guarantor hereby irrevocably, absolutely and unconditionally:

- (a) guarantees to IFC the due and punctual payment of the Guaranteed Obligations whether at stated maturity, upon acceleration or otherwise; and
- (b) undertakes with IFC that whenever the Borrower does not pay any amount of the Guaranteed Obligations when due the Guarantor will immediately and in any event, forthwith upon demand by IFC, pay that amount to IFC, in the currency prescribed in the Loan Agreement or the relevant Transaction Document, and otherwise in the same manner in all respects as the Guaranteed Obligations are required to be paid by the Borrower under the Loan Agreement as if it was the principal obligor.

Section 2.02. Indemnity. The Guarantor hereby irrevocably, absolutely and unconditionally agrees, as a primary obligation and not merely as surety, to indemnify IFC from time to time on demand from and against any cost, loss or liability incurred by IFC as a result of any of the Guaranteed Obligations being or becoming void, voidable, unenforceable, illegal or ineffective for any reason whatsoever, whether or not known to IFC, the amount of such loss being the

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amount which IFC would otherwise have been entitled to recover from the Borrower.

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Section 2.03. Continuing Guarantee. (a) The guarantee and indemnity contained in this Agreement are each a continuing security of the Guarantor, notwithstanding any settlement of account or the occurrence of any other event or thing, and shall remain in full force and effect until the earlier of:

- (i) the date on which the Guaranteed Obligations have been fully paid strictly in accordance with the provisions of the Loan Agreement, regardless of any intermediate payment or discharge in whole or in part;
- (ii) the date on which the obligations of the Guarantor have been finally discharged by IFC; or

(iii) the Phase One Completion Date occurs, provided such Phase One Completion Date occurs on or before March 31, 2003.

(b) The guarantee and the indemnity contained in this Agreement shall be additional, separate and independent obligations of the Guarantor and shall survive the termination of any Transaction Document.

(c) The Guarantor's obligations under this Agreement can be discharged only by performance and then only to the extent of such performance. These obligations are not subject to any prior notice to, demand upon or action against the Borrower or to any prior notice to the Guarantor with regard to any default by the Borrower.

(d) Notwithstanding that this guarantee is a guarantee for the whole of the Guaranteed Obligations, IFC agrees that the maximum amount recoverable under Sections 2.01 and 2.02 shall not exceed, the amount then outstanding under the Loan Agreement provided however that if (i) for any reason, the Phase One Completion Date does not occur on or before March 31, 2003; or (ii) any other Event of Default has occurred, IFC may accelerate the Loan and immediately demand payment of the entire balance of the Loan and all other amounts due to IFC under the Loan Agreement.

(e) Without limiting the remedies available to IFC under this Agreement or otherwise, if the Guarantor fails to pay any amount payable by it pursuant to this Agreement on or before its due date under this Agreement or, if not so specified, as notified by IFC to the Guarantor, the Guarantor shall pay, in respect of the amount of such payment due and unpaid, interest at the rate of two

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per cent (2%) per annum plus the applicable interest rate in accordance with the Loan Agreement, from the date any such payment became due under this Agreement until the date of actual payment (as well after as before judgment). Such interest shall be payable on demand.

Section 2.04. No Set-off. All payments which the Guarantor is required to make under this Agreement shall be made without any set-off, counterclaim or condition.

Section 2.05. Taxes. (a) The Guarantor shall pay or cause to be paid all Taxes other than taxes, if any, payable on the overall income of IFC on or in connection with the payment of any and all amounts due under this Agreement that are now or in the future levied or imposed by any Authority of Gabon, the United Kingdom or the United States of America or by any organization of which Gabon, the United Kingdom or the United States is a member or any jurisdiction through or out of which a payment is made.

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

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

(d) If Section 2.05 (c) applies and IFC so requests, the Guarantor shall deliver to IFC official tax receipts evidencing payment (or certified copies of them) within thirty (30) days of the date of that request.

Section 2.06. Currency Indemnity. (a) All payments under this Agreement shall be made in Dollars to the account specified by IFC in its demand.

(b) The tender or payment of any amount payable under this Agreement (whether or not by recovery under a judgment) in any currency other than Dollars shall not novate, discharge or satisfy the obligation of the Guarantor to pay in Dollars all amounts payable under this Agreement except to the extent

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that (and as of the date when) IFC actually receives funds in Dollars in the account specified pursuant to Section 2.06 (a).

(c) The Guarantor shall indemnify IFC against any losses resulting from a payment being received or an order or judgment being given under this Agreement in any currency other than Dollars or any place other than the account

specified pursuant to Section 2.06 (a). The Guarantor shall, as a separate obligation, pay such additional amount as is necessary to enable IFC to receive, after conversion to Dollars at a market rate and transfer to that account, the full amount due to IFC under this Agreement in Dollars and in the account specified in pursuant to Section 2.06 (a).

(d) Notwithstanding the provisions of Section 2.06 (a) and Section 2.06 (b), IFC may require the Guarantor to pay (or reimburse IFC) for any Taxes, fees, costs, expenses and other amounts payable under Section 2.05 and Section 6.03 in the currency in which they are payable, if other than Dollars.

Section 2.07. Certificate. A certificate by an officer of IFC specifying amounts due and payable under or in connection with any of the provisions of this Agreement shall, in the absence of manifest error, be conclusive and binding on the Guarantor.

Section 2.08. Application of Payments. IFC may apply any amounts received by it or recovered under any Security, and any other document or agreement which secures any of the Guaranteed Obligations and any other moneys, in any manner and for such purposes in respect of the Loan Agreement, this Agreement or any other Transaction Document as IFC in its sole discretion determines, notwithstanding any instruction that the Guarantor or the Borrower may give to the contrary.

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ARTICLE III

SAVING PROVISIONS

Section 3.01. Waiver of Defenses. The Guarantor's obligations under this Agreement shall not be affected or impaired by any act, omission, circumstance (other than complete payment of the Guaranteed Obligations), matter or thing which, but for this provision, would reduce, release or prejudice any of its obligations under this Agreement or which might otherwise constitute a legal or equitable discharge or defense of a surety or a guarantor, including (whether or not known to the Guarantor or to IFC):

(a) any time, waiver or consent given to, or composition with, the Borrower, the Guarantor or any other person;

(b) any taking, holding, reviewing, exchanging, varying, releasing, waiving or omitting to take, perfect or enforce any rights, remedies or security against or granted by the Borrower, the Guarantor or any other person;

(c) any amplification, amendment (however fundamental), variation or replacement of the provisions of any Transaction Document or of any other agreement between IFC and the Borrower;

(d) any failure of the Borrower or the Guarantor to comply with any requirement of any law, regulation or order;

(e) the dissolution, liquidation, reorganization or other alteration of the legal status or structure of the Borrower or the Guarantor;

(f) any purported or actual assignment of the Loan by IFC to any other party;

(g) the Loan Agreement or any other Transaction Document being in whole or in part illegal, void, voidable, avoided, invalid, unenforceable or otherwise of limited force and effect;

(h) the release of the Borrower or any other person under the terms of any composition or arrangement with any creditor of any of the Guarantor or the Borrower;

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(i) any incapacity or lack of power, authority or legal personality of or dissolution or change in the members or status of the Borrower or any other person; or

(j) any other circumstance howsoever caused or arising and whether or not similar to any of the foregoing (other than payment in full of the Guaranteed Obligations by the Borrower or the Guarantor in accordance with the Loan Agreement or this Agreement) which might otherwise constitute a legal or equitable discharge or defense of a surety or guarantor.

Section 3.02. Immediate Recourse. The Guarantor waives any right it may have of first requiring IFC (or any trustee, agent or other person acting on its behalf) to proceed against or enforce any other rights or security or claim payment from any person before claiming from the Guarantor under this Agreement.

Section 3.03. Non-Competition. (a) If any amounts have become payable or have been paid by the Guarantor under this Agreement, the Guarantor shall not, in respect of such monies, seek to enforce repayment, obtain the benefit of any security or exercise any other rights or legal remedies of any kind which may accrue to the Guarantor against the Borrower, whether by way of subrogation, set-off, counterclaim or otherwise, in respect of the amount so payable or so paid (or in respect of any other monies for the time being due to the Guarantor from the Borrower) if and for so long as any Guaranteed Obligations remain payable. The Guarantor shall hold in trust for, and forthwith pay or transfer to, IFC any payment or distribution or benefit of security received by it contrary to this Section 3.03, together with any amounts received by it and referred to in Section 3.04.

(b) Upon the payment, satisfaction or discharge in full of all the Guaranteed Obligations and provided that IFC is not under any further obligation (actual or contingent) to advance monies to the Borrower under the Loan Agreement, the Guarantor, if it has made a payment under this Agreement, shall be entitled to exercise all relevant rights of subrogation against the Borrower pursuant to the Loan Agreement. IFC shall promptly execute, at the expense of the Guarantor, an assignment and such other documents in such form as the Guarantor may reasonably request to transfer such rights of IFC against the Borrower to the Guarantor as are required for the Guarantor to obtain the full benefit of such subrogation. The Guarantor shall enforce such rights directly against the Borrower in its own name and not in the name of IFC.

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Section 3.04. Bankruptcy or Liquidation of Borrower. If the Borrower becomes bankrupt, enters into a composition or makes any arrangement with its creditors, or is dissolved, liquidated or wound up, the Guarantor shall not claim, rank, prove or vote as a creditor of the Borrower or its estate in competition with IFC in respect of any amounts owing to the Guarantor by the Borrower on any account whatsoever, but instead shall give IFC the benefit of any such proof and of all amounts to be received in respect of that proof until all Guaranteed Obligations have been fully paid.

Section 3.05. Appropriation of Moneys. Until all of the Guaranteed Obligations have been irrevocably paid in full, IFC (or any trustee, agent or other person acting on its behalf) may:

(a) refrain from applying or enforcing any other monies, security or rights held or received by IFC (or such trustee, agent or other person) in respect of the Guaranteed Obligations, or apply and enforce the same in such manner and order as it sees fit (whether against the Guaranteed Obligations or otherwise) and the Guarantor shall not be entitled to the benefit of the same; and

(b) hold and keep for such time as it thinks prudent any monies received, recovered or realized under this Agreement, to the credit either of the Guarantor or such other person or persons as it thinks fit or in a suspense account.

Section 3.06. Reinstatement. Where any discharge (whether in respect of the obligations of the Borrower, the Guarantor or any security for those obligations or otherwise) is made in whole or in part or any arrangement is made on the faith of any payment, security or other disposition which is avoided or must be restored on insolvency, liquidation or otherwise without limitation, the liability of the Guarantor under this Agreement shall continue or shall be reinstated (as the case may be) as if such discharge or arrangement had not occurred and IFC shall be entitled to recover the value or amount of that security or payment from the Borrower or the Guarantor as if the payment, discharge, avoidance or reduction had not occurred.

Section 3.07. Additional Security. This Agreement is in addition to, and is not in any way prejudiced by, any collateral or other security now or hereafter held by IFC, including without limitation, the Sponsor Escrow Account, nor shall such collateral or other security held by IFC or the liability of any person for all or any part of the Guaranteed Obligations be in any manner prejudiced or affected by this Agreement.

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ARTICLE IV

REPRESENTATIONS AND WARRANTIES

Section 4.01. Representations and Warranties. The Guarantor represents and warrants that as of the date of this Agreement:

(a) it is a company duly incorporated under the laws of Delaware and has the corporate power to enter into and deliver and to perform its obligations under this Agreement;

(b) the execution and delivery by it of this Agreement and the performance by it of its obligations hereunder have been duly authorized;

(c) this Agreement has been duly executed by it and constitutes its valid and legally binding obligations enforceable in accordance with its terms;

(d) neither the execution and delivery by it of this Agreement nor the performance by it of its obligations under this Agreement conflicts or will conflict with or result in any breach of any of the terms, conditions or provisions of, or violate or constitute a default or require any consent under:

(i) any indenture, mortgage, contract, agreement or other instrument or arrangement to which it is a party or which purports to be binding upon it or any of its property or assets, and will not result in the imposition or creation of any lien, charge, or encumbrance on, or security interest in, any part thereof pursuant to the provisions of any such agreement, instrument or arrangement; or

(ii) any of the terms or provisions of its Charter; or

(iii) any statute, rule or regulation or any judgment, decree or order of any Authority; and

(e) all Authorizations required for the execution and delivery of this Agreement by it and the performance by it of its obligations hereunder, have been duly obtained or granted and are in full force and effect.

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Section 4.02. IFC Reliance. (a) The Guarantor acknowledges that it makes the representations in Section 4.01 with the intention of inducing IFC to enter into this Agreement and the Loan Agreement and that IFC enters into this Agreement and the Loan Agreement on the basis of, and in full reliance on, each of such representations.

(b) The Guarantor warrants to IFC that each of such representations is true and correct in all material respects as of the date of this Agreement and that none of them omits any matter the omission of which makes any of such representations misleading and that they will be deemed to be repeated each day whilst the Guarantor has any liability (actual or contingent) under this Agreement.

Section 4.03. Rights and Remedies not Limited. IFC's rights and remedies in relation to any misrepresentation or breach of warranty on the part of the Guarantor are not prejudiced:

(a) by any investigation by or on behalf of IFC into the affairs of the Guarantor;

(b) by the execution or the performance of this Agreement; or

(c) by any other act or thing which may be done by or on behalf of IFC in connection with this Agreement and which might, apart from this Section, prejudice such rights or remedies.

ARTICLE V

COVENANTS

Section 5.01. Guarantor's Covenants. The Guarantor shall:

(a) when requested by IFC, do or cause to be done anything which aids the exercise of any power, right or remedy of IFC under this Agreement including, but not limited to, the execution of any document or agreement;

(b) obtain, maintain and renew when necessary all Authorizations required:

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(i) to enable it to perform its obligations under this Agreement; or

(ii) for the validity or enforceability of the Agreement; and

(c) comply in all respects with the terms of all Authorizations.

ARTICLE VI

MISCELLANEOUS

Section 6.01. Notices. Any notice, request or other communication to be given or made under this Agreement shall be in writing. Any such communication may be delivered by hand, airmail, facsimile or established courier service to the party's address specified below or at such other address as such party notifies to the other party from time to time, and will be effective upon receipt.

For the Guarantor:

VAALCO Energy, Inc.
4600 Post Oak Place
Suite 309
Houston, TX 77027
United States of America

Facsimile: 1-713-623-0982

Attention: President

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For IFC:

International Finance Corporation
2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433
United States of America

Facsimile: 1-202-974-4322

Attention: Director, Oil, Gas & Chemicals Department

With a copy (in the case of communications relating to payments) sent to the attention of the Senior Manager, Financial Operations Unit, at:

Facsimile: 1-202-974-4371.

Section 6.02. English Language. (a) All documents to be provided or communications to be given or made under this Agreement shall be in the English language.

(b) To the extent that the original version of any document to be provided, or communication to be given or made, to IFC under this Agreement is in a language other than English, that document or communication shall be accompanied by an English translation certified by an Authorized Representative to be a true and correct translation of the original. IFC may, if it so requires, obtain an English translation of any document or communication received in another language other than English at the cost and expense of the Guarantor. IFC may deem any such English translation to be the governing version between the Guarantor and IFC.

Section 6.03. Expenses. The Guarantor shall pay to IFC or as IFC may direct on demand:

(a) the fees and expenses of IFC's counsel in London, England, Delaware and any other jurisdiction incurred in connection with:

- (i) the preparation and/or review, execution, translation and, where appropriate, stamping or registration of this Agreement;
- (ii) the giving of any legal opinions required by IFC in respect of this Agreement;

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- (iii) any amendment, supplement or modification to, or waiver under, this Agreement; and

(b) the costs and expenses incurred by IFC in relation to the enforcement or protection or attempted enforcement or protection of its rights under this Agreement, including legal and other professional consultants' fees and any taxes, duties, fees or other charges payable by IFC in connection with the enforcement of this Agreement.

Section 6.04. Remedies and Waivers. No failure or delay by IFC in exercising any power, remedy, discretion, authority or other rights under this Agreement shall waive or impair that or any other right of IFC. No single or partial exercise of such a right shall preclude its additional or future exercise. No such waiver shall waive any other right under this Agreement. All waivers or consents given under this Agreement shall be in writing.

Section 6.05. Jurisdiction and Enforcement. (a) This Agreement is governed by and shall be construed in accordance with the laws of England.

(b) For the exclusive benefit of IFC, the Guarantor irrevocably agrees that any legal action, suit or proceeding arising out of or relating to this Agreement may be brought in the courts of England. By the execution of this Agreement, the Guarantor irrevocably submits to the jurisdiction of such courts in any such action, suit or proceeding. Final judgment against the Guarantor in any such action, suit or proceeding shall be conclusive and may be enforced in any other jurisdiction, including Delaware and Gabon, by suit on the judgment, a certified or exemplified copy of which shall be conclusive evidence of the judgment, or in any other manner provided by law.

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

(d) The Guarantor hereby irrevocably designates, appoints and empowers the Chief Executive and Head of the Litigation Group of Bird & Bird located at 90 Fetter Lane, London EC4A 1JP (reference VAAEN.0001), as its authorized agent solely to receive for and on its behalf service of the writ of

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summons or other legal process in any action, suit or proceeding IFC may bring in the courts of England.

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

(f) The Guarantor irrevocably waives:

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

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

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

(i) To the extent that the Guarantor may, in any suit, action or proceeding brought in any of the courts referred to in Section 6.05 (b) or a court of Delaware, Gabon or elsewhere arising out of or in connection with this Agreement be entitled to the benefit of any provision of law requiring IFC in such suit, action or proceeding to post security for the costs of the Guarantor, or to post a bond or to take similar action, the Guarantor hereby irrevocably waives such benefit, in

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each case to the fullest extent now or in the future permitted under the laws of England, or, as the case may be, the jurisdiction in which such court is located.

Section 6.06. Successors and Assignees. This Agreement binds and inures to the benefit of the respective successors and assignees of the parties, except that the Guarantor may not assign or otherwise transfer all or any part of its rights or obligations under this Agreement without the prior written consent of IFC. The benefit of this Agreement may be freely and unconditionally assigned, transferred or otherwise disposed of, in whole or in part, by IFC to any other

person, corporate or otherwise.

Section 6.07. Amendment. Any amendment of any provision of this Agreement shall be in writing and signed by the parties.

Section 6.08. Severability. If, at any time, any provision of this Guarantee is or becomes illegal, invalid or unenforceable in any respect under the term of any relevant jurisdiction, neither the legality, validity or enforceability of that provision under the law of any jurisdiction, shall be affected or impaired in any way.

Section 6.09. Counterparts. This Agreement may be executed in several counterparts, each of which is an original, but all of which together constitute one and the same agreement.

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IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be executed as a deed, as of the day and year first above written.

Signed as a deed
by VAALCO Energy, Inc.

By: _____

Name:
Title: Authorized Representative

by International Finance Corporation

By: _____

Name:
Title: Authorized Representative

C L I F F O R D
C H A N C E

LIMITED LIABILITY PARTNERSHIP

VAALCO GABON (ETAME), INC.

And

J.P. MORGAN TRUSTEE AND DEPOSITARY COMPANY LIMITED

And

JPMORGAN CHASE BANK, LONDON BRANCH

ETAME FIELD
TRUSTEE AND PAYING AGENT AGREEMENT

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THIS AGREEMENT, made as of the 26 day of June, 2002 between VAALCO GABON (ETAME), INC., a Delaware corporation ("VGEI"), on behalf of itself, in its capacity as Operator acting under the Operating Agreement and as a Consortium Member and on behalf of each other Consortium Member under the Operating Agreement, J.P. Morgan Trustee and Depositary Company Limited having its registered office at 125 London Wall, London EC2Y 5AJ as Trustee and Paying Agent and JPMorgan Chase Bank, London Branch (the "Bank"), acting through its branch located at Trinity Tower, 9 Thomas More Street, London, England E1W 1YT as Account Bank (all capitalized terms in the Preface and Recitals are hereinafter defined under Section 1 below).

WITNESSETH:

WHEREAS, VGEI, as the Operator and on behalf of the Consortium Members, will be executing Crude Oil Sales Contracts;

WHEREAS, each Crude Oil Sales Contract will provide that the Buyer shall pay Crude Oil Sales Contract Revenues due thereunder to the Etame Revenue Account;

WHEREAS, pursuant to the FPSO Contract between VGEI, as Operator, and TINWORTH,

TINWORTH is entitled to receive certain Compensation subject to the terms and conditions thereof secured by the TINWORTH Reserve Account created and funded as provided herein;

WHEREAS, from time to time Consortium Members may enter into financing agreements with Subordinate Secured Parties and assign as security therefor, subject to funding Government Payments, Fees and Expenses and Additional Remuneration of the Trustee and Paying Agent and of the Account Bank and the TINWORTH Reserve Account (as provided herein), their pro rata share of Crude Oil Sale Contract Revenues;

WHEREAS, to secure payment of amounts due to (i) TINWORTH under the FPSO Contract and (ii) the several obligations of the Consortium Members to their Subordinate Secured Parties, VGEI, as the Operator and on behalf of the Consortium Members, wishes to assign its rights and their respective rights to the Crude Oil Sales Contract Revenues in respect of the related Crude Oil Sales Contracts to the Trustee and Paying Agent upon the terms and conditions set forth in this Agreement;

WHEREAS, amounts paid with respect to the Crude Oil Sales Contract Revenues in respect of the Crude Oil Sales Contracts will be received, held, managed and disbursed by the Trustee and Paying Agent (as provided herein);

NOW, THEREFORE, in consideration of the mutual agreements contained herein, the Parties hereto agree as follows:

1. DEFINED TERMS

1.1 The following defined terms shall have the meanings set forth below, such meanings to be applicable to both the singular and the plural forms of such expressions:

"Accession Deed" shall have the meaning set forth in Section 2.9.

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"Accounts" shall mean the Etame Reserve Account, the Etame Operating Account and the TINWORTH Reserve Account.

"Account Bank" shall mean the JPMorgan Chase Bank or any Successor appointed pursuant to Section 8.7.

"Account Bank's Office" shall mean the office of the Account Bank, the address of the first Account Bank being set out in Section 9.6 or any other office of the Account Bank in London, the address of which is notified to the Operator and TINWORTH, with copies to any Subordinate Secured Parties, by the Account Bank pursuant to Section 9.6 or the office specified in an instrument delivered by any Successor.

"Agreement" shall mean this Etame Field Trustee and Paying Agent Agreement, as modified, supplemented or amended from time to time in accordance with the terms hereof.

"Applicable Law" shall have the meaning set forth in Section 9.9.

"Assigned Property" shall mean the property subject to the Crude Oil Sales Contracts Assignments.

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

"Authorisation" any consent, registration, filing, agreement, notarization, certificate, license, approval, permit, authority or exemption from by or with any Authority, whether given by express action or deemed given by failure to act within any specified time period and all corporate, creditors' and stockholders' approvals or consents;

"Bank" shall have the meaning set forth in the introduction to this Agreement.

"Beneficiaries" shall have the meaning set forth in Section 2.4.

"Business Day" shall mean any day other than a Saturday, Sunday or other day on which commercial banking institutions in London and New York are authorized or obligated by law to remain closed.

"Buyers" shall mean collectively each of the buyers of Crude Oil under the Crude Oil Sales Contracts and their respective successors and permitted assigns thereunder.

"Charter" the articles of incorporation and bylaws an/or such other constitutive documents, howsoever called;

"Collection Actions" shall have the meaning set forth in Section 2.7(f).

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"Compensation" shall mean all charter rate, operating rate and any other compensation whatsoever payable by the Operator to TINWORTH in accordance with their obligations and liabilities under the FPSO Contract.

"Consortium Members" shall mean collectively VGEI, PetroEnergy, Pan African Energy, Sasol, WAAL and NISSHO, and in each case its successors and permitted assigns under the Production Sharing Contract and the Operating Agreement.

"Consortium Member Accounts" shall mean the designated deposit accounts for each Consortium Member as designated on Schedule A hereto.

"Crude Oil" shall mean crude oil produced from the Field.

"Crude Oil Sales Contract Revenues" shall mean each amount payable in U.S. Dollars pursuant to sales of Crude Oil exported from the Project and any amounts payable on account of interest due by reason of the late payment for Crude Oil under the Crude Oil Sales Contracts, in each case net of sales commissions provided for in the Crude Oil Sales Contracts or in any sales agency agreements entered into in connection therewith.

"Crude Oil Sales Contracts" shall mean each and all of the sales contracts for the marketing and sale of Crude Oil from the Project to be entered into either by:

- (i) the Operator on behalf of itself, the Consortium Members and the Government of Gabon and its assigns and each of the Buyers thereof; and
- (ii) such Consortium Members who elect to take in kind and separately sell its share of Crude Oil from the Project directly and each of the Buyers thereof;

as the same may be modified, supplemented or amended, including any extension or renewal thereof.

"Crude Oil Sales Contracts Assignment" shall have the meaning set forth in Section 2.7 (a).

"Crude Sharing Agreement" shall mean any agreement entered into between the Operator and any Consortium Member under which such Consortium Member elects to take in kind its share of Crude Oil from the Project and to sell it directly under a Crude Oil Sales Contract.

"Eligible Bank" means the Bank or any of the Bank's affiliates or any other bank or trust company with a registered office or branch in London, England, provided the Bank or its relevant affiliate or such other bank or trust company has capital and surplus of at least US \$500,000,000 and whose long term senior debt is rated at least "A" by Standard & Poor's Corporation or its successor or at least "A3" by Moody's Investors Service, Inc. or its successor, or any equivalent rating, issued by such services or successors, as from time to time may be in effect.

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"Environmental Law" shall mean all applicable laws, including common law, orders, decrees, permits, rules or regulations pertaining to the environment, health and safety, hazardous substances, or the environmental conditions on, under, or about the Field, the Project or the loading, storage, off-loading and transportation of Crude Oil from the Field.

"Environmental Liability" shall mean any liability under any Environmental Law.

"Etame Operating Account" shall mean the account established and maintained pursuant to Section 4.1 by the Trustee and Paying Agent in the Trustee and Paying Agent's name with the Account Bank, having the designation "JPMTDC Re: Etame Operating Account" and account number 24690601.

"Etame Revenue Account" shall mean the account established and maintained pursuant to Section 2.1 by the Trustee and Paying Agent in the Trustee and Paying Agent's name with the Account Bank, having the designation "JPMTDC Re: Etame Revenue Account" and account number 24690602.

"Fees and Expenses" shall have the meaning set forth in Section 8.2.

"Field" shall mean the Etame Field located offshore Gabon and more particularly described in the Production Sharing Contract and the Operating Agreement.

"Final Compensation Payment" shall mean the final payment for Compensation due and owing to TINWORTH under the FPSO Contract.

"Finance Document" means any agreement or deed relating to the transactions contemplated by this Agreement, other than this Agreement.

"FPSO Contract" shall mean the Contract for the Provision and Operation of an FPSO for the Field dated August 20, 2001, between the Operator and TINWORTH, as the same may hereafter be modified, supplemented or amended, including any extension or renewal thereof.

"Gabon" shall mean the Republic of Gabon.

"Government" shall mean the government of Gabon.

"Government Payments" shall mean any funds to be disbursed by the Trustee and Paying Agent to the Government under Section 3.1.

"Investment Designation" shall have the meaning set forth in Section 7.1.

"Letters of Credit" shall mean each irrevocable and transferable letter of credit or any similar payment security provided by a Buyer in favor of the Operator, any Consortium Member or Trustee and Paying Agent to provide for the payment when due of the purchase price of Crude Oil sold pursuant to the Crude Oil Sales Contracts.

"NISSHO" shall mean Nissho Iwai Corporation, a Japanese corporation.

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"Operating Agreement" shall mean the joint operating agreement effective as of April 4, 1997 between VGEI, VAALCO Energy (Gabon), Inc., WAAL, Petrofields Exploration & Development Co. Inc. and Alcorn Petroleum and Mineral Corporation, as the same has been and may hereafter be modified, supplemented or amended, including any extension or renewal thereof and any successors of the original parties.

"Operator" shall mean VGEI, the designated Operator pursuant to the Operating Agreement and its successors and permitted assigns under the Operating Agreement and the Production Sharing Contract.

"Pan African Energy" shall mean Pan African Energy Gabon Corporation, (formerly known as VAALCO Energy (Gabon), Inc.), a Delaware Corporation.

"Party" shall mean each of the Trustee and Paying Agent, the Account Bank and the Operator.

"Payment Default" shall have the meaning set forth in Section 5.3.

"Payment Due Date" shall mean the date on which the Buyer must pay the amount due under the relevant Crude Oil Sales Contract to the Operator or, as the case may be, the relevant Consortium Member.

"Permitted Investments" shall mean any of the following investments having a maturity date not later than the Business Day immediately preceding the date on which it is anticipated the proceeds thereof will be required in order to make any payment hereunder and in any event not more than one year from the date the investment is acquired by the Trustee and Paying Agent: (i) Eurodollar time deposits with Eligible Banks, (ii) Eurodollar certificates of deposit of Eligible Banks, (iii) commercial paper, finance company paper or bonds denominated in Eurodollars of any issuer, including Trustee and Paying Agent or any of its affiliates, or (iv) money market funds, provided that in the case of any investments described in either clause (iii) or (iv) above, such investments shall be rated not less than "P-1" by Moody's Bank Credit Report Service or its successors and "A-1 +" by Standard & Poor's Corporation CD Ranking Service or its successors, or any equivalent rating, issued by such services or successors, as from time to time may be in effect, all in accordance with Section 7.1.

"PetroEnergy" shall mean PetroEnergy Resources Corporation, a Philippine corporation.

"Production Sharing Contract" shall mean the Production Sharing Contract executed by VGEI and VAALCO Energy (Gabon), Inc. with the Ministry of Petroleum of Gabon on July 6, 1995, as the same has been and may hereafter be modified, supplemented or amended, including any extension or renewal thereof.

"Project" shall mean the floating production storage and offloading system and the three oil wells existing in the Field and such other wells or facilities as may be added to develop the Field.

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"Sasol" shall mean Sasol Petroleum International (Pty) Ltd., a South African Corporation.

"Secured Obligations" shall mean collectively such obligations owed by the Operator, for itself and as agent for and on behalf of the other Consortium Members to TINWORTH under the FPSO Contract and the several obligations, if any, owed by the Consortium Members to their respective Subordinate Secured Parties.

"Security" shall mean the security created or expressed to be created in favour of the Trustee and Paying Agent pursuant to this Agreement.

"Subordinate Secured Parties" shall mean, at any time, the party or parties identified in Schedule A that a Consortium Member has notified in writing to the Operator, the Trustee and Paying Agent and the Account Bank is a secured creditor with respect to such Consortium Member's share of the Crude Oil Sales Contract Revenues and a beneficiary of the Crude Oil Sales Contract Assignment with respect to such share.

"Successor" shall have the meaning set forth in Section 8.7.

"Tax" shall mean all present and future taxes, levies, imposts or duties (including value added and stamp duties) whatsoever and wheresoever imposed.

"TINWORTH" shall mean TINWORTH Ltd., a Bermudian corporation or its successor.

"TINWORTH Draw Notice" shall mean a written notification in form of Schedule D attached hereto as provided in Section 5.3.

"TINWORTH Reserve Account" shall mean the account established pursuant to Section 5.1 by the Trustee and Paying Agent in the Trustee and Paying Agent's name with the Account Bank, having designation "JPMTDC: TINWORTH Reserve Account" and account number 24690603.

"TINWORTH Reserve Account Maximum Balance" shall have the meaning set forth in Section 5.2.

"Trustee Acts" shall mean the Trustee Act 1925 and the Trustee Act 2000 of England and Wales.

"Trustee and Paying Agent" shall mean the person designated as such by the Operator pursuant to Section 2.1 or any Successor appointed pursuant to Section 8.7.

"Trustee and Paying Agent's Office" shall mean the office of the Trustee and Paying Agent, the address of the first Trustee and Paying Agent being set out in Section 9.6 or any other office of the Trustee and Paying Agent in London, the address of which is notified to the Operator and TINWORTH, with copies to any Subordinate Secured Parties, by the Trustee and Paying Agent pursuant to Section 9.6 or the office specified in an instrument delivered by any Successor.

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"Trust Funds" shall have the meaning set forth in Section 2.4.

"Trust Property" shall mean the property held by the Trustee and Paying Agent upon the terms of the trusts set out in Section 2.4.

"Underlying Security" shall mean all liens, security interests, Letters of Credit, mortgages or similar rights securing payment by the Buyers of the Crude Oil Sales Contract Revenues.

"US\$" and "U.S. Dollars" shall mean the lawful currency of the United States of America.

"VGEI" shall have the meaning set forth in the introduction to this Agreement.

"WAAL" shall mean Western Atlas Afrique, Ltd., a Bermuda Corporation.

1.2 INTERPRETATION

In this Agreement, unless the context otherwise requires:

- (a) headings are for convenience only and do not affect the interpretation of this Agreement;
- (b) words importing the singular include the plural and vice versa;
- (c) a "person" includes any company, corporation, partnership, trust, estate, unincorporated organization, joint venture, association, juridical entity, corporation or other body corporate and any government, state or any political subdivision, authority or agency thereof;
- (d) a reference to a party, Schedule or Section is a reference to that Section of, or that party or Schedule to, this Agreement;
- (e) a reference to a party to any document includes that party's successors and permitted assigns; and
- (f) a reference to a statute or statutory provision shall be construed as a reference to such statute or statutory provision as the same shall have been or may be amended or re-enacted.

2. RECEIPT OF FUNDS

2.1 DESIGNATION OF TRUSTEE AND PAYING AGENT AND ETAME REVENUE ACCOUNT

The Operator hereby appoints J.P. Morgan Trustee and Depositary Company Limited as the Trustee and Paying Agent and J.P. Morgan Trustee and Depositary Company Limited hereby accepts its appointment as Trustee and Paying Agent and its obligations hereunder upon and subject to the terms and conditions of this Agreement. The Trustee and Paying Agent may delegate all or any of the rights, powers and discretions vested in it by this Agreement pursuant to Clause 8.1(k). All Crude Oil Sales Contract Revenues shall be paid to the Trustee and Paying Agent. In the event any Consortium

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Member sells its share of Crude Oil directly under a Crude Oil Sales Contract such Consortium Member shall, as shall be required by the Operator under the relevant Crude Sharing Agreement, appoint J.P. Morgan Trustee and Depositary Company Limited as the Trustee and Paying Agent to which Crude Oil Sales Contract Revenues under its Crude Oil Sales Contract shall be paid. The Trustee and Paying Agent shall establish and maintain the Etame Revenue Account, to which all Crude Oil Sales Contract Revenues and any other monies which may be payable to Consortium Members in respect of any Crude Oil Sales Contract Revenues shall be paid. The Trustee and Paying Agent shall deposit in the Etame Revenue Account each amount of Crude Oil Sales Contract Revenues and any other monies which may be payable to Consortium Members in respect of any Crude Oil Sales Contract Revenues received by it.

- 2.2 The Operator shall and shall cause any Consortium Member selling Crude Oil directly to send to the Trustee and Paying Agent (i) any Crude Oil Sales Contract promptly following the execution of the contract and (ii) a copy of each invoice at the same time that such invoice is sent to the relevant Buyer.

2.3 COVENANT TO PAY

The Operator on behalf of each of the Consortium Members covenants with the Trustee and Paying Agent on behalf of itself and as trustee for and on behalf of the Beneficiaries (as defined below) that the Operator and such Consortium Members will pay and discharge the Secured Obligations owed to TINWORTH under the FPSO Contract.

2.4 DECLARATION OF TRUST FUNDS

All amounts received in the Etame Revenue Account pursuant to Section 2.1, and Section 2.1 as applied by Section 2.9, in the Etame Operating Account pursuant to Section 4.2 and the TINWORTH Reserve Account pursuant to Section 5.2, Section 7.1 and Section 7.2 are herein referred to as the "Trust Funds." The Trustee and Paying Agent hereby declares itself trustee of the Trust Funds on trust for itself, the Operator, the Consortium Members, TINWORTH and the Subordinate Secured Parties each as the case may be (being the beneficiaries hereto) the "Beneficiaries" and shall hold the Trust Funds and the benefit of all related rights in trust for the Beneficiaries in accordance with their respective rights hereunder. Such funds shall be held upon trust for the benefit of those having a right to receive disbursements and distributions to the extent provided in this Agreement.

2.5 AMOUNTS RECEIVED

- (a) In the event the Trustee and Paying Agent receives any amount from any person which amount is not designated for the Etame Revenue Account or

for any other account established or to be established hereunder, or an amount in relation to which it has not received a notification from the Operator, the Trustee and Paying Agent shall request instructions from the Operator as to

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the proper account designation of the amount received and shall deposit such amount in the account or accounts specified in the designation given by the Operator.

- (b) If the Operator receives any sum which, pursuant to this Agreement, should have been paid to the Trustee and Paying Agent, that sum shall be held by the Operator on trust for the Beneficiaries and shall promptly be paid to the Trustee and Paying Agent in accordance with this Agreement.

2.6 CURRENCY CONVERSION

If the Trustee and Paying Agent recovers a payment in a currency other than US dollars, the Trustee and Paying Agent may convert the moneys received or recovered by the Trustee and Paying Agent into US dollars at the spot rate at which the Trustee and Paying Agent is able to purchase US dollars with the amount received.

2.7 CRUDE OIL SALE CONTRACTS ASSIGNMENT

- (a) To the extent permitted or not prohibited by the Crude Oil Sales Contracts, the Operator on behalf of each of the Consortium Members with full title guarantee and as continuing security for the payment and discharge of the Secured Obligations to the Trustee and Paying Agent for the benefit of TINWORTH and the Subordinate Secured Parties assigns by way of security absolutely to the Trustee and Paying Agent (the "Crude Oil Sales Contracts Assignment") all the Crude Oil Sales Contract Revenues in respect of the Crude Oil Sales Contracts to which it is a party, and all liens, security interests, Letters of Credit, mortgages or similar rights securing payment by the Buyers of the Crude Oil Sales Contract Revenues pursuant to the related Crude Oil Sales Contracts, including without limitation:

- (i) the right to receive all Crude Oil Sales Contract Revenues,
- (ii) payments arising from any claims for damages in respect of Crude Oil Sales Contract Revenues, and
- (iii) payments received as a result of the Operator, Trustee and Paying Agent or its assignee compelling performance of the payment of such Crude Oil Sales Contract Revenues (all of which shall be held by the Trustee and Paying Agent upon the terms of the trusts set out in Section 2.4 above);

provided however that the Trustee and Paying Agent shall have no right or obligation (unless instructed to do so by the Operator) to consent or agree to any amendment, modification or waiver under or with respect to any such Crude Oil Sales Contract or any such lien, security interest, Letter of Credit, mortgage or similar right. The Trustee and Paying Agent hereby accepts such Crude Oil Sale Contracts Assignment in accordance with the terms hereof.

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The Operator shall, contemporaneously with the execution of each Crude Oil Sales Contract to which it is a party, serve a notice of the Crude Oil Sales Contract Assignment, in the form set out in Schedule E on each Buyer thereunder and the Operator shall use its reasonable endeavors to procure that each Buyer promptly executes and delivers to the Trustee and Paying Agent (with a copy thereof to the Operator, TINWORTH and the Subordinate Secured Parties) an acknowledgement of the Crude Oil Sales Contract Assignment in the form set out in Schedule F. The Operator shall use its reasonable endeavors to obtain any relevant consent, waiver or acknowledgement necessary to give full effect to the foregoing assignment to the Trustee and Paying Agent.

- (b) The Operator for itself and on behalf of each of the Consortium Members represents, warrants and covenants that:
 - (i) it has not assigned and will not assign for itself or on behalf of each of the Consortium Members any of its rights or interests hereby assigned to any person other than the Trustee and Paying Agent as aforesaid;

- (ii) it has and will have the necessary power to enable it to enter into and perform its obligations under this Agreement;
 - (iii) this Agreement constitutes and will constitute its legal, valid, binding and enforceable obligation (except as enforcement may be limited by bankruptcy, moratorium, insolvency, reorganisation or similar laws generally affecting creditors' rights as well as the awards by courts of relief in lieu of specific performance of contractual provisions); and
 - (iv) all necessary authorisations to enable it to enter into this Agreement have been obtained and are, and will remain, in full force and effect.
- (c) Anything herein to the contrary notwithstanding, the Operator agrees for the benefit of the Trustee and Paying Agent and for the benefit of each person having an interest in or right at any time to distribution or disbursement of Trust Funds hereunder that:
- (i) the Operator shall at all times remain liable to the other party or parties to each Crude Oil Sales Contract to which the Operator is a party to perform all of the duties and obligations of the Operator thereunder as if the Crude Oil Sale Contracts Assignment hereunder had not been made, and
 - (ii) the Trustee and Paying Agent shall not have any obligation or liability under any Crude Oil Sales Contract or in respect of any Crude Oil Sales Contract Revenue or any lien, security interest, Letter of Credit, mortgage or similar right securing payment by the Buyers of the Crude Oil Sales Contract Revenues pursuant to the related Crude Oil Sales Contracts or any other instrument or agreement securing

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payment by the Buyers of the Crude Oil Sales Contract Revenues pursuant to the related Crude Oil Sales Contracts by reason of, or arising under, this Agreement or be obligated to perform any of the obligations of the Operator under any thereof or, except as otherwise expressly provided in Section 2.7(f), to make any payment or to make any inquiry as to the sufficiency of any payment received by it or to present or file any claim or to take any other action to collect or enforce any claim for or right to any payment or security therefor assigned hereunder.

- (d) The Operator on behalf of each of the Consortium Members does hereby constitute the Trustee and Paying Agent and its respective delegates, the Operator's true and lawful attorney irrevocably, with full power (in the name of the Operator or otherwise on its behalf) to do all acts and all things (including full power to delegate) and to sign, seal, execute, deliver, perfect and do all deeds, instruments and documents, acts and things which may be necessary hereunder and to ask, require, demand, receive, compound and give acquittance for any and all monies and claims for monies due and to become due under or arising out of each Crude Oil Sales Contract to which the Operator is a party and, to endorse any instruments or orders in connection therewith. The Operator ratifies and confirms and agrees to ratify and confirm whatever any attorney appointed hereunder shall do in its capacity as such. Unless and until the Trustee and Paying Agent shall take any action or exercise any right under Section 2.7(f) and shall have notified the Operator to such effect, the Operator may in its discretion take any such action or exercise any such right.
- (e) The Operator agrees that, subject to the Operating Agreement, the Operator will, at its own expense, promptly and duly execute and deliver any and all such further notices, instruments and documents and take such further action as the Trustee and Paying Agent may require or consider necessary in order to obtain the full benefits of the Crude Oil Sale Contracts Assignment and the rights and powers herein granted. The Operator shall deliver, and shall cause to be delivered, to the Trustee and Paying Agent all Crude Oil Sales Contracts and Letters of Credit and any other security for performance of the Buyers under the Crude Oil Sales Contracts. The Operator shall provide, and shall cause to be provided, to the Trustee and Paying Agent all amendments, modifications or supplements to the Crude Oil Sales Contracts, the Letters of Credit or any other instruments or agreements securing payment by the Buyers of the Crude Oil Sales Contract Revenues pursuant to the related Crude Oil Sales Contracts or the Letters of Credit; provided however that until the Trustee and Paying Agent shall have received any such amendment, modification or supplement, it may assume and act or not act on the basis that the executed original documentation in its possession is solely authoritative, in effect and binding.

- (f) In the event payment is not made in respect of any Crude Oil Sales Contract or Letter of Credit when due, the Trustee and Paying Agent shall have no duty to exercise any right or take any action under any Crude Oil Sales Contract or, except as set forth in Section 2.8, under any Letter of Credit ("Collection Actions"). The Trustee and Paying Agent may, and if instructed in writing by the Operator, shall appoint the Operator or its nominee as the agent of the Trustee and Paying Agent to exercise any such right or take any such action provided that the Trustee and Paying Agent is indemnified and or secured to its satisfaction. In acting (or refraining from acting) as such agent of the Trustee and Paying Agent, the Operator and its assignee shall have all rights, benefits, powers and protections provided to the Trustee and Paying Agent under or pursuant to this Agreement.
- (g) Notwithstanding anything to the contrary contained herein, the Trustee and Paying Agent makes no representation as to the collectability of any lien or security interest purported to be created hereby, or as to the sufficiency, validity or genuineness of any instruments or documents at any time assigned or deposited with the Trustee and Paying Agent hereunder, or any liens purported to be created hereunder or under any other document referred to or provided for in this Section. The Trustee and Paying Agent shall have no duty to do, cause to be done or advise with respect to any filing or recording or to the maintenance of any such filing or recording with any governmental agency or office or otherwise. The Trustee and Paying Agent shall, if directed by the Operator or its nominee in accordance with Section 2.7(f), deliver or cause to be delivered to the Operator such instruments, notices or other documents designed to create, protect, perfect or effect the Crude Oil Sales Contracts Assignment, which instruments, notices or other documents shall have been prepared by the Operator or its nominee and delivered to the Trustee and Paying Agent.

2.8 LETTERS OF CREDIT

- (a) If, as indicated by the relevant invoice, payment for Crude Oil sold pursuant to a Crude Oil Sales Contract is to be effected by a Letter of Credit, the Trustee and Paying Agent shall, but only to the extent that the applicable Letter of Credit (together with all documents required to be presented thereunder) is in the possession of the Trustee and Paying Agent, draw on the applicable Letter of Credit in the manner provided therein and for the amount then due on the applicable payment due date. If any invoice under a Crude Oil Sales Contract is not paid when due in respect of which invoice a Letter of Credit is held by the Trustee and Paying Agent as security for payment of such invoice, the Trustee and Paying Agent shall notify the Operator of such event and the Trustee and Paying Agent shall draw on the applicable Letter of Credit, in the manner provided therein and for the amount then due, after the lapse of five (5) calendar days following the applicable payment due date, but in any event prior to the expiration date of the relevant Letter of Credit. If the

applicable Letter of Credit is in favour of the Operator or any Consortium Member, the Trustee and Paying Agent shall request such party to draw on the Letter of Credit and deposit such funds into the Etame Revenue Account.

- (b) In the event the issuing bank, advising bank or confirming bank, as the case may be, fails to honor any draw by or on behalf of the Trustee and Paying Agent under a Letter of Credit, the Trustee and Paying Agent shall promptly notify the Operator and shall make prompt written demand on the issuing bank, advising bank or confirming bank. The Trustee and Paying Agent may, and if requested by the Operator shall, provided that the Trustee and Paying Agent is indemnified and/or secured to its satisfaction, take or cause to be taken such other reasonable action as may be specified by the Operator to, cause the issuing bank, advising bank or confirming bank to honor such Letter of Credit, which instructions may be to appoint the Operator or its nominee as the Trustee and Paying Agent's agent pursuant to Section 2.7(f). If the Operator should directly receive any monies from the issuing bank, advising bank or confirming bank as a result of such action such monies shall be held on trust by the Operator and shall immediately be transferred to the Trustee and Paying Agent and shall be treated as Crude Oil Sales Contract Revenues.

2.9 DIRECT SALES/CRUDE SHARING AGREEMENTS

In the event that any Consortium Member elects to sell its share of Crude

Oil from the Project directly to a Buyer, the Operator shall cause such Consortium Member to enter into a Crude Sharing Agreement with the Operator whereby such Consortium Member shall covenant, among other matters, to perform, with respect to the Crude Oil Sales Contracts and Crude Oil Sales Contract Revenues related to such Consortium Member's share of Crude Oil, the obligations of the Operator under Sections 2.1 (save for the obligation of the Operator referred to in the 4th sentence thereof), 2.2, 2.3, 2.4, 2.5(b), 2.6, 2.7, 2.8, 8.1(a), (i), (m), (p) (iii), and 9.4(c) as more particularly set forth under such Crude Sharing Agreement (including, for avoidance of doubt, an obligation of the Operator to cause any such Consortium Member to duly execute an assignment of such Consortium Member's rights under such Crude Oil Sales Contracts to the Trustee and Paying Agent in accordance with Section 2.5) and to execute an instrument acceding to this Agreement in substantially the form of Schedule I hereto ("Accession Deed"). The Trustee and Paying Agent shall be entitled to Fees and Expenses and Additional Remuneration in connection therewith pursuant to Section 8.2 and 8.3.

2.10 ACCEPTANCE OF ACCESSION DEEDS

Each of the Parties hereto appoints the Trustee and Paying Agent to receive on its behalf each Accession Deed delivered to the Trustee and Paying Agent pursuant to Section 2.9 and to accept and sign it if the Trustee and Paying Agent has received such documentation from the acceding Consortium Member that it, in its sole discretion, requires in order to comply with all applicable legal and regulatory requirements. No Accession Deed shall be effective unless and until accepted and signed by the Trustee and Paying Agent. The Trustee and Paying Agent shall be entitled to assume, without

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further enquiry, that any such Accession Deeds are duly executed, authentic, legal, valid, binding and enforceable.

3. DISBURSEMENTS WITH RESPECT TO GOVERNMENT PAYMENTS

3.1 GOVERNMENT PAYMENTS

The Trustee and Paying Agent shall as soon as practicable but not more than three (3) Business Days after receipt of any amount of Crude Oil Sales Contract Revenues, pay over from the Etame Revenue Account to the Government an amount specified by the operator as the Government's share of such amount pursuant to the Production Sharing Contract ("Government Payments"), which amount shall be as specified in the notice received by the Trustee and Paying Agent from the Operator at least three (3) Business Days prior to the due date of each invoice for the sale of Crude Oil under the relevant Crude Oil Sales Contract, failing the receipt of which the Trustee and Paying Agent shall act in accordance with the previous such notice in determining the applicable amount to be paid to the Government. Amounts payable to the Government hereunder shall be paid to such account as shall be specified in writing by the Operator to the Trustee and Paying Agent.

4. ESTABLISHMENT OF ETAME OPERATING ACCOUNT

4.1 ETAME OPERATING ACCOUNT

The Trustee and Paying Agent shall establish and maintain the Etame Operating Account.

4.2 FUNDS TO BE DEPOSITED

As soon as practicable but no later than two (2) Business Days after receipt by it of any amount in funds in the Etame Revenue Account, the Trustee and Paying Agent shall deposit in the Etame Operating Account all amounts in the Etame Revenue Account in excess of the amount of Government Payments required to be made pursuant to Section 3.1.

5. DISBURSEMENTS WITH RESPECT TO TRUSTEE COMPENSATION AND THE TINWORTH RESERVE ACCOUNT

5.1 ESTABLISHMENT OF TINWORTH RESERVE ACCOUNT

The Trustee and Paying Agent shall establish and maintain the TINWORTH Reserve Account.

5.2 PAYMENT

Any time funds are deposited in the Etame Operating Account, the Trustee and Paying Agent shall as soon as practicable after such deposit but in no event more than two (2) Business Days thereafter pay or deposit such funds in the following order:

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First, pay Fees and Expenses incurred in accordance with Section 8.2 hereof and Additional Remuneration incurred in accordance with Section 8.3 hereof.

Second, deposit such amounts in the TINWORTH Reserve Account as may be necessary to ensure that the credit balance of the TINWORTH Reserve Account, including the value of any Permitted Investments and accrued interest in accordance with Section 7, is equal to \$2,500,000 (the "TINWORTH Reserve Account Maximum Balance").

Third, distribute the balance remaining in the Etame Operating Account, if any, to each of the Consortium Member's Accounts the amounts in accordance with their respective entitlements under Production Sharing Contract and the Operating Agreement, as shall be specified in the notice received by the Trustee and Paying Agent from the Operator at least three (3) Business Days prior to the date of such distribution.

5.3 TINWORTH RESERVE ACCOUNT DRAWS

TINWORTH shall be entitled to draw such amounts out of the TINWORTH Reserve Account up to the TINWORTH Reserve Account Maximum Balance in the event Operator fails to pay any Compensation due to TINWORTH under the FPSO Contract on the due date thereof and after the expiration of any applicable grace periods (a "Payment Default"), upon five (5) Business Days' written notice from TINWORTH ("TINWORTH Draw Notice") to the Trustee and Paying Agent with copies to the Operator and each of the Subordinate Secured Parties (as designated on the most recent Schedule A delivered to TINWORTH pursuant to Section 6.1(b)), declaring that a Payment Default has occurred under the FPSO Contract and for these purposes the Trustee and Paying Agent can rely without enquiry on a certificate from TINWORTH certifying that TINWORTH has sent such copies of the TINWORTH Draw Notice and the Trustee and Paying Agent shall not be liable for so acting. TINWORTH shall have no obligation to confirm that Schedule A is a complete and current list of Subordinate Secured Parties. The Trustee and Paying Agent shall distribute to TINWORTH such amounts in the TINWORTH Reserve Account up to the TINWORTH Reserve Account Maximum Balance as certified due and owing under the TINWORTH Draw Notice. Trustee and Paying Agent shall liquidate the Permitted Investments to the extent necessary to fund the full amount of the TINWORTH Draw Notice, whether or not such Permitted Investments have matured. Anything herein to the contrary notwithstanding, the Operator on behalf of itself and each of the Consortium Members agrees for the benefit of the Trustee and Paying Agent that the Trustee and Paying Agent shall be under no duty to inquire or seek approval from Operator, any Consortium Member or any Subordinate Secured Party or any other person with respect to the occurrence or not of the Payment Default or the right of TINWORTH to receive the amount requested under the TINWORTH Draw Notice and Trustee and Paying Agent shall have no liability to the Operator, any Consortium Member or Subordinate Secured Party to determine or resolve any claims with respect to their

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rights under the FPSO Contract, TINWORTH's Compensation, or any other disputes between TINWORTH and the Operator thereunder for payment of such amounts.

5.4 FINAL COMPENSATION PAYMENT

After the date of payment of the Final Compensation Payment pursuant to the FPSO Contract as confirmed by notice from the Operator and TINWORTH to the Trustee and Paying Agent, the Trustee and Paying Agent shall as promptly as practicable convert to cash any Permitted Investments then held in the TINWORTH Reserve Account and promptly pay all amounts remaining in the TINWORTH Reserve Account to the Consortium Members' Accounts in accordance with the instructions as provided by the Operator in the manner described in Paragraph "Third" under Section 5.1, and thereafter close the TINWORTH Reserve Account.

6. PROCEDURES RESPECTING ACCOUNTS AND SECURITY INTERESTS UNDER THIS AGREEMENT

6.1 BENEFICIAL RIGHTS IN TRUST FUNDS

(a) TINWORTH shall have under this Agreement or otherwise no claim or interest in the Etame Revenue Account or Etame Operating Account except to the extent funds deposited in the Etame Operating Account are to be deposited in the TINWORTH Reserve Account as provided in Section 5.2. The funds in the TINWORTH Reserve Account, up to the TINWORTH Reserve Account Maximum Balance, shall be held for the benefit of TINWORTH as security for and payment of the Compensation. Except as provided under Section 7.2, prior to the Final Compensation Payment, neither Operator nor any Consortium Member or any Subordinate Secured Party shall have any security interest in the TINWORTH Reserve Account. TINWORTH has no claim or interest in the Consortium Member

Accounts under this Agreement or otherwise.

- (b) At any time and from time to time any Consortium Member may give notice to the Trustee and Paying Agent and the Operator that it has assigned with full title guarantee to its Subordinate Secured Party by way of security absolutely all of such Consortium Member's rights in and to the Etame Operating Account funds substantially in the form of Exhibit G hereto. Upon receipt of such notice, (i) the Trustee and Paying Agent and Operator shall amend Schedule A as appropriate and deliver a copy thereof to each of TINWORTH, each of the Consortium Members and each of their respective Subordinate Secured Parties, if applicable (ii) the Trustee and Paying Agent and the Operator shall acknowledge such Subordinate Secured Party's security interest substantially in the form of Exhibit H hereto and (iii) thereafter the Trustee and Paying Agent shall distribute such Consortium Member's share of the Etame Operating Account funds to such Consortium Member's Account as directed in such notice.

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6.2 NO OVERDRAFT

None of the Accounts may go to into overdraft.

6.3 ACCOUNTING FOR ASSETS

All assets under the jurisdiction and control of the Trustee and Paying Agent and held from time to time in the Trust Funds shall be accounted for within the Etame Revenue Account, Etame Operating Account and TINWORTH Reserve Account specifying the designated account to which such assets may be allocated and the place or places at which Permitted Investments may be held in custody for the account of the Trustee and Paying Agent. The Trustee and Paying Agent shall maintain such books of account and other records as may be necessary to ensure full and proper segregation of the funds credited to such accounts as may be established by the Trustee and Paying Agent hereunder. Such books of account shall be open to inspection by the duly authorized representatives of the Operator, TINWORTH, the Government, the Consortium Members and their respective Subordinate Secured Parties at all reasonable times and upon reasonable notice.

6.4 REPORTS

The Trustee and Paying Agent shall furnish to the Operator, TINWORTH and each Subordinate Secured Party the following reports:

- (a) Within 20 days after the close of each calendar quarter, a statement prepared by the Trustee and Paying Agent setting forth the amount and source (by category) of funds received pursuant to this Agreement and the disbursements of such funds as disclosed by the records and accounts kept by the Trustee and Paying Agent pursuant to Section 6.3 during such preceding calendar quarter and a statement of the cash and investments held in the accounts under this Agreement as of the end of such period.
- (b) As soon as practicable after its receipt or disbursement of any funds pursuant to this Agreement, a statement by facsimile transmission or, if so requested by any party, by e-mail, of such transactions specifying the amount and the source (by category) of the funds received and disbursed and the amounts credited or charged to the Etame Revenue Account, the Etame Operating Account, the TINWORTH Reserve Account and each Consortium Member's Account.

6.5 TAX CONSIDERATIONS

- (a) All payments from the Trust Funds to Consortium Members shall be paid gross except to the extent required by law and the Trustee and Paying Agent shall be entitled to deduct or withhold any sum on account of any Tax required or which in its view is required to be so deducted or withheld or for which it is in its view liable or accountable by law or practice of any relevant revenue

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authority of any jurisdiction and in each case in accordance with the Trustee and Paying Agent's usual and customary business practice.

- (b) The Operator shall use reasonable endeavors to procure, on request from the Trustee and Paying Agent, that each Consortium Member makes such declarations as may be required (including, without limitation, declarations under paragraph 4 of the Income Tax (Paying and Collecting Agents) Regulations 1996 (as amended)) that may be required to avoid any withholding from payments out of the Trust Fund that would otherwise be required by law.

7. INVESTMENT OF FUNDS HELD IN ACCOUNTS UNDER THIS AGREEMENT

7.1 PERMITTED INVESTMENTS

The Trustee and Paying Agent shall invest amounts held by it from time to time in the TINWORTH Reserve Account solely in such Permitted Investments specifically designated by the Operator (as to type, obligor, yield, maturity and other necessary information) from time to time in writing ("Investment Designation"); provided that (a) if the Trustee and Paying Agent has not received an Investment Designation as to any funds required to be invested hereunder it shall invest such funds in an interest bearing deposit account held with the Account Bank and bearing a rate of interest of the JPMorgan Chase Bank overnight bid rate for deposits in US dollars less 50 basis points or such other interest rate as may be agreed from time to time; (b) upon receipt of an Investment Designation, the Trustee and Paying Agent shall to the extent practicable terminate non-designated investments to which such Investment Designation applies and re-invest the proceeds thereof in the Permitted Investments designated therein; and (c) the Trustee and Paying Agent shall in no event have any liability if a Permitted Investment not made performs better than any other investment the Trustee and Paying Agent enters into. For the avoidance of doubt the Trustee and Paying Agent shall not exercise discretion with regard to the selection of Permitted Investment except as directed in 7.1(a). All Permitted Investments shall be and become part of the Trust Funds and shall be included in the credit balance of the TINWORTH Reserve Account for the purpose of meeting the TINWORTH Reserve Account Maximum Balance. The Permitted Investments shall be valued in accordance with the Trustee and Paying Agent's normal banking practice.

7.2 INTEREST ALLOCATION

Interest and any other income arising out of the Permitted Investments shall be and become a part of the Trust Funds, allocated to the account for which such investment was made; provided, as of the first Business Day of each calendar quarter during the term hereof, Trustee and Paying Agent shall transfer to the Etame Operating Account quarterly all interest and any other income accruing on amounts in the TINWORTH Reserve Account in excess of the TINWORTH Reserve Account Maximum Balance.

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8. CONCERNING THE TRUSTEE AND PAYING AGENT AND ACCOUNT BANK

8.1 In connection with its duties, rights and powers under this Agreement (including in relation to transactions it may enter into pursuant hereto), the Trustee and Paying Agent shall be subject to the following:

- (a) Instructions. The Trustee and Paying Agent shall, except as otherwise contemplated herein, act solely in accordance with instructions given to it by the Operator for and on behalf of itself and the Consortium Members. The Trustee and Paying Agent shall be entitled to assume that (i) any instruction received by it from the Operator is duly given by or on behalf of the Consortium Members, if applicable, in accordance with the terms of the Operating Agreement and any other applicable Finance Documents, (ii) unless it has received actual written notice of revocation, that any instructions or directions given by the Operator have not been revoked and no revocation of any instructions by the Operator shall affect any action of the Trustee and Paying Agent in reliance upon such instruction or direction prior the actual receipt of the notice of revocation, and (iii) the Operator is entitled under the Operating Agreement and other Finance Documents to give such instructions. The Trustee and Paying Agent shall be entitled to request clarification of any instruction or direction and pending receipt of such clarification to its satisfaction may refrain from acting and shall have no liability for the consequences thereof.
- (b) Reliance on Certificates. The Trustee and Paying Agent shall be entitled to act upon any notice, certificate, request, direction, waiver, receipt or other document which it in good faith believes to be genuine; and it shall be entitled to rely upon the due execution, validity and effectiveness, and the truth and acceptability of any provisions contained therein.
- (c) Gross Negligence. The Trustee and Paying Agent shall not be liable for any error of judgment or for any act done or omitted by it in good faith or for any mistake of fact or law, or for anything which it may do or refrain from doing, except for its own gross negligence or wilful misconduct.
- (d) Professional Advice. The Trustee and Paying Agent may consult with, and obtain advice from accounting and legal advisers or such other advisers, consultants and agents as the Trustee and Paying Agent may deem necessary or advisable and it shall incur no liability or loss

and shall be fully protected in acting in good faith in accordance with the opinion and advice of any such advisers, consultants or agents, as the case may be.

- (e) No other duties. The Trustee and Paying Agent shall have no duties other than those specifically set forth or provided for in this Agreement and shall not have any implied duties, obligations or responsibilities. In performing or carrying out its duties, obligations and responsibilities, the Trustee and Paying

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Agent shall be considered to be acting only in a mechanical and administrative capacity (save as expressly provided in this Agreement)

- (f) Recitals. The recitals contained herein shall be taken as the statements of the Operator, and the Trustee and Paying Agent assumes no responsibility for their correctness.
- (g) Other agreements. The Trustee and Paying Agent shall have no obligation to familiarize itself with and shall have no responsibility with respect to any Finance Document, including, without limitation, the Crude Oil Sale Contracts, the Operating Agreement and the Production Sharing Contract, relating to the transactions contemplated by this Agreement nor any obligation to inquire whether any notice, instruction, statement or calculation is in conformity with the terms of any such agreement, except for those irregularities, errors or mistakes apparent on the face of such document or to the knowledge of the Trustee and Paying Agent. If, however, any remittance or communication received by the Trustee and Paying Agent appears erroneous or irregular on its face, the Trustee and Paying Agent shall be under a duty to make prompt inquiry to the person or party originating such remittance or communication in order to determine whether clerical error or inadvertent mistake has occurred.
- (h) Payment in error. If the Trustee and Paying Agent pays out funds from the Accounts in error, it shall be entitled to recoup such funds from the party to whom it paid such funds.
- (i) Representations, defaults, etc. The Trustee shall be entitled to assume, unless it has in its capacity as Trustee and Paying Agent for the Beneficiaries received actual notice to the contrary from the Operator, that any representation made or deemed to be made hereunder is true and that neither the Operator nor the Consortium Members are in breach of or default under any of its obligations under this Agreement.
- (j) Agents. The Trustee and Paying Agent may, in the conduct of its trust business, instead of acting personally, employ and pay an agent on any terms, selected by it whether or not a lawyer or other professional person, to transact or conduct, or concur in transacting or conducting, any business and to do or concur in doing all acts required to be done by the Trustee and Paying Agent (including the receipt and payment of money) and the Trustee and Paying Agent shall not be responsible for any misconduct on the part of any person appointed by it hereunder or be bound to supervise the proceedings or acts of any such person, provided that the Trustee and Paying Agent shall exercise reasonable care in selecting any such person;
- (k) Delegates. The Trustee and Paying Agent may, at any time, delegate by power of attorney or otherwise to any person for any period, all or any of the rights, powers and discretions vested in it by this Agreement, including

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without limitation to the Account Bank. The delegation may be made upon any terms and conditions (including the power to sub-delegate) and subject to any restrictions as the Trustee and Paying Agent may think fit in the interest of the Beneficiaries and it shall not be bound to supervise, or be in any way responsible for any loss incurred by reason of any misconduct or default on the part of any delegate or sub-delegate, provided that the Trustee and Paying Agent shall exercise reasonable care in selecting any such delegate.

- (l) Co-trustees. The Trustee and Paying Agent may at any time appoint (and subsequently remove) any Eligible Bank to act as a separate trustee or as a co-trustee jointly with it (i) if it considers that appointment to be in the interests of the Beneficiaries or (ii) for the purposes of confirming to any legal requirements, restrictions or conditions which the Trustee and Paying Agent deems to be relevant or (iii) for obtaining or enforcing any judgment in any jurisdiction, provided that the Trustee and Paying Agent exercises reasonable care in selecting

any such co-trustee and uses reasonable endeavours to consult with the other Beneficiaries in relation thereto, including, without limitation, in respect of any remuneration expected to be paid to such co-trustee. The Trustee and Paying Agent shall give notice to the Operator and the Consortium Members of any appointment. Any person so appointed (subject to the terms of this Agreement) shall have the rights, powers and discretions (not exceeding those conferred on the Trustee and Paying Agent by this Agreement) and the duties and obligations as are conferred or imposed by the instrument of appointment. The remuneration that the Trustee and Paying Agent may pay to any person, and any costs and expenses incurred by that person in performing its functions pursuant to that appointment shall, for the purposes of this Agreement, be treated as costs and expenses incurred by the Trustee and Paying Agent.

- (m) No action without indemnification. The Trustee and Paying Agent may refrain from acting in accordance with the instructions of the Operator or from taking any other action hereunder unless and until it has received indemnification and/or security as it may in its absolute discretion require (whether by way of advance payment or otherwise) and for all costs, losses, expenses, claims and liabilities which it may incur or expend or to which it may be exposed.
- (n) Expending own funds. Nothing contained in this Agreement shall require the Trustee and Paying Agent to expend or risk its own funds or otherwise incur any financial liability and the Trustee and Paying Agent shall not be obliged to do or omit anything, including entering into any transaction or incurring any liability including without limitation any Environmental Liability unless the Trustee and Paying Agent's liability is limited in a manner satisfactory to it in its absolute discretion. Nor shall the Trustee and Paying Agent in any circumstances be obliged to give its own indemnity to any receiver or delegate or to become a mortgagee in possession.

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- (o) Excluded Obligations. Notwithstanding anything to the contrary expressed or implied hereunder or in any of the Finance Documents, the Trustee and Paying Agent shall not:
 - (i) be bound to enquire as to the performance, default or any breach by the Operator, any of the Consortium Members, TINWORTH or any of the Subordinate Secured Parties of any of their respective obligations hereunder or under any of the Finance Documents;
 - (ii) be bound to assess or keep under review the financial condition, creditworthiness, condition, value, affairs, status or nature of the Project;
 - (iii) except as provided in Sections 6.3 and 6.4, be bound to account to any other Beneficiary for any sum or the profit element of any sum received by the Trustee and Paying Agent for its own account;
 - (iv) unless ordered to do so by a court of competent jurisdiction, and except as provided in Section 6.3, be bound to disclose to any other person (including any other Beneficiary) any confidential information;
 - (v) except as specifically set out herein, have or be deemed to have any duty, obligation or responsibility to, or relationship of trust or agency with, the Operator or any Consortium Member;
- (p) Exclusion of Liability. Unless caused directly by its gross negligence or wilful misconduct the Trustee and Paying Agent shall not accept responsibility or be liable for:
 - (i) the adequacy, accuracy and/or completeness of any information supplied by the Trustee and Paying Agent or any other person in connection with this Agreement or the transactions contemplated in this Agreement, or any other agreement, arrangement or document entered into, made or executed in anticipation of, pursuant to or in connection with this Agreement;
 - (ii) the legality, validity, effectiveness, adequacy or enforceability of the Agreement, the Security or the Underlying Security or any other agreement, arrangement or document entered into, made or executed in anticipation of, pursuant to or in connection with this Agreement, the security or the underlying security;
 - (iii) any losses to any person or any liability arising as a result of taking or refraining from taking any action in relation to

this Agreement, the Security, the Underlying Security or otherwise, whether in accordance with an instruction from the Operator or otherwise;

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- (iv) the exercise of, or the failure to exercise, any judgment, discretion or power given to it by or in connection with this Agreement or the Security, the Underlying Security or any other agreement, arrangement or document entered into, made or executed in anticipation of, pursuant to or in connection with this Agreement, the Security or the Underlying Security; or
 - (v) any shortfall which arises on the enforcement of the Security or the Underlying Security or otherwise.
- (g) Own responsibility. It is understood and agreed by each Beneficiary (except the Trustee and Paying Agent and Account Bank) that at all times that Beneficiary has itself been, and will continue to be, solely responsible for making its own independent appraisal of and investigation into all risks arising under or in connection with this Agreement including but not limited to:
- (i) the financial condition, creditworthiness, condition, affairs, status and nature of the Operator, each of the Consortium Members and each of the Buyers;
 - (ii) the financial condition, creditworthiness, condition, value, affairs, status and nature of the Project;
 - (iii) the legality, validity, effectiveness, adequacy and enforceability of this Agreement and the Security and the Underlying Security and any other agreement, arrangement or document entered into, made or executed in anticipation of, pursuant to or in connection with this Agreement, the Security or the Underlying Security;
 - (iv) whether that Beneficiary has recourse, and the nature and extent of that recourse, against the Operator, any Consortium Member, any Buyer or any other person or any of their respective assets under or in connection with this Agreement, the transactions contemplated in this Agreement or any other agreement, arrangement or document entered into, made or executed in anticipation of, pursuant to or in connection with this Agreement;
 - (v) the adequacy, accuracy and/or completeness of any information provided by any person in connection with this Agreement, the transactions contemplated in this Agreement or any other agreement, arrangement or document entered into, made or executed in anticipation of, pursuant to or in connection with this Agreement; and
 - (vi) the right or title of any person in or to, or the value or sufficiency of any part of the Trust Property, the priority of any of the Security, the Underlying Security or the existence of any security interest affecting the Trust Property,

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and the Operator for and on behalf of itself and the Consortium Members warrants to the Trustee and Paying Agent that it has not relied on and will not at any time rely on the Trustee and Paying Agent in respect of any of these matters.

- (r) No Responsibility to Perfect Security. The Trustee and Paying Agent shall not be liable for any failure to:
- (i) require the deposit with it of any deed or document certifying, representing or constituting the title of any Beneficiary to any of the Trust Property;
 - (ii) obtain any license, consent or other authority for the execution, delivery, legality, validity, enforceability or admissibility in evidence of this Agreement, the Security or the Underlying Security;
 - (iii) register, file or record or otherwise protect any of the Security or the Underlying Security (or the priority of any of the Security or the Underlying Security) under any applicable laws in any jurisdiction or to give notice to any person of the execution of this Agreement or of the Security or the Underlying Security;

- (iv) take, or to require any of the Beneficiaries to take, any steps to perfect its title to any of the Trust Property or to render the Security or the Underlying Security effective or to secure the creation of any ancillary security interest under the laws of any jurisdiction; or
- (v) require any further assurances in relation to this Agreement, the Security or the Underlying Security.
- (s) Insurance. Other than as required by applicable law or regulation, the Trustee and Paying Agent shall not be under any obligation to insure any of the Trust Property, to require any other person to maintain any insurance or to verify any obligation to arrange or maintain insurance contained in the Finance Documents. The Trustee and Paying Agent shall not be responsible for any loss which may be suffered by any person as a result of the lack of or inadequacy of any insurance.
- (t) Custodians and Nominees. The Trustee and Paying Agent may appoint and pay any person to act as a custodian or nominee on any terms in relation to any assets of the trust as the Trustee and Paying Agent may determine, including for the purpose of depositing with a custodian this Agreement and the Trustee and Paying Agent shall not be responsible for any loss, liability, expense, demand, cost, claim or proceedings incurred by reason of the misconduct, omission or default on the part of any person appointed by it under this Agreement or be bound to supervise the proceedings or acts of any person, provided that the Trustee and Paying Agent shall exercise reasonable care in selecting any such custodian or nominee.

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- (u) Acceptance of Title. The Trustee and Paying Agent shall be entitled to accept without enquiry, and shall not be obliged to investigate, the right and title as the Operator or any of the Consortium Members may have to any of the Assigned Property and shall not be liable for or bound to require any Operator or any Consortium Member to remedy any defect in its right or title.
- (v) Illegality. The Trustee and Paying Agent may refrain from doing anything which in its opinion will or may be contrary to any relevant law, directive or regulation of any jurisdiction which would nor might otherwise render it liable to any person, and the Trustee and Paying Agent may do anything which is, in its opinion, necessary to comply with any law, directive or regulation.
- (w) Powers Supplemental. The rights, powers and discretions conferred upon the Trustee and Paying Agent by this Agreement shall be supplemental to the Trustee Acts and in addition to any which may be vested in the Trustee and Paying Agent by general law or otherwise.
- (x) Trustee Division Separate. In acting as trustee for the Secured Parties, the Trustee and Paying Agent shall be regarded as acting through its trustee division which shall be treated as a separate entity from any of its other divisions or departments and any information received by any other division or department of the Trustee and Paying Agent may be treated as confidential and shall not be regarded as having been given to the Trustee and Paying Agent's trustee division.
- (y) Disapplication. Section 1 of the Trustee Act 2000 shall not apply to the duties of the Trustee and Paying Agent in relation to the trusts constituted by this Agreement. Where there are any inconsistencies between the Trustee Acts and the provisions of this Agreement, the provisions of this Agreement shall, to the extent allowed by law, prevail and, in the case of any inconsistency with the Trustee Act 2000, the provisions of this Agreement shall constitute a restriction or exclusion for the purposes of that Act.
- (z) Protection for Account Bank. If the Trustee and Paying Agent delegates any of its functions to the Account Bank, then the relevant protective language in this Agreement (including, without limitation, this Section 8 (including, without limitation, Sections 8.2, 8.3 and 8.10)) in favour of the Trustee. Under no circumstances will the Account Bank be liable to any party hereto for any consequential loss (inter alia, being loss of business, goodwill, opportunity or profit) even if advised of such loss or damage).

8.2 TRUSTEE AND PAYING AGENT FEES

The Trustee and Paying Agent shall be entitled to receive fees as set forth on Schedule B hereto for the services to be performed by it hereunder and to be reimbursed for all properly incurred out-of-pocket expenses incurred by the Trustee and Paying Agent on a full indemnity basis in connection

therewith, including properly incurred legal fees

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and expenses (such fees and expenses payable under this Section 8.2 are referred to herein as "Fees and Expenses"). The Trustee and Paying Agent may charge such agreed Fees and Expenses and the Additional Remuneration (referred to in Section 8.3 below) to the Etame Operating Account as an expense to be paid under Section 5 prior to the payment of any other amount thereunder, providing the Operator with such evidence as to the nature and amount of such expenses as the Operator may reasonably require. If the balance in the Etame Operating Account is insufficient therefor, the Operator, on behalf of each of the Consortium Members, but not TINWORTH or the Subordinate Secured Parties, shall pay such Fees and Expenses and the Additional Remuneration to the Trustee and Paying Agent.

8.3 EXCEPTIONAL FEES

In the event of the occurrence of Collection Actions or if payment is not made on any Crude Oil Sales Contract or Letter of Credit when due or the Trustee and Paying Agent is requested by the Operator to undertake duties which the Trustee and Paying Agent, the Operator and the Subordinate Secured Parties agree to be of an exceptional nature or otherwise outside the scope of the normal duties of the Trustee and Paying Agent under this Agreement, the Operator shall pay to the Trustee and Paying Agent any additional remuneration (together with any applicable VAT) as the Operator and the Subordinate Secured Parties shall have consented to, such consent not to be unreasonably withheld. If the Trustee and Paying Agent, the Operator and the Subordinate Secured Parties fail to agree upon the nature of the duties or upon such Additional Remuneration, that dispute shall be determined by a investment bank (acting as an expert and not as an arbitrator) selected by the Trustee and Paying Agent and approved by the Operator and the Subordinate Secured Parties or, failing approval, nominated (on the application of the Trustee and Paying Agent) by the President for the time being of the Law Society of England and Wales (the costs of the nomination and of the investment bank being payable by the Operator) and the determination of any investment bank shall be final and binding upon the Beneficiaries. Such remuneration payable under this Section 8.3 is referred to herein as "Additional Remuneration".

8.4 STAMP TAXES.

The Operator shall pay all stamp, registration, notarial and other taxes or fees to which this Agreement, the security or any judgment given in connection with them, is or at any time may be, subject and shall, from time to time, indemnify the Trustee and Paying Agent on demand against any liabilities, costs, claims and expenses resulting from any failure to pay or any delay in paying any tax or fee.

8.5 INTEREST ON DEMANDS

If the Operator fails to pay any amount payable by it to the Trustee and Paying Agent under this Agreement on its due date interest shall accrue on the overdue amount (and be compounded with it) from the due date up to the date of actual payment (both before and after judgment and to the extent interest at a default rate is not otherwise being paid on such sum) at the rate which is one per cent. per annum over the rate at which

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the Trustee and Paying Agent was being offered, by prime banks in the London Interbank Market, deposits in an amount comparable to the unpaid amounts in the currencies of those amounts for such period(s) as the Trustee and Paying Agent may from time to time select

8.6 RESIGNATION AND TERMINATION

- (a) The Trustee and Paying Agent may, at any time, without assigning any reason and without being responsible for the costs and expenses occasioned thereby, by notice to the Operator and TINWORTH tender its resignation as Trustee and Paying Agent under this Agreement.
- (b) The Operator may, with consent of TINWORTH and Subordinate Secured Parties, at any time by notice given by it, terminate the Trustee and Paying Agent's appointment hereunder. Such resignation or termination shall be effective as from the appointment of a successor as hereinafter provided and when all the Security has been transferred to such successor.

8.7 APPOINTMENT OF SUCCESSOR

- (a) Within 45 days of receipt of a notice of resignation or issuance of a notice of termination, the Operator shall appoint a successor, being

an Eligible Bank, acceptable to TINWORTH and the Subordinate Secured Parties. The proposed successor bank (the "Successor") shall promptly give notice of its appointment to the Trustee and Paying Agent and shall execute and deliver to each of the Parties an instrument in writing accepting its appointment hereunder which shall specify the office of the Successor in London which is to be that Trustee and Paying Agent's Office for the purpose of this Agreement.

- (b) If in any case a Successor shall not be appointed pursuant to the foregoing provisions of this Section 8.7 within the 45 days aforesaid, the Trustee and Paying Agent may be entitled on behalf of the Operator to appoint a Successor being an Eligible Bank of good standing.

8.8 SUCCESSOR VESTED WITH RIGHTS

Upon and from the execution and delivery of the instrument in writing appointing the successor and the transfer of all the Security to the Successor, the Successor without any further act or deed shall become fully vested with all the rights, powers and duties and subject to all the obligations of the Trustee and Paying Agent hereunder, but the retiring Trustee and Paying Agent shall be discharged from any further obligation under this Agreement, but shall retain the benefit of this Section 8.

8.9 PAYMENTS AFTER NOTICE

Upon and from the date of notification from any Successor, any person required to pay amounts to the Trustee and Paying Agent under this Agreement shall pay the Successor

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at its office specified as aforesaid all amounts described herein as payable to the Trustee and Paying Agent.

8.10 INDEMNIFICATION

The Operator on behalf of itself and the Consortium Members hereby irrevocably and unconditionally agrees to indemnify, and keep fully and effectively (and on an after-Tax basis) indemnified, the Trustee and Paying Agent against all actions, proceedings, claims, demands, losses, damages, liabilities, calls, assessments, costs, charges and expenses, which may be brought or preferred against or incurred by the Trustee and Paying Agent (otherwise than as a result of its gross negligence or wilful misconduct) in connection with the Trust Fund, this Agreement or the performance of the Trustee and Paying Agent's obligations hereunder including, without prejudice to the generality of the foregoing, any Tax, other than tax on or attributable to the income earned by the Trustee and Paying Agent for which the Trustee and Paying Agent is or may be liable or accountable in connection with the Trust Fund, this Agreement or the performance of the Trustee and Paying Agent's obligations hereunder.

8.11 TRUSTEE AND PAYING AGENT IN INDIVIDUAL CAPACITY

The Trustee and Paying Agent, in its individual capacity, or any affiliate thereof shall have the same rights, powers and authority to enter into any deposit agreement, loan agreement or any other banking or business relationship permitted by law with any of the Government, the Operator, the Consortium Members, TINWORTH or the Subordinate Secured Parties as though it were not the Trustee and Paying Agent under this Agreement.

8.12 SET-OFF

The Trustee and Paying Agent is entitled at any time to exercise rights of set-off against (or otherwise make a deduction from) the Trust Fund, in relation to any payment due to the Trustee and Paying Agent under this Agreement in respect of any indemnification, Fees and Expenses or Additional Remuneration.

8.13 SECURITY PROCEDURES

In the event funds transfer instructions are given (other than in writing at the time of execution of this Agreement), whether in writing, by facsimile or otherwise, the Trustee and Paying Agent is authorized to seek confirmation of such instructions by telephone call-back to the person or persons designated on Schedule C and the Trustee and Paying Agent may rely upon the confirmation of anyone purporting to be the person or persons so designated. In the event Trustee and Paying Agent is unable to obtain a call-back within two (2) Business Days the Trustee and Paying Agent shall proceed on the written instructions as originally received. The persons and telephone numbers for call-backs may be changed only by written instructions actually received and acknowledged by the Trustee and Paying Agent. The Trustee and Paying Agent in any funds transfer may rely solely upon any account numbers or similar identifying

numbers provided by the Operator, the Consortium Members, TINWORTH or the Subordinate Secured Parties identifying:

- (i) the beneficiary,
- (ii) the beneficiary's bank, or
- (iii) an intermediary bank.

The Trustee and Paying Agent may apply any of the Trust Funds for any payment order it executes using any such identifying number, even where its use may result in a person other than the beneficiary being paid, or the transfer of funds to a bank other than the beneficiary's bank or an intermediary bank designated. The Parties acknowledge that these security procedures are commercially reasonable.

8.14 REPRESENTATIONS AND WARRANTIES

Each of the Trustee and Paying Agent and the Account Bank represents and warrants:

- (a) It is duly incorporated and validity existing under the laws of its jurisdiction of incorporation, and has the corporate power and has obtained all required Authorisations to enter into, and comply with its obligations under this Agreement;
- (b) This Agreement has been duly authorised and executed by it and constitutes a valid and legally binding obligation the Trustee and Paying Agent or, as the case may be, the Account Bank, enforceable in accordance with its terms, except as may be affected by bankruptcy, administration, insolvency and other similar laws affecting creditors rights generally;
- (c) Neither the entering into of this Agreement nor the compliance with its terms will conflict with or result in a breach of any of the terms, conditions or provisions of, or constitute a default or require any consent under, any indenture, mortgage, agreement or other instrument or arrangement to which the Trustee and Paying Agent or, as the case maybe, the Account Bank is a party or by which it is bound, or violate any of the terms or provisions of the Trustee and Paying Agent's or, as the case maybe the Account Bank's Charter or any Authorisation, judgment, decree or order or any statute, rule of regulation applicable to the Trustee and Paying Agent or, as the case maybe, the Account Bank.

9. MISCELLANEOUS

9.1 REMEDIES AND WAIVERS

No failure to exercise, or any delay in exercising, on the part of any Secured Party, any right or remedy under this Agreement shall operate as a waiver, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise thereof or the exercise of any other right or remedy. The rights and remedies provided

in this Agreement are cumulative and not exclusive of any rights or remedies provided by law.

9.2 PARTIAL INVALIDITY

If, at any time, any provision of this Agreement is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of the provision under the law of any other jurisdiction will in any way be affected or impaired.

9.3 COUNTERPARTS; TERM

This Agreement may be executed in any number of counterparts and by the Parties on separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts together shall constitute one and the same instrument. Complete sets of counterparts shall be lodged with the Trustee and Paying Agent. This Agreement shall be effective as of the date hereof and shall remain in effect with respect to provisions regarding the TINWORTH Reserve Account until TINWORTH and the Operator have notified the Trustee and Paying Agent that the Final Compensation Payment has been paid and with respect to all other provisions until the Operator and each Subordinate Secured Party shall have notified

the Trustee and Paying Agent that this Agreement shall terminate.

9.4 DISPUTES AND SUBMISSION TO JURISDICTION

- (a) The Parties hereby irrevocably submit to the non-exclusive jurisdiction of the English courts in any legal action or proceedings in relation to any disputes which may arise in connection with the rights and obligations established by this Agreement or otherwise arising in connection with this Agreement. England shall be each of the Trustee and Paying Agent's and the Account Bank's jurisdiction for the purposes of the Uniform Commercial Code as in effect in any jurisdiction. Each of the Trustee and Paying Agent, the Account Bank and the Operator represents that it has not entered into any agreement relating to the Accounts that designates any other jurisdiction as the Trustee and Paying Agent's or the Account Bank's jurisdiction for such purposes and agrees that it will not enter into any such agreement;
- (b) Each of Trustee and Paying Agent, the Operator, TINWORTH, the Consortium Members and the Subordinate Secured Parties (with the exception of the International Finance Corporation) irrevocably waives any objections on the ground of venue or forum non conveniens or any similar grounds;
- (c) Each of Trustee and Paying Agent, the Operator and TINWORTH irrevocably consents to service of process by mail or in any manner permitted by the relevant law.

9.5 NOTICE OF TRUST AND PAYING AGENT AGREEMENT

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The Operator hereby undertakes to give notice of the trust created hereby and a copy of this Agreement to the Beneficiaries promptly following the execution of this Agreement.

9.6 NOTICES

All notices, approvals, instructions, and other communications for purposes of this Agreement shall be in writing, and shall be transmitted by certified or registered airmail, hand, overnight courier, facsimile or e-mail, directed as set forth below:

- (a) To the Operator at the following mail, facsimile and e-mail addresses:

VAALCO Gabon (Etame), Inc.
4600 Post Oak Place, Suite 309
Houston, Texas 77027

Attention: President or Vice President
Telephone: 713-623-0801
Facsimile No.: 713-623-0982
Email address: vaalco@vaalco.com

- (b) to TINWORTH at the following mail, facsimile and e-mail addresses:

TINWORTH
c/o Fred.Olsen Production A.S.
Fred.Olsen Gate 2
PO Box 1159 Sentrum
0152 OSLO
Norway

Attention: Commercial Manager
Facsimile No.: 47 22 42 9946
Email address: fpso@fredolsen.no

- (c) To the Trustee and the Paying Agent at the following mail, facsimile and e-mail addresses:

JPMorgan Chase Bank
Trinity Tower
9 Thomas More Street
London E1W 1YT

Attention: Manager, Escrow Administration
Facsimile No.: 44 20 7777 5410
44 20 7777 5450
Email address: will.manns@jpmorgan.com
phillip.runciman@jpmorgan.com

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- (d) To the Account Bank at the following mail, facsimile and e-mail

addresses:

JPMorgan Chase Bank
Trinity Tower
9 Thomas More Street
London E1W 1YT

Attention: Manager, Escrow Administration

Facsimile No.: 44 20 7777 5410
44 20 7777 5450

Email address: will.manns@jpmorgan.com
phillip.runciman@jpmorgan.com

- (e) To each of the Subordinate Secured Parties at the mail and facsimile address specified on Schedule A.

The Parties may designate additional addresses for particular communications as required from time to time, and may change any address, by notice given ten days in advance of such additions or changes. Immediately upon receiving communications by facsimile or e-mail transmission, a Party may request a repeat transmittal of the entire communication or confirmation of particular matters.

All notices and other communications given to any Party in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt if delivered by hand or overnight courier service, or the day after the date of receipt if sent by facsimile or e-mail, or on the date seven Business Days after dispatch by certified or registered mail if mailed, in each case delivered, sent or mailed (properly addressed) to such Party as provided in this Section or in accordance with the latest unrevoked direction from such Party given in accordance with this Section.

9.7 INCUMBENCY CERTIFICATES; NOTICES

- (a) The Operator shall furnish the Trustee and Paying Agent, from time to time, with duly executed incumbency certificates showing the names, titles and specimen signatures of the persons authorized on behalf of Operator, TINWORTH and the Subordinate Secured Parties, respectively, to give the notifications and approvals required by this Agreement and such other material in relation to the opening and operating of the Accounts as Trustee and Paying Agent may reasonably request. The Trustee and Paying Agent has a general right, in relation to the receipt of notices, instructions and certificates, to act in accordance with normal banking practice. The Operator shall furnish to the Trustee and Paying Agent from time to time any information as the Trustee and Paying Agent may reasonably specify as being necessary or desirable to enable the Trustee and Paying Agent to perform its functions hereunder.

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- (b) The Trustee and Paying Agent shall furnish the Operator, from time to time, with notice of the officers of the Trustee and Paying Agent who are authorized to act on its behalf in the performance by the Trustee and Paying Agent of its duties under this Agreement.

9.8 NO AMENDMENT EXCEPT IN WRITING

This Agreement may not be revoked, amended, modified, varied or supplemented except by an instrument in writing signed by the Parties hereto after submission to the Trustee and Paying Agent of the written consent to such amendment of TINWORTH and the Subordinate Secured Parties; provided, however, the Parties agree that Schedule A may be revised and replaced from time to time with a new Schedule A upon receipt of a notification from a Consortium Member as to the identity of such Consortium Member's Subordinate Secured Party or confirmation or change of the respective Consortium Member's Account, accompanied by the written consent of such Subordinate Secured Party.

9.9 APPLICABLE LAW

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF ENGLAND AND WALES (the "Applicable Law").

9.10 BENEFIT OF AGREEMENT

This Agreement shall be binding upon the Parties, and inure to the benefit of, the Parties, each Consortium Member, TINWORTH and each Subordinate Secured Party and their respective successors and assigns.

9.11 LANGUAGE

All notices and documents given under this Agreement shall be in English.

9.12 THIRD PARTY RIGHTS

The Parties agree that TINWORTH, the Consortium Members and each of their Subordinate Secured Parties has the right to enforce the terms of this Agreement to the extent necessary to enforce their benefits hereunder, but that no other person has any right under the Contracts (Rights of Third Parties) Act 1999 to enforce or to enjoy the benefit of any term of this Agreement.

9.13 PERPETUITY PERIOD

The perpetuity period under the rule against perpetuities, if applicable to this Agreement, shall be the period of eighty years from the date of this Agreement.

9.14 WINDING UP OF TRUST

If the Trustee and Paying Agent with the written consent of the Operator, TINWORTH and Subordinate Secured Parties determines that all of the Secured Obligations have

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been fully and finally discharged then the trust shall be wound up. At that time the Trustee and Paying Agent shall, at the cost and expense of the Operator, release, without recourse or warranty, all of the security held by it hereunder and the Trustee and Paying Agent shall be released from its obligations under this Agreement (save for those which arose prior to such winding-up). The Trustee and Paying Agent shall also reassign to the relevant parties those rights assigned to it pursuant to the Crude Oil Sale Contracts Assignment and shall forthwith instruct the Account Bank to transfer all amounts together with any accrued but uncredited interest, if any, standing to the credit of the Accounts to the Consortium Member Accounts and close the Accounts.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed as a deed by their respective duly authorized signatories as of the date first above written.

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Executed as a deed by:
VAALCO GABON (ETAME), Inc.
acting by _____ and
and _____ acting
under the authority of VAALCO
GABON (ETAME), Inc.

By:

Name:

Title:

By:

Name:

Title:

Executed as a deed by:
JPMORGAN CHASE BANK

Authorized Signatory

In the presence of: _____

Signature of Witness: _____

Name of Witness: _____

Address of Witness: _____

Occupation of Witness: _____

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The Common Seal of:
J.P. MORGAN TRUSTEE AND
DEPOSITARY COMPANY LIMITED
was hereunto affixed
in the presence of:

Authorized Signatory

Authorized Signatory

IN WITNESS WHEREOF, TINWORTH acknowledges and consents to the terms of this Agreement, executed by its duly authorized signatory as of the date first above written.

TINWORTH LIMITED

By:
Name: _____

Title:

By:
Name: _____

Title:

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Schedules

- A. Consortium Members Account and Subordinate Secured Party Designations
- B. Trustee Fee Schedule
- C. Funds Transfer Confirmation Contact Party Designation
- D. TINWORTH Draw Notice
- E. Notice of Assignment of Crude Oil Sales Contract
- F. Acknowledgement of Crude Oil Sales Contract Assignment
- G. Notice of Assignment of Consortium Member's Account
- H. Acknowledgement of Assignment of Consortium Member's Account
- I. Appointment Instrument

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SCHEDULE A

CONSORTIUM MEMBERS ACCOUNT AND SUBORDINATE SECURED PARTY
DESIGNATIONS

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SCHEDULE B

TRUSTEE AND PAYING AGENT AND ACCOUNT BANK FEE SCHEDULE

Initial Acceptance Fee: US\$25,000
Etame Revenue Account Administration Fee: US\$7,500 per annum or part thereof
Etame Operating Account Administration Fee: US\$7,500 per annum or part thereof
TINWORTH Reserve Account Administration Fee: US\$7,500 per annum or part thereof

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SCHEDULE C

FUNDS TRANSFER CONFIRMATION CONTACT PARTY DESIGNATION

VAALCO Gabon (Etame), Inc. 4600 Post Oak Place Suite 309 Houston, TX 77098 USA Attn: W. Russell Scheirman President Tel: 713-499-1463 Fax: 713-623-0982	PetroEnergy Resources Corporation 7th Floor, JMT Building ADB Avenue, Ortigas Center Pasig City, Metro Manila Philippines Tel: 632-633-8716 Fax: 632-633-8730 Attn: Milagros V. Reyes, President
Nissho Iwai Corporation 3-1, Daiba 2-Chome Minatoku, Tokyo 135-8655 Japan Attn: Mr. Shinichi Teranishi General Manager Offshore Energy Project Dept. Tel: 813-3588-2694 Fax: 813-3588-4547	Sasol Petroleum International (Pty) Ltd. 7th Floor, Marble Arch Tower 55 Bryanston Street London W1H 7AJ Tel: 44-207-868-2232 Fax: 44-207-868-8600 Attn: Hans Oesterle Exploration Manager
PanAfrican Energy Gabon Corporation PanAfrican Energy Corporation Ltd. PO Box 332, Sir Walter Raleigh House 48-50 Esplanade, St. Helier, Jersey Channel Islands JE4 9YA Tel: 44(0) 1534 700900 Fax: 44(0) 1534 700901 Attn: David Lyons President	Director General de Hydrocarbures Ministere des Mines de L'Energie, du Petrole et des Ressources Hydraulique B.P. 2199 Libreville Gabon Attn: Jean KOUMBI GUIYEDI Directeur de l'Exportation Tel: 241 76 39 23 Fax: 241 72 49 90
West Atlas Afrique, Ltd. 7th Floor, Marble Arch Tower 55 Bryanston Street London W1H 7AJ Tel: 44-207-868-2232 Fax: 44-207-868-8600 Attn: Hans Oesterle Exploration Manager	TINWORTH c/o Fred.Olsen Production A.S. Fred.Olsensgt.2 PO Box 1159 Sentrum 0152 OSLO Norway Tel: 47-22-34-10-00 Fax: 47-22-42-9946 Attn: Georg S. Onsrud, director

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SCHEDULE D

TINWORTH DRAW NOTICE

From: TINWORTH, Ltd
To: Trustee and Paying Agent and the Account Bank
Copy to: The Operator, the other Consortium Members, and the Subordinate Secured Parties

Dated:

TINWORTH DRAW NOTICE

Dear Sirs

Relating to a Trustee and Paying Agent Agreement dated 26 June 2002 between Vaalco Gabon (Etame), Inc., JPMorgan Chase Bank, London Branch and J.P. Morgan Trustee and Depositary Company Limited as from time to time modified, supplemented or amended in accordance with the terms thereof. Terms not otherwise defined herein shall have the meaning given to them in the Trustee and

Paying Agent Agreement.

1. We hereby certify that the Operator has failed to pay the Compensation in the amount of US\$_____ (the "Default Amount") to TINWORTH under the FPSO Contract on the due date thereof and that all applicable grace periods have expired. TINWORTH hereby declares that a Payment Default has occurred.

2. We hereby further certify that the Default Amount is now due and owing to TINWORTH under the FPSO Contract. Pursuant to Section 5.3 of the Trustee and Paying Agent Agreement we hereby direct the Trustee and Paying Agent to distribute the lesser of (i) the Default Amount and (ii) the balance of the TINWORTH Reserve Account up to the TINWORTH Reserve Account Maximum Balance to TINWORTH at the following account:

[specify bank account]

3. Our notice details for the purpose of receiving communications under the Trustee and Paying Agent Agreement are as follows:

Address:
Attention:
Telephone No:
Facsimile No:
Email Address:

4. We hereby further certify that a copy of this TINWORTH Draw Notice has been sent by facsimile with an overnight copy sent via international courier to each of the

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Operator, the other Consortium Members, and the Subordinate Secured Parties as designated on the most recent Schedule A delivered to TINWORTH pursuant to Section 6.1(b) of the Trustee and Paying Agent Agreement.

5. This TINWORTH Draw Notice shall be governed by, and construed in accordance with, English law.

IN WITNESS whereof this TINWORTH Draw Notice has been executed and is intended to be and is hereby delivered on the date first above written.

TINWORTH, Ltd

EXECUTED by [])
As attorney for and on behalf of) -----
[])

Witnessed by:
Name:
Address:

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SCHEDULE E

FORM OF NOTICE OF ASSIGNMENT OF CRUDE OIL SALES CONTRACT

(On the Operator's letterhead)

To: [Counterparty to the Crude Oil Sales Contract]

Dear Sirs,

We hereby give you notice that pursuant to the Etame Field Trustee and Paying Agent Agreement dated 26 June 2002 between ourselves and _____ [name of Trustee and Paying Agent] (the "Trustee and Paying Agent") and _____ [name of Account Bank] (the "Account Bank") we have assigned to the Trustee and Paying Agent, all our right, to and in respect of each amount payable in U.S. Dollars pursuant to sales of crude oil produced from the Etame Field (as more particularly described in the operating agreement (being the joint operating agreement effective as of April 4, 1997 between Vaalco Gabon (Etame), inc., VAALCO Energy (Gabon), Inc., Western Atlas Afrique Ltd., Petrofields Exploration & Development Co. Inc. and Alcorn Petroleum and Mineral Corporation, as the same has been and may hereafter be modified, supplemented or amended, including any extension or renewal thereof and any successors of the original parties) and exported from the Project (being the floating production storage and offloading system and the three oil wells existing in the Etame Field and such other wells or facilities as may be added to develop the Etame Field) and any amounts payable on account of interest due by reason of the late

payment for such crude oil under the Contract, in each case net of sales commissions provided for in the Contract or in any sales agency agreements entered into in connection therewith. (the "Crude Oil Sale Contract Revenues") in respect of [details of contract] (the "Contract") and all liens, security interests, Letters of Credit, mortgages or similar rights securing payment by [name of buyer] (the "Buyers") of the Crude Oil Sales Contract Revenues in respect of the Contract.

With effect from your receipt of this notice we hereby give you notice that we have agreed that:

- (a) all Crude Oils Sales Contract Revenues under or arising from the Contract should be made to [specify bank account];
- (b) all rights to compel performance of payment of Crude Oils Sales Contract Revenues under or arising from the Contract shall be exercisable by the Trustee and Paying Agent or its nominee and agents (although we shall remain liable to perform all the obligations assumed by us under the Contract); and
- (c) all rights, interests and benefits whatsoever accruing to or for the benefit of ourselves for the payment of the Crude Oils Sales Contract Revenues under or arising from the Contract belong to the Trustee and Paying Agent and no changes may be made to the terms of the Contract nor may the Contract be

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terminated without the Trustee and Paying Agent's consent with respect to the payment of any monies thereunder.

You are hereby authorized and instructed, without requiring further approval from us, to provide the Trustee and Paying Agent with such information relating to the Contract as it may from time to time request and to send copies of all notices issued by you under the Contract to the Trustee and Paying Agent as well as to us.

These instructions may not be revoked, nor may the terms of the Contract be amended, varied or waived without the prior written consent of the Trustee and Paying Agent.

Please acknowledge receipt of this notice by signing and dating the acknowledgement set out on the enclosed copy and returning it to the Trustee and Paying Agent.

Yours faithfully,

for and on behalf of
[the Operator]

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SCHEDULE F

FORM OF ACKNOWLEDGEMENT OF CRUDE OIL SALES CONTRACT ASSIGNMENT

To: [Insert name of Trustee and Paying Agent]

[insert address]

Attention:

We acknowledge receipt of the notice dated [] (the "Notice"). We confirm that we have not received notice of any previous assignments or charges of or over any of the rights, interests and title in, to or in respect of the Contract and that we will comply with the terms of the Notice.

We further agree and confirm that:

- (a) we will not, without your prior written consent, vary, suspend, rescind, discharge or otherwise terminate the Contract or in any way prejudice the rights, titles, benefits and interests assigned to you;
- (b) we will not claim any set-off or counterclaim to your prejudice in respect of any moneys payable under the Contract;
- (c) we will procure that payments are made to you in accordance with the authority and instruction contained in the Notice; and
- (d) we will not withhold consent to the assignment of the Contract by you

to another person.

Yours faithfully,

For and on behalf of []

By:

Date:

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SCHEDULE G

FORM OF NOTICE OF ASSIGNMENT

(On Consortium Member's letterhead)

To: [Insert Trustee and Paying Agent and Operator's Name and Address]

Dear Sirs,

We hereby give you notice that pursuant to an agreement dated [] between ourselves and [Subordinate Secured Party] (the "Subordinate Secured Party") we have assigned with full title guarantee to the Subordinate Secured Party by way of security absolutely all our right, title and interest in, to and in respect of the Etame Operating Account as defined and governed under the Etame Field Trustee and Paying Agent Agreement dated 26 June 2002 (the "Trust Agreement") including all monies which may be payable to us in respect of the Etame Operating Account. We acknowledge that the right, title and interest in, to and in respect of the Etame Operating Account so assigned is subject to the rights of the Trustee and Paying Agent and the Account Bank under the Trust Agreement.

With effect from your receipt of this notice we hereby give you notice that we have agreed that:

- (a) all payments to be made to us under or arising from the Etame Operating Account should be made to [specify bank account ("Designated Account")]; and
- (b) all rights, interests and benefits whatsoever accruing to or for the benefit of ourselves arising from the Etame Operating Account belong to the Subordinate Secured Party.

We hereby covenant with the Trustee and Paying Agent on behalf of itself and as trustee for an on behalf of the Beneficiaries that we will pay and discharge those Secured Obligations to which we are liable when due.

You are hereby authorized and instructed, without requiring further approval from us, to provide the Subordinate Secured Party with such information relating to the Etame Operating Account as it may from time to time request and to send copies of all notices issued by you under the Trust Agreement to the Subordinate Secured Party as well as to us.

These instructions may not be revoked, nor may the Designated Account be amended or changed without the prior written consent of the Subordinate Secured Party.

Please acknowledge receipt of this notice by signing and dating the acknowledgement set out on the enclosed copy and returning it to Subordinate Secured Party.

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Yours faithfully,

Executed as a Deed by:

[Insert relevant execution clause]

[Consortium Member]

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SCHEDULE H

FORM OF ACKNOWLEDGEMENT OF ASSIGNMENT

To: [Subordinate Secured Party]

[insert address]

Attention:

We acknowledge receipt of the Notice of Assignment dated [] (the "Notice") from [Consortium Member] ("your Consortium Member"). We confirm that we have not received notice of any previous assignments or charges of or over any of the rights, interests and title in, to or in respect of your Consortium Member's interest in and to the Etame Operating Account and that we will comply with the terms of the Notice. Terms defined in the Notice shall have, when used in this acknowledgement, the same meaning herein as therein, unless the context otherwise requires.

We further agree and confirm that:

- (a) we will not, without your prior written consent, amend or change the Designated Account or in any way prejudice the rights, titles, benefits and interests assigned to you;
- (b) we will procure that payments are made to you in accordance with the authority and instruction contained in the Notice;
- (c) we will not withhold consent to the assignment of the Designated Account by you to another person; and
- (d) we will not claim any set off or counterclaim to your prejudice in respect of any moneys held in the Designated Account; and
- (e) we will not revoke, amend, modify, vary or supplement any of the Trust Agreement without evidence of your consent, except with respect to changes in Schedule A to the extent permitted under Section 9.8 of the Trust Agreement insofar as such changes modify the identity of other Subordinate Secured Parties and/or Consortium Members' Accounts other than your Consortium Member's Account.

Yours faithfully,

For and on behalf of [insert name of Trustee and Paying Agent]

By:

Date:

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And

For and on behalf of [VAALCO Gabon (Etame), Inc.]

By:

Date:

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By: _____

Name: _____

Title: _____

Executed as a deed by:
VAALCO GABON (ETAME), Inc.
acting by [name of person signing] and
[name of person signing] acting under
the authority of VAALCO GABON (ETAME), Inc.

By: _____

Name: _____

Title: -----

By: -----

Name: -----

Title: -----

Executed as a deed by:
VAALCO GABON (ETAME), Inc.
acting by [name of person signing] and
[name of person signing] acting under
the authority of VAALCO GABON (ETAME), Inc.
as attorney for [Retiring Party]

By: -----

Name: -----

Title: -----

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By: -----

Name: -----

Title: -----

IN WITNESS WHEREOF, TINWORTH acknowledges and consents to the terms of this Agreement, executed by its duly authorized signatory as of the date first above written.

TINWORTH LIMITED

By: -----

Name: -----

Title: -----

By: -----

Name: -----

Title: -----

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SCHEDULE I

FORM OF DEED OF ACCESSION

From: [Consortium Member]

To: Trustee and Paying Agent and the Account Bank

Copy to: The Operator, the other Consortium Members, TINWORTH and the Subordinate Secured Parties

Dated:

Address:

Countersignature by Trustee and Paying Agent:

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- -----
[Trustee and Paying Agent]

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SUBORDINATED CREDIT AGREEMENT

Dated as of June 10, 2002

Between

VAALCO ENERGY, INC., as Borrower

And

1818 FUND II, L.P., as Lender

1818 Fund Loan Agreement

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APPENDIX A

Defined Terms

EXHIBITS

- A. Note
- B. Warrants
- C. Subordination Agreement
- D. Assignment Agreement

SCHEDULES

- I Security Documents
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- III Form of Borrower's Certificate

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SUBORDINATED CREDIT AGREEMENT

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

RECITALS

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

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

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

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

ARTICLE I.
CREDIT TERMS

SECTION 1.01 LINE OF CREDIT LOAN.

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

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

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

SECTION 1.02 INTEREST/FEES.

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

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

(c) Additional Warrant. If all principal, interest and other amounts under the Loans and the Note have not been paid in full and Lender's obligation to make Loans has not been terminated on or prior to the second anniversary following the first funding hereunder, Borrower shall issue to Lender a warrant ("Additional Warrant") to purchase a number of shares of Borrower's Common Stock equal to 7,500,000 multiplied by a fraction, the numerator of which shall be the principal amount of the Loans outstanding on such second anniversary and the denominator of which shall be \$10.0 million. The number of shares subject to such Additional Warrant shall be subject to appropriate adjustment if any of the events described in Sections 5.1, 5.2, 5.3, 5.5 and 5.9 of the Warrant attached as Exhibit B-1 occurs prior to such second anniversary. The exercise price of such Additional Warrant shall be \$0.10 per share. The Additional Warrant shall expire seven years following the date of issuance. The Additional Warrant shall be substantially identical to the Warrant attached as Exhibit B-1 (except that the antidilution adjustments will be appropriately modified so as to adjust the number of shares only and the number of shares subject to the Additional Warrant shall be reduced as set forth in Sections 5.1, 5.2, 5.3, 5.5 and 5.9 of the Warrant).

SECTION 1.03 PAYMENTS.

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

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

receives funds in Dollars in the account specified in, or pursuant to, Subsection 1.03(a).

(c) Borrower shall indemnify Lender against any losses resulting from a payment being received or an order or judgment being given under the Loan Documents in any currency other than Dollars or any place other than the account specified in, or pursuant to, Subsection 1.03(a). Borrower shall, as a separate obligation, pay such additional amount as is necessary to enable Lender to receive, after conversion to Dollars at a market rate and transfer to

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that account, the full amount due to Lender under the Loan Documents in Dollars and in the account specified in, or pursuant to, Subsection 1.03(a).

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

SECTION 1.04 COLLATERAL.

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

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

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

SECTION 1.06. SUSPENSION OR CANCELLATION BY LENDER.

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

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

(b) Upon the giving of any such notice, the right of Borrower to any further Loans shall be suspended or canceled, as the case may be. The exercise by Lender of its right of

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suspension shall not preclude Lender from exercising its right of cancellation, either for the same or any other reason specified in Section 1.06. Upon any cancellation, Borrower shall, subject to Subsection 1.06(d), pay to Lender all fees and other amounts accrued (whether or not then due and payable) under this Agreement up to the date of that cancellation. A

suspension shall not limit any other provision of this Agreement.

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

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

SECTION 1.07 TAXES.

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

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

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

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

ARTICLE II. REPRESENTATIONS AND WARRANTIES

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

SECTION 2.01 LEGAL STATUS. Borrower and VGEI are each corporations, duly organized and existing and in good standing under the laws of the State of Delaware and are qualified or licensed to do business (and are in good standing as a foreign corporation, if applicable) in all jurisdictions in which such qualification or licensing is required or in which the failure to so qualify or to be so licensed could have a material adverse effect on Borrower or VGEI.

SECTION 2.02 CAPITALIZATION.

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

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

SECTION 2.03 AUTHORIZATION AND VALIDITY.

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

(b) The IFC Loan Agreement, and the other Transaction Documents contemplated by the IFC Loan Agreement, have been duly authorized, and upon their execution and delivery in accordance with the provisions of the IFC Loan Agreement will constitute legal, valid and binding agreements and obligations of VGEI or Borrower, as the case may be, enforceable in accordance with their respective terms.

SECTION 2.04 NO VIOLATION.

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

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

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

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

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

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

this Agreement to any other obligation of Borrower except as provided in the Subordination Agreement.

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

SECTION 2.10 ERISA. Each of Borrower and its Subsidiaries is in compliance in all material respects with all applicable provisions of the Employee Retirement Income Security Act of 1974, as amended or recodified from time to time ("ERISA"); Neither Borrower nor any of its Subsidiaries has violated any provision of any defined employee pension benefit plan (as defined in ERISA) maintained or contributed to by Borrower or its Subsidiaries (each, a "Plan"); no Reportable Event as defined in ERISA

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has occurred and is continuing with respect to any Plan initiated by Borrower or its Subsidiaries; each of Borrower and its Subsidiaries has met its minimum funding requirements under ERISA with respect to each Plan; and each Plan will be able to fulfill its benefit obligations as they come due in accordance with the Plan documents and under U.S. generally accepted accounting principles.

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

SECTION 2.12 ENVIRONMENTAL MATTERS. Except as disclosed by Borrower to Lender in writing prior to the date hereof, Borrower and each of its Subsidiaries is in compliance with all applicable federal or state environmental, hazardous waste, health and safety statutes, and any rules or regulations adopted pursuant thereto, which govern or affect any of Borrower's or its Subsidiaries' operations and/or properties, including without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Superfund Amendments and Reauthorization Act of 1986, the Federal Resource Conservation and Recovery Act of 1976, and the Federal Toxic Substances Control Act, as any of the same may be amended, modified or supplemented from time to time. None of the operations of Borrower or its Subsidiaries is the subject of any federal or state investigation evaluating whether any remedial action involving a material expenditure is needed to respond to a release of any toxic or hazardous waste or substance into the environment. Neither Borrower nor any of its Subsidiaries has a material contingent liability in connection with any release of any toxic or hazardous waste or substance into the environment.

SECTION 2.13 NO CONSENT.

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

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

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

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

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

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

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

ARTICLE III.
CONDITIONS

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

(a) Approval Of Lender Counsel. All legal matters incidental to the extension of credit by Lender shall be satisfactory to Lender's counsel.

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

(c) Lender Approval and Closing of Senior Loan. The IFC Loan Agreement, the Transaction Documents and other related documents (the "IFC Loan Documents") shall be satisfactory to Lender in its sole discretion, all conditions precedent under the IFC Loan Documents will following the occurrence of funding hereunder, be satisfied (and not waived except with Lender's consent), and all such agreements shall close and fund within three (3) Business Days following Closing and funding hereunder. Borrower will deliver to Lender all documents delivered to IFC upon closing of the IFC Loan Agreement that Lender specifically requests Borrower to deliver to Lender.

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

(e) Insurance. Borrower shall have delivered to Lender evidence of insurance coverage on all Borrower's and its Subsidiaries' property, in form, substance, amounts, covering risks and issued by companies satisfactory to Lender, including without limitation, policies of fire and extended coverage insurance covering all real property collateral required hereby, and such policies of insurance against specific hazards affecting any such real property as may be required by governmental regulation.

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

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

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

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

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

is continuing;

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE IV. AFFIRMATIVE COVENANTS

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

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

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

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

(a) Annual Reports - promptly after becoming available and in any event within 90 days after the close of each fiscal year of Borrower, the audited consolidated and unaudited consolidating balance sheets of Borrower and its Subsidiaries as at the end of such year, the audited consolidated and unaudited consolidating statements of profit and loss of Borrower and its Subsidiaries for such year and the audited consolidated and unaudited consolidating statements of reconciliation of capital accounts of Borrower and its Subsidiaries for such year, setting forth in each case for fiscal years ending after September 30, 2001, in comparative form the corresponding figures for the preceding fiscal year, accompanied by the related report of

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independent public accountants acceptable to Lender which report shall be to the effect that such statements have been prepared in accordance with U.S. generally accepted accounting principles consistently followed throughout the period indicated except for such changes in such principles with which the independent public accountants shall have concurred, showing the calculations confirming Borrower's compliance with all financial covenants; and

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

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

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

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

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

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

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

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

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

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

SECTION 4.09 NOTICE TO LENDER. Promptly give written notice to Lender in reasonable detail of: (a) the occurrence of any Event of Default of which Borrower is aware along with written notices or correspondence regarding same, or any condition, event or act which with the giving of notice or the passage of time or both would constitute an Event of Default; (b) any IFC Events of Default or IFC Potential Events of Default along with written notices or correspondence regarding same; (c) any change in the name or the organizational structure of Borrower; and (d) the occurrence and nature of any Reportable Event or Prohibited Transaction, each as defined in ERISA, or any funding deficiency with respect to any Plan.

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

ARTICLE V. NEGATIVE COVENANTS

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

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

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

SECTION 5.03 MERGER, CONSOLIDATION, TRANSFER OF ASSETS. Merge into or consolidate with any other entity; make any substantial change in the nature of Borrower's or any Subsidiary's business as conducted as of the date hereof; acquire all or substantially all of the assets of

any other entity; nor sell, lease, transfer or otherwise dispose of all or a substantial or material portion of Borrower's or any Subsidiary's assets except in the ordinary course of its business.

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

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

SECTION 5.06 PLEDGE OF ASSETS. Mortgage, pledge, grant or permit to exist a security interest in, or lien upon, all or any portion of Borrower's or any

Subsidiary's assets now owned or hereafter acquired, except any of the foregoing in favor of Lender or which is existing as of the date of, and described under, the Subordination Agreement.

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

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

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

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

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

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

ARTICLE VI.
EVENTS OF DEFAULT

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

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(a) Borrower shall fail to pay when due any principal, interest, fees or other amounts payable under any of the Loan Documents.

(b) Any default in the performance of or compliance with any obligation, agreement or other provision contained herein or in any other Loan Document (other than those referred to in subsections 6.01(a)), and with respect to any such default which by its nature can be cured, such default shall continue for a period of thirty (30) days from its occurrence.

(c) Borrower or any of its Subsidiaries fails to pay any of its Debt (other than as provided under 6.01 (a)) or to perform any of its obligations under any agreement pursuant to which there is outstanding any Debt, and any such failure continues for more than any applicable period of grace or any such Debt becomes prematurely due and payable or is placed on demand, provided such non-payment or non-performance will not be an Event of Default if (i) such non-payment or non-performance relates to a Debt not exceeding one hundred fifty thousand Dollars (\$150,000) and (ii) is being contested by Borrower or such Subsidiary in good faith in a court of competent jurisdiction for reasons other than its inability to make due and punctual payment and for which Borrower or such Subsidiary has set aside adequate reserves.

(d) Any of the representations and warranties of Borrower made herein or in any other Loan Document or that is contained in any certificate, document or financial or other statement furnished by it at any time under or in connection with this Agreement or any such other Loan Document shall prove to have been inaccurate, false or misleading in any material respect on or as of the date made.

(e) The filing of a notice of judgment lien against Borrower or any of its Subsidiaries; or the recording of any abstract of judgment against Borrower or any of its Subsidiaries in any county in which Borrower has an interest in real property; or the service of a notice of levy and/or of a writ of attachment or execution, or other like process, against the assets of Borrower or any of its Subsidiaries; or the entry of a judgment against Borrower or any of its Subsidiaries. Notwithstanding the foregoing, there shall not be an Event of Default upon the filing of notices of judgment lien, the recording of abstracts of judgment, or the entries of judgment

against Borrower or any of its Subsidiaries if the aggregate amount of all such judgments not covered by insurance is less than \$1,000,000 and such judgments are released within sixty (60) days of the filing, recording or entry of such judgment.

(f) Borrower or any of its Subsidiaries shall become insolvent, or shall suffer or consent to or apply for the appointment of a receiver, trustee, custodian or liquidator of itself or any of its property, or shall generally fail to pay its debts as they become due, or shall make a general assignment for the benefit of creditors; Borrower or any of its Subsidiaries shall file a voluntary petition in bankruptcy, or seeking reorganization, in order to effect a plan or other arrangement with creditors or any other relief under the Bankruptcy Reform Act, Title 11 of the United States Code, as amended or recodified from time to time ("Bankruptcy Code"), or under any state or federal law granting relief to debtors, whether now or hereafter in effect; or any involuntary petition or proceeding pursuant to the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors is filed or commenced against Borrower or any of its Subsidiaries, or Borrower or any of its Subsidiaries shall file an answer admitting the jurisdiction of the court and the material allegations of any involuntary petition; or Borrower or any of its Subsidiaries shall be adjudicated a bankrupt, or an order for relief shall be entered against Borrower or any of its Subsidiaries by any court of competent jurisdiction under the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors.

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

(h) Any IFC Event of Default.

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

ARTICLE VII.
MISCELLANEOUS

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

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

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

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

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

SECTION 7.03 COSTS, EXPENSES AND ATTORNEYS' FEES. Borrower shall pay to Lender immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees), expended or incurred by Lender in connection with (a) the negotiation and preparation of this Agreement and the other Loan Documents, Lender's continued administration hereof and thereof, and the preparation of any amendments and waivers hereto and thereto, (b) the enforcement of Lender's rights and/or the collection of any amounts which become due to Lender under any of the Loan Documents, and (c) the prosecution or defense of any action in any way related to any of the Loan Documents, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Lender or any other person) relating to Borrower or any other person or entity.

SECTION 7.04 ASSIGNMENTS.

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

(b) Lender may assign to one or more assignees all or a portion of its rights and obligations under this Agreement pursuant to an Assignment Agreement substantially in the form of Exhibit D (an "Assignment"); provided, however, that any such assignment shall be in the amount of at least \$1,000,000 and provided further, at no time shall there be more than four (4) Lenders. Any such assignment will become effective upon the execution and delivery to Borrower and all Lenders then party to this Agreement ("Existing Lenders") of the Assignment and the consent of Existing Lenders. Upon receipt of such executed Assignment, Borrower, will, at its own expense, execute and deliver new Notes to the assignor and/or assignee, as appropriate, in accordance with their respective interests as they appear. Borrower and Lenders further agree to enter into such modifications, assignments and amendments to the Loan Documents as necessary to provide for multiple Lenders, including, for example, designation of a collateral agent and administrative agent for the Lenders. Upon the effectiveness of any assignment pursuant to this Section 7.04(b), the assignee will become a "Lender" for all purposes of this Agreement and obligated, subject to the terms of this Agreement and the Assignment, to fund up to the full amount of its assigned percentage of the Commitment (the "Percentage Share of the Commitment"). The assignor shall be relieved of its obligations hereunder to the extent of such assignment (and if the assigning Lender no longer holds any rights or obligations under this Agreement, such assigning Lender shall cease to be a "Lender" hereunder). Existing Lenders will prepare a new Schedule II giving effect to all such assignments effected restating each Lenders' Percentage Share of the Commitment, its pro-rata share of the Commitment and assigned share of Loans then outstanding, and will promptly provide the same to Borrower and each Lender.

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

(d) Notwithstanding anything in this Section 7.04 to the contrary, any Lender may assign and pledge its Note to any Federal Reserve Bank or any Affiliate of such Lender for so

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long as such entity remains an Affiliate of Lender. No such assignment and/or pledge shall release the assigning and/or pledging Lender from its obligations hereunder.

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

state.

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

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

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

SECTION 7.08 SEVERABILITY OF PROVISIONS. If any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or any remaining provisions of this Agreement.

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

SECTION 7.10 FURTHER ASSURANCES. Borrower agrees, at its own expense, to execute, acknowledge, deliver and cause to be duly filed all such further instruments and documents and take all such actions as the Lender may from time to time reasonably request to preserve, protect and perfect the security interests granted pursuant to the Security Documents and the rights and remedies created hereby, including the payment of any fees and taxes required in connection with the execution and delivery of this Agreement, the granting of the security interests granted pursuant to the Security Documents and the filing of any financing statements (including fixture filings) or other documents in connection herewith or therewith.

SECTION 7.11 GOVERNING LAW.

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

(b) For the exclusive benefit of Lender, Borrower irrevocably agrees that any legal action, suit or proceeding arising out of or relating to this Agreement or any other Loan Document to which Borrower is a party may be brought by Lender, in its discretion, in the courts of the State of New York, the United States for the Southern District of New York, or England. By the execution of this Agreement, Borrower irrevocably submits to the non-exclusive

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1818 Fund Loan Agreement

jurisdiction of such courts in any such action, suit or proceeding. Final judgment against Borrower in any such action, suit or proceeding shall be conclusive and may be enforced in any other jurisdiction, including Gabon, London, New York and Delaware, by suit on the judgment, a certified or exemplified copy of which shall be conclusive evidence of the judgment, or in any other manner provided by law.

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

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

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

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

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

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

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

(i) To the extent that Borrower may, in any suit, action or proceeding brought in any of the courts referred to in Subsection 7.11(b) or a court of Gabon, London, New York, Delaware or elsewhere arising out of or in connection with this Agreement or any other Loan Document to which Borrower is a party, be entitled to the benefit of any provision of law requiring Lender in

such suit, action or proceeding to post security for the costs of Borrower, or to post a bond or to take similar action, Borrower hereby irrevocably waives such benefit, in each case to the fullest extent now or in the future permitted under the laws of Gabon, London, New York, Delaware or, as the case may be, the jurisdiction in which such court is located.

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

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

applicable laws by amortizing, prorating, allocating and spreading during the period of the full term of such Loan Documents, including all prior and subsequent renewals and extensions hereof or thereof, all interest at any time contracted for, charged, taken, reserved or received by Lender. The terms of this paragraph shall be deemed to be incorporated into each of the other Loan Documents.

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

SECTION 7.13 RIGHT OF SETOFF; DEPOSIT ACCOUNTS. Upon and after the occurrence of an Event of Default, (a) Borrower hereby authorizes Lender, acting on Lender's behalf, at any time and from time to time, without notice, which is hereby expressly waived by Borrower, and whether or not Lender shall have declared any credit subject hereto to be due and payable in accordance with the terms

hereof, to set off against, and to appropriate and apply to the payment of, Borrower's obligations and liabilities under the Loan Documents (whether matured or unmatured, fixed or contingent, liquidated or unliquidated), any and all amounts owing by Lender to Borrower (whether payable in U.S. dollars or any other currency, whether matured or unmatured, and in the case of deposits, whether general or special (except trust and escrow accounts), time or demand and however evidenced), and (b) pending any such action, to the extent necessary, to hold such amounts as collateral to secure such obligations and liabilities. Borrower hereby grants to Lender a security interest in all deposits and accounts maintained with Lender and with any financial institution to secure the payment of all obligations and liabilities of Borrower to Lender under the Loan Documents.

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

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

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

NOTICE: THIS DOCUMENT AND ALL OTHER DOCUMENTS RELATING TO THE INDEBTEDNESS CONSTITUTE A WRITTEN LOAN AGREEMENT WHICH REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE

1818 Fund Loan Agreement

PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES RELATING TO THE INDEBTEDNESS.

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

VAALCO ENERGY, INC.

By: _____
Name: _____
Title: _____

SIGNATURE PAGE S-1 TO SUBORDINATED CREDIT AGREEMENT

S-1

1818 Fund Loan Agreement

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

1818 FUND II, L.P.

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

By: _____
Walter Grist
Title: _____

SIGNATURE PAGE S-2 TO SUBORDINATED CREDIT AGREEMENT

S-2

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APPENDIX A

DEFINED TERMS

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

- "Additional Warrant" has the meaning specified in Subsection 1.02(c).
"Affiliate" means, in respect of any Person, any other Person directly or indirectly Controlling, Controlled by or under common Control with, such Person;
"Agreement" has the meaning set forth in the introductory paragraph hereto.
"Assignment" has the meaning specified in Subsection 7.04(b).
"Authority" means any national, supranational, regional or local government or governmental, administrative, fiscal, judicial, or government-owned body, department, commission, authority, tribunal, agency or entity, or central bank (or any entity, whether or not government owned and howsoever constituted or called, that exercises the functions of a central bank).
"Bankruptcy Code" has the meaning specified in Subsection 6.01(f).
"Business Day" means a day when banks are open for business in New York, New York.
"Borrower" has the meaning set forth in the introductory paragraph hereto.
"Common Stock" has the meaning specified in Subsection 2.02(a).

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

"Current Liabilities" means, with respect to Borrower and/or its Subsidiaries, as applicable, the aggregate of all liabilities of Borrower falling due on demand or within one year (including the portion of Long-term Debt falling due within one year);

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

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APPENDIX A-1

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

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

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

"ERISA" has the meaning specified in Section 2.10.

"Escrow Account Bank" has the meaning set forth in the recitals hereto.

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

"Event of Default" has the meaning specified in Section 6.01.

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

"Existing Lenders" has the meaning specified in Subsection 7.04(b).

"Gabon" means the Republic of Gabon.

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

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

"IFC Indebtedness" has the meaning specified in Section 1.05.

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

"IFC Events of Default" has the meaning specified in Subsection 3.02(b).

"IFC Potential Events of Default" has the meaning specified in Subsection 3.02(b).

"IFC Loan Documents" has the meaning specified in Subsection 3.01(c).

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

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

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APPENDIX A-2

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

"Indemnified Parties" has the meaning specified in Section 7.15.

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

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

"Loan" has the meaning specified in Subsection 1.01(a).

"Loan Documents" has the meaning specified in Subsection 2.03(a).

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

"Long-term Debt to Equity Ratio" means, at any calculation date, with respect to Borrower, the result obtained by dividing Borrower's Long-term Debt by Borrower's Shareholder Equity.

"Maximum Rate" has the meaning specified in Section 7.12.

"Note" has the meaning specified in Subsection 1.01(a).

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

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"Percentage Share of the Commitment" has the meaning specified in Subsection 7.04(b).

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

"Phase One Completion Date" has the meaning ascribed to such term in the IFC Loan Agreement as in effect on the date hereof.

"Plan" has the meaning specified in Section 2.10.

"Preferred Stock" has the meaning specified in Subsection 2.02(a).

"PSC" means the Exploration and Production Sharing Contract dated as of July 7, 1995, between the Republic of Gabon, represented by the Minister of Mines,

Energy and Petroleum, and Borrower and PanAfrican Gabon (under its former name VAALCO Energy (Gabon), Inc.), collectively as the Contractor, as amended October __, 2001.

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

"Security Documents" has the meaning specified in Section 1.04.

"Series A Preferred Stock" has the meaning specified in Subsection 2.02(a).

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

"Sponsor Escrow Account" has the meaning set forth in the recitals hereto.

"Sponsor Escrow Agreement" has the meaning set forth in the recitals hereto.

"Subordination Agreement" has the meaning specified in Section 1.05.

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

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APPENDIX A-4

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

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

"VGEI Common Stock" has the meaning specified in Subsection 2.02(b).

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

"Warrants" has the meaning specified in Subsection 1.02(b).

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APPENDIX A-5

SCHEDULE I

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

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

Schedule I

1818 Fund Loan Agreement

SCHEDULE II

1. Lender's Commitments

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

SCHEDULE III
FORM OF BORROWER'S CERTIFICATE

[Borrower's Letterhead]

[Date]

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

Attention: Walter Grist

Gentlemen:

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

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

3. Borrower certifies as follows:

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

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

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

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

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

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

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

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

authority or its ability to borrow;

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

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

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

Yours truly,

VAALCO ENERGY, INC.

By _____
Authorized Representative

1818 Fund Loan Agreement

EXHIBIT A

NOTE

\$10,000,000.00

June 10, 2002

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

PROCEDURE FOR BORROWINGS:

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

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

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

INTEREST:

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

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

REPAYMENT AND PREPAYMENT:

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

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

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

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

EVENTS OF DEFAULT:

(a) Events of Default. The occurrence of an Event of Default under the Credit Agreement shall constitute an "Event of Default" under this Note.

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

Exhibit A-2

1818 Fund Loan Agreement

MISCELLANEOUS:

(a) Governing Law.

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

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

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

upon Borrower in any manner authorized by the laws of any such jurisdiction.

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

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

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

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

Exhibit A-3

1818 Fund Loan Agreement

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

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

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

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

(b) Savings Clause. It is the intention of the parties to comply strictly with applicable usury laws. Accordingly, notwithstanding any provision to the contrary in this Note, the Credit Agreement, or in any other Loan Document, in no event shall this Note or any Loan Document require the payment or permit the payment, taking, reserving, receiving, collection or charging of any sums constituting interest under applicable laws that exceed the maximum amount permitted by such laws, as the same may be amended or modified from time to time (the "Maximum Rate"). If any such excess interest is called for, contracted for, charged, taken, reserved or received in connection with this Note or any Loan Document, or in any communication by Lender or any other person to Borrower or any other person, or in the event that all or part of the principal or interest hereof or thereof shall be prepaid or accelerated, so that under any of such circumstances or under any other circumstance whatsoever the amount of interest contracted for, charged, taken, reserved or received on the amount of principal

actually outstanding from time to time under this Note shall exceed the Maximum Rate, then in such event it is agreed that: (i) the provisions of this paragraph shall govern and control; (ii) neither Borrower nor any other person or entity now or hereafter liable for the payment of this Note or any Loan Document shall be obligated to pay the amount of such interest to the extent it is in excess of the Maximum Rate; (iii) any such excess interest which is or has been received by Lender, notwithstanding this paragraph, shall be credited against the then unpaid principal balance hereof or thereof, or if this Note or any Loan Document has been or would be paid in full by such credit, refunded to Borrower; and (iv) the provisions of this Note and each Loan Document, and any other communication to Borrower, shall immediately be deemed reformed and such excess interest reduced, without the necessity of executing any other document, to the Maximum Rate. The right to accelerate the maturity of this Note or any Loan Document does not include the right to accelerate, collect or charge unearned interest, but only such interest that has otherwise accrued as of the date of acceleration. Without limiting the foregoing, all calculations of the rate of interest contracted for, charged, taken, reserved or received in connection with this Note and any Loan Document which are

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1818 Fund Loan Agreement

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

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

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

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

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

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

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

[The remainder of this page intentionally blank. Signature page to follow.]

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1818 Fund Loan Agreement

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

VAALCO ENERGY, INC.

By:

portion] of the Assignor's Percentage Share of the Commitment and outstanding Loans, all on the terms and conditions of this Agreement.

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

ARTICLE I

DEFINITIONS

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

Section 1.02 Other Definitions. As used herein, the following terms have the following respective meanings:

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

"Assignment Date" shall mean _____, 200__.

ARTICLE II

SALE AND ASSIGNMENT

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

1818 Fund Loan Agreement

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in and to, and all of the obligations of the Assignor in respect of, the Assigned Interest. Such sale, assignment and transfer is without recourse and, except as expressly provided in this Agreement, without representation or warranty.

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

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

ARTICLE III

PAYMENTS

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

Section 3.02 Allocation of Payments. The Assignor and the Assignee agree that (i) the Assignor shall be entitled to any payments of principal with respect to the Assigned Interest made prior to the Assignment Date, together with any interest and fees with respect to the Assigned Interest accrued prior to the Assignment Date, (ii) the Assignee shall be entitled to any payments of principal with respect to the Assigned Interest made from and after the Assignment Date, together with any and all interest and fees with respect to the Assigned Interest accruing from and after the Assignment Date, and (iii) Borrower is instructed to allocate payments due under the Credit Agreement pro

rata between Assignor and the Assignee as provided in the foregoing clauses. Each party hereto agrees that it will hold any interest, fees or other amounts that it may receive to which the other party hereto shall be entitled pursuant to the preceding sentence for account of such other party and pay, in like money and funds, any such amounts that it may receive to such other party promptly upon receipt.

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

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

1818 Fund Loan Agreement

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ARTICLE IV

CONDITIONS PRECEDENT

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

- (a) the execution and delivery of this Agreement by the Assignor and the Assignee;
- (b) the receipt by the Assignor of the payment required to be made by the Assignee under Section 3.01 hereof; and
- (c) the acknowledgment and consent by the Existing Lenders contemplated by Section 2.03 hereof.

ARTICLE V

REPRESENTATIONS AND WARRANTIES.

Section 5.01 Representations and Warranties of the Assignor. The Assignor represents and warrants to the Assignee as follows:

- (a) it has all requisite power and authority, and has taken all action necessary to execute and deliver this Agreement and to fulfill its obligations under, and consummate the transactions contemplated by, this Agreement;
- (b) the execution, delivery and compliance with the terms hereof by Assignor and the delivery of all instruments required to be delivered by it hereunder do not and will not violate any provision of any law or regulation of any Authority applicable to it;
- (c) this Agreement has been duly executed and delivered by it and constitutes the legal, valid and binding obligation of the Assignor, enforceable against it in accordance with its terms;
- (d) all approvals and authorizations of, all filings with and all actions by any Authority necessary for the validity or enforceability of its obligations under this Agreement have been obtained; and
- (e) the Assignor has good title to, and is the sole legal and beneficial owner of, the Assigned Interest, free and clear of all liens, claims, participations or other charges of any nature whatsoever.

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

Subsidiaries or any other obligor or guarantor,

1818 Fund Loan Agreement

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

Section 5.03 Representations and Warranties of the Assignee. The Assignee represents and warrants to the Assignor as follows:

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

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

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

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

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

ARTICLE VI

MISCELLANEOUS.

Section 6.01 Notices. All notices and other communications provided for herein (including, without limitation, any modifications of, or waivers, requests or consents under, this Agreement) shall be given or made in writing (including, without limitation, by telex or telecopy) to the intended recipient at its "Address for Notices" specified below its name on the signature pages hereof or, as to either party, at such other address as shall be designated by such party in a notice to the other party.

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

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

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

1818 Fund Loan Agreement

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

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

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

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

IN WITNESS WHEREOF, the parties hereto have caused this Assignment

<S>	<C>	<C>
a. Percentage Share of the Commitment	_____ %	_____ %
b. Maximum Loan Amount	\$ _____	\$ _____
c. Share of Loans Outstanding	\$ _____	\$ _____
</TABLE>		

1818 Fund Loan Agreement

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