VAALCO ENERGY INC /DE/
Form 10KSB40
April 02, 2001

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

FORM 10-KSB

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2000

OR

[_] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 0-20928

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

Delaware	76-0274813
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4600 Post Oak Place Suite 309 Houston, Texas	77027
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

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

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

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

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

Transitional Small Business Disclosure Format: Yes [_] No [X].

VAALCO ENERGY, INC.

TABLE OF CONTENTS

PART I

Item 1. Business

Background

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

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

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

Recent Developments

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

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

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

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

General

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

International

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

Domestic

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

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

Customers

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

Employees

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

Competition

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

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

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

Environmental Regulations

General

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

Solid and Hazardous Waste

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

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

Superfund

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

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

Air Emissions

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

Risk Factors

Volatility of Oil and Gas Prices and Markets

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

Replacement of Reserves

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

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

Substantial Capital Requirements

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

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

Drilling Risks

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

Operating Hazards and Uninsured Risks

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

Uncertainties in Estimating Reserves and Future Net Cash Flows

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

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

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

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

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

Foreign Operations

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

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

Certain of the Company's producing properties are located offshore Palawan

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

6

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

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

Control by 1818 Fund

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

In connection with the 1818 Oil Corp. merger, the Company made certain changes to its bylaws which require that at least a majority of the directors constituting the entire board of directors, which majority must include at least one of the directors elected by the holders of Preferred Stock, approve each of the following transactions effected by either the Company or, as applicable, any subsidiary of the Company, any issuance of or agreement to issue any equity securities, including securities convertible into or exchangeable for such equity securities (other than issuances pursuant to an employee benefit plan); the declaration of any dividend; the incurrence, assumption of or refinancing of indebtedness; the adoption of any employee stock option or similar plan; entering into employment or consulting agreements with annual compensation exceeding $100,000; any merger or consolidation; the sale, conveyance, exchange or transfer of the voting stock or all or substantially all of the assets; the sale or other disposition to another person, or purchase, lease or other acquisition from another person, of any material assets, rights or properties; certain expenditures in excess of $300,000; the formation of any entity that is not wholly-owned by the Company; material changes in accounting methods or policies; any amendment, modification or restatement of the certificate of incorporation or bylaws; the settlement of any claim or other action against the Company or subsidiary in an amount in excess of $50,000; approval or amendment of the annual operating budget; any other action which is not in the ordinary course of business; and the agreement to take any of the foregoing actions. Accordingly, none of the foregoing actions can be taken by the Company without the approval of at least one director designated by the holders of the Preferred Stock.

Environmental and Other Regulations

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

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

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

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

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

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

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

Acquisition Risks

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

Reliance on Key Personnel

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

Forward-Looking Information and Risk Factors

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

8

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

Item 2. Properties

Gabon

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

Etame Block

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

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

Philippines

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

Nido Field

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

Matinloc Field

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

Galoc Field

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

Domestic Properties

Brazos County Prospects

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

Goliad County, Texas

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

Other Domestic Properties

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

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

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

Aggregate Production

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

Company Owned Production

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

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

Reserve Information

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

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

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

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

11

assumed in these estimates. The standardized measure of discounted future net cash flow should not be construed as the current market value of the estimated oil and natural gas reserves attributable to the Company's properties. The information set forth in the foregoing tables includes revisions for certain reserve estimates attributable to proved properties included in the preceding year's estimates. Such revisions are the result of additional information from subsequent completions and production history from the properties involved or the result of a decrease (or increase) in the projected economic life of such properties resulting from changes in product prices. Moreover, crude oil amounts shown are recoverable under the service contracts and the reserves in place remain the property of the Philippine government.

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

Drilling History

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

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

Acreage and Productive Wells

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

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

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

Office Space

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

Item 3. Legal Proceedings

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

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

None.

12

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

General

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

Period	High	Low
1999:		
First Quarter	$1.09	$0.25
Second Quarter	0.56	0.34
Third Quarter	0.63	0.44

Fourth Quarter	0.75	0.44
2000:		
First Quarter	$0.63	$0.25
Second Quarter	0.34	0.19
Third Quarter	0.47	0.22
Fourth Quarter	0.51	0.16
2001:		
First Quarter (through March 26, 2001)	$0.68	$0.28

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

Dividends

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

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

Introduction

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

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

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

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

Capital Resources and Liquidity

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

The Company produces oil from the Matinloc and Nido fields in the South China Sea, the Philippines. During the year ended December 31, 2000, total production from the fields was approximately 415,000 gross barrels of oil. Substantially all of the Company's crude oil and natural gas is sold at the well head at posted or index prices under short-term contracts, as is customary in the industry. The Company markets its share of crude oil under agreements with Seaoil and Caltex, both local Philippines refiners. While the loss of these buyers might have a material effect on the Company in the near term, management believes that the Company would be able to obtain other customers for its crude oil.

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

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

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

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

Results of Operations

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

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

Cash Flows

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

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

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

Revenues

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

Operating Costs and Expenses

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

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

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

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

Operating Loss

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

Other Income (Expense)

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

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

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

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

Net Loss

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

Item 7. Financial Statements and Supplementary Data

INDEPENDENT AUDITORS' REPORT

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

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

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

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

Deloitte & Touche LLP

Houston, Texas

March 26, 2001

VAALCO ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars, except par value amounts)

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	2000	1999
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 463	$ 609
Accounts with partners	2,047	403
Income taxes payable	10	--
Total current liabilities	2,520	1,012
MINORITY INTEREST	13	12
FUTURE ABANDONMENT COSTS	3,294	3,297

Total liabilities	5,827	4,321
COMMITMENTS AND CONTINGENCIES (Note 9)		
STOCKHOLDERS' EQUITY		
Preferred stock, $25 par value, 500,000 authorized shares; 10,000 shares issued and outstanding in 2000 and 1999, respectively	250	250
Common stock, $.10 par value, 100,000,000 authorized shares; 20,749,964 shares issued of which 5,395 are in the treasury in 2000 and 1999	2,075	2,075
Additional paid-in capital	41,215	41,215
Accumulated deficit	(30,314)	(25,761)
Less treasury stock, at cost	(12)	(12)
Total stockholders' equity	13,214	17,767
TOTAL	$ 19,041	$ 22,088

See notes to consolidated financial statements.

VAALCO ENERGY, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED OPERATIONS

(in thousands of dollars, except per share amounts)

	Year Ended December 31,	
	2000	1999
REVENUES:		
Oil and gas sales	$ 1,279	$ 824
Gain on sales of assets	--	70
Total revenues	1,279	894
OPERATING COSTS AND EXPENSES:		
Production expense	483	553
Exploration expense	910	1,488
Depreciation, depletion and amortization	10	14
General and administrative expenses	1,905	1,877
Total operating costs and expenses	3,308	3,932
OPERATING LOSS	(2,029)	(3,038)
OTHER INCOME (EXPENSE):		
Interest income	638	849
Equity loss in unconsolidated entities	(3,155)	(3,802)
Other, net	(37)	(418)
Total other expense	(2,554)	(3,371)

LOSS BEFORE TAXES...	(4,583)	(6,409)
Income tax expense (benefit)................................	(30)	163
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS................	$(4,553)	$(6,572)
BASIC LOSS PER COMMON SHARE.................................	$ (0.22)	$ (0.32)
DILUTED LOSS PER COMMON SHARE...............................	$ (0.22)	$ (0.32)
BASIC AND DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING...	20,745	20,745

See notes to consolidated financial statements.

VAALCO ENERGY, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

(in thousands of dollars, except share data)

	Preferred Stock		Common Stock		Additional			Tot
	Shares	Amount	Shares	Amount	Paid-in Capital	Accumulated Deficit	Treasury Stock	Stockho Equi
Balance at January 1, 1999..................	10,000	$250	20,749,964	$2,075	$41,215	$(19,189)	$(12)	$24,
Net Loss..............	--	--	--	--	--	(6,572)	--	(6,
Balance at December 31, 1999..................	10,000	$250	20,749,964	$2,075	$41,215	$(25,761)	$(12)	$17,
Net Loss..............	--	--	--	--	--	(4,553)	--	(4,
Balance at December 31, 2000..................	10,000	$250	20,749,964	$2,075	$41,215	$(30,314)	$(12)	$13,

See notes to consolidated financial statements.

VAALCO ENERGY, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED CASH FLOWS

(in thousands of dollars)

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

See notes to consolidated financial statements.

VAALCO ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

(in thousands of dollars, unless otherwise indicated)

1. ORGANIZATION

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

VAALCO ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

(in thousands of dollars, unless otherwise indicated)

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

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

Depletion of wells, platforms and other production facilities are provided on a field basis under the unit-of-production method based upon estimates of proved developed reserves. Provision for estimated abandonment costs, including platform dismantlement and site restoration, is included in depreciation, depletion and amortization expense on a unit-of-production basis. Provision for depreciation of other property is made primarily on a straight-line basis over the estimated useful life of the property. The annual rates of depreciation are as follows:

Office and miscellaneous equipment............................	3-5 years
Leasehold improvements..	8-12 years

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

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

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

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

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

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

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

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

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

Risks and Uncertainties--The Company's interests are located overseas in certain offshore areas of the Philippines and Gabon.

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

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

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

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

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

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

3. INVESTMENT IN UNCONSOLIDATED ENTITIES

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

	December 31, 2000	December 31, 1999
Investment in Hunt................................	$ --	$2,439
Investment in VAALCO Exploration LLC..............	1,448	1,758
	$1,448	$4,197

Investment in Hunt represented a $30 million limited partnership interest in Hunt Overseas Exploration Company L.P., a $350 million partnership, giving the Company a 7.5% interest in the assets of the partnership. Cash investments were made to Hunt during 1999 totaling approximately $2.5 million. Investment was recorded under the equity method. Effective June 30, 2000 the Company elected to withdraw from Hunt Overseas Exploration Company L.P. ("Hunt"). As a result of withdrawing from the Hunt venture, Hunt released certain funds in escrow totaling $8.4 million and reimbursed the Company $1.3 million for its share of net working capital in the partnership as of June 30, 2000.

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

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

	December 31, 2000 (in thousands)	December 31, 1999 (in thousands)

Balance Sheet:		
Current assets	$ 311	$ 23,807
Oil and gas property	1,226	30,431
Other assets	17	19
Owner's equity	1,544	44,353
Statement of Earnings:		
Revenue	$ 215	$ 1,544
Gross profit	$ (156)	$(34,424)
Net loss	$ (330)	$(34,978)
VAALCO's share of net loss	$ (310)	$ (3,802)

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

4. ACCRUED LIABILITIES

	December 31, 2000	December 31, 1999
Other	$ 87	$ 129

5. STOCKHOLDERS' EQUITY

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

In 1993, an officer and director of the Company was granted options to purchase 75,000 shares of Common Stock of the Company, and was also granted 75,000 stock appreciation rights ("SARs"), all at an exercise price of $10.25 per share. One-third of such options and SAR's vested at the end of each of the three years of the contract term, and are exercisable for five years from the date of vesting. As of December 31, 2000, the options and SAR's were completely vested, 25,000 of the options had expired, and none of the options and SAR's had been exercised. In 1996, additional options were granted to this officer and director for 1,000,000 shares of the Common Stock of the Company at exercise prices of $0.375 per share for 400,000 shares, $0.50 for 300,000 shares and $1.00 for 300,000 shares. The options vest over a term of three years and may be exercised for five years from the vesting date. As of December 31, 2000, the options were completely vested. None of the options had been exercised as of December 31, 2000.

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

VAALCO ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

(in thousands of dollars, unless otherwise indicated)

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

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

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

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

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

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

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

Number	Weighted-Average	Weighted-Average	Number	Weighted-Average

(in thousands of dollars, unless otherwise indicated)

Range of Exercise Prices	Outstanding At 12/31/00	Remaining Contractual Life	Exercise Price	Exercisable At 12/31/00	Exercise Price
$0.375 to 1.00..........	3,195,325	2.42 years	$0.59	2,595,325	$0.65
1.01 to 2.50...........	350,000	2.55 years	2.36	350,000	2.36
2.51 to 5.00...........	250,000	2.67 years	5.00	250,000	5.00
5.01 to 10.25..........	275,000	2.44 years	7.75	275,000	7.75
$0.375 to 10.25.........	4,070,325	2.02 years	$1.49	3,470,325	$1.70

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

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

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

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

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

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

(in thousands of dollars, unless otherwise indicated)

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

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

6. INCOME TAXES

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

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

	Year Ended December 31,	
	2000	1999
U.S. federal:		
Current	$ --	$ --
Deferred	--	--
Philippine:		
Current	10	--
Deferred	(40)	163

(in thousands of dollars, unless otherwise indicated)

Total	$(30)	$163

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

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

Pretax income (loss) is comprised of the following:

	Year Ended December 31, 2000	1999
United States	$(4,514)	$(5,545)
Foreign (Philippine/Gabon)	(39)	(864)
	$(4,553)	$(6,409)

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

	Year ended December 31, 2000	1999
Statutory income tax rate....................................	(35)%	(35)%
Effective income tax rate....................................	(1)%	3 %
	(36)%	(32)%

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

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

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

7. RELATED-PARTY TRANSACTIONS

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

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

8. COMMITMENTS AND CONTINGENCIES

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

Completion of the Etame No. 1 well satisfied all of the Company's obligations to the Government of Gabon under the primary three-year term of the contract.

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

9. SUBSEQUENT EVENT

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

VAALCO ENERGY, INC. AND SUBSIDIARIES

SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES

(Unaudited)

(in thousands of dollars, unless otherwise indicated)

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

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

United

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

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(1) Includes costs which are capitalized or expensed.

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

Capitalized Costs Relating to Oil and Gas Producing Activities:

	Year Ended December 31, 2000	1999
Capitalized costs--		
Unproved properties not being amortized	$2,823	$3,034
Properties being amortized	1,154	1,331
Total capitalized costs	3,977	4,365
Less accumulated depreciation, depletion, and amortization	(816)	(816)
Net capitalized costs	$3,161	$3,549
Company's share of equity method investee's net capitalized costs	$4,427	$4,850

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

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

(Unaudited)

(in thousands of dollars, unless otherwise indicated)

Results of Operations for Oil and Gas Producing Activities:

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

Proved Reserves

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

	Oil (MBbls)
PROVED RESERVES:	
BALANCE AT DECEMBER 31, 1998	691
Production	(91)
Revisions	61
BALANCE AT DECEMBER 31, 1999	661
Production	(92)
Revisions	117
BALANCE AT DECEMBER 31, 2000	686

PROVED DEVELOPED RESERVES	Oil (MBbls)
Balance at December 31, 1999	661

Balance at December 31, 2000	686

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

VAALCO ENERGY, INC. AND SUBSIDIARIES

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

(Unaudited)

(in thousands of dollars, unless otherwise indicated)

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

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

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

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

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

(in thousands of dollars, unless otherwise indicated)

Changes in Standardized Measure of Discounted Future Net Cash Flows:

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

	December 31, 2000	December 31, 1999
BALANCE AT BEGINNING OF PERIOD	$2,823	$ 226
Sales of oil and gas, net of production costs	(796)	(271)
Net changes in prices and production costs	99	2,350
Revisions of previous quantity estimates	294	495
Purchase (Sale) of reserves in place, net of taxes	--	--
Changes in estimated future development costs	--	--
Development costs incurred during the period	--	--
Accretion of discount	282	23
Net change in income taxes	--	--
Change in production rates (timing) and other	--	--
BALANCE AT END OF PERIOD	$2,702	$2,823

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

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

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

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

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

None.

PART III

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

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

Item 10. Executive Compensation

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

Item 11. Security Ownership of Certain Beneficial Owners and Management

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

Item 12. Certain Relationships and Related Transactions

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

Item 13. Exhibits and Reports on Form 8-K

2.	Plan of acquisition, reorganization , arrangement, liquidation or succession
2.1(a)	Stock Acquisition Agreement and Plan of Reorganization dated February 17, 1998 by and among the Company and the 1818 Fund II, L.P.
2.2(c)	First Amendment to Stock Acquisition Agreement and Plan of Reorganization, dated April 21, 1998
2.3	Stock Purchase Agreement between Western Atlas International, Inc., as Seller, and VAALCO Gabon (Etame), Inc. as Purchaser, dated January 4, 2001.
2.4	Stock Purchase Agreement between VAALCO Energy, Inc., as Seller and PanAfrican Energy Corporation Ltd., as Purchaser, dated January 15, 2001.
2.5	Share Sale and Purchase Agreement By and Between VAALCO Gabon (Etame), Inc., and Sasol Petroleum International (Pty) Ltd. dated February 5, 2001.
3.	Articles of Incorporation and Bylaws
3.1(b)	Restated Certificate of Incorporation
3.2(b)	Certificate of Amendment to Restated Certificate of Incorporation
3.3(b)	Bylaws
3.4(b)	Amendment to Bylaws
3.5(c)	Designation of Convertible Preferred Stock, Series A
10.	Material Contracts
10.1(d)	Service Contract No. 6, dated September 1, 1973, among the Petroleum Board of the Republic of the Philippines and Mosbacher Philippines Corporation, et al, as amended.

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

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

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

10.5(d) Memorandum of Understanding, dated April 2, 1979, among the Bureau of Energy Development of the Republic of the Philippines and Philippines--Cities Service, Inc., et al.

10.6(d) Indemnity Agreement entered into among the Company and certain of its officers and directors listed therein.

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

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

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

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

10.11(f) Letter of Intent for Etame Block, Offshore Gabon dated January 22, 1998 between the Company and Western Atlas International, Inc.

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

10.13(f) Letter Agreement between the Company and Northstar Interests LLC. dated December 5, 1996.

10.14(g) Registration Rights Agreement, dated July 28, 1997, by and among the Company, Jefferies & Company, Inc. and the investors listed therein.

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

10.16(c) Registration Rights Agreement among the Company and The 1818 Fund II, L.P., dated April 21, 1998

10.17(c) Registration Rights Agreement dated April 21, 1998 by and among the

Company, Jefferies & Company, Inc. and the investors listed therein.

10.18(i) Assignment Agreement between the Company, members of the Service Contract 14 Consortium and SOCDET dated December 29, 1998

10.19 Conveyance of Production Payment from Western Atlas Afrique, Ltd. to Western Atlas International, Inc. dated December 29, 2000.

21.1 Subsidiaries of the Registrant

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

37

(e) Filed as an exhibit to the Company's Form 10-QSB for the quarterly period ended September 30, 1995, and hereby incorporated by reference herein.

(f) Filed as an exhibit to the Company's Form 10-KSB for the annual period ended December 31, 1996, and hereby incorporated by reference herein.

(g) Filed as an exhibit to the Company's Form 10-QSB for the quarterly period ended June 30, 1997, and hereby incorporated by reference herein.

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

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

(b) Reports on Form 8-K.

None

38

SIGNATURES

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

VAALCO ENERGY, INC.
(Registrant)

/s/ W. Russell Scheirman
By ________________________________
W. Russell Scheirman,
President, Chief Financial Officer

and Director

Dated March 30, 2001

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

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