

CANARGO ENERGY CORP

Form DEFR14A

April 28, 2005

**Table of Contents**

---

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A  
Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934  
(Amendment No. 1)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, For Use of the Commission Only  
(as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Materials Pursuant to Rule 14a-11(c) or Rule 14a-12

**CANARGO ENERGY CORPORATION**  
(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, If Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials:

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement no.:

(3) Filing Party:

(4) Date Filed:

---

---

---

**Table of Contents**

---

---

**Explanatory Note**

The Company hereby amends and restates its definitive proxy statement previously filed with the Securities and Exchange Commission on March 18, 2005. This amendment reflects the withdrawal by the Company of Proposal 2 regarding approval of the Company's Change of Control Stock Option Plan and restates the entire proxy statement as amended in its entirety.

---

---

---

Table of Contents

**CANARGO ENERGY CORPORATION**  
**REVISED NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**  
**TO BE HELD ON MAY 9, 2005**

18 March, 2005

To Our Stockholders:

NOTICE IS HEREBY GIVEN that the 2005 Annual Meeting of Stockholders of CanArgo Energy Corporation (the Company ) will be held at the offices of The American Stock Exchange, 86 Trinity Place, New York NY10006 on May 9, 2005 at 3.00 p.m. local time for the following purposes:

1. To elect directors to serve until the next annual meeting of stockholders or until their respective successors are duly elected and qualified; and

2. To transact such other business as may properly come before the annual meeting and any adjournments thereof. The Board of Directors has fixed the close of business on March 14, 2005 as the record date for determination of the stockholders entitled to notice of and to vote at the annual meeting and any postponement or adjournment thereof. All holders of record of shares of the Company s common stock at the close of business on the record date are entitled to vote at the meeting by sending in the proxy voting form PRIOR to the meeting by the specified deadline.

Please complete, date, sign and return the enclosed proxy card promptly to ensure that your shares will be represented at the annual meeting. If you attend the annual meeting you may vote in person unless you hold your shares in street name so please send in your proxy card ahead of time.

**IF YOU PLAN TO ATTEND:**

**Please note that space limitations make it necessary to limit attendance to stockholders and one guest. Admission to the meeting will be on a first-come, first served basis. Registration and seating will begin at 2:30 p.m. Each shareholder will be asked to present valid picture identification, such as a driver s license or passport. Cameras, recording devices and other electronic devices will not be permitted at the meeting. Please ensure you return the proxy card by the deadline (indicated on the proxy card) in order to make sure your votes will be counted.**

By Order of the Board of Directors,

Liz Landles  
Corporate Secretary

18 March, 2005, St. Peter Port, Guernsey, British Isles

---

## Table of Contents

<b><u>ABOUT THE MEETING</u></b>	<b>2</b>
<i><u>What is the purpose of the annual meeting?</u></i>	2
<i><u>Who is entitled to vote at the meeting?</u></i>	2
<i><u>What are the voting rights of the holders of the Company's common stock?</u></i>	2
<i><u>Who can attend the meeting?</u></i>	2
<i><u>What constitutes a quorum?</u></i>	2
<i><u>How do I vote?</u></i>	2
<i><u>Can I change my vote after I return my proxy card?</u></i>	3
<i><u>What are the Board's recommendations?</u></i>	3
<i><u>What vote is required to approve each item?</u></i>	3
<i><u>Why was Proposal 2 Withdrawn?</u></i>	4
<b><u>GOVERNANCE OF THE COMPANY</u></b>	<b>4</b>
<i><u>Who are the current members of the Board and Executive Officers?</u></i>	4
<i><u>How does the Board select nominees for the Board?</u></i>	5
<i><u>How does the Board determine which directors are considered independent?</u></i>	5
<i><u>How are non-employee directors compensated?</u></i>	6
<i><u>Certain Relationships and Related Transactions</u></i>	6
<i><u>How do shareholders communicate with the Board and the Audit Committee?</u></i>	7
<i><u>Does the Company have a Code of Ethics?</u></i>	7
<b><u>AUDIT COMMITTEE REPORT</u></b>	<b>7</b>
<b><u>EXECUTIVE COMPENSATION</u></b>	<b>9</b>
<i><u>Compensation Committee Report on Executive Compensation</u></i>	9
<i><u>Compensation Committee Interlocks and Insider Participation</u></i>	11
<i><u>Management Agreements</u></i>	11
<i><u>Summary Compensation Table</u></i>	13
<i><u>Option Grants During the Year Ended December 31, 2004</u></i>	13
<i><u>Equity Compensation Plans</u></i>	14
<i><u>Option Values at December 31, 2004</u></i>	16
<i><u>Performance Measurement Comparison</u></i>	16
<b><u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u></b>	<b>17</b>
<i><u>Security Ownership of Certain Beneficial Owners</u></i>	18
<i><u>Security Ownership by Management</u></i>	18
<i><u>Description of Voting Securities</u></i>	18
<i><u>Section 16(a) Beneficial Ownership Reporting Compliance</u></i>	18
<b><u>PROPOSAL 1. ELECTION OF DIRECTORS</u></b>	<b>18</b>
<b><u>STOCKHOLDER PROPOSALS</u></b>	<b>20</b>
<b><u>DISCRETIONARY AUTHORITY</u></b>	<b>20</b>
<b><u>GENERAL</u></b>	<b>20</b>

<b><u>FORM 10-K ANNUAL REPORT</u></b>	<b>20</b>
<b><u>ANNEX I</u></b>	<b>22</b>
<b><u>ANNEX II</u></b>	<b>26</b>

**Table of Contents**

**CANARGO ENERGY CORPORATION**  
P.O. Box 291, St. Peter Port, Guernsey GY1 3RR, British Isles

**REVISED PROXY STATEMENT**

**ABOUT THE MEETING**

This revised proxy statement contains information relating to the annual meeting of stockholders of CanArgo Energy Corporation (the Company) to be held on May 9, 2005, beginning at 3.00 p.m., at the offices of American Stock Exchange 86 Trinity Place, New York NY10006, and at any postponements or adjournments thereof. A proxy statement was mailed to all stockholders by April 13, 2005 at the direction of the Board of Directors of the Company which contained a proposal relating to the approval of a Change of Control Stock Option Plan (Proposal 2). As was announced by the Company in a Press Release dated April 21, 2005, the Company has withdrawn Proposal 2.

**ABOUT THE MEETING**

**What is the purpose of the annual meeting?**

At our annual meeting, stockholders will act upon the matters outlined in the notice of meeting on the cover page of this proxy statement, including the election of directors and such other matters as may be properly brought before the meeting. In addition, management will report on the performance of the Company and respond to questions from stockholders.

**Who is entitled to vote at the meeting?**

Only stockholders of record at the close of business on March 14, 2005, the record date for the meeting, are entitled to receive notice of and to participate in the annual meeting and at any postponements or adjournments thereof. If you were a stockholder of record on that date, you will be entitled to vote all of the shares that you held on that date at the meeting, or any postponements or adjournments of the meeting.

**What are the voting rights of the holders of the Company's Common Stock?**

Each outstanding share of the Company's common stock will be entitled to one vote on each matter considered at the meeting.

**Who can attend the meeting?**

Subject to space availability, all stockholders as of the record date, or their duly appointed proxies, may attend the meeting, and each may be accompanied by one guest. Since seating is limited, admission to the meeting will be on a first-come, first-served basis. Registration and seating will begin at 2.30 p.m. If you attend, please note that you may be asked to present valid picture identification, such as a driver's license or passport. Cameras, recording devices and other electronic devices will not be permitted at the meeting.



**What constitutes a quorum?**

The presence at the meeting by proxy of the holders of a majority of the aggregate voting power of the common stock outstanding on the record date will constitute a quorum, permitting the meeting to conduct its business. As of the record date, 197,766,338 shares of common stock, representing the same number of votes, were outstanding. Thus, the presence of the holders of common stock representing at least 98,883,170 votes will be required to establish a quorum.

Proxies received but marked as abstentions and broker non-votes will be included in the calculation of the number of votes considered to be present at the meeting.

**How do I vote?**

With the exception of Proposal 2 which has been withdrawn, if you complete and properly sign the proxy card that has been sent to you and return it as directed on the form, it will be voted as you direct. A properly

## **Table of Contents**

signed and dated proxy card which does not specify any voting directions will be voted in accordance with the recommendations of the Board.

Because the Company's stock is traded on the American and the Oslo Stock Exchanges, two separate forms of substantially identical proxy cards are being mailed out to stockholders depending upon the manner in which stockholders hold their stock, that is, generally, to stockholders who hold their shares in registered or street name form and to those stockholders whose shareholdings are registered in the Verdipapirsentralen ( VPS ) system used in Norway. Please note that the appropriate proxy card must be received by the party listed on the proxy card as receiving your completed, dated and signed proxy (i.e., Signature Stock Transfer, Inc. or Registrars Department, Den Norske Bank, ASA, respectively) by the date and time set forth therein in order for the proxy to be counted in time to be voted at the annual meeting.

Shareholders who have previously submitted properly completed, dated and signed proxy cards which were mailed with the original proxy statement dated March 18, 2005 should note that their votes with respect to Proposal 2 regarding the Change of Control Stock Option Plan will be disregarded and not voted since that Proposal has been withdrawn by the Company. The remaining Proposal 1 regarding the election of the nominees for directors remains unchanged and the votes of shareholders on this Proposal set forth on previously submitted proxies will be counted. Proxies which have previously been submitted by shareholders may be revoked by them by giving written notice of such revocation to the Secretary of the Company, by duly executing another proxy bearing a later date, or by attending the meeting and voting in person.

### **What if my shares are held in Street Name ?**

We will request brokerage firms, bank nominees and other institutions that act as nominees or fiduciaries for owners of common stock, to forward this proxy statement and proxies to persons for whom they hold shares and to obtain authorization for the execution of proxies. If your shares of common stock are held in the name of a brokerage firm, bank or other nominee, only it can sign a proxy with respect to your shares. Accordingly, you will not be able to vote your shares in person if you attend the meeting. Instead, please contact the person responsible for your account and give instructions for a proxy representing your shares to be signed and voted as you direct.

If you hold your shares in street name through a broker, bank or other nominee, your broker, bank or nominee may not be permitted to exercise voting discretion with respect to some of the matters to be acted upon. Thus, if you do not give your broker, bank or nominee specific instructions, your shares may not be voted on those matters and will not be counted in determining the number of shares necessary for approval. Shares represented by such broker non-votes will, however, be counted in determining whether there is a quorum present at the meeting.

### **Can I change my vote after I return my proxy card?**

Yes. Even after you have submitted your proxy, you may revoke or change your vote at any time before the proxy is exercised by filing with the Corporate Secretary of the Company either a notice of revocation or a duly executed proxy bearing a later date, provided that you were a stockholder of record on the record date.

### **What are the Board's recommendations?**

Unless you give other instructions on your proxy card, the persons named as proxy holders on the proxy card will vote in accordance with the recommendations of the Board. The Board's recommendation is set forth together with the description of each item in this proxy statement. In summary, the Board recommends a vote **For** election of the

nominated slate of directors (see Proposal 1).

With respect to any other matter that properly comes before the meeting, the proxy holders will vote as recommended by the Board or, if no recommendation is given, at their own discretion. If you sign your proxy but fail to mark your vote, your shares shall be voted in favor of all the proposals.

**What vote is required to approve each item?**

**Election of Directors.** The affirmative vote of a plurality of the votes cast at the meeting is required for the election of directors. A properly executed proxy marked **Withhold authority** with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted for purposes of determining whether there is a quorum.

**Table of Contents**

***Other Items.*** For each other item, the affirmative vote of the holders of a majority of the shares represented at the meeting in person or by proxy and entitled to vote on the item will be required for approval. A properly executed proxy marked Abstain with respect to any such matter will not be voted, although it will be counted for purposes of determining whether there is a quorum. Accordingly, an abstention will have the effect of a negative vote.

**Why was Proposal 2 Withdrawn?**

We withdrew Proposal 2 regarding the approval of the Company's Change of Control Stock Option Plan for further review as a result of the expressed views and concerns of our shareholders. Management has indicated its intention to revise the Proposal to become more aligned with the interests of shareholders and for it to be proposed at a later date.

**GOVERNANCE OF THE COMPANY*****Who are the current members of the Board and Executive Officers?***

The members of the Board of Directors on the date of this proxy statement, the Committees of the Board on which they serve, and the Executive Officers of the Company are identified below:

<b>Name</b>	<b>Age</b>	<b>Positions Held</b>
David Robson	47	Chairman of the Board, Chief Executive Officer and President
Vincent McDonnell	46	Director, Chief Financial Officer and Chief Commercial Officer
Michael Ayre (1)	48	Director
Russ Hammond (1) (2)	63	Director
Nils Trulsvik (1) (2)	56	Director
Liz Landles	44	Corporate Secretary

(1) Member of Audit Committee

(2) Member of Compensation Committee

See Proposal 1. Election of Directors for biographical information regarding the Directors.

**Liz Landles**, a resident of Guernsey, was appointed Corporate Secretary on August 1, 2002, having served as Assistant Corporate Secretary of the Company since December 2000. Mrs Landles also acts as the Company's Administration Manager and is responsible for organising the Company's administrative activities. Mrs Landles has worked for the Company since October 1997, principally in an administrative role and more recently as a Director of some of the Company's subsidiaries. She holds an Advanced Diploma of Business Administration and is a Fellow of The Institute of Business Administration (FInstBA).

Directors hold office until the next annual meeting of stockholders and until their respective successors are duly elected and qualified. Officers serve at the pleasure of the Board of Directors.

The Company's Board of Directors held ten meetings during the year ended December 31, 2004. No director has attended less than 75% of all meetings of the Board and those Committees on which he served in 2004.

The Board of Directors has standing Audit and Compensation Committees. The Board of Directors has not designated a nominating committee, the functions of such committee being performed by a majority of the independent directors.

**Audit Committee.** The functions of the Audit Committee are described below under the heading *Report of the Audit Committee*. The charter of the Audit Committee is attached to this proxy statement as Annex I and is available on the Company's website ([www.canargo.com](http://www.canargo.com)). The Audit Committee met four times during fiscal 2004.

The members of the Audit Committee at the end of 2004 were Michael Ayre (Chairman of the Audit Committee), Russ Hammond and Nils Trulsvik. All of the members of the Audit Committee are independent within the meaning of SEC regulations and the listing standards of the American Stock Exchange. Mr Ayre, the Chairman of the Committee, is qualified as an audit committee financial expert within the meaning of SEC regulations and the Board has determined, in the exercise of its business judgment, that he has accounting and related financial management expertise within the meaning of the listing standards of the American Stock Exchange.

## **Table of Contents**

**Compensation Committee.** The members of the Compensation Committee at the end of 2004 were Nils Trulsvik and Russ Hammond. The function of the Compensation Committee is described in *Executive Compensation* below, under the heading *Compensation Committee Report on Executive Compensation*. In fiscal 2004, the Compensation Committee met 3 times. All of the members of the Committee are independent within the meaning of the listing standards of the American Stock Exchange.

### ***How does the Board select nominees for the Board?***

The Board does not have a nominating committee, the functions of which are performed by a majority of the independent directors who consider candidates for Board membership suggested by Board members, as well as management and stockholders and make recommendations for the Board's selection. The Board may also retain a third-party executive search firm from time to time if it believes such engagement is advisable in order to identify suitable candidates. A shareholder who wishes to recommend a prospective nominee for the Board should notify any independent director in writing with whatever supporting material the shareholder considers appropriate.

Once the independent directors have identified a prospective nominee, the Board makes an initial determination as to whether to conduct a full evaluation of the candidate. This initial determination is based on whatever information is provided to the Board with the recommendation of the prospective candidate, as well as the Board's own knowledge of the prospective candidate, which may be supplemented by inquiries to the person making the recommendation or others. The preliminary determination is based primarily on the need for additional Board members to fill vacancies or to expand the size of the Board and the likelihood that the prospective nominee can satisfy the evaluation factors described below. If the Board determines, in consultation with the independent directors and other Board members as appropriate, that additional consideration is warranted, it may request the third-party search firm to gather additional information about the prospective nominee's background and experience and to report its findings to the Board. The Board then evaluates the prospective nominee against the following standards and qualifications, including:

the prospective nominee's standards of integrity, commitment and independence of thought and judgment;

the prospective nominee's ability to dedicate sufficient time, energy and attention to the diligent performance of his or her duties, including the prospective nominee's service on other public company boards;

the extent to which the prospective nominee contributes to the range of talent, skill and expertise appropriate for the Board; and

the extent to which the prospective nominee helps the Board reflect the diversity of the Company's stockholders, employees, customers and communities in which the Company operates.

The Board also considers such other relevant factors as it deems appropriate, including the current composition of the Board, the balance of management and independent directors, the need for Audit Committee expertise and the evaluations of other prospective nominees. In connection with this evaluation, the Board determines whether to interview the prospective nominee, and if warranted, one or more members of the Board, and others, including members of management, as appropriate. After completing this evaluation and interview, the Board determines the nominees after considering the recommendations and views of the directors and others as appropriate. The Board has adopted Resolutions addressing the nominations process and such related matters as may be required under U.S. federal securities laws and the rules of the American Stock Exchange (the Exchange). A copy of the Resolutions is attached as Annex II and is available on the Company's website ([www.canargo.com](http://www.canargo.com)).

The Company has not received any nominations for director(s) from stockholders in connection with the forthcoming meeting.

***How does the Board determine which directors are considered independent?***

On April 21, 2004, the common stock began trading on the Exchange. In connection with its common stock listing the Company became subject to the new listing standards adopted by the Exchange. The full text of the American Stock Exchange requirements can be found on its website ([www.amex.com](http://www.amex.com)).

Pursuant to Exchange requirements, the Board undertook its annual review of director independence in February 2005. During this review, the Board considered transactions and relationships between each director or any member of his immediate family and the Company and its subsidiaries and affiliates, including those reported under *Certain Relationships and Related Transactions* below. The Board also examined transactions and relationships between directors or their affiliates and members of the Company's senior management or their affiliates. As provided in the Exchange requirements, the purpose of this review

**Table of Contents**

was to determine whether any such relationships or transactions were inconsistent with a determination that the director is independent.

As a result of this review, the Board affirmatively determined that other than for David Robson and Vincent McDonnell all of the directors nominated for election at the annual meeting are independent of the Company and its management under the standards set forth in the requirements of the Exchange. In addition, as further required by the exchange's listing standards, the Board has made an affirmative determination as to each independent director that no material relationships exist between any non-management director and the Company which, in the opinion of the Board, would interfere with the exercise of their independent judgment. David Robson and Vincent McDonnell are considered inside directors because of their employment as senior executives of the Company. We provide additional information regarding Mr Hammond under *Certain Relationships and Related Transactions* below.

***How are non-employee directors compensated?***

**Base Compensation.** In 2004 the Company paid directors' fees on an adjusted quarterly basis at a rate of £30,000 Pounds Sterling (£) per year plus £1,000 for each meeting of the Audit Committee that they attend, as adjusted for a one time increase in fees payable in U.S. dollars that occurred in September 2004 (using an exchange rate of £1 = \$1.927 as at December 31, 2004 (as quoted on [www.oanda.com](http://www.oanda.com))). The Company also reimburses ordinary out-of-pocket expenses for attending Board and Committee meetings. Directors who are also employees of the Company receive no additional compensation for service as a director. The Company does not provide retirement benefits to directors under any current program.

**Options.** Each non-employee director that was serving in 2004 received options to purchase 255,000 shares of the Company's common stock in fiscal 2004. Each option grant, vesting over two years in three equal tranches with the first tranche vesting immediately and having a seven-year term, permits the holder to purchase shares at \$0.65, which exceeded their fair market value on the date of grant, which was \$0.59 in the case of options granted in 2004. All of these options must be exercised within three months of termination, but in no event longer than the original expiration date of the option. Michael Ayre also received options to purchase 250,000 shares of the Company's common stock on joining the Board of Directors in March 2004. These options vested immediately and have a five year term, with an option price of \$1.00.

The following table shows the compensation paid to all persons who were non-employee directors, including their respective affiliates, during the fiscal year ended December 31, 2004:

Name	Directors Fees and Other		Options and Warrants Granted
	Compensation*	Payments	
	\$	\$	
Russ Hammond	\$ 140,518(1)		255,000
Nils Trulsvik	\$ 140,518(1)		255,000
Michael Ayre	\$ 128,956(1)		505,000

(1) Using December 31, 2004 exchange rate of £1 = \$1.927 (as quoted on [www.oanda.com](http://www.oanda.com))

\* The Directors compensation included a one time adjustment to their Directors' fee in the amount of \$75,000 which was paid in US Dollars (\$). The balance of their compensation was paid in Pounds Sterling (£).



***Certain Relationships and Related Transactions***

Dr David Robson, Chief Executive Officer, provides all of his services to the Company through Vazon Energy Limited of which he is the Managing Director. See *Executive Compensation Management Agreements* below for a description of Vazon Energy Limited's agreement with the Company.

Mr Russ Hammond, a non-executive director of the Company, is also an Investment Advisor to Provincial Securities Limited who became a minority shareholder in the Norio and North Kumisi (Block XI<sup>c</sup>) Production Sharing Agreement through a farm-in agreement to the Norio MK72 well. On September 4, 2003 the Company concluded a deal to purchase Provincial Securities Limited's minority interest in CanArgo Norio Ltd by a share swap for shares in the Company. The purchase was achieved by issuing 6 million restricted common shares in the Company to the minority interest holders in CanArgo Norio Ltd. Of the interests in CanArgo Norio Ltd, Provincial Securities Limited owned 4% and received 2,234,719 shares of the Company's common stock. Provincial Securities Limited also has an interest in Tethys Petroleum Investments Limited, a company in which the Company holds a 45% interest, which was established to develop potential projects in Kazakhstan. Mr Hammond did not receive any compensation in connection

## **Table of Contents**

with these transactions and disclaims any beneficial ownership of any shares of Company common stock received by Provincial Securities Limited. Mr. Julian Hammond, Mr. Hammond's son, is employed by the Company as consultant providing investor relations services at an annual salary of £64,800 Pounds Sterling (£).

Transactions with affiliates or other related parties including management of affiliates are to be undertaken on the same basis as third party arms-length transactions. Transactions with affiliates are reviewed and voted on solely by the Audit Committee.

### ***How do stockholders and employees communicate with the Board and the Audit Committee?***

Stockholders and other parties interested in communicating directly with the non-management directors as a group may do so by writing to: Nils Trulsvik c/o The Corporate Secretary, CanArgo Energy Corporation, PO Box 291, St. Peter Port, Guernsey, GY1 3RR, British Isles in an envelope marked "Confidential". The Corporate Secretary of the Company will promptly forward to Mr. Trulsvik all such correspondence. In addition, if you wish to communicate generally with the Board you may do so by writing to: The Corporate Secretary, CanArgo Energy Corporation, PO Box 291, St. Peter Port, Guernsey, GY1 3RR, British Isles. The Corporate Secretary of the Company reviews all such non-confidential correspondence and regularly forwards to the Board a summary of all correspondence as well as copies of all correspondence that, in the opinion of the Corporate Secretary, deals with the functions of the Board or its Committees or that she otherwise determines requires their attention. Directors may at any time review a log of all correspondence received by the Company that is addressed to members of the Board and request copies of any such non-confidential correspondence. Any shareholder and employee may submit at any time a good faith complaint regarding any questionable accounting, internal controls or auditing matters concerning the Company without fear of dismissal or retaliation of any kind. All such complaints are immediately brought to the attention of the Company's internal audit department and handled in accordance with procedures established by the Audit Committee with respect to such matters. Confidential, anonymous reports may be made by writing to the Chair of the Audit Committee, c/o The Corporate Secretary, CanArgo Energy Corporation, PO Box 291, St. Peter Port, Guernsey, GY1 3RR, British Isles, in an envelope marked "Confidential".

### ***Does the Company have a Code of Ethics?***

The Company has a single *Code of Business Conduct and Ethics*, which sets forth the Company's standards of expected business conduct and which is applicable to all employees, including the chief executive officer, the principal financial officer, principal accounting officer or controller, and persons performing similar functions (each a "Principal Officer"), as well as the directors of the Company. A copy of the Company's *Code of Business Conduct and Ethics* is available on the Company's website ([www.canargo.com](http://www.canargo.com)). The Company intends to post amendments to or waivers from its *Code of Business Conduct and Ethics* (to the extent applicable to or affecting any Principal Officer) at this location on its website.

## **AUDIT COMMITTEE REPORT**

*The following Report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates this Report by reference therein.*

The Audit Committee of the Board of Directors is responsible for the review and oversight of the Company's performance with respect to its financial responsibilities and the integrity of the Company's accounting and reporting

practices. The Audit Committee, in its capacity as a Committee of the Board of Directors, is also responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company (including resolution of disagreements between management and the auditor regarding financial reporting), and each such registered public accounting firm must report directly to the Audit Committee. The Board of Directors has determined that the members of the Audit Committee are independent in accordance with American Stock Exchange listing standards and are financially literate, as required by such requirements, as such qualification is interpreted by the Board of Directors in its business judgment. The Audit Committee is composed of three non-employee directors and operates under a written charter, a copy of which is attached as Annex I.

The Company, not the Audit Committee or the independent auditor, is responsible for the preparation of its financial statements and its operating results and for the appropriate safekeeping of the Company's assets.

**Table of Contents**

The independent auditor's responsibility is to attest to the fair presentation of the financial statements. The role of the Audit Committee is to be satisfied that both the Company and the independent auditor discharge their respective responsibilities effectively. However, no member of the Audit Committee is professionally engaged in the practice of accounting or auditing of the Company's accounts, including with respect to auditor independence. The Audit Committee relies, without independent verification, on the information provided to it and on the representations made by management and the independent auditors.

The Audit Committee held four meetings during the fiscal year 2004. The meetings were designed, among other things, to facilitate and encourage communication among the Audit Committee, the Company, and the Company's independent auditors, L J Soldinger Associates LLC. The Audit Committee discussed with L J Soldinger Associates LLC the overall scope and plan for their audit, and met with L J Soldinger Associates LLC, with and without management present. The Audit Committee has reviewed and discussed the audited financial statements with management.

The Audit Committee also discussed with the independent auditors matters required to be discussed with audit committees under generally accepted auditing standards, including, among other things, matters related to the conduct of the audit of the Company's consolidated financial statements, the Company's internal accounting controls and the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, *Communication with Audit Committees*.

The Company's independent auditors also provided to the Audit Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committee*, and discussed their independence from the Company. The Audit Committee also reviewed, among other things, the amount of fees paid to PricewaterhouseCoopers LLP and L J Soldinger Associates LLC for audit and non-audit services.

In accordance with the rules of the SEC, the following chart outlines fees billed during the years ended December 31, 2004 and December 31, 2003 by L J Soldinger Associates LLC:

SERVICES PERFORMED	2004	2003
Audit Fees(1)	\$ 527,645	\$ 177,316
Audit-Related Fees(2)	\$ 125,686	\$ 23,897
Tax Fees(3)	\$ 36,615	\$ 113,140
All Other Fees(4)		
Total Fees	\$ 689,946	\$ 314,353

**NOTES TO PRECEDING TABLE**

(1) Audit fees represent fees billed for professional services provided in connection with the audit of our annual financial statements, reviews of our quarterly financial statements and audit services provided in connection with statutory and regulatory filings for those years.

(2) Audit-related fees represent fees billed primarily for assurance and related services reasonably related to the performance of the audit or reviews of our financial statements.

(3) Tax fees principally represent fees billed for tax preparation, tax advice and tax planning services.

(4) All other fees principally would include fees billed for products and services provided by the accountant, other than the services reported under the three captions above.

Based on its review and these meetings, discussions and reports, and subject to the limitations on its role and responsibilities referred to above and in the Audit Committee Charter, the Audit Committee recommended to the Board of Directors and the Board approved, that the Company's audited consolidated financial statements for the fiscal year ended December 31, 2004 be included in the Company's Annual Report on Form 10-K, for filing with the SEC.

**Michael Ayre, Chairman**

**Russ Hammond**

**Nils Trulsvik**

**Table of Contents**

**EXECUTIVE COMPENSATION**

**Compensation Committee Report on Executive Compensation**

*The following Report of the Compensation Committee and the performance graph included elsewhere in this proxy statement do not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates this Report or the performance graphs by reference therein.*

The Compensation Committee of the Board has furnished the following report on executive compensation for fiscal 2004.

*The Committee's Responsibilities*

The Compensation Committee of the Board of Directors is composed entirely of non-employee directors. The Compensation Committee is responsible for setting and administering policies which govern the Company's executive compensation programs. The purpose of this report is to summarize the compensation philosophy and policies that the Compensation Committee applied in making executive compensation decisions in 2004.

*Compensation Philosophy*

The Compensation Committee has approved compensation programs intended to:

Attract and retain talented executive officers and key employees by providing total compensation competitive with that of other executives employed by companies of similar size, complexity and lines of business;

Motivate executives and key employees to achieve strong financial and operational performance;

Emphasize performance-based compensation, which balances rewards for short-term and long-term results;

Reward individual performance;

Link the interests of executives with stockholders by providing a significant portion of total pay in the form of stock incentives; and

Encourage long-term commitment to the Company.

The Compensation Committee held three meetings during fiscal 2004

*Stock Based Compensation Plans*

At December 31, 2004, stock options and warrants had been issued from the following stock based compensation plans:

1995 Long-Term Incentive Plan. Adopted by the Company in February 1996, this plan allows for up to 7,500,000 shares of the Company's common stock to be issued to officers, directors, employees, consultants and advisors. As of December 31, 2004, 2,931,500 options issued under this plan were outstanding;

Amended and Restated CEI Plan. Adopted by the Company following the acquisition by the Company of CanArgo Oil & Gas Inc. in 1998, this plan allowed for 988,000 shares of the Company's common stock to be

issued to employees, consultants and advisors. As of December 31, 2004, 525,000 options issued under this plan were outstanding;

-9-

---

## **Table of Contents**

**Special Stock Options and Warrants.** Adopted by the Company in September 2000, this plan was created to allow the Company to retain and provide incentives to existing executive officers and directors and to allow recruitment of new officers and directors following the Company's decision to relocate finance and administrative functions from Calgary, Canada, to London, England. As of December 31, 2004, 1,928,333 special stock options and warrants issued under this plan were outstanding; and

**2004 Long Term Stock Incentive Plan.** Adopted by the Company in May 2004, this plan allows for up to 10,000,000 shares of the Company's common stock to be issued to officers, directors, employees, consultants and advisors. As of December 31, 2004, 5,088,000 options issued under this plan were outstanding.

### *Compensation Methodology*

Each year the Compensation Committee reviews data from market surveys, proxy statements issued by competitors and independent consultants to assess the Company's competitive position with respect to the following three components of executive compensation:

base salary;

annual incentives; and

long-term incentives.

The Compensation Committee also considers individual performance, level of responsibility, and skills and experience in making compensation decisions for each executive.

### *Components of Compensation*

**Base Salary:** Base salaries for executives are determined based upon job responsibilities, level of experience, individual performance, comparisons to the salaries of executives in similar positions obtained from market surveys, and competitive data obtained from consultants and staff research. The goal for the base pay component is to compensate executives at a level which approximates the median salaries of individuals in comparable positions with comparable companies in the oil and gas industry. The Compensation Committee approves all salary increases for executive officers.

**Long-Term Incentive Compensation:** The Compensation Committee has structured long-term incentive compensation to provide for an appropriate balance between rewarding performance and encouraging employee retention. Long-term incentives are granted primarily in the form of stock options. The purpose of stock options is to align compensation directly with increases in shareholder value. The number of options granted is determined by reviewing survey data to determine the compensation made to other executives and management employees in comparable positions with comparable companies in the oil and gas sector. In determining the number of options to be awarded, the Compensation Committee also considers the grant recipient's qualitative and quantitative performance, the size of stock option awards in the past, and expectations of the grant recipient's future performance.

In 2004, the Compensation Committee approved the grant of a series of new stock options to a broad range of employees and officers. The stock option awards were granted under the various available Company plans.

### *Compliance with Section 162(m) of the Internal Revenue Code*

Under Section 162(m) of the Internal Revenue Code, the Company may not deduct annual compensation in excess of \$1 million paid to certain employees; generally its Chief Executive Officer and its four other most highly compensated executive officers, unless that compensation qualifies as performance-based compensation. While the Compensation



Committee intends to structure performance-related awards in a way that will preserve the maximum deductibility of compensation awards, the Compensation Committee may from time to time approve awards which would vest upon the passage of time or other compensation which would not result in qualification of those awards as performance-based compensation. It is not anticipated that compensation realized by any executive officer under the Company's plans and programs now in effect will result in a material loss of tax deductions.

## **Table of Contents**

### *Compensation of the Chief Executive Officer*

The Compensation Committee annually reviews the compensation of the Chief Executive Officer. The Chief Executive Officer participates in the same programs and receives compensation under the same programs as other executives. However, the Chief Executive Officer's compensation reflects the greater policy and decision-making authority that the Chief Executive Officer holds and the higher level of responsibility he has with respect to the strategic direction of the Company and its financial and operating results. For 2004, the components of Dr. Robson's compensation were:

*Base Salary:* After considering the Company's overall performance and competitive practices, and the signing of a new contract, the Compensation Committee approved a base salary of £175,000 for Dr. Robson, effective January 1, 2004.

*Performance Bonus:* In September 2004, the Compensation Committee, after considering the overall performance of the Company, awarded the Chief Executive Officer a performance bonus of \$150,000. There is no defined Short-Term Incentive scheme for the Chief Executive Officer, and any bonus is at the discretion of the Compensation Committee. Under Dr. Robson's previous contract a quarterly Short-Term Incentive scheme was in place. This was replaced by a discretionary scheme in his new contract.

It is the Compensation Committee's intention that, when taken together, the components of Dr. Robson's pay, including base salary, performance, annual incentives, short-term incentive opportunity and long-term incentives, will result in compensation which approximates compensation paid by companies of similar size in the same industry.

This report has been provided by the Compensation Committee.

**Nils Trulsvik, Chairman.**  
**Russ Hammond**

### **Compensation Committee Interlocks and Insider Participation**

During 2004, the Company's Compensation Committee consisted of Nils Trulsvik and Russ Hammond, both currently independent non-employee directors. See the section entitled *Certain Relationships and Related Transactions*.

### **Management Agreements**

Dr David Robson serves as Chairman and Chief Executive Officer of the Company pursuant to an agreement with Vazon Energy Limited of which Dr Robson is the sole owner and Managing Director. Dr Robson through Vazon Energy Limited has signed a comprehensive Management Services Agreement with a rolling six-month termination notice period and a two-year non-competition clause effective from the date of termination of the agreement.

Under the terms of the Management Services Agreement Dr Robson received during 2004 a base salary of £14,583.33 per calendar month. Dr Robson is further entitled to a cash bonus payable at the discretion of the Compensation Committee (or failing that the Company's Board) upon the occurrence of certain specified events reflecting the value to the Company of such an event. The Management Services Agreement does not contain any provisions in relation to stock options.

The Management Services Agreement became effective on June 30, 2000 and terminates on either party giving 6 months written notice to terminate in which case the agreement will terminate 6 months after receipt of the notice.

Other grounds for termination are the liquidation or dissolution of the Company, mutual agreement of the parties to terminate and the occurrence of an Event of Default as defined in the Management Services Agreement. In the event of a change of control of the Company, the Company must give Dr Robson not less than 12 months written notice to terminate the Management Services Agreement. The Management Services Agreement contains a covenant in terms of which Dr Robson will not, for a period of two years following the termination of the agreement, directly or indirectly induce any consultant of the Company to terminate their employment, hire by direct approach any consultant of the Company, or in any way interfere with the relationship of the Company and any consultant, agent or representative. Furthermore, Dr Robson is prohibited from directly or indirectly soliciting, diverting or attempting to divert business or related business from the Company for a period of two years from the date of termination of the Management Services Agreement.

**Table of Contents**

Under the terms of the agreement, Dr Robson has a duty not to disclose any confidential information of the Company and he must use such information solely for the benefit of the Company. Dr Robson has a contractual obligation under this agreement to disclose and deliver to the Company for its exclusive use and benefit any inventions as a direct result of work performed for the Company.

In terms of benefits, the Company will make a monthly contribution of 9% of base salary to Dr Robson's pension requirements. Dr Robson will further be provided with life assurance with death cover of four times his base salary (excluding any bonus), permanent health insurance and comprehensive BUPA Travel Insurance.

The Management Services Contract does not contain any gross-up provisions for excess parachute payments, severance provisions or provisions requiring Dr Robson's nomination to the Board of the Company.

Vincent McDonnell serves as Chief Financial Officer of the Company pursuant to a Service Agreement dated December 1, 2000. The Service Agreement became effective on December 1, 2000 and terminates on either party giving 6 months written notice to terminate in which case the Agreement will terminate 6 months after receipt of notice. The Company is entitled to make a payment to Mr. McDonnell in lieu of notice. The Service Agreement contains garden leave provisions.

Under the terms of the Service Agreement, Mr. McDonnell received during 2004 a base salary of £140,000 which was payable on a monthly basis. The Service Agreement does not contain any provisions in relation to bonus payments and entitled Mr. McDonnell to a one-time grant of 100,000 share options when it was originally signed in 2000.

The Service Agreement contains a restrictive covenant in terms of which Mr. McDonnell will not during his employment or for a period of 12 months following the termination of his employment (without the prior written consent of the Company) directly or indirectly compete with the Company in the Restricted Area (as defined in the Service Agreement), solicit or induce any critical employee of the Company to terminate their employment, employ or otherwise engage any critical employee in any competing business with the Company or solicit or induce any government body or agency or any third party in the Restricted Area to cease to deal with the Company.

Under the terms of the Service Agreement, Mr. McDonnell has a duty not to disclose any confidential information of the Company and he must use such information solely for the benefit of the Company. Mr. McDonnell has a contractual obligation under his Service Agreement to disclose and deliver to the Company for its exclusive use and benefit any inventions as a direct result of work performed for the Company.

In terms of benefits, the Company will contribute 9% of Mr. McDonnell's basic salary into a personal pension. Mr. McDonnell is further entitled to be provided with life assurance with death cover of four times his annual salary, permanent health insurance and family health care insurance.

The Service Agreement does not contain any gross-up provisions for excess parachute payments, severance payments or provisions requiring Mr. McDonnell's nomination to the Board of the Company.

**Table of Contents****Summary Compensation Table**

The following table shows all compensation paid or accrued by the Company and its subsidiaries during the years ended December 31, 2004, 2003 and 2002 to the Chief Executive Officer and the two other most highly compensated executive officers of the Company who served in such capacities as of such dates and one additional individual for whom disclosures would have been provided but for the fact that the individual was not serving as an executive officer as at December 31, 2004 (the Named Officers ) for services rendered to the Company and its subsidiaries during each of the past three fiscal years.

Name and Principal Position	Year Ended	Annual Compensation		Bonus (\$)	Securities	All Other	
		Salary (6) (GBP) (\$ equiv)			Underlying options /SAR's	Compensation (5), (6) (\$ equiv)	
David Robson Chairman & CEO (1)	2004	175,000	337,225	150,000	3,500,000	15,750	30,350
	2003	150,000	266,775	17,573	3,000,000	13,500	24,010
	2002	150,000	240,660	29,000	2,666,667	13,500	19,575
Vincent McDonnell CFO and CCO (2)	2004	140,000	269,780	150,000	1,200,000	12,600	24,280
	2003	120,000	213,420		600,000	10,800	19,207
	2002	106,000	170,066		300,000	9,540	13,822
Murray Chancellor COO (3)	2002	120,000	192,528		0	10,800	15,660
Liz Landles Corporate Secretary (4)	2004	73,625	141,875	75,000	610,000	6,626	12,769
	2003	57,000	101,374		200,000	5,130	9,124
	2002	57,000	91,451		170,000	5,130	7,695

- (1) Dr Robson has served as Chairman and Chief Executive Officer since July 15, 1998 and provides services to the Company through Vazon Energy Limited.
- (2) Mr McDonnell has served as Chief Commercial Officer since April 1, 2001. Prior thereto he served as Commercial Manager from December 1, 2000. On September 18, 2002 he was appointed Chief Financial Officer of the Company and on May 2, 2003 he was appointed Director.
- (3) Mr Chancellor served as Chief Operating Officer from September 12, 2000 to March 31, 2003.
- (4) Mrs Landles has served as Company Secretary since August 1, 2002.
- (5) Primarily the Company's contributions to or accruals with respect to non-Company sponsored individual retirement and pension plans.
- (6) Salaries and Other Compensation, excluding bonuses, were paid in UK Pounds Sterling ( GBP ). Bonuses were paid in US Dollars (\$). Exchange rates used to convert from GBP to \$ used were as follows; for 2002 1 GBP = \$1.6044, for 2003 the year end rate of 1 GBP = \$1.778 and for 2004 the year end rate of 1 GBP = \$1.927.

**Option Grants during the Year Ended December 31, 2004**

The following table sets forth information concerning options granted to the Named Officers who were employed during the year ended December 31, 2004.

Name	Number of Securities	% of Total Options Granted to Employees in 2004	Exercise Price	Date	Grant Date	
					Present Value (2) Per Share	Expiration Total
David Robson (1)	1,500,000	24%	\$ 0.65	Sep 24, 2011	\$ 0.52	\$ 780,000
Vincent McDonnell (1)	900,000	14%	\$ 0.65	Sep 24, 2011	\$ 0.52	\$ 468,000
Liz Landles (1)	510,000	8%	\$ 0.65	Sep 24, 2011	\$ 0.52	\$ 265,200

(1) The options were granted at an exercise price of \$0.65 at the time of issue. All the options vest over two years from the date of issue, 1/3 vesting immediately, 1/3 after 1 year and 1/3 after 2 years.

-13-

**Table of Contents**

- (2) The hypothetical value of the options as of their date of grant has been calculated using the Black-Scholes option pricing model, as permitted by SEC rules, based upon a set of assumptions set forth in the following table. It should be noted that this model is only one method of valuing options, and the Company's use of the model should not be interpreted as an endorsement of its accuracy. The actual value of the options may be significantly different, and the value actually realized, if any, will depend upon the excess of the market value of the common stock over the option exercise price at the time of exercise.

<i>Exercise Price</i>	<b>Dividend Yield</b>	<b>Volatility</b>	<b>Risk-Free Interest Rate</b>	<b>Expected Term</b>
\$0.65	0.00%	102%	3.69%	7 Years

The approach used in developing the assumptions upon which the Black-Scholes valuations were calculated is consistent with the requirements of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*.

Pursuant to the terms of the Company's various stock option plans, the Compensation Committee may, subject to each plan's limits, modify the terms of outstanding options, including the exercise price and vesting schedule thereof. These values are not intended to forecast future appreciation of the Company's stock price. The actual value, if any, which an executive officer may realize from his options (assuming that they are exercised) will depend solely on the increase in the market price of the shares acquired through option exercises over the exercise price, measured when the shares are sold.

**Equity Compensation Plans**

The following table sets forth information concerning equity compensation plans adopted by the Company as at December 31, 2004.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities that remain available for future Issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	8,544,500	\$ 0.50	4,915,419
Equity compensation plans not approved by security holders	1,928,333	\$ 0.71	
Total	10,472,833	\$ 0.54	4,915,419

The following is a brief summary of our four existing equity compensation plans and arrangements: the 1995 Long-Term Incentive Plan; the CEI Plan, the Special Stock Options and Warrants and the 2004 Long Term Stock Incentive Plan. The Special Stock Options and Warrants Plan is the sole equity compensation plan of the Company that has not been approved by our stockholders.

**1995 Long-Term Incentive Plan.** The 1995 Plan was approved by our stockholders at the annual meeting of stockholders held on February 6, 1996. This Plan allows for up to 7,500,000 shares of the Company s



**Table of Contents**

common stock to be issued to officers, directors, employees, consultants and advisors pursuant to the grant of stock based awards, including qualified and non-qualified stock options, restricted stock, stock appreciation rights and other stock based performance awards. As of December 31, 2004, options to acquire an aggregate of 2,931,500 shares of common stock had been granted under this Plan and were outstanding, 2,414,000 of which are currently vested. The plan expires on November 13, 2005.

**The Amended and Restated CanArgo Energy Inc. Plan (the CEI Plan )**. The CEI Plan (sometimes known as the CAOG Plan) was adopted by the Company's Board of Directors on September 29, 1998. All Options outstanding under the Plan as of July 15, 1998 were assumed by the Company pursuant to the terms of an Amended and Restated Combination Agreement between the Company and CanArgo Energy Inc. dated February 2, 1998 which was approved by the Company's stockholders on July 8, 1998. This Plan allowed for up to 1,250,000 shares (of which only 988,000 shares were registered) of the Company's common stock to be issued to any director or full-time employee of the Company or a subsidiary of the Company.

The Company's Compensation Committee have the authority to determine the number of shares subject to each option, the option price, the expiration date of each option, the extent to which each option is exercisable during the term of the option and the other terms and conditions relating to each such option. As of December 31, 2004, five year options to acquire an aggregate of 525,000 shares of common stock had been granted under this Plan and were outstanding, all of which are currently 100% vested.

**Special Stock Options and Warrants**. This plan was created to allow the Company to retain and provide incentives to existing executive officers and directors and to allow retirement of new officers and directors following the Company's decision to relocate finance and administration functions from Calgary, Canada, to London, England. As of December 31, 2004, special stock options and warrants issued under this plan exercisable for an aggregate of 1,928,333 shares of common stock were outstanding, subject to customary anti-dilution adjustments.

The Special Stock Options were granted on September 1, 2000 at an exercise price of \$1.437 per common share. They expire on September 1, 2005 and vested 1/2 on or after March 1, 2001, 1/4 on or after March 1, 2002 and 1/4 on or after March 1, 2003. The exercise period has been extended for serving directors and personnel by the Company's Board of Directors.

The Special Stock Purchase Warrants were granted on September 1, 2000 at an exercise price of \$1.27. They expire on September 1, 2005 and vested 100% on March 1, 2001. Under the terms of the plan the expiration date of the plan has been extended for serving directors by the Company's Board of Directors.

Neither the Special Stock Options nor the Special Stock Purchase Warrants qualify as "Incentive Stock Options" within the meaning of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder. Accordingly, upon exercise, the holders of such options and warrants would be taxed on the same basis as holders of non-qualified stock options.

**2004 Long Term Stock Incentive Plan**. The 2004 LTSIP was approved by our stockholders at the annual meeting of stockholders held on May 18, 2004. This Plan allows for up to 10,000,000 shares of the Company's common stock to be issued to officers, directors, employees, consultants and advisors pursuant to the grant of stock based awards, including qualified and non-qualified stock options, restricted stock, stock appreciation rights and other stock based performance awards. As of December 31, 2004, seven year options to acquire an aggregate of 5,088,000 shares of common stock had been granted under this Plan and were outstanding, 1,696,000 of which are currently 100% vested. The 2004 Long Term Stock Incentive Plan will expire on May 17, 2014, although the Board of Directors may terminate the 2004 Long Term Stock Incentive Plan at any time prior to that date.

The above description of the 1995 Long-Term Incentive Plan is qualified in its entirety by reference to the copy of the plan filed as an exhibit to the Forms S-8 covering the Plan filed by the Company with the SEC on April 19, 1996, September 2, 1999 and September 21, 2001. The descriptions of the CEI Plan and the Special Stock Options and Warrants are qualified in their entirety to the copies of such plans filed as exhibits to the Form S-8 and Form S-3, filed by the Company with the SEC on July 17, 1998 and September 11, 2000, respectively. The description of the 2004 Long Term Stock Incentive Plan is qualified in its entirety by reference to the copy of the Plan filed as Exhibit 10.3 to the Current Report on Form 8-K dated June 3, 2004. The Company filed a Form S-8 covering the 2004 Long Term Stock Incentive Plan on September 24, 2004.

**Table of Contents****Option Values at December 31, 2004**

The following table sets forth information concerning option exercises and the number and hypothetical value of stock options held by the Named Officers as at December 31, 2004.

Name	Number of Shares Acquired on Exercise	Value Realized (\$)	Number of Shares Underlying Unexercised Options Held at Fiscal Year End (1)		Value of Unexercised In-the-Money Options at Fiscal Year End (\$)	
			Exercisable	Un-exercisable	Exercisable	Un-exercisable
David Robson	1,000,000	1,054,756	2,500,000	1,000,000	2,500,000	1,000,000
Murray Chancellor (2)	0	0	250,000	0		
Vincent McDonnell	300,000	316,427	600,000	600,000	600,000	600,000
Liz Landles	100,000	105,476	270,000	340,000	270,000	340,000

(1) The exercise of stock options is not dependent on performance criteria and may be exercised in full when vested.

(2) Mr. Chancellor is a former employee of the Company. His options were not in-the-money as of December 31, 2004.

**Performance Measurement Comparison**

The chart set forth below shows the value of an investment of \$100 on December 31, 1999 in each of the Company's common stock, the NASDAQ Composite Index, the American Stock Exchange Index and a peer group of certain oil and gas exploration and development companies. The peer group consists of the following independent oil and gas exploration companies: Aminex plc, Bow Valley Energy Ltd., EuroGas, JKX Oil & Gas plc, Centurion Energy International Inc., Lundin Oil AB, Ramco Energy plc and Soco International plc. A&B Geoscience Corporation, ASA, and Bitech Petroleum Corporation are no longer listed and have been removed from the peer group. As the Company is now listed on the American Stock Exchange the AMEX Index of listed stocks has been included in the comparison table and the corresponding NASDAQ Index comparison will not appear next year.

All values assume reinvestment of the pre-tax value of dividends paid by companies included in these indices and are calculated as of December 31 of each year. The share price performance is weighted based on market capitalisation using the number of outstanding shares at the beginning of each period. The historical stock price performance of the common stock shown in the performance graph below is not necessarily indicative of future stock price performance.

Year End	1999	2000	2001	2002	2003	2004
CNR	100	231	93	17	184	733
Peer Index	100	122	127	230	515	819
NASDAQ	100	61	42	29	43	47
AMEX	100	102	97	94	134	164

**Table of Contents**

The Audit Committee Report, the Compensation Committee Report on Executive Compensation and the Stock Price Performance Graph shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission or subject to Regulation 14A or 14C under the Exchange Act and shall not be deemed incorporated by reference into any filing made by the Company under the Securities Act of 1933 or the Securities Act of 1934, notwithstanding any general statement contained in any such filing incorporating this proxy statement by reference, except to the extent the Company incorporates that Report or the Graph by specific reference.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following tables, based in part upon information supplied by officers, directors and principal shareholders, set forth certain information regarding the ownership of common stock of the Company as of the record date by (i) all those persons known by the Company to be beneficial owners of more than five percent of the outstanding common stock of the Company; (ii) each director; (iii) each executive officer named in the compensation tables above; and (iv) all directors and executive officers of the Company as a group. Unless otherwise indicated, each of these shareholders has sole voting and investment power with respect to the shares beneficially owned.

**Security Ownership of Certain Beneficial Owners**

<b>Name of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percent of Class</b>
State Street Research & Management Company, One Financial Centre, 31 <sup>st</sup> Floor, Boston, MA 02111-2690	16,131,400(a)	8.27%
Persistency Limited, PO Box 309, Georgetown, Cayman Islands, British W.I.	13,361,900(a)	7.07%

(a) Security ownership information for the beneficial owners is taken from the Forms 13G filed on January 27, 2005 and 13G and 13G/A filed on November 24, 2004

**Table of Contents****Security Ownership by Management**

<b>Name of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percent of Class</b>
<b>Non-Management Directors</b>		
Nils Trulsvik	432,450(1)	*
Russ Hammond	185,000(2)	*
Michael Ayre	425,000(3)	
<b>Named Executive Officers</b>		
David Robson	2,957,760(4)	1.6%
Vincent McDonnell	800,000(5)	*
Murray Chancellor	250,000(6)	
Liz Landles	270,000(7)	*
All Directors and executive officers as a group (6 persons)	5,320,210(8)	2.8%

\* Less than 1%.

(1) Includes 340,000 shares underlying presently exercisable options and warrants.

(2) Includes 85,000 shares underlying presently exercisable options and warrants.

(3) Includes 335,000 shares underlying presently exercisable options.

(4) Includes 2,500,000 shares underlying presently exercisable options.

(5) Includes 600,000 shares underlying presently exercisable options.

(6) Includes 250,000 shares underlying presently exercisable options. Mr. Chancellor is a former employee of the Company.

(7) Includes 270,000 shares underlying presently exercisable options.

(8) Includes 4,380,000 shares underlying presently exercisable options held by directors and executive officers as a group.

**Description of Voting Securities**

The Voting Securities of the Company consist solely of common stock. The common stock is voted as a single class on all matters. The common stock is entitled to one vote per share.

**Section 16 (a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act), requires the Company's executive officers and directors, and persons who own more than 10% of the registered class of the Company's equity securities (Reporting Persons), to file reports of ownership and changes of ownership with the Securities and Exchange Commission. Reporting persons are required by SEC Regulations to furnish the Company with copies of all forms they file pursuant to Section 16(a). Based solely upon a review of filings with the Securities and Exchange Commission and written representations that no other reports were required, we believe that all of our directors and executive officers complied with the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934 during fiscal 2004.

**PROPOSAL 1. ELECTION OF DIRECTORS**

The current term of office of all of the Company's directors expires at the 2005 annual meeting. A majority of the independent directors has nominated five persons to be elected directors at the annual meeting to hold office until the next annual meeting of stockholders and until the election of their respective successors. All of the nominees are currently serving as directors. Directors are elected by a plurality of votes cast; broker non-votes and votes withheld have no effect on the vote. If you do not wish your shares to be voted for a particular nominee, you may so indicate in the space provided on the proxy form or withhold authority. All proxies received by the Board of Directors will be voted **FOR** the nominees listed below if no direction to the contrary is given. Each of the nominees has consented to serve if elected. In the event that any nominee

## Table of Contents

is unable or declines to serve, the proxies will be voted for the election of any alternate nominee who is designated by the Board of Directors.

The nominees for director are:

**Dr David Robson**, a resident of Guernsey, was elected a Director, Chairman of the Board and Chief Executive Officer of the Company on July 15, 1998 and subsequently President and Chief Executive Officer, being reappointed Chairman on November 21, 2002. He has also served as a Director, Chairman of the Board and Chief Executive Officer of the Company's subsidiary, CanArgo Oil & Gas Inc., since July 1997, as President of CanArgo Oil & Gas Inc.'s subsidiary, Ninotsminda Oil Company Ltd, since 1996, and as Managing Director and sole owner of Vazon Energy Limited, a company which provides consulting services to the energy industry, since March 1997. From April 1992 until July 1993, Dr Robson was General Manager of JP Kenny/Intershelf Oil & Gas Resources, from July 1993 until December 1993, Operations Director of JP Kenny Exploration and Production Limited ( JP Kenny ), from December 1993 until November 1994, Managing Director, JP Kenny and from November 1994 until March 1997, Dr Robson was Chief Executive Officer of JKX Oil & Gas Plc. Prior to this he was employed in technical and commercial positions in Britoil plc, Hamilton Oil and Mobil. In June 2003 Dr Robson was awarded with the Order of Honour for services to the Georgian hydrocarbon extraction industry. He holds a B.Sc. (Hons) degree in Geology, a Ph.D. in Geochemistry and an MBA. Dr. Robson devotes substantially all of his time to the Company.

**Vincent McDonnell**, a resident of the UK, was elected a Director of the Company on May 2, 2003. He has served the Company as Chief Financial Officer since September 23, 2002. Prior thereto, he served the Company as Chief Commercial Officer from April 2001 and Commercial Manager from December 2000. Prior to joining the Company, he was an independent oil and gas consultant from May 1999 until October 2000. From 1994 until April 1999, Mr. McDonnell served as Commercial Manager of JKX Oil & Gas plc. Prior to 1994, Mr. McDonnell worked in various business, commercial and technical roles with a number of companies, including Mobil and Britoil. He holds a B.Sc (Hons.) degree in Geology, an M.Sc. degree in Geophysics and an MBA.

**Michael Ayre**, a resident of Guernsey, was elected a Director of the Company on March 5, 2004. He is currently Managing Director of Mees Pierson Reads, a trust management and financial advisory company. He was previously employed from 1983 to 1987 in the London office of Touche Ross & Co (now Deloitte) and the Guernsey office from 1981 to 1983 of Peat Marwick Mitchell (now KPMG). Mr Ayre is a member of the Chartered Association of Certified Accountants and the Chartered Institute of Taxation. He was formerly a non-executive director of Woolwich Guernsey Limited and is currently a non-executive director of the Guernsey subsidiaries of Unigestion, a Swiss fund management group.

**Russ Hammond**, a resident of the UK, was elected a Director of the Company on July 15, 1998. He has also served as a Director of the Company's subsidiary, CanArgo Oil & Gas Inc., since June 1997. Although retired, Mr Hammond has over the past five years been an investment advisor to Provincial Securities Ltd, a private investment company. Mr Hammond has been Chairman of Terrenex Acquisition Corporation, an oil and gas and joint venture company since 1992 and a director of Cadiz Inc., a US public company, from 1989 to January 1999. In June 2003 Russ Hammond was awarded with the Order of Honour for services to the Georgian hydrocarbon extraction industry.

**Nils Trulsvik**, a resident of Norway, was elected a Director of the Company on August 17, 1994. He has served the Company as President and Chief Executive Officer from February 1997 to July 1998 and from November 1994 to March 1995; and as Executive Vice President from March 1995 to February 1997 and from September 1994 until November 1994. Since January 1999, Mr Trulsvik has served as the Chief Executive Officer of Force Petroleum Limited. From August 1998, Mr Trulsvik has been a partner in a consulting company, The Bridge Group. Mr. Trulsvik is a petroleum explorationist with extensive experience in petroleum exploration and development throughout the world. Prior to joining the Company, he held various positions with Nopec a.s., a Norwegian

petroleum consultant group of companies of which he was a founder, including Managing Director from 1987 to 1993 and Special Advisor from 1993 to August 1994.

***THE BOARD OF DIRECTORS RECOMMENDS A VOTE IN FAVOR OF EACH NAMED NOMINEE.  
(Proposal 1)***



**Table of Contents**

**STOCKHOLDER PROPOSALS**

Any stockholder intending to submit to the Company a proposal for inclusion in the Company's proxy statement and proxy for the 2006 annual meeting must submit such proposal so that it is received by the Company no later than October 15, 2005, and such proposal must otherwise comply with Rule 14a-8 under the Exchange Act. Proposals should be sent to Corporate Secretary, CanArgo Energy Corporation, P.O. Box 291, St. Peter Port, Guernsey, GY1 3RR, British Isles.

**DISCRETIONARY AUTHORITY**

While the Notice of the Annual Meeting of Stockholders calls for the transaction of such other business as may properly come before the meeting, the Board of Directors has no present knowledge of any matters to be presented for action by the stockholders other than as set forth above. The enclosed proxy gives discretionary authority, however, to the persons named in the accompanying proxy to vote the shares represented thereby on all such additional matters properly brought before the annual meeting in accordance with their best judgment.

**GENERAL**

***Householding of Proxy Materials.*** The SEC has adopted rules that permit companies and intermediaries such as brokers to satisfy delivery requirements for proxy statements with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those stockholders. This process, which is commonly referred to as householding, potentially provides extra convenience for stockholders and cost savings for companies. The Company and some brokers household proxy materials, delivering a single proxy statement to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker or us that they or we will be householding materials to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate proxy statement, or if you are receiving multiple copies of the proxy statement and wish to receive only one, please notify your broker if your shares are held in a brokerage account or us if you hold registered shares. You can notify us by sending a written request to Corporate Secretary, CanArgo Energy Corporation, P.O. Box 291, St. Peter Port, Guernsey, GY1 3RR, British Isles or or by facsimile to +44 1481 729 982.

***Proxy Solicitation Costs.*** The costs of solicitation of proxies will be paid by the Company. The solicitation shall be by means of mail, telephone and personal contact. In addition to utilizing its directors, officers and other regular employees to solicit proxies, the Company has engaged Gambit a.s. to assist with the solicitation of proxies from stockholders residing in Norway. The Company pays Gambit a.s. a quarterly fee of \$4,500 for services and the solicitation of proxies may incur extra charges. Banks, brokers, fiduciaries and other custodians and nominees who forward proxy soliciting material to their principals will be reimbursed their customary and reasonable out-of-pocket expenses.

Representatives of L J Solindger Associates LLC are not expected to be present at the annual meeting.

**FORM 10-K ANNUAL REPORT**

A copy of the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission (excluding exhibits) has been mailed together with the original proxy statement. A copy of the Exhibits may be

requested by any person in writing by addressing the request to the Corporate Secretary, CanArgo Energy Corporation, P.O Box 291, St. Peter Port, Guernsey, GY1 3RR, British Isles and stating that such person is a beneficial owner of common stock of the Company. A charge equal to the reproduction cost of the exhibit will be made. We are subject to the information and reporting requirements of the Securities Exchange Act of 1934 under which we file periodic reports, proxy statements and other information with the SEC. Copies of the reports, proxy statements and other information may be examined without charge at the Public Reference Section of the SEC, 450 Fifth Street, NW., Room 1024, Washington, D.C. 20549, or on the Internet at [www.sec.gov](http://www.sec.gov). A copy of the Annual Report on Form 10-K is also accessible by following the links to Investor Relations/Financial Statements on the Company's website at <http://www.canargo.com>.

The Company's Code of Business Conduct and Ethics, the Audit Committee's Charter and the Resolutions adopted by the Board of Directors regarding the nomination process are also all accessible by following the links to Corporate Governance on the Company's web site. The Company will furnish copies of such

**Table of Contents**

documents without charge to any person requesting such documents in writing addressed to the Corporate Secretary, CanArgo Energy Corporation, P.O. Box 291, St. Peter Port, Guernsey, GY1 3RR, British Isles and stating that such person is a beneficial owner of common stock of the Company.

By Order of the Board of Directors,

Liz Landles  
Corporate Secretary

Guernsey, British Isles  
April 28, 2005

-21-

---

**Table of Contents**

**Annex I**

**CanArgo Energy Corporation**

**AUDIT COMMITTEE CHARTER**

The Audit Committee of CanArgo Energy Corporation (the Company) is a standing committee of the Board of Directors whose primary function is to carry out a detailed and thorough review of audit matters, to be responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company (including resolution of disagreements between management and the auditor regarding financial reporting), to consider and approve related party transactions and to offer the Company's auditors, Stockholders and employees a direct link to the non-executive Directors. This Committee will assist the Board in fulfilling its oversight responsibilities by reviewing the financial information which will be provided to the Stockholders and others, the internal control structure, the audit process, and adherence to applicable laws and regulations. Given the growing size and complexity of the Company, the Committee will apply reasonable materiality standards to all of its activities.

The Committee shall be solely comprised of independent members of the Board of Directors. The Board shall appoint Committee members and the Committee Chairman. There shall be not less than three members of the Committee. For purposes hereof, independent shall mean a director who both meets the American Stock Exchange and the Securities and Exchange Commission's definition of independence as determined by the Board in its business judgment. Each member of the Audit Committee shall be financially literate and at least one member of the Audit committee shall have accounting or related financial management expertise, both as the Board interprets such qualifications in its business judgment. Also, at least one member of the Audit Committee shall meet the Securities and Exchange Commission's definition of an audit committee financial expert, as determined by the Board in its business judgment. One member may satisfy both qualifications.

The Committee shall meet at least quarterly. No meeting shall be held unless a quorum of members is present. A majority of the members shall constitute a quorum. The Committee may ask members of management or others to attend meetings and provide pertinent information as necessary. The meetings may be in person or telephonically.

The Committee shall have the power to conduct or authorize investigations into any matters within the Committee's scope of responsibilities. The resources of the Company shall be available to the Committee to carry out its duties and, if needs be, the Committee may (at the Company's cost) take external professional advice and invite outsiders with relevant experience to attend if necessary.

Specifically, the Committee shall:

1. Retain and terminate the Company's independent accountants, evaluate the performance and qualifications of the independent auditors and be directly responsible for the appointment, compensation and oversight of the work of any independent registered public accounting firm engaged by the Company. The Committee will also periodically consider the independence of the independent accountants, including an annual review of non-audit services provided and related fees received. This evaluation and review should include the evaluation and review of the lead partner of the independent registered public accounting firm including such partner's regular rotation as required by law. In making its evaluations, the Audit Committee should take into account the opinions of management and the Company's internal auditors (or other personnel responsible for the internal audit function) and shall present its conclusions to the Board.

2.

Pre-approve all permissible non-audit services and all audit, review or attest engagements, and the compensation, fees and terms for such services provided by the independent auditors. By

-22-

---

**Table of Contents**

approving the audit engagement, an audit service within the scope of the engagement shall be deemed to have been pre-approved. Establish policies and procedures as warranted for the pre-approval of services by the independent auditors and review such proposed services on a periodic basis. The Audit Committee shall also consider whether the independent auditor's performance of permissible non-audit services is compatible with the auditor's independence. The Audit Committee shall also review with the independent auditor the written statement from the auditor, required by the Independence Standards Board, concerning any relationships between the auditor and the Company or any other relationships that may adversely affect the independence of the auditor.

2. Discuss with the external auditors before the annual audit commences the nature, scope and timing of the audit and ensure co-ordination where more than one audit firm is involved.
3. Enquire of management, the independent accountants, the Chief Financial Officer and the Chief Executive Officer about significant risks or exposures to loss or liability facing the Company and enquire as to the steps management has taken to minimize such risks.
4. Consider, in consultation with the independent accountants and the Chief Financial Officer, the combined audit scope and budget to ensure completeness of coverage, reduction in redundant efforts, and the effective use of audit resources.
5. Review with management and the independent accountants:

The Company's quarterly and annual financial statements and related footnotes and the independent accountants' report thereon, as applicable, including the Company's specific disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations, the adequacy of the Company's internal controls, including management's evaluation of and report on the Company's disclosure controls and procedures and internal controls, any significant recommendations they may offer to improve disclosure controls and procedures and internal controls, major judgmental areas and significant adjustments resulting from the audit;

Any significant reserves, accruals or estimates which may have a material impact on the financial statements, including engineering reserves;

Any difficulties or disputes with management encountered by the independent accountants during the course of the audit and any instances of second opinions sought by management;

Management letters to the auditors;

Other matters related to the conduct of the audit and financial reviews which are communicated to the Committee under generally accepted auditing standards;

Review and approve any related party transactions; and

Review the performance of the Company's Internal Audit Department and provide a direct line of communication between the Internal Audit Department, the independent accountants and the Board of Directors.

6. Review and recommend approval to the Board of Directors of the inclusion of the Company's financial statements in the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and in other

public filing documents that require approval of the Board of Directors.

**Table of Contents**

7. Consider and review with the independent accountants, management and the CFO:

The adequacy of the Company's internal controls and any significant findings during the year and management's responses thereto; and

Any difficulties encountered in the course of the independent accountants' audits, including any restrictions on the scope of their work or access to required information.

8. Consider with management and the independent accountants the possible impact on any pending changes in accounting standards or rules or any significant changes in the Company's accounting policies.
9. Meet periodically with the Company's legal advisor (and other lawyers as required) to review legal and regulatory matters, including any material pending legal proceedings involving the Company and any reports received from regulators that may have a material impact on the Company's financial statements, environmental compliance and financial liabilities or reserves.
10. Meet periodically with the independent accountants in separate executive sessions without any member of the executive management present to discuss any matters that they or the Committee believe should be discussed privately with the Committee.
11. Report Committee actions to the Board of Directors with such recommendations as the Committee may deem appropriate. Minutes will be taken for each Committee meeting which will then be approved at the next meeting.
12. Review with the Chief Financial Officer, legal advisors, and the independent accountants, as appropriate, the results of their review of the Company's monitoring compliance with the Company's Code of Conduct.
13. If appropriate, review any letter to be included in the annual report that describes the Committee's composition and responsibilities and how they were discharged.
14. Review the annual expense reports of the Chairman, Chief Executive and other key officers.
15. Other Responsibilities:

Review the appointment and termination by the Chief Executive Officer of the Chief Financial Officer;

Review the adequacy of the Audit Committee Charter annually and evaluate the performance of the Audit Committee every two years and recommend such changes in the Charter as the Audit Committee may determine from time to time are appropriate.

Education and training for members of the Committee;

Periodic local visits to meet local managers on site;

Review with management and the auditors the potential risks facing the Company, the steps management is taking to mitigate such risks, and the adequacy of public disclosure of these risks; and

Receive, retain and consider complaints received by the Company regarding questionable accounting or auditing matters and internal accounting controls and in that connection:



Provide for the confidential, anonymous submission by employees and others of concerns regarding questionable accounting or auditing matters or internal

-24-

---

**Table of Contents**

accounting controls;

If warranted conduct investigations of management and others to determine the merits of any such concerns;

Retain independent counsel and other advisors if warranted to assist the Committee in connection with any such investigation;

Make recommendations for any remedial actions to be taken by the Company, if warranted, to correct any questionable accounting or auditing matter; and

If material, recommend the disclosure both to the public and to appropriate regulatory agencies of the results of any such investigation and any remedial actions to be taken by the Company in response thereto.

16. Perform such other duties and responsibilities as may be assigned to the Audit Committee, from time to time, by the Board and/or the Chairman and Chief Executive Officer.
17. Approved Minutes of Committee meetings shall be circulated to all members of the Board.

-25-

---

Table of Contents

Annex II

**CanArgo Energy Corporation**

**RESOLUTIONS ADOPTED REGARDING THE NOMINATION OF DIRECTORS**

**Upon the Unanimous Written Consent of Directors dated as of February 28, 2005 the Board of Directors adopted the following Resolutions.**

**RESOLVED:** That the Board of Directors of the Corporation (the Board ) deems it in the best interests of the Corporation and its stockholders, consistent with the requirements of the American Stock Exchange and the Securities and Exchange Commission, to adopt the following resolutions with regard to the process by which the Corporation nominates candidates for the position of director of the Corporation; and be it further

**RESOLVED:** That the Board hereby appoints an *Ad Hoc Committee* (the Committee ) composed of at least three independent directors of the Board and delegates to the Committee the responsibility to identify individuals qualified to become members of the Board consistent with criteria approved by the Board, and to recommend to the Board the director nominees for the next annual meeting of shareholders. For purposes hereof, independent shall mean a director who both meets the American Stock Exchange and Securities and Exchange Commission definitions of independence as determined by the Board in its business judgment; and be it further

**RESOLVED:** That the Committee shall have the authority and responsibility to:

- i. Recommend to the Board candidates for election or reelection to the Board at each annual meeting of the shareholders of the Company.
- ii. Recommend to the Board candidates for election by the Board to fill vacancies occurring on the Board.
- iii. Consider shareholder nominees.
- iv. Establish the Board's criteria for selecting new directors.
- v. Aid in attracting qualified candidates to serve on the Board.
- vi. Retain, consult with and seek advice from appropriate management personnel, outside consultants or attorneys on any of the above matters as the Committee may from time to time deem appropriate, including the sole authority to retain and terminate any search firm to be used to identify director candidates, and to approve such firm's fees and other retention terms.
- vii. Appoint one or more subcommittees composed of one or more directors and delegate any of its authorities or responsibilities to such subcommittees, on any of the above matters, as the Committee may from time to time deem appropriate.
- viii. Report Committee actions to the Board.
- ix. Perform such other duties and responsibilities as may be assigned to the Committee, from time to time, by the Board and/or the Chairman and Chief Executive Officer;

**and be it further**

**RESOLVED:** That the Committee shall meet as often as it deems necessary or appropriate, in its judgment, either in person or telephonically, and at such times and places as the Committee determines. The Committee shall report to the full Board with respect to each meeting and shall make such reports to shareholders as are required by applicable regulations or as are deemed advisable in the Committee's judgment. The majority of the members of the Committee shall constitute a quorum.

-26-