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VAALCO ENERGY INC /DE/  
Form 10KSB  
March 31, 2003

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

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FORM 10-KSB

(Mark One)

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

For the fiscal year ended December 31, 2002

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  
(State or other jurisdiction of incorporation or organization) 76-0274813  
(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 on which registered \_\_\_\_\_ Name of each exchange \_\_\_\_\_

None

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

Common Stock, \$.10 par value  
(Title of class)

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

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[ ] .

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, 2002 were \$9,991,992.15.

The aggregate market value of the voting and non-voting common equity of the registrant held by non-affiliates, as of March 26, 2002 was \$13,595,868.

As of March 26, 2003, there were outstanding 21,216,649 shares of Common Stock, \$.10 par value per share, of the registrant. In addition, as of such date there were outstanding 10,000 shares of Preferred Stock convertible into 27,500,000 shares of Common Stock.

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].

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VAALCO ENERGY, INC.

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PART I

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### 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.

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

In connection with a merger with 1818 Oil Corp. in 1998, the Company issued to the 1818 Fund II, L.L.P. (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. (See "Risk Factors--Control by 1818 Fund").

#### Recent Developments

On September 8, 2002 the Company, as Operator of the Etame Field offshore Gabon, commenced production from the field at an average rate of approximately 14,500 BOPD. The Company sold a total of 1.46 million gross barrels (302 thousand net barrels) during the fourth quarter of 2002. Production continues at rates between 14,500 and 15,000 barrels per day as of the date of this filing.

The budget for the field development was \$57.3 million dollars (\$17.4 million net to the Company) to complete and gravel pack three existing wells with subsea wellheads, and to lay flowlines to connect the wells to a 1.1 million barrel floating production storage and offloading tanker ("FPSO"). Major contracts for the FPSO, wellheads, flowlines, and the drilling rig were awarded and entered into to perform the project. A semi-submersible drilling rig completed the three wells. A flowline installation vessel installed six flowlines (two for each well) and three control umbilicals from the wells to the location where the FPSO was moored. The FPSO had completed retrofitting in Singapore and arrived on location on August 29, 2002 and was moored and ready to receive the flowlines on September 3, 2002. Flowline hookup was completed on September 7, 2002 and production commenced the next day.

To fund its share of the development costs, on April 19, 2002, the Company entered into a \$10.0 million credit facility with the International Finance Corporation ("IFC"), a subsidiary of the World Bank. The credit facility required that the Company provide \$10.0 million of cash collateral to secure borrowings under the facility until the "project completion date." The project completion date is generally defined as the date after which the field has produced at an average rate of 14,250 BOPD and the estimated net proved reserves attributable to the field is at least 16.5 million barrels of oil. The

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Company expects that the project completion date will occur on March 31, 2003, at which time the \$10.0 million held as cash collateral will be returned to the Company. The Company borrowed the \$10.0 million that it used as cash collateral from the 1818 Fund, which owns a majority of the Company's common stock on a fully diluted basis.

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In connection with the loan, the Company issued warrants to purchase 15.0 million shares of its common stock to the 1818 Fund (7.5 million of which will terminate if the loan is repaid on or before March 31, 2003). The loan agreement was subsequently amended to add an additional lender not related to the Company, and to increase the amount the Company was entitled to borrow under the facility to \$13.0 million. After the other lender was added, the Company had borrowed \$10.0 million under the loan, \$7.0 million funded by the 1818 Fund and \$3.0 million by the other lender. The Company issued the other lender warrants to purchase 4.5 million shares of common stock on the same terms as the warrants issued to the 1818 Fund (2.25 million of which will terminate if the loan is repaid on or before March 31, 2003). If the Company does not draw down any further funds under the facility, the 1818 Fund will be required to return an additional 2.25 million warrants at the time the facility is paid off. The Company does not intend to draw any further amounts under the facility.

In addition, the Company sold 9.9% of the common stock of the Company's subsidiary that owns the Etame project to the lender for \$3.3 million, which the Company used to finance a portion of the development costs of the field. The Company will use the \$10 million cash collateral released from escrow for the IFC loan to repay the loan from the 1818 Fund. A more detailed description of the IFC credit facility, the loan from the 1818 Fund and the sale of stock of our Etame subsidiary is set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations--Capital Resources and Liquidity."

### 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

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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.

### 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. In Gabon, the Company sells crude oil under a contract with Shell Western Supply and Trading, Limited. In the Philippines, for the year ended December 31, 2002, two purchasers of the Company's crude oil accounted for essentially all of the Company's total crude oil sales. The Company marketed its crude oil share in the Philippines under an agreement with SeaOil Corporation, a local Philippines refiner ("SeaOil") and Caltex. Subsequently, the Company elected to no longer sell to SeaOil and now sells exclusively to Caltex. While the loss of these buyers might have a material effect on the Company

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in the near term, management believes that the Company would be able to obtain other customers for its crude oil. Domestic production is sold under two contracts, one for oil and one for gas. The Company has access to several alternative buyers for oil and gas sales domestically.

### Employees

As of December 31, 2002, the Company had 29 full-time employees, five of who were located in Gabon and 17 of whom were located in the Philippines. The Company also utilizes contractors to staff its international operations. 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 in the United States and also are subject to the laws and regulations of the Philippines and Gabon. Although no assurances can be made, the Company believes that, absent the occurrence of an extraordinary event, compliance with existing 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 future regulation or legislation, enforcement policies, 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 currently owns or leases, and in the past owned or leased, properties that have been used for the exploration and production of oil and gas for many years. Although the Company has utilized operating and disposal practices that were standard in the industry at the time, hydrocarbons or other solid wastes may have been disposed or released on or under the properties owned or leased by the Company or on or under locations where such wastes have been taken for disposal. In addition, some of these properties are or have been operated by third parties. The Company has 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 new laws, the Company

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could be required to remediate property, including groundwater, containing or impacted by 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 or mitigate existing contamination.

The Company generates wastes, including hazardous wastes that are subject to the federal Resource Conservation and Recovery Act ("RCRA") and comparable state statutes. The Environmental Protection Agency ("EPA") and various state agencies have limited the disposal options for certain wastes, including wastes designated as hazardous under RCRA and state analogs ("Hazardous Wastes"). Furthermore, it is possible that certain wastes generated by the Company's oil and gas operations that are currently exempt from treatment as Hazardous Wastes may in the future be designated as Hazardous Wastes under RCRA or other applicable statutes and, therefore, may be subject to more rigorous and costly disposal requirements.

#### Superfund

The federal Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), also known as the "Superfund" law, generally imposes joint and several liability for costs of investigation and remediation and for natural resource damages, without regard to fault or the legality of the original conduct, on certain classes of persons with respect to the release into the environment of substances designated under CERCLA as hazardous substances ("Hazardous Substances"). These classes of persons, or so-called potentially responsible parties ("PRPs"), include the current and certain past owners and operators of a facility where there has been a release or threat of release of

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a Hazardous Substance and persons who disposed of or arranged for the disposal of Hazardous Substances found at a site. CERCLA also authorizes the EPA 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 PRPs the costs of such action. Although CERCLA generally exempts "petroleum" from the definition of Hazardous Substance, in the course of its operations, the Company has generated and will generate wastes that may fall within CERCLA's definition of Hazardous Substance. The Company may also be the owner or operator of sites on which Hazardous Substances have been released. To its knowledge, neither the Company nor its predecessors have been designated as a PRP by the EPA under CERCLA; the Company also does not know of any prior owners or operators of its properties that are named as PRPs related to their ownership or operation of such properties.

### Clean Water Act

The Clean Water Act ("CWA") imposes restrictions and strict controls regarding the discharge of wastes, including produced waters and other oil and natural gas wastes, into waters of the United States, a term broadly defined. These controls have become more stringent over the years, and it is probable that additional restrictions will be imposed in the future. Permits must be obtained to discharge pollutants into federal waters. The CWA provides for civil, criminal and administrative penalties for unauthorized discharges of oil and hazardous substances and of other pollutants. It imposes substantial potential liability for the costs of removal or remediation associated with discharges of oil or hazardous substances and other pollutants. State laws governing discharges to water also provide varying civil, criminal and administrative penalties and impose liabilities in the case of a discharge of petroleum or its derivatives, or other hazardous substances, into state waters. In addition, the EPA has promulgated regulations that may require us to obtain permits to discharge storm water runoff, including discharges associated with construction activities. In the event of an unauthorized discharge of wastes, the Company may be liable for penalties and costs.

### Oil Pollution Act

The Oil Pollution Act of 1990 ("OPA"), which amends and augments oil spill provisions of CWA, imposes certain duties and liabilities on certain "responsible parties" related to the prevention of oil spills and damages resulting from such spills in or threatening United States waters or adjoining shorelines. A liable "responsible

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party" includes the owner or operator of a facility, vessel or pipeline that is a source of an oil discharge or that poses the substantial threat of discharge, or the lessee or permittee of the area in which a discharging facility is located. OPA assigns joint and several liability, without regard to fault, to each liable party for oil removal costs and a variety of public and private damages. Although defenses exist to the liability imposed by OPA, they are limited. In the event of an oil discharge or substantial threat of discharge, the Company may be liable for costs and damages.

The OPA also imposes ongoing requirements on a responsible party, including proof of financial responsibility to cover at least some costs in a potential spill. Certain amendments to the OPA that were enacted in 1996 require owners and operators of offshore facilities that have a worst case oil spill potential of more than 1,000 barrels to demonstrate financial responsibility in amounts ranging from \$10 million in specified state waters and \$35 million in federal outer continental shelf ("OCS") waters, with higher amounts, up to \$150 million

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based upon worst case oil-spill discharge volume calculations. The Company believes that it has established adequate proof of financial responsibility for its offshore facilities.

### Air Emissions

The Company's operations are subject to local, state and federal regulations for the control of emissions from sources of air pollution. Federal and state laws require new and modified sources of air pollutants to obtain permits prior to commencing construction. Major sources of air pollutants are subject to more stringent, federally imposed requirements including additional permits. Federal and state laws designed to control hazardous (toxic) air pollutants, might require installation of additional controls. Administrative enforcement actions for failure to comply strictly with air pollution regulations or permits are generally resolved by payment of monetary fines and correction of any identified deficiencies. Alternatively, regulatory agencies could bring lawsuits for civil penalties or require the Company to forego construction, modification or operation of certain air emission sources.

### Coastal Coordination

There are various federal and state programs that regulate the conservation and development of coastal resources. The federal Coastal Zone Management Act ("CZMA") was passed in 1972 to preserve and, where possible, restore the natural resources of the Nation's coastal zone. The CZMA provides for federal grants for state management programs that regulate land use, water use and coastal development.

In Texas, the Legislature enacted the Coastal Coordination Act ("CCA"), which provides for the coordination among local and state authorities to protect coastal resources through regulating land use, water, and coastal development. The act establishes the Texas Coastal Management Program ("CMP"). The CMP is limited to the nineteen counties that border the Gulf of Mexico and its tidal bays. The act provides for the review of state and federal agency rules and agency actions for consistency with the goals and policies of the Coastal Management Plan. This review may impact agency permitting and review activities and add an additional layer of review to certain activities undertaken by the Company.

### OSHA and other Regulations

The Company is subject to the requirements of the federal Occupational Safety and Health Act ("OSHA") and comparable state statutes. The OSHA hazard communication standard, the EPA community right-to-know regulations under Title III of CERCLA and similar state statutes require the Company to organize and/or disclose information about hazardous materials used or produced in its operations. The Company believes that it is in substantial compliance with these applicable requirements.

### 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 present



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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.

### 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 prepared an Environmental Impact Assessment for its development of the Etame field, and filed the report with the Government of Gabon and the IFC.

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, including natural resource damages. In addition, the Company could be liable for environmental damages caused by, among others, previous property owners or operators. 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.

Substantial portions of the Company's producing properties are located offshore. The costs to abandon offshore wells may be substantial. For financial accounting purposes the Company will adopt Statement of Financial Accounting Standards 143--Accounting for Asset Retirement Obligations on January 1, 2003. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred by capitalizing it as part of the carrying amount of the long-lived assets. No assurances can be given that such reserves will be sufficient to cover such costs in the future as they are incurred.

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.

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### 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

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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

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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, debt, asset sales, and private sales of equity. During 2003, the Company will participate in the further exploration and development of the Etame Block offshore Gabon. The Company is the Operator for the Block and thus responsible for contracting on behalf of all the remaining parties participating in the project. The Company relies on the timely payment of cash calls by its partners to pay for the 69.65% share of the budget for which the partners are responsible. (See "Drilling Risks, Operating Hazards and Uninsured Risks").

The Company has entered into a line of credit for its subsidiary VAALCO Gabon (Etame), Inc. in the amount of \$10.0 million with the IFC to partially fund its share of the development project, which loan agreement was signed on April 19, 2002. The first draw of \$7.0 million was made in early July 2002, and the balance of the loan was funded in early October 2002. Prior to project completion, the IFC loan is guaranteed by the Company and cash collateralized with \$10.0 million in cash proceeds from a loan from the 1818 Fund.

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Project completion requires gross project production of 14,250 BOPD and gross proved reserves of 16.5 million barrels and compliance with financial covenants and other conditions, which may not be achieved. The IFC requires project completion to occur prior to March 31, 2003.

During the third quarter of 2002, the 1818 Fund loan was amended and raised from \$10 million to \$13 million in the form subordinated note secured by a second lien on certain collateral with respect to the Company's investment in VAALCO Gabon (Etame), Inc. including the \$10 million cash collateral to support the Company's guarantee of the IFC loan. The interest rate on the loan is 10%. The \$3.0 million increase in the loan was part of \$6.0 million in additional financing obtained by the Company from an investor to help pay for its share of the development project and other planned exploration activities on the Etame Block. The Company established a new subsidiary VAALCO International, Inc., which owns VAALCO Gabon (Etame), Inc., the subsidiary that owns the interest in the Gabon Production Sharing Contract. An investor agreed to provide \$3.0 million of equity net of transaction costs and the \$3.0 million additional loan mentioned above in return for a 9.99% stake in VAALCO International, Inc. VAALCO Energy, Inc will own the remaining 90.01% of the stock of VAALCO International, Inc.

### 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

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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, results of operations and cash flows. 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 included

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herein 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

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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 2002 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.

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The majority of the Company's proven reserves are located offshore of the Republic of Gabon. The Company has recently developed the Etame Block offshore Gabon at a cost of \$17.4 million net to the Company. The Company has operated in Gabon since 1995 and believes it has good relations with the current Gabonese government. However, there can be no assurance that present or future administrations or governmental regulations in Gabon will not materially adversely affect the operations or cash flows of the Company.

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

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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 a merger with 1818 Oil Corp. in 1998, 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, (i) 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); (ii) the declaration of any dividend; (iii) the incurrence, assumption of or refinancing of indebtedness; (iv) the adoption of any employee stock option or similar plan; (v) entering into employment or consulting agreements with annual compensation exceeding \$100,000; (vi) any merger or consolidation; (vii) the sale, conveyance, exchange or transfer of the voting stock or all or substantially all of the assets; (viii) the sale or other disposition to another person, or purchase, lease or other acquisition from another person, of any material assets, rights or properties; (ix) certain expenditures in excess of \$300,000; (x) the formation of any entity that is not wholly-owned by the Company; (xi) material changes in accounting methods or policies; (xii) any amendment, modification or restatement of the certificate of incorporation or bylaws; (xiii) the settlement of any claim or other action against the Company or subsidiary in an amount in excess of \$50,000; (xiv) approval or amendment of the annual operating budget; (xv) 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.

### 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 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.

#### 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. In July 2001, the Company negotiated a five-year extension of the Etame Block on behalf of the consortium, consisting of a three-year initial term and a two-year follow on term. The consortium committed to drill two additional exploration wells during the initial three-year term. The consortium paid a \$1.0 million signing bonus (\$0.3 million net to the Company) associated with the five-year extension. At December 31, 2002, VAALCO owned a 30.35% interest in the production-sharing contract covering the Etame Block, and 28.1% of the exploitation area surrounding the Etame Field development. The exploitation area was subject to a 7.5% back-in by the Government of Gabon, which occurred upon field startup.

##### 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 20 miles offshore in approximately 250 feet of water depth. 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 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, later in 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.

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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.

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In January 2001, the Company acquired the 65% working interest in the Etame Block owned by Western Atlas. 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 to two companies for \$1.0 million and their proportionate assumption of the future net profits interest. The Company now holds a 30.35% interest in the Etame Block, and has a remaining net profits obligation to Western Atlas of \$1.9 million.

Based on the seismic reprocessing, the third exploration commitment well, the Etame 3V well was drilled to further delineate the Etame discovery in February 2001. The well found pay updip in the Gamba sandstone approximately 1.2 kilometers (0.75 miles) away from the Etame 1 well. In addition, pay was found in the Dentale sandstones below the Gamba sandstone. A total of 34 meters (110 feet) of gross pay interval was encountered in the Etame 3V well.

In June 2001, drilling of the Etame 4V delineation well was completed. The well was drilled approximately 2.4 kilometers (1.5 miles) from the Etame 1 discovery well and logged 32 meters (105 feet) of oil column with net pay of approximately 24 meters (80 feet). The well was conventionally cored and recovered 17 meters (57 feet) of oil-saturated sandstone in the Gamba and Dentale formations. The Gamba sandstone, the primary target reservoir, was approximately 14 meters (45 feet) thick in the well and was full of oil throughout the entire interval. This represents approximately 30% greater sand thickness than seen in the previous wells within the Gamba formation.

As a result of the two successful delineation wells drilled in 2001, the Etame consortium approved a budget to develop the field. An application for commerciality was filed with the Government in Gabon, and in November 2001, the consortium was awarded a 50 square kilometer Exploitation Area surrounding the field. The Exploitation Area has a term of up to 20 years to permit the field to be developed and produced.

Initial development consisted of completing three subsea wells connected to an FPSO at a cost of approximately \$57.3 million (\$17.4 million net to the Company inclusive of \$1.5 million for the Company share of the Gabon Government carried 7.5% interest). On September 8, 2002, the Etame Field commenced production at an average rate of approximately 14,500 BOPD. The Company sold a total of 1.46 million gross barrels (302,000 net barrels) during the fourth quarter of 2002. Production continues at rates between 14,500 and 15,000 barrels per day as of the date of this filing.

To fund its share of the development project, the Company has negotiated a line of credit of \$10.0 million through the IFC. (See "Background--Recent Developments" for a discussion of the line of credit.

Philippines



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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 2002 of approximately 257,000 barrels or 703 BOPD.

### Nido Field

The Nido field is covered by Service Contract No. 14 and has four producing wells. 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 2002, the four wells in the field produced at an equivalent rate of 404 BOPD compared to 410 BOPD in 2001. The Company has an approximate 22.1% working interest and an approximate 17.4% net revenue interest in the field.

### Matinloc Field

The Matinloc 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

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through 1991. Production was suspended from the field in 1991 until it was reactivated in 1995. During 2002, the field produced approximately 109 MBbls or 299 BOPD. The Company has an approximate 38.1% working interest and an approximate 26.8% net revenue interest in the field.

### Galoc Field

The Galoc 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. During 2002, the Company and its partners granted an exclusive development study option to a large oil company, who will have until August 2003 to determine if they wish to pursue the development of the field. If the study results in the decision to proceed with the development, the Company will be carried through the development phase of the field, and retain net profits interest and a back-in after payout of 25% of its original interest.

### Domestic Properties

#### Brazos County Prospects

The Company has interest in five producing wells in Brazos County, producing from the Buda/Georgetown formations. During 2002 the wells produced approximately 12,000 barrels of oil and 73 million cubic feet of gas net to the Company.

#### Frio County Texas

The Company owns a 10% working interest in 1395 acres in Frio County. A well was completed on the acreage in January, 2002 and tested approximately 84 BOPD and 514 MCFD.

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### 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, 2002. No capital expenditures are anticipated in 2003 for these properties.

The Company elected to terminate its joint venture with Paramount Petroleum, Inc., effective June 1, 2001. The joint venture focused on domestic onshore prospects in Mississippi, Alabama and Louisiana. In connection with the wind up of the joint venture, the Company received \$206,000 in cash, and \$259,000 of undeveloped acreage representing its proportionate 93.75% working interest in kind in all remaining prospects within the joint venture. The Company has an interest in production from two small gas discoveries drilled by the joint venture. If not drilled, the undeveloped acreage expires in 2003.

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### Aggregate Production

Aggregate production data (net to the Company) for all of the Company's operations for the years 2002 and 2001 are shown below. The production figures exclude the amounts paid to the Gabon government as profit oil tax:

#### Company Owned Production

|   | Year Ended December 31, |         |        |         |         |        |
|---|-------------------------|---------|--------|---------|---------|--------|
|   | 2002                    |         |        | 2001    |         |        |
|   | BOE(1)                  | Bbl     | Mcf    | BOE(1)  | Bbl     | Mcf    |
| Average Daily Production (Oil in BOPD, gas in MCFD) | 1,055                   | 1,016   | 237    | 285     | 246     | 235    |
| Average Sales Price (\$/unit) (2).....              | \$22.57                 | \$22.65 | \$3.42 | \$15.85 | \$14.71 | \$3.84 |
| Average Production Cost (\$/unit).....              | \$ 7.20                 | \$ 7.20 | \$1.20 | \$ 6.43 | \$ 6.43 | \$1.07 |

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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 from production from the Philippines properties are based on a formula where transportation costs are netted from the sales price.

### Reserve Information

A reserve report as of December 31, 2002 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. For 2002, the reserves are located in Gabon, the Philippines and Texas. In 2001, the reserves were located in the Philippines and Texas. The reserve data are net of the profit oil tax barrels paid to the Government of Gabon.

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|   | As of December |          |
|---|----------------|----------|
|   | 2002           | 2001     |
|   | -----          | -----    |
| Crude Oil   |                |          |
| Proved Developed Reserves (MBbls).....  | 3,467          |          |
| Proved Undeveloped Reserves (MBbls).....  | 1,986          | 6,000    |
|   | -----          | -----    |
| Total Proved Reserves (MBbls).....  | 5,453          | 6,000    |
|   | =====          | =====    |
| Natural Gas   |                |          |
| Proved Developed Reserves (MMcf).....   | 77             |          |
| Proved Undeveloped Reserves (MMcf).....   | --             |          |
|   | -----          | -----    |
| Total Proved Reserves (MMcf).....   | 77             |          |
|   | -----          | -----    |
| Standardized measure of discounted future net cash flows at 10% (in thousands). | \$66,427       | \$23,000 |
|   | =====          | =====    |

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

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

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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, 2002 was \$13.86 per Bbl and \$12.99 per Bbl of oil for Matinloc and the Nido fields respectively. In Gabon, the price was \$29.49 per barrel representing a \$0.62 discount to the spot price of Dated Brent Crude at December 31, 2002. See Financial Statements and Supplementary Data for certain additional information

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concerning the proved reserves of the Company.

### Drilling History

The Company drilled or participated in the drilling of no exploration wells for the period ended December 31, 2002. Three suspended wells were completed as producers in Gabon and on suspended well was completed in the United States.

| Wells Drilled<br>----- | United States |      |      |       | International |       |      |       |
|------------------------|---------------|------|------|-------|---------------|-------|------|-------|
|                        | Gross         |      | Net  |       | Gross         |       | Net  |       |
|                        | 2002          | 2001 | 2002 | 2001  | 2002          | 2001  | 2002 | 2001  |
| Exploration Wells      |               |      |      |       |               |       |      |       |
| Productive.....        | 0.0           | 3.0  | 0.0  | 0.70  | 0.0           | 2.00  | 0.0  | 0.61  |
| Dry.....               | 0.0           | 0.0  | 0.0  | 0.00  | 0.0           | 0.00  | 0.0  | 0.00  |
| Total Wells.....       | 0.0           | 3.0  | 0.0  | 0.70  | 0.0           | 2.00  | 0.0  | 0.61  |
|                        | ===           | ===  | ===  | ===== | ===           | ===== | ===  | ===== |

### 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, 2002:

|                      | United States  |         | International |         |
|----------------------|----------------|---------|---------------|---------|
|                      | Gross          | Net (1) | Gross         | Net (1) |
|                      | (In thousands) |         |               |         |
| Developed acreage... | 13.9           | 1.4     | 26.9          | 8.1     |
| Undeveloped acreage. | 6.2            | 5.8     | 1,028.9       | 325.0   |
| Productive gas wells | 2              | 0.4     | --            | --      |
| Productive oil wells | 11             | 1.8     | 10            | 3.0     |

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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), in Port Gentil, Gabon (approximately 6,000 square feet) and in Manila, The Republic of the Philippines (approximately 4,000 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.

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

None.

## PART II

### Item 5. Market for Common Equity and Related Stockholder Matters

#### General

The Company's Common Stock trades on the OTC Bulletin Board. The following table sets forth the range of high and low sales prices of the Common Stock for the periods indicated. The prices represent adjusted prices between dealers, do not include retail markups, markdowns or commissions and do not necessarily represent actual transactions. As of December 31, 2002 there were approximately 100 holders of record of the Company's Common Stock.

| Period                                  | High   | Low    |
|---|--------|--------|
| -----                                   | -----  | -----  |
| 2001:                                   |        |        |
| First Quarter.....                      | \$0.68 | \$0.28 |
| Second Quarter.....                     | 1.10   | 0.40   |
| Third Quarter.....                      | 1.06   | 0.80   |
| Fourth Quarter.....                     | 0.93   | 0.37   |
| 2002:                                   |        |        |
| First Quarter.....                      | \$0.55 | \$0.40 |
| Second Quarter.....                     | 1.19   | 0.43   |
| Third Quarter.....                      | 1.20   | 0.87   |
| Fourth Quarter.....                     | 1.48   | 1.10   |
| 2003:                                   |        |        |
| First Quarter (through March 26, 2003). | \$1.45 | \$1.13 |

On March 26, 2003 the last reported sale price of the Common Stock on the OTC Bulletin Board was \$1.17 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 does not presently engage in any hedging activities and has no plans to do so in the near future.

The Company participated in the development of the Etame Field, which the Company operates on behalf of a consortium of five companies offshore of the Republic of Gabon. Total cost of the development was

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approximately \$57.3 million (\$17.4 million net to the Company inclusive of \$1.5 million of the Company share of the Gabon Government carried 7.5% interest) to execute the development project. Substantially all of the Company's capital resources and personnel were dedicated to the completion of the development project in 2002.

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

The Company's results of operations are also affected by currency exchange rates. While oil sales are denominated in U.S. dollars, operating costs in the Philippines and a portion of operating costs in Gabon are denominated in local currencies. An increase in the exchange rate of the local currencies 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 Gabon and the Philippines. In Gabon, the Company produces into a 1.1 million barrel tanker and sells cargos to vessels of opportunity at spot market prices. In the Philippines, the Company produces into 10,000 to 15,000 barrel barges, which transport the oil to market. In the Philippines, due to weather and other factors, the Company's production is generally highest during the first and fourth quarters of the year. Weather is not normally a factor affecting Gabon oil sales.

### Critical Accounting Policies

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

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

Costs of successful wells, development dry holes and leases containing productive reserves are capitalized and amortized on a unit-of-production basis over the life of the related reserves. For financial accounting purposes the Company will adopt SFAS 143--Accounting for Asset Retirement Obligations on January 1, 2003. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred by capitalizing it as part of the carrying amount of the long-lived assets. Other exploration costs, including geological and geophysical expenses applicable to undeveloped leasehold, leasehold expiration costs and delay rentals are expensed as incurred.

In accordance with accounting under successful efforts, the Company reviews proved oil and gas properties for indications of impairment whenever events or

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circumstances indicate that the carrying value of its oil and gas properties may not be recoverable. When it is determined that an oil and gas property's estimated future net cash flows will not be sufficient to recover its carrying amount, an impairment charge must be recorded to reduce the carrying amount of the asset to its estimated fair value. This may occur if a field discovers lower than anticipated reserves or if commodity prices fall below a level that significantly affects anticipated future cash flows on the field. The Company determines if an impairment has occurred through either identification of adverse changes or as a result of the annual review of all fields. For the year ended December 31, 2001, an impairment of \$567,145 was recognized.

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Undeveloped acreage and Work in Progress. At December 31, 2002, the Company had undeveloped acreage on its balance sheet totaling \$515,000, representing costs that are not being amortized pending evaluation of the respective leasehold for future development. The Company also had \$2,274,000 of work in progress in the primarily in the form a suspended well and seismic costs in Gabon. Unproved properties are assessed quarterly for impairment in value, with any impairment charged to expense.

Recent Accounting Pronouncements. On July 20, 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." The Statements changed the accounting for business combinations and goodwill in two significant ways. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method is prohibited. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Thus, amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of that new accounting standard, which for the Company was January 1, 2002. There was no effect on the Company's books due to the adoption of SFAS No. 141 and 142.

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

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement establishes a single accounting model for the impairment or disposal of long-lived assets. As required by SFAS No. 144, the Company adopted this new standard on January 1, 2002. Adoption of this new standard had no effect on the Company's books.

### 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. During 2003, the Company anticipates participating in additional exploration opportunities on the Etame Block, which will be funded by cash flow from operations. Total capital expenditures for 2003 are budgeted to be \$2.0 million net to the Company.

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In April 2002, the Company and its subsidiary that owns the Etame field entered into a \$10.0 million credit facility with the IFC to partially finance its share of the development costs of the Etame field. The Company's subsidiary made an initial borrowing of \$7.0 million in July 2002, and borrowed the balance of the loan in October 2002. Until the project completion date, the Company must guarantee the IFC loan and must collateralize the loan with \$10.0 million of cash deposited in escrow. Project completion occurs when gross production from the project is 14,250 BOPD for 90 days, estimated net proved reserves attributable to the field is 16.5 million barrels of oil and additional financial and other covenants are satisfied.

In order to fund the \$10.0 million cash deposit under the IFC loan, the Company borrowed \$10.0 million from the 1818 Fund. During the third quarter of 2002, the 1818 Fund loan was amended to add another lender not affiliated with the Company. In addition, the amount available to be borrowed under the facility was increased from \$10.0 million to \$13.0 million, but the Company did not borrow the additional amount. After the amendment, the Company owed \$7.0 million to the 1818 Fund and \$3.0 million to the new lender. The interest rate on the 1818 Fund loan is 10%. Events of Default under the 1818 Fund loan include: (i) the Company's long-term debt to equity ratio being in excess of 70:30, (ii) an actual or potential default under the IFC loan, and (iii) other customary default events of default. The Company expects the project completion date to occur on

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March 31, 2003 at which time the loan from the 1818 Fund and the investor will be paid back with the proceeds of amounts released as security for the IFC Loan.

In connection with the amendment to the loan agreement to admit the new lender, the Company sold to the lender 9.9% of the capital stock of the Company's subsidiary which owns the Etame field for \$3.3 million. The Company continues to own the remaining 90.1% of the capital stock of its Etame subsidiary. The Company used the proceeds of the sale of the stock of its subsidiary to fund a portion of the development costs of the Etame field.

The Company issued warrants to purchase 15.0 million shares of its common stock to the 1818 Fund and warrants to purchase 4.5 million shares to the other lender under the 1818 Fund loan as additional consideration for entering into the loan agreement. Seven and one-half million of the warrants issued to the 1818 Fund and 2.25 million of the warrants issued to the other lender will be cancelled if the project completion date occurs before March 31, 2003, which is anticipated. Additionally the 1818 Fund will be required to return 2.25 million of the warrants if the Company does not draw down any further on the line of credit prior to its repayment, which the Company does not intend to do. The Company is required to issue additional warrants to the 1818 Fund if the loan is not repaid before June 2004. Each warrant entitles the holder to purchase one share of Company common stock for \$0.50 per share.

Following the project completion date, events of default under the IFC loan include (i) if any governmental authority seizes, nationalizes or otherwise appropriates any substantial portion of the assets or capital stock of VAALCO's Etame subsidiary, including actions by foreign governments, such as Gabon (ii) VAALCO's Etame subsidiary. is no longer the operator of the Etame Field and the new operator is not acceptable to IFC; (iii) VAALCO's Etame subsidiary's right to participate in the Etame Field is revoked, (iv) the occurrence of a change of control of the Company or its Etame subsidiary, (v) the operation of the Etame field project is interrupted for more than 180 consecutive days; or (vi) other customary defaults.



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On September 8, 2002, the company commenced production from the Etame field offshore Gabon. During 2002 total field production was 1.46 million barrels (302,000 barrels net to the Company). The Company also produces oil from the Matinloc and Nido fields in the South China Sea, the Philippines. During the year ended December 31, 2002, total production from the fields was approximately 257,000 gross barrels (54,000 barrels net) 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. In Gabon, the Company markets its crude oil under an agreement with Shell Western Trading and Supply, Limited. The Company markets its share of Philippines crude oil under an agreement with Caltex, a local Philippines refiner. 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.

Domestically, the Company produces from wells in Brazos County, Texas. During 2002, the Company had net production of 13,000 barrels of oil and 80 million cubic feet of gas. Domestic production is sold under two contracts, one for oil and one for gas. The Company has access to several alternative buyers for oil and gas sales domestically.

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### Results of Operations

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Amounts stated hereunder have been rounded to the nearest \$100,000.

#### Cash Flows

Net cash provided by operating activities for 2002 was \$0.8 million, as compared to net cash provided by operating activities of \$3.0 million in 2001. Net funds provided by operations in 2002 included accounts with partners of \$4.0 million primarily in Gabon. It also included \$1.5 million of development and operating costs advanced on behalf of the Government of Gabon for their 7.5% carried working interest share of the Etame field. This amount is carried as an Other Receivable. Offsetting these cash uses was an increase of \$5.1 million in trade accounts payable net of trade accounts receivable. Net cash provided by operations in 2001 included \$0.7 million from funds in escrow and \$2.3 million in advances from partners in the Philippines and Gabon.

Net cash used in investing activities for 2002 was \$15.9 million, as compared to net cash used in investing activities of \$5.6 million in 2001. In 2002, the Company invested \$15.6 million to fund its share of the development of the Etame Block. In 2001, the Company participated in two exploration wells in Gabon at a cost of approximately \$3.2 million and expended an additional \$0.7 million for the development of the Etame Block in 2001. The Company also participated in four wells in Texas at a cost of approximately \$1.2 million in 2001. Exploration expenses of \$0.3 million were incurred in 2002 versus \$0.4 million in 2001.

Net cash provided by financing activities was \$13.0 million consisting of borrowings of \$18.4 million from the IFC and the 1818 Fund and \$4.6 million of capital contributions from the 1818 Fund and the investor for warrants and stock of VAALCO's subsidiary VAALCO International, Inc. This was offset by \$10.0 million placed in escrow to guarantee the IFC loan. No net cash was provided by or used in financing activities for 2001.

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### Revenues

Total oil and gas sales for 2002 was \$10.0 million as compared to \$1.7 million for 2001. During 2002, the Etame field was placed on production, and the Company sold approximately 302,000 net barrels of oil, generating \$8.9 million in revenues. The balance of the revenues was from Texas and the Philippines. The 2001 revenues were about equally split between Texas and the Philippines. The Company realized a \$0.2 million gain on the resale of a portion of the Etame interest in 2001.

### Operating Costs and Expenses

Production expenses for 2002 were \$2.8 million as compared to \$0.7 million for 2001. In 2002, \$2.3 million of production expenses occurred in Gabon associated with the Etame field production.

Exploration costs for 2002 were \$0.3 million as compared to \$0.4 million for 2001. 2002 exploration costs were primarily costs of seismic reprocessing in Gabon. 2001 exploration expenses were primarily associated with undeveloped acreage expirations.

Depreciation, depletion and amortization of properties for 2002 and 2001 were \$2.1 million and \$1.2 million respectively. Depletion in 2002 included \$1.8 million associated with Etame production. The balance was associated with the Texas wells. Depletion in 2001 was associated with the Texas wells and included an impairment of \$0.6 million.

General and administrative expenses for 2002 were \$2.0 million as compared to \$1.8 million for 2001. Increased activity associated with the Etame field development was the primary reason for the increase in 2002.

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### Operating Income (Loss)

Operating income for 2002 was \$2.9 million as compared to a \$2.2 million operating loss for 2001. The commencement of production operations from the Etame Field in 2002 was responsible for the 2002 operating income. The Company incurred \$0.6 million of impairments on domestic producing properties in 2001.

### Other Income (Expense)

Interest income for 2002 was \$0.2 million compared to \$0.4 million in 2001. Both the 2002 and 2001 amounts represent interest earned and accrued on cash balances and funds in escrow.

Interest expense of \$0.8 million was recorded in 2002 associated with the financings for the development of the Etame field. No interest expense was recorded in 2001.

Equity loss in unconsolidated entities for 2001 was \$1.0 million associated with the Paramount exploration effort. The Company exited the Paramount joint venture in June 2001.

Other, net was a loss of \$24 thousand in 2002 compared to a loss of \$0.2 million in 2001. The 2001 loss included \$0.2 million of accrued liabilities associated with the Altisima subsidiary as a reserve for potential taxes that may be payable by the subsidiary based on a ruling from the Philippines Bureau of Internal Revenue.

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In 2002 the Company incurred income taxes of \$1.4 million, all but \$11,000 of which was paid to the Government of Gabon under the terms of the Production Sharing Contract for the Etame field. In 2001, the Company incurred income taxes of \$66,000 in the Philippines, \$18,000 of which was deferred.

A provision for minority interest in the Gabon subsidiary was made for \$0.3 million in 2002.

Net Income (Loss)

Net income attributable to common stockholders for 2002 was \$0.4 million as compared to a net loss of \$3.1 million in 2001. The commencement of production in September 2002 from the Etame field was the primary contributor to net income in 2002. The 2001 losses resulted from a combination of operating losses and other losses from the Paramount joint venture.

Item 7. Financial Statements and Supplementary Data

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### 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, 2002 and 2001, 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 these 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, such consolidated financial statements present fairly, in all material respects, the financial position of VAALCO as of December 31, 2002 and 2001, 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 31, 2003

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VAALCO ENERGY, INC. AND SUBSIDIARIES

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CONSOLIDATED BALANCE SHEETS

(in thousands of dollars, except number of shares and par value amounts)

ASSETS

CURRENT ASSETS:

Cash and cash equivalents.....  
Funds in escrow.....  
Receivables:  
    Trade.....  
    Other.....  
Accounts with partners.....  
Materials and supplies, net of allowance for inventory obsolescence of \$5.....  
Prepayments and other.....  
  
    Total current assets.....

PROPERTY AND EQUIPMENT-SUCCESSFUL EFFORTS METHOD

Wells, platforms and other production facilities.....  
Undeveloped acreage.....  
Work in progress.....  
Equipment and other.....  
  
Accumulated depreciation, depletion and amortization.....  
  
    Net property and equipment.....

OTHER ASSETS:

Deferred tax assets.....  
Funds in escrow.....  
Other long-term assets.....  
  
TOTAL.....

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable and accrued liabilities.....  
Accounts with partners.....  
Current portion of long term debt.....  
Income taxes payable.....  
  
    Total current liabilities.....

DEFERRED TAX LIABILITIES.....  
LONG TERM DEBT.....  
FUTURE ABANDONMENT COSTS.....

Total liabilities.....

COMMITMENTS AND CONTINGENCIES (Note 8)

MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES.....

STOCKHOLDERS' EQUITY (Note 5)

Convertible preferred stock, \$25 par value, 500,000 authorized shares; 10,000 shares issued and  
    outstanding in 2002 and 2001, respectively.....  
Common stock, \$.10 par value, 100,000,000 authorized shares; 20,836,350 and 20,749,964 shares

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|   |  |
|---|--|
| issued as of 2002 and 2001, respectively of which 5,395 are in the treasury in 2002 and 2001..... |  |
| Additional paid-in capital.....   |  |
| Subscription Receivable.....  |  |
| Accumulated deficit.....  |  |
| Less treasury stock, at cost.....   |  |
| Total stockholders' equity.....   |  |
| TOTAL.....  |  |

See notes to consolidated financial statements.

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VAALCO ENERGY, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED OPERATIONS

(in thousands of dollars, except per share amounts)

|   | Year Ended<br>December 31, |          |
|---|----------------------------|----------|
|   | 2002                       | 2001     |
|   | -----                      | -----    |
| REVENUES:   |                            |          |
| Oil and gas sales.....                                | \$ 9,980                   | \$ 1,650 |
| Gain on sales of assets.....                          | 12                         | 215      |
|   | -----                      | -----    |
| Total revenues.....                                   | 9,992                      | 1,865    |
|   | -----                      | -----    |
| OPERATING COSTS AND EXPENSES:                         |                            |          |
| Production expense.....                               | 2,778                      | 669      |
| Exploration expense.....                              | 250                        | 434      |
| Depreciation, depletion and amortization.....         | 2,126                      | 1,180    |
| General and administrative expenses.....              | 1,956                      | 1,828    |
|   | -----                      | -----    |
| Total operating costs and expenses.....               | 7,110                      | 4,111    |
|   | -----                      | -----    |
| OPERATING INCOME (LOSS).....                          | 2,882                      | (2,246)  |
| OTHER INCOME (EXPENSE):                               |                            |          |
| Interest income.....                                  | 152                        | 359      |
| Interest expense.....                                 | (828)                      | --       |
| Equity loss in unconsolidated entities.....           | --                         | (973)    |
| Other, net.....                                       | (24)                       | (173)    |
|   | -----                      | -----    |
| Total other expense.....                              | (700)                      | (787)    |
|   | -----                      | -----    |
| INCOME (LOSS) BEFORE TAXES AND MINORITY INTEREST..... | 2,182                      | (3,033)  |
| Income tax expense.....                               | 1,396                      | 66       |
|   | -----                      | -----    |
| INCOME (LOSS) BEFORE MINORITY INTEREST.....           | 786                        | (3,099)  |
|   | -----                      | -----    |
| MINORITY INTEREST IN EARNINGS OF SUBSIDIARIES.....    | 341                        | --       |

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|   |         |           |
|---|---------|-----------|
|   | -----   | -----     |
| NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS | \$ 445  | \$(3,099) |
|   | =====   | =====     |
| BASIC INCOME (LOSS) PER COMMON SHARE.....             | \$ 0.02 | \$(0.15)  |
|   | =====   | =====     |
| DILUTED INCOME (LOSS) PER COMMON SHARE.....           | \$ 0.01 | \$(0.15)  |
|   | =====   | =====     |
| BASIC WEIGHTED AVERAGE COMMON SHARES OUTSTANDING..... | 20,831  | 20,745    |
|   | =====   | =====     |
| DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING... | 42,306  | 20,745    |
|   | =====   | =====     |

See notes to consolidated financial statements.

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VAALCO ENERGY, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(in thousands of dollars, except share data)

|  | Preferred Stock |        | Common Stock |         | Additional         | Subscription | Accumulated |
|--|-----------------|--------|--------------|---------|--------------------|--------------|-------------|
|  | Shares          | Amount | Shares       | Amount  | Paid-in<br>Capital | Receivable   | Deficit     |
|  | -----           | -----  | -----        | -----   | -----              | -----        | -----       |
| Balance at January 1,<br>2001.....                       | 10,000          | \$250  | 20,749,964   | \$2,075 | \$41,215           | \$ --        | \$(30,314)  |
| Net Loss.....  | --              | --     | --           | --      | --                 | --           | (3,099)     |
|  | -----           | -----  | -----        | -----   | -----              | -----        | -----       |
| Balance at December 31,<br>2001.....                     | 10,000          | \$250  | 20,749,964   | \$2,075 | \$41,215           | --           | \$(33,413)  |
|  | -----           | -----  | -----        | -----   | -----              | -----        | -----       |
| Proceeds from<br>stock issuance.....                     | --              | --     | 86,386       | 9       | (4)                | --           | --          |
| Sale of minority<br>interest.....                        | --              | --     | --           | --      | 3,291              | --           | --          |
| Capital contribution<br>and issuance of<br>warrants..... | --              | --     | --           | --      | 1,911              | (569)        | --          |
| Net Income.....  | --              | --     | --           | --      | --                 | --           | 445         |
|  | -----           | -----  | -----        | -----   | -----              | -----        | -----       |
| Balance at December 31,<br>2002.....                     | 10,000          | \$250  | 20,836,350   | \$2,084 | \$46,413           | \$(569)      | \$(32,968)  |
|  | =====           | =====  | =====        | =====   | =====              | =====        | =====       |

See notes to consolidated financial statements.

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

|  | Year Ended<br>December |
|--|------------------------|
|  | 2002                   |
|  | -----                  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                        |
| Net income (loss).....   | \$ 445                 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                        |
| Depreciation, depletion and amortization.....  | 2,126                  |
| Equity loss in unconsolidated entities.....  | --                     |
| Gain on sale of assets.....  | (12)                   |
| Provision for deferred income taxes.....   | (20)                   |
| Exploration expense.....   | 250                    |
| Minority interest in earnings of subsidiary.....   | 341                    |
| Change in assets and liabilities that provided (used) cash:  |                        |
| Funds in escrow.....   | (759)                  |
| Trade receivables.....   | (3,092)                |
| Other receivables.....   | (1,511)                |
| Materials and supplies.....  | (471)                  |
| Prepayments and other.....   | (387)                  |
| Accounts payable and accrued liabilities.....  | 7,883                  |
| Accounts with partners.....  | (3,973)                |
| Income taxes payable.....  | --                     |
|  | -----                  |
| Net cash provided by operating activities.....   | 820                    |
|  | -----                  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                        |
| Exploration expense.....   | (250)                  |
| Investment in unconsolidated entities.....   | --                     |
| Additions to property and equipment.....   | (15,564)               |
| Disposals of property and equipment.....   | 12                     |
| Other--net.....  | (64)                   |
|  | -----                  |
| Net cash used in investing activities.....   | (15,866)               |
|  | -----                  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                        |
| Capital contribution, net.....   | (278)                  |
| Proceeds from sale of minority interest.....   | 3,291                  |
| Funds in Escrow.....   | (10,047)               |
| Proceeds from borrowings.....  | 20,000                 |
|  | -----                  |
| Net cash provided by financing activities.....   | 12,966                 |
|  | -----                  |
| NET CHANGE IN CASH AND CASH EQUIVALENTS.....   | (2,080)                |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD.....  | 9,804                  |
|  | -----                  |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD.....  | \$ 7,724               |
|  | =====                  |

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### SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:

|                        |    |       |
|------------------------|----|-------|
| Interest Paid.....     | \$ | 138   |
| Income Taxes Paid..... | \$ | 1,385 |

See notes to consolidated financial statements.

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### VAALCO ENERGY, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(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. Alcorn (Production) Philippines Inc., Altissima Energy, Inc., VAALCO Gabon (Etame), Inc., VAALCO Production (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 statements of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

**Funds in Escrow**--Current amounts represent an escrow for the IFC loan (\$10.0 million). Long term amounts represent an escrow to secure charter payments for the Floating Production Storage and Offloading tanker ("FPSO") in Gabon (\$759,000) and for the abandonment of certain Gulf of Mexico properties (\$38,000).

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

**Income Taxes**--VAALCO accounts for income taxes under an asset and liability approach that recognizes deferred income tax assets and liabilities for the estimated future tax consequences of differences between the financial statements and tax bases of assets and liabilities. Valuation allowances are provided against deferred tax assets that are not likely to be realized. The Company calculates current and deferred income taxes on a separate company basis.



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

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### VAALCO ENERGY, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(in thousands of dollars, unless otherwise indicated)

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 the year ended December 31, 2001 an impairment of \$567,145 was 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. For financial accounting purposes the Company will adopt Statement of Financial Accounting Standards ("SFAS") 143--"Accounting for Asset Retirement Obligations" on January 1, 2003. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred by capitalizing it as part of the carrying amount of the long-lived assets. 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 |

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.

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

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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. The Company incurred a loss on foreign currency transactions of \$53,000 in 2002.

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: Alcorn Production Philippines 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, note receivables, trade payables and debt. 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 and debt 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, 2002 two

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### VAALCO ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(in thousands of dollars, unless otherwise indicated)

purchasers of the Company's crude oil accounted for essentially all of the Company's total crude oil sales. In Gabon, the Company markets its crude oil under an agreement with Shell Western Trading and Supply, Limited. The Company markets its share of Philippines crude oil under an agreement with Caltex, a local Philippines refiner. 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. The Company has access to several alternative buyers for oil and gas sales domestically.

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.

### 3. RECENT ACCOUNTING PRONOUNCEMENTS

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In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and 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.

On July 20, 2002, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." The Statements will change the accounting for business combinations and goodwill in two significant ways. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method is prohibited. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Thus, amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of that statement, which for the Company was January 1, 2002. There was no effect on the Company's books due to the adoption of SFAS 141 and 142.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible, long-lived assets and the associated asset retirement costs. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred by capitalizing it as part of the carrying amount of the long-lived assets. As required by SFAS No. 143, the Company will adopt this new accounting standard on January 1, 2003. Currently, the Company has an undiscounted asset retirement obligation recorded related to its Philippines obligations. There are no liabilities recorded related to domestic and Gabon asset retirement obligations. On January 1, 2003, the Company will discount the Philippine's liability and record a discounted obligation for the domestic and Gabon obligations. The final impact of adoption of this new standard has not been determined yet.

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### VAALCO ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(in thousands of dollars, unless otherwise indicated)

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement establishes a single accounting model for the impairment or disposal of long-lived assets. As required by SFAS No. 144, the Company adopted this new standard on January 1, 2002, the result of which was not material to the Company.

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In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-- Transition and Disclosure, an amendment of SFAS No. 123", which addresses alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company will begin disclosing the required interim financial information for the quarter ending March 31, 2003.

In November 2002, FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," elaborates on the disclosure to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. This Interpretation also incorporates, without change, the guidance in FIN No. 34, which is being superceded. As set forth in the Interpretation, the disclosures required are designed to improve the transparency of the financial statement information about the guarantor's obligations and liquidity risks related to guarantees issued. The fair values of guarantees entered into after December 31, 2002, must be recorded as a liability of the guarantor in its financial statements. Existing guarantees as of December 31, 2002 are grandfathered from the recognition provisions, unless they are later modified, but they are still required to be disclosed. The disclosure requirements are effective for periods ending after December 15, 2002. See Note 8 for the required disclosures as of December 31, 2002.

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 2001 have been reclassified to conform to the 2002 presentation.

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### VAALCO ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(in thousands of dollars, unless otherwise indicated)

#### 4. INVESTMENT IN UNCONSOLIDATED ENTITIES

Investment in VAALCO Exploration LLC represented a 50/50 membership interest shared by VAALCO Energy, Inc. and Paramount Petroleum in VAALCO Exploration LLC. The Company elected to terminate its joint venture with Paramount Petroleum, Inc., effective June 1, 2001. The joint venture focused on domestic onshore prospects in Mississippi, Alabama and Louisiana. In connection with the wind up of the joint venture, the Company received \$216,000 in cash and \$259,000 of undeveloped acreage representing its proportionate 93.75% working interest in kind in all remaining prospects within the joint venture. The following summarizes the aggregated financial information for all investments

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owned by VAALCO, which were accounted for under the equity method as of December 31, 2001. No amounts associated with the former joint venture are carried in the 2002 books.

|                             | December 31,<br>2001    |
|-----------------------------|-------------------------|
|                             | -----<br>(in thousands) |
| Balance Sheet:              |                         |
| Current assets.....         | \$ 50                   |
| Owner's equity.....         | 50                      |
| Statement of Earnings:      |                         |
| Revenue.....                | \$ 13                   |
|                             | =====                   |
| Operating loss.....         | \$ (988)                |
|                             | =====                   |
| Net loss.....               | \$ (1,034)              |
|                             | =====                   |
| VAALCO's share of net loss. | \$ (973)                |
|                             | =====                   |

### 5. STOCKHOLDERS' EQUITY

The Company is authorized to issue up to 100 million shares of Common Stock. Stockholders equity consists of preferred stock, common stock, options and warrants. Set out below is a summary of the number of shares on an as converted basis assuming cash exercise of all warrants and options. Certain options and warrants have cashless exercise features that would alter the number of shares issued if this feature were utilized.

|  | 2002       | 2001       |
|--|------------|------------|
|  | -----      | -----      |
| Common shares issued and outstanding.....            | 20,830,955 | 20,744,569 |
| Preferred shares convertible to common stock.....    | 27,500,000 | 27,500,000 |
| Options and warrants (1).....                        | 22,325,000 | 4,045,325  |
|  | -----      | -----      |
| Total shares on an as converted, as exercised basis. | 70,655,955 | 52,289,894 |
|  | =====      | =====      |

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 (1) The year 2002 share amounts includes 9,750,000 warrants that the Company expects to be cancelled upon repayment of the 1818 Fund Loan. Cash exercise of all warrants would result in payments of \$14.7 million to the Company.

### VAALCO ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(in thousands of dollars, unless otherwise indicated)

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

In 1996 options were granted to an 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 vested over a term of three years and may be exercised for five years from the vesting date. As of December 31, 2002, the options were completely vested. None of the options had been exercised as of December 31, 2002. A total of 530,000 of the options had been forfeited as of December 31, 2002.

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 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, 2002.

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, 2002. A total of 500,000 options were forfeited as on August 1, 2002.

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. The banking firm exercised 345,325 warrants in 2002 under the cashless exercise feature and received a total of 31,386 shares of common stock.

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 vested six months after issuance. An additional 200,000 options were issued to the technical representatives during 2001 at \$0.30 per share, expiring on December 15, 2005.

On June 10, 2002 and August 30, 2002 respectively, 15,000,000 and 4,500,000 warrants to purchase common stock at \$0.50 per share were issued in connection with the 1818 Loan. If no further draws are made on the 1818 Loan, and the loan is repaid prior to March 31, 2003, a total of 12,000,000 of the warrants will be returned to the Company.

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(in thousands of dollars, unless otherwise indicated)

Information with respect to the Company's warrants and stock options is as follows:

|                               | Vested<br>Options/<br>Warrants<br>Exercisable | Shares<br>Under<br>Option | Weighted<br>Average<br>Exercise<br>Price |
|-------------------------------|---|---------------------------|--|
|                               | -----   | -----                     | -----                                    |
| Balance, January 1, 2001..... | 3,470,325                                     | 4,070,325                 | \$1.49                                   |
| Issued.....                   | 200,000                                       | 200,000                   | 0.30                                     |
| Vested.....                   | 600,000                                       | --                        | 0.30                                     |
| Forfeited.....                | (225,000)                                     | (225,000)                 | 1.47                                     |
|                               | -----   | -----                     | -----                                    |
| Balance, December 31, 2001... | 4,045,325                                     | 4,045,325                 | \$1.50                                   |
| Issued.....                   | 19,500,000                                    | 19,500,000                | 0.50                                     |
| Exercised.....                | (400,325)                                     | (86,386)                  | 0.52                                     |
| Redeemed in cashless exercise | --  | (313,939)                 | 1.00                                     |
| Forfeited.....                | (820,000)                                     | (820,000)                 | 0.63                                     |
|                               | -----   | -----                     | -----                                    |
| Balance, December 31, 2002... | 22,325,000                                    | 22,325,000                | 0.66                                     |
|                               | =====   | =====                     | =====                                    |

The following table summarizes information about stock options and warrants outstanding as of December 31, 2002:

|                          | Number<br>Outstanding<br>At 12/31/02 | Weighted-<br>Average<br>Remaining<br>Contractual<br>Life | Weighted-<br>Average<br>Exercise<br>Price | Number<br>Exercisable<br>At 12/31/02 | Weighted-<br>Average<br>Exercise<br>Price |
|--------------------------|--------------------------------------|--|---|--------------------------------------|---|
| Range of Exercise Prices | -----                                | -----  | -----                                     | -----                                | -----                                     |
| \$ 0.30 to 1.00.....     | 21,475,000                           | 4.27 years   | \$0.50                                    | 1,975,000                            | \$0.50                                    |
| 1.01 to 2.50.....        | 350,000                              | 0.55 years   | 2.36                                      | 350,000                              | 2.36                                      |
| 2.51 to 5.00.....        | 250,000                              | 0.67 years   | 5.00                                      | 250,000                              | 5.00                                      |
| 5.01 to 10.25.....       | 250,000                              | 0.67 years   | 7.50                                      | 250,000                              | 7.50                                      |
|                          | -----                                | -----  | -----                                     | -----                                | -----                                     |
| \$0.30 to 10.25.....     | 22,325,000                           | 4.13 years   | \$0.66                                    | 2,825,000                            | \$1.75                                    |
|                          | =====                                | =====  | =====                                     | =====                                | =====                                     |

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 provisions of SFAS No. 123 had no material effect for 2002.

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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.

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### VAALCO ENERGY, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(in thousands of dollars, unless otherwise indicated)

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, 2002    |                           |                         |
|---|---|---------------------------|-------------------------|
|   | Per-Share<br>Amount                     | Net Income<br>(Numerator) | Shares<br>(Denominator) |
|   | (In thousands except per share amounts) |                           |                         |
| Basic EPS                                       |   |                           |                         |
| Net income attributable to common Shareholders. | \$ 0.02                                 | \$ 445                    | 20,831                  |
| Effect of Dilutive Securities                   |   |                           |                         |
| Common stock options.....                       | (0.01)                                  | --                        | 21,475                  |
|   | -----                                   | -----                     | -----                   |
| Diluted EPS                                     |   |                           |                         |
| Net loss attributable to common Shareholders... | \$ 0.01                                 | \$ 445                    | 42,306                  |
|   | =====                                   | =====                     | =====                   |
|   |   |                           |                         |
|   | For the Year Ended December 31, 2001    |                           |                         |
|   | Per-Share<br>Amount                     | Net Loss<br>(Numerator)   | Shares<br>(Denominator) |
|   | (In thousands except per share amounts) |                           |                         |
| Basic EPS                                       |   |                           |                         |
| Net loss attributable to common Shareholders... | \$(0.15)                                | \$(3,099)                 | 20,745                  |
| Effect of Dilutive Securities                   |   |                           |                         |
| Common stock options.....                       | --                                      | --                        | --                      |
|   | -----                                   | -----                     | -----                   |
| Diluted EPS                                     |   |                           |                         |
| Net loss attributable to common Shareholders... | \$(0.15)                                | \$(3,099)                 | 20,745                  |
|   | =====                                   | =====                     | =====                   |

Options excluded from the above calculation, as they are anti-dilutive, are 850,000 and 4,045,325 for 2002 and 2001, 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 foreign income taxes.



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Provision for income taxes consists of the following:

|               | Year Ended<br>December 31, |       |
|---------------|----------------------------|-------|
|               | 2002                       | 2001  |
|               | -----                      | ----- |
|               | (In thousands)             |       |
| U.S. federal: |                            |       |
| Current.....  | \$ --                      | \$--  |
| Deferred..... | --                         | --    |
| Foreign:      |                            |       |
| Current.....  | 1,386                      | 48    |
| Deferred..... | 10                         | 18    |
|               | -----                      | ----- |
| Total.....    | \$1,396                    | \$66  |
|               | =====                      | ====  |

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VAALCO ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(in thousands of dollars, unless otherwise indicated)

The primary differences between the financial statement and tax bases of assets and liabilities at December 31, 2002 and 2001 are as follows:

|   | Year Ended<br>December 31, |          |
|---|----------------------------|----------|
|   | 2002                       | 2001     |
|   | -----                      | -----    |
|   | (In thousands)             |          |
| Deferred Tax Liabilities:                 |                            |          |
| Unrealized foreign exchange gain.....     | \$ 252                     | \$ 242   |
|   | =====                      | =====    |
| Deferred Tax Assets:                      |                            |          |
| Reserves not currently deductible.....    | 276                        | 1,044    |
| Operating loss carryforwards.....         | 5,912                      | 9,756    |
| Alternative minimum tax credit carryover. | 635                        | 647      |
| Other assets.....                         | 119                        | 253      |
|   | -----                      | -----    |
|   | 6,942                      | 11,700   |
| Valuation allowance.....                  | (6,307)                    | (11,065) |
|   | -----                      | -----    |
| Total deferred tax asset.....             | \$ 635                     | \$ 635   |
|   | =====                      | =====    |

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Pretax income (loss) is comprised of the following:

|               | Year Ended<br>December 31, |            |
|---------------|----------------------------|------------|
|               | 2002                       | 2001       |
|               | -----                      | -----      |
|               | (In thousands)             |            |
| United States | \$ (2,065)                 | \$ (2,495) |
| Foreign.....  | 4,247                      | (538)      |
|               | -----                      | -----      |
|               | \$ 2,182                   | \$ (3,033) |
|               | =====                      | =====      |

The statutory rate reconciliation is as follows:

|  | Year Ended<br>December 31, |            |
|--|----------------------------|------------|
|  | 2002                       | 2001       |
|  | -----                      | -----      |
|  | (In thousands)             |            |
| Pre-tax income (loss) multiplied by 35%.....         | \$ 644                     | \$ (1,062) |
| Foreign taxes not offset by U.S. foreign tax credits | 752                        | 66         |
| U.S. net operating losses not benefited.....         | --                         | 1,062      |
|  | -----                      | -----      |
| Total income tax.....                                | \$1,396                    | \$ 66      |
|  | =====                      | =====      |

At December 31, 2002, the Company and its subsidiaries had net operating loss ("NOL") carryforwards of approximately \$16.2 million for United States income tax purposes. A full valuation allowance has been provided against this NOL.

At December 31, 2002, the Company was subject to foreign and federal taxes only, with no allocations made to state and local taxes.

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VAALCO ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(in thousands of dollars, unless otherwise indicated)

7. RELATED-PARTY TRANSACTIONS

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Other long-term assets included \$18,900 in notes due from employees at December 31, 2002.

Accounts payable and accrued liabilities included \$0.4 million interest payable on the 1818 Fund Loan.

### 8. COMMITMENTS AND CONTINGENCIES

At December 31, 2002 the Company owned a 30.35% interest in a block offshore Gabon, the Etame Block. 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 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 1 well, in June 1998 resulting in a 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 seismic prior to drilling any additional delineation wells.

In January 2001, the Company acquired the 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 second exploration commitment well due under the second exploration period, the Etame 3V was subsequently drilled to further delineate the Etame discovery in February 2001. The well satisfied the remaining well obligations under the second exploration period.

In June 2001, the Company completed a second successful delineation well.

As a result of the two successful delineation wells drilled in 2001, the Etame consortium approved a budget to develop the field. An application for commerciality was filed with the Government in Gabon, and in November 2001, the consortium was awarded an Exploitation Area surrounding the field. The Exploitation Area is valid for a term of up to 20 years to permit the field to be developed and produced.

Initial development consisted of completing three subsea wells connected to an FPSO at a cost of approximately \$57.3 million (\$17.4 million net to the Company inclusive of \$1.5 million of the Company share of the Gabon Government carried 7.5% interest).

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## VAALCO ENERGY, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(in thousands of dollars, unless otherwise indicated)

In connection with the charter of the FPSO, the Company as operator of the Etame field, guaranteed the charter payments through September 2004. The charter continues beyond that period unless one year's prior notice is given to the owner of the FPSO. The Company obtained several guarantees from its partners for their share of the charter payment. The Company's share of the charter payment is 28.1%. The estimated obligations for the full charter payment and the Company's share of the charter payments are as follows:

|      | Full<br>Charter Company<br>Payment | Share   |
|------|------------------------------------|---------|
|      | -----                              | -----   |
|      | \$ thousands                       |         |
| 2002 | \$18,516                           | \$5,203 |
| 2003 | \$12,709                           | \$3,571 |

To fund its share of the development project, the Company has negotiated a line of credit of \$10.0 million through the International Finance Corporation ("IFC"), and the Company guaranteed the repayment of the loan until project completion is achieved, anticipated to occur March 31, 2003.

In July of 2001, the consortium elected to renew the Etame block for an additional five-year term, consisting of a three-year and a two-year follow-on term. The consortium committed to drill two additional wells on the block during the three-year term. A one well commitment is required to obtain the two-year extension.

The Company believes it is substantially in compliance with all environmental regulations.

#### 9. LONG TERM DEBT

To fund its share of the development costs, on April 19, 2002, the Company entered into a \$10.0 million credit facility with the IFC, a subsidiary of the World Bank. The credit facility required that the Company provide \$10.0 million of cash collateral to secure borrowings under the facility until the "project completion date." The project completion date is generally defined as the date after which the field has produced at an average rate of 14,250 BOPD and the estimated gross proved reserves attributable to the field is at least 16.5 million barrels of oil. The Company expects that the project completion date will occur on March 31, 2003, at which time the \$10.0 million held as cash collateral will be returned to the Company. The Company borrowed the \$10.0 million that it used as cash collateral from the 1818 Fund, which owns a majority of the Company's common stock on a fully diluted basis.

In connection with the loan, the Company issued warrants to purchase 15.0 million shares of its common stock to the 1818 Fund (7.5 million of which will

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terminate if the loan is repaid on or before March 31, 2003). The loan agreement was subsequently amended to add an additional lender not related to us, and to increase the amount we were entitled to borrow under the facility to \$13.0 million. After the other lender was added, the Company had borrowed \$10.0 million under the loan, \$7.0 million funded by the 1818 Fund and \$3.0 million by the other lender. The Company issued the other lender warrants to purchase 4.5 million shares of common stock on the same terms as the warrants issued to the 1818 Fund (2.25 million of which will terminate if the loan is repaid on or before March 31, 2003). If the Company does not draw down any further funds under the facility, the 1818 Fund will be required to return an additional 2.25 million warrants at the time the facility is paid off. The Company does not intend to draw any further amounts under the facility.

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VAALCO ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(in thousands of dollars, unless otherwise indicated)

Management has allocated \$2.465 million of the anticipated proceeds from the \$13 million loan to the warrants, which has been accounted for in the equity section of the balance sheet as additional paid in capital, with a corresponding offset to debt discount, which is being amortized to interest expense. The allocation is based on the relative fair values of the loan and the warrants. The valuation of the warrants is based upon a Black Scholes model, adjusted for liquidity issues associated with a potential sale of such a large volume of shares. The Company formed an independent committee of the Board of Directors, which received a fairness opinion with regards to the terms of the 1818 Fund loan.

In addition, the Company sold 9.9% of the common stock of our subsidiary that owns the Etame project to the lender for \$3.3 million, which the Company used to finance a portion of the development costs of the field. The Company will use the \$10 million cash collateral released from escrow for the IFC loan to repay the loan from the 1818 Fund. A more detailed description of the IFC credit facility, the loan from the 1818 Fund and the sale of stock of our Etame subsidiary is set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations--Capital Resources and Liquidity."

Summary of Short and Long Term Debt

As of December 31, 2002

(Thousands of dollars)

|   |         |
|---|---------|
| IFC loan.....                               | 10,000  |
| 1818 Fund loan                              |         |
| 1818 Fund.....                              | 7,000   |
| Investor.....                               | 3,000   |
| Less debt discount for issuance of warrants |         |
| 1818 Fund.....                              | (1,307) |
| Investor.....                               | (589)   |
| Amortization of debt discount.....          | 272     |

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 Total Short and Long Term Debt..... 18,376  
 =====

10. SUBSEQUENT EVENT

On March 28, 2003, the IFC issued a letter notifying the Company of its acceptance of project completion effective March 31, 2003. As a result of the notice, the escrow funds used to guarantee the IFC loan until project completion will be released on April 1, 2003, and the funds will be utilized to repay the 1818 Loan. Also in connection with the repayment of the loan, the Company will receive warrants for 12.0 million shares exercisable at \$0.50 per share back from 1818 Fund and the investor.

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VAALCO ENERGY, INC. AND SUBSIDIARIES

SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES

(Unaudited)

(in thousands of dollars, unless otherwise indicated)

11. SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES

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 Gabon and 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  |         | International |         |
|---------------------------------|----------------|---------|---------------|---------|
|                                 | 2002           | 2001    | 2002          | 2001    |
|                                 | -----          | -----   | -----         | -----   |
|                                 | (In thousands) |         |               |         |
| Costs incurred during the year: |                |         |               |         |
| Exploration--capitalized....    | \$ --          | \$1,385 | \$ 323        | \$4,008 |
| Exploration--expensed.....      | 87             | 434     | 163           | --      |
| Development.....                | 69             | --      | 15,495        | --      |
| Acquisition--unproved.....      | --             | 54      | --            | 294     |
|                                 | -----          | -----   | -----         | -----   |
| Total.....                      | \$156          | \$1,873 | \$15,981      | \$4,302 |
|                                 | ====           | =====   | =====         | =====   |

No amounts of exploration costs were for dry hole expense in 2002 or 2001.

Capitalized Costs Relating to Oil and Gas Producing Activities:

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|   | Year Ended<br>December 31, |          |
|---|----------------------------|----------|
|   | 2002                       | 2001     |
| Capitalized costs--   |                            |          |
| Unproved properties not being amortized.....                | \$ 2,789                   | \$ 7,151 |
| Properties being amortized.....                             | 22,659                     | 2,648    |
| Total capitalized costs.....                                | 25,448                     | 9,799    |
| Less accumulated depreciation, depletion, and amortization. | (4,152)                    | (2,026)  |
| Net capitalized costs.....                                  | \$21,296                   | \$ 7,773 |

The capitalized costs pertain to the Company's producing activities in the Philippines, the Etame discovery and U.S. activities.

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VAALCO ENERGY, INC. AND SUBSIDIARIES

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 |        |
|---|---------------|----------|---------------|--------|
|   | 2002          | 2001     | 2002          | 2001   |
| Crude oil and gas sales.....                                      | \$ 483        | \$ 708   | \$ 9,497      | \$ 842 |
| Production expense.....   | (145)         | (232)    | (2,633)       | (414)  |
| Exploration expense.....  | --            | --       | (162)         | --     |
| Depreciation, depletion and amortization.....                     | (344)         | (1,162)  | (1,770)       | (4)    |
| Income (loss) before taxes.....                                   | (6)           | (686)    | 4,932         | 424    |
| Income tax (provision) benefit.....                               | --            | --       | (1,396)       | (66)   |
| Results from oil and gas producing activities.....                | \$ (6)        | \$ (686) | \$ 3,536      | \$ 358 |
| Company's share of equity method investee's results of operations | \$ --         | \$ (875) | \$ --         | \$ --  |

Proved Reserves

The following tables set forth the net proved reserves of VAALCO Energy,

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Inc. as of December 31, 2002 and 2001, and the changes therein during the periods then ended.

|                                  | Oil (MBbls) | Gas (MMcf) |
|----------------------------------|-------------|------------|
| PROVED RESERVES:                 |             |            |
| BALANCE AT DECEMBER 31, 2000.... | 686         | --         |
| Additions.....                   | 6,105       | 140        |
| Production.....                  | (87)        | (71)       |
| Revisions.....                   | (272)       | --         |
|                                  | -----       | -----      |
| BALANCE AT DECEMBER 31, 2001.... | 6,432       | 69         |
| Additions.....                   | --          | --         |
| Production.....                  | (371)       | (86)       |
| Revisions.....                   | (608)       | 94         |
|                                  | -----       | -----      |
| BALANCE AT DECEMBER 31, 2002.... | 5,453       | 77         |
|                                  | =====       | ===        |

|                               | Oil (MBbls) | Gas (MMcf) |
|-------------------------------|-------------|------------|
| PROVED DEVELOPED RESERVES     |             |            |
| Balance at December 31, 2001. | 349         | 69         |
| Balance at December 31, 2002. | 3,467       | 77         |

The Company's Proved Developed Reserves are located offshore Gabon, the Republic of the Philippines and in Texas. Revisions in 2002 represent the economic effect of lower cost oil barrels required to recover investments in the Etame field due to higher oil prices in 2002 than in 2001. The result is a lower effective net revenue interest over the life of the field because of greater profit oil tax payments to the Gabon Government. Revisions in reserves in 2001 primarily reflect the impact of lower crude prices on the economic life of reserves in the Philippines.

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### 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 and Gas 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 Gabon royalties and the interests of



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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 2002 do not include the costs of abandoning the Company's non-producing properties.

|  | United States |        | International |           | Total        |           |
|--|---------------|--------|---------------|-----------|--------------|-----------|
|  | December 31,  |        | December 31,  |           | December 31, |           |
|  | 2002          | 2001   | 2002          | 2001      | 2002         | 2001      |
| Future cash inflows.....   | \$ 744        | \$ 556 | \$188,329     | \$130,939 | \$189,073    | \$131,495 |
| Future production costs.....                                     | (299)         | (192)  | (58,376)      | (55,506)  | (58,675)     | (55,698)  |
| Future development costs.....                                    | --            | --     | (16,002)      | (26,188)  | (16,002)     | (26,188)  |
| Future income tax expense.....                                   | (69)          | (49)   | (33,449)      | (13,400)  | (33,518)     | (13,449)  |
| Future net cash flows.....                                       | 376           | 315    | 80,502        | 35,845    | 80,878       | 36,160    |
| Discount to present value at 10%<br>annual rate.....             | (37)          | (41)   | (14,414)      | (12,388)  | (14,451)     | (12,429)  |
| Standardized measure of.....<br>discounted future net cash flows | \$ 339        | \$ 274 | \$ 66,088     | \$ 23,457 | \$ 66,427    | \$ 23,731 |

Future development costs at December 31, 2002 includes \$3,363 for future abandonment costs that are being 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 Philippines and domestic reserves. Income taxes represent amounts payable to the Government of Gabon on profit oil as final payment of corporate income taxes.

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VAALCO ENERGY, INC. AND SUBSIDIARIES

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

(Unaudited)

(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, |      |
|--------------|------|
| 2002         | 2001 |

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|   |           |          |
|---|-----------|----------|
| BALANCE AT BEGINNING OF PERIOD.....           | \$ 23,731 | \$ 2,702 |
| Sales of oil and gas, net of production costs | (7,202)   | (968)    |
| Net changes in prices and production costs... | 63,032    | (635)    |
| Revisions of previous quantity estimates..... | (11,511)  | (437)    |
| Reserve additions.....                        | --        | 23,339   |
| Changes in estimated future development costs | (6,776)   | --       |
| Development costs incurred during the period. | 15,495    | --       |
| Accretion of discount.....                    | 3,260     | (270)    |
| Net change in income taxes.....               | (16,354)  | --       |
| Change in production rates (timing) and other | 2,752     | --       |
|   | -----     | -----    |
| BALANCE AT END OF PERIOD.....                 | \$ 66,427 | \$23,731 |
|   | =====     | =====    |

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 Gabon and Philippine governments.

In accordance with the guidelines of the U.S. Securities and Exchange Commission, the Company's estimates of future net cash flows 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, 2002 was \$13.86 per Bbl and \$12.99 per Bbl of oil for Matinloc and the Nido fields respectively. In Gabon, the price was \$29.49 per barrel representing a \$0.62 discount to the spot price of Dated Brent Crude at December 31, 2002.

Under the Production Sharing Contract in Gabon, the Gabonese government is the owner of all oil and gas mineral rights. The right to produce the oil and gas is stewarded by the Directorate Generale de Hydrocarbeures and the Production Sharing contract was awarded by a decree from the State. Pursuant to the service contract, the

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(Unaudited)

(in thousands of dollars, unless otherwise indicated)

Gabon government receives a variable royalty depending on production rate. The consortium maintains a Cost Account, which entitles it to receive 70% of the production remaining after deducting the royalty so long as there are amounts remaining in the cost account. At December 31, 2002 there was \$83.0 million in the cost account (\$26.5 million net to the Company). As payment of corporate income taxes the consortium pays the government an allocation of the remaining "profit oil" production from the contract area ranging from 50% to 60% of the oil remaining after deducting the royalty and the cost oil. The percentage of "profit oil" paid to the government as tax is a function of production rates. So long as amounts remain in the Cost Account, the net share that the consortium receives from production can range from a low of 67.7% of production at production rate in excess of 25,000 barrels per day to a high of 82.5% of production at rates below 5,000 barrel per day.

Under the service contract, it is not anticipated that the Gabonese government will take physical delivery of its allocated production. Instead, the Company is authorized to sell the Gabonese government's share of production and remit the proceeds to the Gabonese government.

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.

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

None.

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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 2002 annual meeting, which will be filed with the Commission within 120 days of December 31, 2002, 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 2002 annual meeting, which will be filed with the Commission within 120 days of December 31, 2002, and which is incorporated herein by reference.

Item 11. Security Ownership of Certain Beneficial Owners and Management

Information required by this Item 403 of Regulation 5-B will be included in the Company's proxy statement for its 2002 annual meeting, which will be filed with the Commission within 120 days of December 31, 2002, and which is incorporated herein by reference.

| Plan Category<br>-----  | Number of<br>securities to be<br>issued upon<br>exercise of<br>outstanding options,<br>warrants and rights | Weighted-average<br>exercise price of<br>outstanding<br>options, warrants<br>and rights | Nu<br>se<br>re<br>avai<br>futura<br>und<br>com<br>plans<br>securit<br>in the |
|---|--|---|--|
| Equity compensation plans approved by security holders.....         | 800,000  | \$0.30  | 3,   |
| Equity compensation plans not approved by security holders (1)..... | 1,775,000  | \$2.71  | --   |
| Total.....  | 2,575,000  | \$1.96  | 3,   |
|   | =====  | =====   | ==   |

-----  
(1) Excludes 19,750,000 warrants issued in connection with 1818 Fund loan with an exercise price of \$0.50 per share

Item 12. Certain Relationships and Related Transactions

Information required by this item will be included in the Company's proxy statement for its 2002 annual meeting, which will be filed with the Commission within 120 days of December 31, 2002, and which is incorporated herein by reference.

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### 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.L.P.
- 2.2 (c) First Amendment to Stock Acquisition Agreement and Plan of Reorganization, dated April 2, 1998
- 2.3(j) Stock Purchase Agreement between Western Atlas International, Inc., as Seller, and VAALCO Gabon (Etame), Inc. as Purchaser, dated January 4, 2001.
- 2.4(j) Stock Purchase Agreement between VAALCO Energy, Inc., as Seller and PanAfrican Energy Corporation Ltd., as Purchaser, dated January 15, 2001
- 2.5(j) 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

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- (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 28, 1995.
- 10.11(f) Letter of Intent for Etame Block, Offshore Gabon dated January 22, 1998 between the Company and Western Atlas International, Inc.
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- 10.12(f) Farm In Agreement for Service Contract No. 14 Offshore Palawan Island, Philippines dated September 24, 1996 between the Company and SOCDT Production PTY, Ltd.
- 10.13(g) Registration Rights Agreement, dated July 28, 1997, by and among the Company, Jefferies & Company, Inc. and the investors listed therein.
- 10.14(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.
- 10.15(c) Registration Rights Agreement among the Company and 1818 Fund II, L.L.P., dated April 21, 1998
- 10.16(c) Registration Rights Agreement dated April 21, 1998 by and among the Company, Jefferies & Company, Inc. and the investors listed therein.
- 10.17(i) Assignment Agreement between the Company, members of the Service Contract 14 Consortium and SOCDT dated December 29, 1998
- 10.18(j) Conveyance of Production Payment from Western Atlas Afrique, Ltd. to Western Atlas International, Inc. dated December 29, 2000.
- 10.19(k) 2001 Stock Incentive Plan dated August 16, 2001
- 10.20(l) Loan Agreement between VAALCO Gabon (Etame), Inc. and International Finance Corporation dated April 19, 2002.
- 10.21(l) Subordinated Credit Agreement dated as of June 10, 2002, between VAALCO Energy, Inc. and 1818 Fund II, L.L.P.
- 10.22(l) Guarantee Agreement between VAALCO Energy, Inc. and International Finance Corporation dated May 28, 2002.
- 10.23(l) Trustee and Paying Agent Agreement by and between VAALCO Gabon (Etame), Inc., J.P. Morgan Trustee and Depositary Company Limited and JPMorgan Chase Bank, London Branch, dated June 26, 2002.
- 10.24(m) Stock Purchase Agreement dated as of August 23, 2002, by and between the Company, VAALCO International, Inc. and Nissho Iwai Corporation.
- 10.25(m) Stockholders' Agreement dated August 23, 2002, by and among the Company, VAALCO International, Inc. and Nissho Iwai Corporation.
- 10.26(m) Subscription Agreement between the Company and VAALCO International, Inc. dated August 23, 2002.

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- 10.27(m) Amended and Restated Registration Rights Agreement by and among the Company, Nissho Iwai Corporation and 1818 Fund II, L.L.P. dated as of August 23, 2002.
- 10.28(m) Amended and Restated Subordinated Credit Agreement by and between the Company and 1818 Fund II, L.P. dated as of August 23, 2002.
- 10.29(m) Second Amendment to Loan Agreement between VAALCO Gabon (Etame), Inc. and International Finance Corporation dated August 23, 2002.

### 21.1 Subsidiaries of the Registrant

- 99.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act Of 2002.
- 99.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act Of 2002.

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- (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.

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- (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.
- (j) Filed as an exhibit to the Company's Form 10-KSB for the annual period ended December 31, 2000, and hereby incorporated by reference herein.
- (k) Filed as an exhibit to the Company's Registration Statement Form S-8 filed with the Commission on August 18, 2001.
- (l) Filed as an exhibit to the Company's Form 10-QSB for the quarterly period ended June 30, 2002, and hereby incorporated by reference herein.
- (m) Filed as an exhibit to the Company's Form 10-QSB for the quarterly period ended September 30, 2002, and hereby incorporated by reference herein.

(b) Reports on Form 8-K.

None

### Item 14. Controls and Procedures

- (a) Evaluation of Disclosure Controls and Procedures. Based on their evaluation as of a date within 90 days of the filing date of this Annual Report

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on Form 10-K, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the "Exchange Act")) are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

(b) Changes in Internal Controls. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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### Glossary of Oil and Gas Terms

#### Terms used to describe quantities of oil and natural gas

- . Bbl--One stock tank barrel, or 42 US gallons liquid volume, of crude oil or other liquid hydrocarbons.
- . Bcf--one billion cubic feet of natural gas.
- . Bcfe--One billion cubic feet of natural gas equivalent.
- . BOE--One barrel of oil equivalent, converting gas to oil at the ratio of 6 Mcf of gas to 1 Bbl of oil.
- . MBbl--One thousand Bbls.
- . Mcf--One thousand cubic feet of natural gas.
- . Mcfe--One thousand cubic feet of natural gas equivalent.
- . MMBbl--One million Bbls of oil or other liquid hydrocarbons.
- . MMcf--One million cubic feet of natural gas.
- . MBOE--One thousand BOE.
- . MMBOE--One million BOE.

#### Terms used to describe the Company's interests in wells and acreage

- . Gross oil and gas wells or acres--The Company's gross wells or gross acres represent the total number of wells or acres in which the Company owns a working interest.
- . Net oil and gas wells or acres--Determined by multiplying "gross" oil and natural gas wells or acres by the working interest that the Company owns in such wells or acres represented by the underlying properties.

#### Terms used to assign a present value to the Company's reserves

- . Standard measure of proved reserves--The present value, discounted at 10%, of the pre-United States income tax future net cash flows attributable to estimated net proved reserves. The Company calculates



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this amount by assuming that it will sell the oil and gas production attributable to the proved reserves estimated in its independent engineer's reserve report for the prices it received for the production on the date of the report, unless it had a contract to sell the production for a different price. The Company also assumes that the cost to produce the reserves will remain constant at the costs prevailing on the date of the report. The assumed costs are subtracted from the assumed revenues resulting in a stream of future net cash flows. Estimated future income taxes using rates in effect on the date of the report are deducted from the net cash flow stream. The after-tax cash flows are discounted at 10% to result in the standardized measure of the Company's proved reserves.

- . Pre-tax discounted present value--The discounted present value of proved reserves is identical to the standardized measure, except that estimated future income taxes are not deducted in calculating future net cash flows. The Company discloses the discounted present value without deducting estimated income taxes to provide what it believes is a better basis for comparison of its reserves to the producers who may have different tax rates.

### Terms used to classify the Company's reserve quantities

- . Proved reserves--The estimated quantities of crude oil, natural gas and natural gas liquids which, upon analysis of geological and engineering data, appear with reasonable certainty to be recoverable in the future from known oil and natural gas reservoirs under existing economic and operating conditions.

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The SEC definition of proved oil and gas reserves, per Article 4-10(a)(2) of Regulation S-X, is as follows:

Proved oil and gas reserves. Proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

(a) Reservoirs are considered proved if economic producibility is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes (A) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any; and (B) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.

(b) Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the "proved" classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based.

(c) Estimates of proved reserves do not include the following: (1) oil that may become available from known reservoirs but is classified separately as

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"indicated additional reserves"; (2) crude oil, natural gas, and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics, or economic factors; (3) crude oil, natural gas, and natural gas liquids, that may occur in undrilled prospects; and (4) crude oil, natural gas, and natural gas liquids, that may be recovered from oil shales, coal, gilsonite and other such sources.

- . Proved developed reserves--Proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.
- . Proved undeveloped reserves--Proved reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required.

Terms which describe the cost to acquire the Company's reserves

- . Finding costs--The Company's finding costs compare the amount the Company spent to acquire, explore and develop its oil and gas properties, explore for oil and gas and to drill and complete wells during a period, with the increases in reserves during the period. This amount is calculated by dividing the net change in the Company's evaluated oil and gas costs during a period by the change in proved reserves plus production over the same period. The Company's finding costs as of December 31 of any year represent the average finding costs over the three-year period ending December 31 of that year.

Terms which describe the productive life of a property or group of properties

- . Reserve life--A measure of the productive life of an oil and gas property or a group of oil and gas properties, expressed in years. Reserve life for the years ended December 31, 2002, 2001 or 2000 equal the estimated net proved reserves attributable to a property or group of properties divided by production from the property or group of properties for the four fiscal quarters preceding the date as of which the proved reserves were estimated.

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Terms used to describe the legal ownership of the Company's oil and gas properties

- . Royalty interest--A real property interest entitling the owner to receive a specified portion of the gross proceeds of the sale of oil and natural gas production or, if the conveyance creating the interest provides, a specific portion of oil and natural gas produced, without any deduction for the costs to explore for, develop or produce the oil and natural gas. A royalty interest owner has no right to consent to or approve the operation and development of the property, while the owners of the working interests have the exclusive right to exploit the mineral on the land.
- . Working interest--A real property interest entitling the owner to receive a specified percentage of the proceeds of the sale of oil and natural gas production or a percentage of the production, but requiring the owner of the working interest to bear the cost to explore for, develop and produce such oil and natural gas. A working interest owner who owns a portion of the working interest may participate either as operator or by voting his percentage interest to approve or disapprove the appointment of an operator and drilling and other major activities in connection with the

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development and operation of a property.

Terms used to describe seismic operations

- . Seismic data--Oil and gas companies use seismic data as their principal source of information to locate oil and gas deposits, both to aid in exploration for new deposits and to manage or enhance production from known reservoirs. To gather seismic data, an energy source is used to send sound waves into the subsurface strata. These waves are reflected back to the surface by underground formations, where they are detected by geophones which digitize and record the reflected waves. Computers are then used to process the raw data to develop an image of underground formations.
- . 2-D seismic data--2-D seismic survey data has been the standard acquisition technique used to image geologic formations over a broad area. 2-D seismic data is collected by a single line of energy sources which reflect seismic waves to a single line of geophones. When processed, 2-D seismic data produces an image of a single vertical plane of sub-surface data.
- . 3-D seismic data--3-D seismic data is collected using a grid of energy sources, which are generally spread over several miles. A 3-D survey produces a three dimensional image of the subsurface geology by collecting seismic data along parallel lines and creating a cube of information that can be divided into various planes, thus improving visualization. Consequently, 3-D seismic data is a more reliable indicator of potential oil and natural gas reservoirs in the area evaluated.

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SIGNATURES

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

VAALCO ENERGY, INC.  
(Registrant)

By /s/ W. RUSSELL SCHEIRMAN  
-----  
W. Russell Scheirman,  
President,  
Chief Financial Officer and  
Director

Dated March 30, 2002

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  |
|--|--|
| -----  | -----  |
| By: /s/ ROBERT L. GERRY, III<br>-----<br>Robert L. Gerry, III. | Chairman of the Board, Chief<br>Executive Officer and<br>Director (Principal |

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Executive Officer)

By: /s/ W. RUSSELL SCHEIRMAN President, Chief Financial  
----- Officer and Director  
W. Russell Scheirman (Principal Financial  
Officer and Principal  
Accounting Officer)

By: /s/ ROBERT H. ALLEN Director  
-----  
Robert H. Allen

By: /s/ WALTER W. GRIST Director  
-----  
Walter W. Grist

By: /s/ T. MICHAEL LONG Director  
-----  
T. Michael Long

By: ----- Director  
Arne R. Nielsen

By: ----- Director  
Lawrence C. Tucker

By: ----- Director  
Virgil A. Walston, Jr.

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I, Robert L. Gerry, III being the Chairman of the Board and Chief Executive Officer, certify that:

(1) I have reviewed the annual report on Form 10-KSB of VAALCO Energy, Inc. :

(2) Based on my, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

(3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

(4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as such term is defined in new Rules 13a-14 and 15d-14) for the registrant and have:

(i) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which this annual report is being prepared;

(ii) Evaluated the effectiveness of the registrant's disclosure

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controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

- (iii) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the board of directors (or persons fulfilling the equivalent functions):
  - (i) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (ii) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
- (6) The registrant's other certifying officer and I are have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 31, 2003

By: /s/ ROBERT L GERRY, III

-----  
Chairman of the Board and  
Chief Executive Officer

I, W. Russell Scheirman being the President and Chief Financial Officer, certify that:

- (1) I have reviewed the annual report on Form 10-KSB of VAALCO Energy, Inc. :
- (2) Based on my, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as such term is defined in new Rules 13a-14 and 15d-14) for the registrant and have:
  - (i) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which this

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annual report is being prepared;

- (ii) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - (iii) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the board of directors (or persons fulfilling the equivalent functions):
- (i) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (ii) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
- (6) The registrant's other certifying officer and I are have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 31, 2003

By: /s/ W. RUSSELL SCHEIRMAN

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President and Chief Financial  
Officer