

CANARGO ENERGY CORP

Form DEF 14A

June 18, 2008

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**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. )**

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 Material Pursuant to §240.14a-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)(4) 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:
- 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:

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June 18, 2008

Dear Fellow Stockholder:

We invite you to attend the Annual Meeting of Stockholders on Friday, July 18, 2008, at The American Stock Exchange, 86 Trinity Place, New York, N.Y. 10006. The meeting will begin promptly at 10:30 a.m., Eastern Time.

The enclosed Notice of Meeting and Proxy Statement not only describe the items that stockholders are being asked to consider and vote on at the meeting, but also provide you with important information about your Company.

At the meeting, you will hear a report on our business and, as a stockholder, you will be asked to vote on a number of important matters. We encourage you to vote on all matters listed in the enclosed Notice of Annual Meeting of Stockholders and Proxy Statement. The Board of Directors recommends a vote **FOR** each of the Company proposals described as Proposals 1, 2 and 3 in the Proxy Statement.

Whether or not you plan to attend the Annual Meeting of Stockholders in person, your vote is important. After reading the enclosed Notice and Proxy Statement, **please promptly submit your proxy by mail and, if you are a resident of the United States, you may instead submit your proxy by telephone or Internet in accordance with the instructions furnished on your proxy card.** If you vote by proxy card, please remember to sign, date and mail the card in the envelope provided.

If you are planning to attend the meeting in person, because of security procedures **you will be required to present government-issued photo identification** (e.g., driver's license or passport) to enter The American Stock Exchange on the day of the meeting. Inspection and checking of packages, bags and briefcases, among other measures, may be employed to enhance the security of those attending the meeting. These procedures may require additional time. Please plan accordingly.

We look forward to greeting those of you who are able to attend the Annual Meeting in New York.

Sincerely,

Vincent McDonnell  
*Chairman and Chief Executive Officer*

**YOUR VOTE IS IMPORTANT.**

**PLEASE PROMPTLY SUBMIT YOUR PROXY OR (WHERE PERMITTED) VOTE BY TELEPHONE OR VIA THE INTERNET.**

*CanArgo Energy Corporation*  
*Registered Office: 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808, USA*

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**CANARGO ENERGY CORPORATION**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
To Be Held on July 18, 2008**

The Board of Directors of CanArgo Energy Corporation, a Delaware Corporation (the Company), hereby gives notice that the Annual Meeting of Stockholders of the Company will be held on July 18, 2008 at 10:30 a.m. Eastern Time at The American Stock Exchange, 86 Trinity Place, New York, NY, 10006 for the following purposes, as more fully described in the accompanying Proxy Statement:

1. To elect directors to hold office until the next Annual Meeting of Stockholders or until their successors are elected and qualified.
2. To approve the adoption of an amendment to the Company's Amended and Restated Certificate of Incorporation to increase the number of shares of Common Stock that the Company will have authority to issue from 500,000,000 to 1,000,000,000 shares.
3. To approve the amendment of the Company's 2004 Long Term Stock Incentive Plan (Plan) to increase the number of shares of Common Stock issuable under the Plan by an additional 17,500,000 shares to 35,000,000 shares.
4. To transact such other business as may properly come before the meeting or any adjournments or postponements thereof.

Only stockholders of record at the close of business on June 9, 2008 will be entitled to notice of, and to vote at, such meeting or any adjournments or postponements 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 or, if they are United States residents, by registering their vote by telephone or via the Internet by the specified deadline.

**BY ORDER OF THE BOARD OF DIRECTORS**

Jeffrey Wilkins  
Corporate Secretary

St. Peter Port  
Guernsey, British Isles  
June 18, 2008

**IMPORTANT: WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE COMPLETE, SIGN, DATE AND MAIL PROMPTLY THE ACCOMPANYING PROXY CARD IN THE ENCLOSED RETURN ENVELOPE, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES, OR, IF YOU ARE A STOCKHOLDER RESIDENT IN THE UNITED STATES, AUTHORISE THE INDIVIDUALS NAMED IN YOUR PROXY CARD TO VOTE YOUR SHARES BY CALLING THE TELEPHONE NUMBER OR USING THE INTERNET BY THE DEADLINE AS DESCRIBED IN THE INSTRUCTIONS INCLUDED WITH YOUR PROXY CARD. THIS WILL ENSURE THE PRESENCE OF A**

**QUORUM AT THE MEETING. IF YOU ATTEND THE MEETING, YOU MAY VOTE IN PERSON IF YOU WISH TO DO SO EVEN IF YOU HAVE PREVIOUSLY SENT IN YOUR PROXY CARD OR REGISTERED YOUR VOTE BY TELEPHONE OR INTERNET.**

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

**PROXY STATEMENT**

**2008 ANNUAL MEETING OF STOCKHOLDERS**

CanArgo Energy Corporation (the Company) is furnishing this Proxy Statement and the enclosed proxy in connection with the solicitation of proxies by the Board of Directors of the Company for use at the Annual Meeting of Stockholders to be held on July 18, 2008 at 10:30 a.m. Eastern Time at The American Stock Exchange, 86 Trinity Place, New York, NY, 10006 and at any adjournments or postponements thereof (the Annual Meeting). The Proxy Statement and the enclosed proxy are first being sent to stockholders on or about June 20, 2008.

Only holders of the Company's common stock, par value \$.10 per share (Common Stock) as of the close of business on June 9, 2008 (the Record Date) are entitled to vote at the Annual Meeting. Stockholders who hold shares of the Company in street name may vote at the Annual Meeting only if they hold a valid proxy from their broker. As of the Record Date, there were 242,107,390 shares of Common Stock outstanding. A majority of the outstanding shares of Common Stock entitled to vote at the Annual Meeting must be present in person or by proxy in order for there to be a quorum at the meeting. Stockholders of record who are present at the meeting in person or by proxy and who abstain from voting, including brokers holding customers' shares of record who cause abstentions to be recorded at the meeting and broker non-votes, will be included in the number of stockholders present at the meeting for the purpose of determining whether a quorum is present. Generally, broker non-votes occur on a proposal when the broker is not permitted under applicable rules to vote on the proposal without instruction from the beneficial owner of the Common Stock and no instruction is given. If a broker, bank or other nominee holds your shares please make sure that you have communicated your voting instructions timely to the broker, bank or other nominee in order to ensure that your vote is counted.

**How to Vote**

Your vote is important and we appreciate your prompt attention to it. Registered United States stockholders can vote by telephone, the Internet or mail, as described on your proxy card. **Foreign stockholders, including Norwegian stockholders who hold their shares in the VPS System, may only vote by mail using the appropriate proxy card furnished to them in the enclosed envelope.** If you are a beneficial stockholder, please refer to your proxy card or the information forwarded by your broker, bank or other holder of record to see what options are available to you.

In order to vote via telephone or on the Internet, please have in front of you your proxy card. A phone number and website address are contained on the relevant proxy card. Upon entering either the phone number or the Internet address, you will be instructed on how to proceed. If you vote by telephone or on the Internet Web site, please **do not** return your proxy card by mail. You also may vote by submitting a ballot in person if you attend the meeting unless you hold your shares in street name or a broker, bank or other nominee holds your shares, in which case you must bring with you a properly executed proxy card signed by such broker, bank or other nominee or fiduciary. However, we encourage you to vote by proxy card, or, if you qualify, by telephone or on the Internet even if you plan to attend the meeting.

Registration and seating will begin at 10:00 a.m. Eastern Time. All stockholders attending the meeting will be asked to present valid government-issued picture identification, such as a driver's license or passport. Verification of stock ownership will be required at the meeting. If you own your shares in your own name or hold them through a broker, bank or other nominee (and can provide documentation showing ownership such as a letter or account statement from your broker, bank or other nominee) at the close of business on the Record Date (June 9, 2008), you will be permitted to attend the meeting. Cameras, recording devices and other electronic devices will not be permitted at the meeting.

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Each stockholder of record is entitled to one vote at the Annual Meeting for each share of Common Stock held by such stockholder on the Record Date. Stockholders do not have cumulative voting rights. All proxy cards received by the Company which are properly signed and have not been revoked will be voted in accordance with the instructions contained in the proxy cards or, if properly voted by telephone or via the Internet in accordance with instructions, as indicated by such votes. If a signed proxy card is received which does not specify a vote or an abstention and is not revoked prior to exercise, the shares represented by that proxy card will be voted as recommended by the Board of Directors as follows:

**FOR** the election of the director nominees;

**FOR** the approval of the amendment to the Company's Amended and Restated Certificate of Incorporation; and

**FOR** the approval of the amendment of the Company's 2004 Long Term Stock Incentive Plan to increase the number of shares of Common Stock issuable under the plan.

The Company does not anticipate, as of the date hereof, any matters to be voted upon at the Annual Meeting other than those stated in this Proxy Statement and the accompanying Notice of Annual Meeting of Stockholders. If any other matters are properly brought before the Annual Meeting, to the extent allowed under Delaware law, the enclosed proxy card gives discretionary authority to the persons named as proxies to vote the shares represented by the proxy card in their discretion. Adjournment of our Annual Meeting may be made for the purpose of, among other things, soliciting additional proxies. Any adjournment may be made from time to time by approval of the holders of Common Stock representing a majority of the votes present in person or by proxy at the Annual Meeting, whether or not a quorum exists, without further notice other than by an announcement made at the Annual Meeting.

Under Delaware law, the Company's Amended and Restated Certificate of Incorporation and the Amended and Restated Bylaws, if a quorum exists at the meeting, the affirmative vote of a plurality of the votes cast at the meeting is required for the election of directors (**Proposal 1**). This means that directors receiving the most number of "For" votes will be elected as 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. Furthermore, with respect to the amendment of the Company's Amended and Restated Certificate of Incorporation (**Proposal 2**), the affirmative vote of a majority of the issued and outstanding shares of the Company's Common Stock is required for approval of the proposal and an abstention will result in a vote against the proposal. For each other item, including the amendment of the Company's 2004 Long Term Stock Incentive Plan (**Proposal 3**), the affirmative vote of the holders of a majority of the shares represented in person or by proxy and entitled to vote on the item will be required for approval. A properly executed proxy marked "Abstain" or, if properly voted as an abstention by telephone or via the Internet in accordance with instructions, 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, with respect to Proposals 2 and 3 an abstention will have the effect of a negative vote.

The Company requests that brokerage firms, bank nominees and other institutions that act as nominees or fiduciaries for owners of Common Stock forward this Proxy Statement and proxies to persons for whom they hold shares and obtain authorization for the execution of proxies. If shares are held in the name of a brokerage firm, bank or nominee, only the brokerage firm, bank or nominee can sign a proxy with respect to stockholders' shares. Accordingly, such stockholder will not be able to vote their shares in person should they attend the meeting. Instead, the stockholder should contact the person responsible for their account and give instructions for a proxy representing their shares to be signed and voted as directed.

For shares held in "street name" through a broker, bank or other nominee, the 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 stockholders do

not give their broker or nominee specific instructions, their 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.

A stockholder of record may revoke a proxy at any time before it is voted at the Annual Meeting by (a) delivering a proxy revocation or another duly executed proxy card bearing a later date to the Corporate Secretary

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of the Company or, if permitted, a later-dated vote by telephone or via the Internet or (b) attending the Annual Meeting and voting by ballot in person. If you hold shares through a broker, bank or other nominee, you may submit new voting instructions by contacting your broker, bank or other nominee. Attendance at the Annual Meeting will not revoke a proxy unless the stockholder actually votes in person at the meeting.

The proxy card accompanying this Proxy Statement is solicited by the Board of Directors of the Company. The Company will pay all of the costs of soliciting proxies. In addition to solicitation by mail, officers, directors and employees of the Company may solicit proxies personally, or by telephone, without receiving additional compensation. The Company has retained Georgeson Inc. in the United States and Gambit H & K AS in Norway to assist in the solicitation of proxies in connection with the Annual Meeting. The Company will pay Georgeson Inc. the firm's customary fees, expected to total approximately \$47,000 plus expenses. The Company will pay Gambit H & K AS the firm's customary fees plus expenses, although services in respect of solicitation are included in the annual fee of \$78,000 payable to Gambit H & K AS for general investor relations services they provide to the Company. The Company, if requested, will also pay brokers, banks and other fiduciaries who hold shares of Common Stock for beneficial owners for their reasonable out-of-pocket expenses of forwarding these materials to stockholders.

The Company's Annual Report on Form 10-K, as amended on Form 10-K/A, for the fiscal year ended December 31, 2007 ( Annual Report ) is enclosed with this Proxy Statement for each stockholder.

**PROPOSAL 1 ELECTION OF DIRECTORS**

The current term of office of all of the Company's directors expires at the 2008 Annual Meeting. A majority of the independent directors has nominated all 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 and have indicated that they are willing and able to serve as directors.

Directors are elected by a plurality of votes cast at the meeting; any shares not voted (by abstention, broker non-vote, or otherwise) have no impact 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 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 Vincent McDonnell, Jeffrey Wilkins, Michael Ayre, Russ Hammond and Anthony Perry.

Biographical information regarding each nominee is set forth in the section entitled Directors, Executive Officers and Corporate Governance *Management of the Company* below.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE IN FAVOR OF THIS PROPOSAL (Proposal 1)**

**PROPOSAL 2 INCREASE OF AUTHORISED SHARE CAPITAL**

On April 23, 2008, the Board of Directors approved conducting a proposed one for one rights offering to Common Stockholders (the Offering ) at an exercise price of \$0.10 per share. See the discussion below in the Section entitled Background and Reasons for the Proposal . As of June 9, 2008, the Company had 242,107,390 shares of Common Stock issued and outstanding. Assuming that shares reserved for issuance are issued pursuant to outstanding contractual commitments, options and warrants (see Shares Reserved for Future Issuance below for a discussion of shares reserved for issuance by the Company) and that the Offering is consummated as contemplated hereby and that

the stockholders approve an amendment of the 2004 Plan to increase the number of shares of Common Stock issuable under the 2004 Plan by an additional 17,500,000 shares, to an aggregate of 35,000,000 shares (see **Proposal 3** below ) and further excluding any additional shares of Common Stock being issued to one or more standby underwriters that the Company may successfully secure to subscribe for

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unsubscribed shares in the Offering, then the Company shall require an additional 206,083,328 shares of Common Stock to be authorized for issuance and assuming the Offering is fully subscribed the Company shall have 706,083,328 shares of Common Stock issued and outstanding on a fully diluted basis. See Shares Reserved for Future Issuance and Dilution below.

Accordingly, the Board of Directors unanimously adopted a resolution authorizing an amendment to the Company's Amended and Restated Certificate of Incorporation (the Certificate) to increase the total number of the Company's authorized shares of Common Stock from 500,000,000 shares to 1,000,000,000 shares, par value \$0.10 per share. The proposed amendment is subject to approval by the Company's stockholders.

The Common Stock, including the additional shares proposed for authorization, do not have pre-emptive or similar rights, which means that current stockholders do not have a prior right to purchase any new issue of capital stock of the Company in order to maintain their proportionate ownership thereof. Thus, the issuance of additional shares of Common Stock might dilute, under certain circumstances, the ownership and voting rights of stockholders (see Dilution below). Each of the additional authorized shares of Common Stock will have the same rights and privileges as the currently authorized Common Stock.

The proposed amendment will modify the first sentence of paragraph (a) of Article Four of the Certificate to read as follows in its entirety:

(a) The total number of shares of all classes of stock which the Corporation shall have authority to issue is one billion five million (1,005,000,000), consisting of:

- (1) Five million (5,000,000) shares of Preferred Stock, par value ten cents (\$0.10) per share (the Preferred Stock); and
- (2) One billion (1,000,000,000) shares of common stock, par value ten cents (\$0.10) per share (the Common Stock).

The Company is currently authorized to issue 505,000,000 shares of capital stock, of which 500,000,000 are designated as Common Stock and 5,000,000 shares are designated as Preferred Stock. The proposed amendment would increase the total number of shares of authorized capital stock to 1,005,000,000 shares and the number of shares of Common Stock authorized to 1,000,000,000. The authorized shares of Common Stock were last increased by the stockholders at the Annual General Meeting in June 2007, when the number of shares was increased from 375,000,000 to 500,000,000 shares.

## **Shares Reserved for Future Issuance**

As of June 9, 2008, 500,000,000 shares of Common Stock were authorized of which 242,107,390 shares of Common Stock were issued and outstanding leaving 257,892,610 currently authorized but unissued shares of common stock of which an aggregate of 67,118,548 shares have been reserved for future issuance: 45,270 shares in connection with the exchange of Exchangeable Shares previously issued by the Company in connection with an acquisition; 7,992,000 shares of Common Stock upon exercise of outstanding stock options granted under certain stock option plans; 34,911,111 shares issuable upon exercise of outstanding warrants; up to 8,732,667 reserved for issuance under our existing option plans; and up to 15,437,500 shares reserved for issuance in connection with certain existing contractual arrangements. No shares of capital stock were held by the Company as treasury stock and no shares of Preferred Stock were issued and outstanding.

Assuming that the Company's stockholders approve the proposal to increase the total number of the Company's authorized shares of Common Stock from 500,000,000 shares to 1,000,000,000 shares, par value \$0.10 per share and approve an amendment of the 2004 Plan to increase the number of shares of Common Stock issuable under the 2004

Plan by an additional 17,500,000 shares, to an aggregate of 35,000,000 shares (see **Proposal 3** below) and the Offering approved by the Board of Directors on April 23, 2008, at an exercise price of \$0.10 per share, is consummated as contemplated hereby and further excluding any additional shares of Common Stock being issued to one or more standby underwriters that the Company may successfully secure to subscribe for unsubscribed shares in the Offering, then 484,214,780 shares of Common Stock would be issued and outstanding leaving 515,785,220 authorized but unissued shares of common stock of which an aggregate of 221,868,548 shares

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would be reserved for future issuance: 45,270 shares in connection with the exchange of Exchangeable Shares previously issued by the Company in connection with an acquisition; 7,992,000 shares of Common Stock upon exercise of outstanding stock options granted under certain stock option plans; 34,911,111 shares issuable upon exercise of outstanding warrants; up to 26,232,667 reserved for issuance under our existing option plans; and up to 152,687,500 shares reserved for issuance in connection with certain contractual arrangements (including conversion of the Notes). No shares of capital stock would be held by the Company as treasury stock and no shares of Preferred Stock would be issued and outstanding.

If the proposed amendment is adopted, it will become effective upon filing of the proposed amendment with the Delaware Secretary of State's Office.

## **Background and Reasons for the Proposal**

We currently have sufficient cash on hand to support our operations at current levels through the third quarter 2008. In order to continue our operations after the third quarter 2008 at current levels, and to fund our planned 2008 capital expenditure program, we need to raise substantial funds. Our strategic plan includes funding the development of the Company's proven reserves at the Ninotsminda Field which we expect will significantly improve our revenues and cash flow in the short-term. Subject to financing being available, we would also target other potential reserves remaining both within and surrounding the main field area which have been identified as a result of an ongoing technical re-evaluation of the field. A combined production enhancement strategy for the Ninotsminda Field might include:

1. Drilling a new well into the undeveloped eastern part of the field. This would be a highly deviated well from the vicinity of the N98H surface location with up to two horizontal sections being completed in the Middle Eocene reservoir interval. The eastern part of the Ninotsminda Field has not been exploited because most of the area falls within an environmental protection zone where drilling is prohibited. The N98 horizontal well is the most easterly producing well on the field and, although not oriented in an optimal direction so as to best encounter the sub vertical fractures which are important for production, the well has produced approximately 510,000 barrels of oil to date and continues to produce at a steady rate of approximately 200 barrels of oil per day (bopd) with less than 1% water cut. More optimally oriented horizontal wells such as N4H and N100H1 initially tested at rates of approximately 2,000 bopd.
2. The use of new technology such as radial drilling to produce trapped oil from shallower reservoirs overlying the main Middle Eocene reservoir. Previous attempts to produce these zones using perforations were largely unsuccessful due to near well bore reservoir damage caused by unsuitable drilling fluids used in Soviet times. We believe that radial drilling could have the ability to reach beyond this damage and we are currently in discussion with a service provider both on the suitability and availability of this technology.
3. General workover activity such as the application of perforations to unproduced reservoir intervals and the use of water isolation techniques to suppress water flow and increase oil production.
4. Following the completion of testing operations at the Manavi 12 well, consideration may be given to mobilising CanArgo rig #2 to the N52 well, to complete the fishing operation commenced in 2007, add perforations to the reservoir interval and, if successful, put the well into production. This well was drilled in Soviet times, but never put into production due to operational problems. N52 is also located in the undeveloped eastern part of the Ninotsminda Field.
5. On the northern flank of the Ninotsminda Field is a potentially large accumulation of oil in the Oligocene interval which has been established by the N78 well. This well, drilled several years ago, initially tested oil at a rate of 1,074

bopd, but never produced at this high rate as a result of the incursion of water due to what is believed to be a poor cement bond behind the casing. A new vertical well to the west of N78 is being considered in order to better exploit this accumulation.

The Company has considered a range of possible funding options, including private placements of its securities. As a result of management's discussions with its external financial advisers we believe that a rights offering affords the best opportunity for the Company to raise the necessary financing to continue to fund our currently planned development activities in Georgia on our Ninotsminda Field and progress our strategy. We believe

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that other funding options may not raise the significant sums we seek, nor would they do so without diluting our existing stockholders. Management's view was reinforced by informal soundings taken from a small number of its stockholders and Noteholders [(including [BlackRock, Inc.], Ingalls & Snyder and Persistency)] as to prospective financing options. However, no such stockholders or Noteholders suggested any of the terms of the proposed rights offering, or indeed the pricing thereof. Such matters have been determined by the Independent Committee of the Board alone.

The Company currently has outstanding \$4,650,000 in aggregate principal amount of Senior Subordinated Convertible Guaranteed Notes due September 1, 2009 (the Subordinated Notes), of which Notes in the respective aggregate principal amounts of \$2,906,250 are held by Ingalls & Snyder and \$1,743,750 are held by Penrith Limited. The Company also has outstanding \$10,600,000 in aggregate principal amount of 12% Subordinated Convertible Guaranteed Notes due June 28, 2010 (the 12% Notes). The 12% Notes are held by Persistency. Both the Subordinated Notes and the 12% Notes are convertible, at the Noteholders' option, into Common Stock of the Company. Pursuant to the terms of the Notes the conversion price of the Notes, which is currently \$1.00 per share, would be re-set upon consummation of the Rights Offering to \$0.10 per share, subject to further possible adjustments in accordance with the terms of the Notes. Likewise, pursuant to the terms of warrants to purchase 28,611,000 shares of Common Stock issued by the Company, the exercise price of the warrants, which is currently \$1.00 per share, will also be re-set upon consummation of the Rights Offering to \$0.10 per share subject to further possible adjustments in accordance with the terms of the warrants. 12,500,000 of such warrants were issued in connection with the sale and purchase of the 12% Notes to Persistency whilst a further 5,000,000 of such warrants were issued to Morgan Stanley & Co. for the account of Persistency as compensation for Persistency converting/exchanging, in June 2007, \$5 million nominal principal amount of the Subordinated Notes into shares of common stock of Tethys Petroleum Limited (Tethys) (Tethys being a former subsidiary of the Company). The remaining 11,111,111 warrants in respect of which the exercise price converts were issued to Ingalls & Snyder (as nominee for the underlying beneficial owners) as compensation in connection with the conversion/exchange, in June 2007, of \$10 million nominal principal amount of the Company's 25 million Senior Secured Notes due July 25, 2009 (the Senior Notes) into shares of Tethys common stock (all of which have since been repaid by the Company).

However, under the terms of the Subordinated Notes in no event shall the number of shares of Common Stock issuable to the holders of the Subordinated Notes on conversion cause the holders thereof to own in excess of 19.9% of the outstanding Common Stock as at March 3, 2006 (i.e., the date of the related Note Purchase Agreement in respect of the Subordinated Notes) unless the Company has obtained the prior approval of stockholders as required by the applicable rules of The American Stock Exchange; provided, however, that the Company is required to use its commercially reasonable efforts to diligently seek to obtain such approval. Similarly, the terms of the 12% Notes and related warrants provide that in no event shall the number of shares issuable to holders thereof on conversion and exercise of such securities cause the holders to own in excess of 19.9% of the outstanding Common Stock as at June 28, 2006 (i.e., the date of the related Note and Warrant Purchase Agreement in respect of the 12% Notes) unless the Company has obtained the prior approval of stockholders as required by the applicable rules of The American Stock Exchange; provided, however, that the Company is required to use its commercially reasonable efforts to diligently seek to obtain such approval.

To date, we have not received any indication from our current major stockholder BlackRock, Inc. whether it would vote for Proposal 2. Likewise, we have not received any indication from our Noteholders (Ingalls & Snyder, Penrith Limited and Persistency) that they will convert and exercise their respective securities in order to participate in the Offering. However, if our current major stockholder votes in favour of the Proposal, the affirmative vote of the non-affiliated holders of 99,361,495 shares of Common Stock (exclusive of shares owned of record by directors and executive officers all of whom together own less than 1% of the outstanding shares in the aggregate) will be required to approve the Proposal.

As a result of management's discussions with such stockholders, creditors, and external financial advisors, we believe that a rights offering affords the best opportunity for the Company to raise finances to continue to fund our currently planned development activities in Georgia on our Ninotsminda Field and progress our strategy. Furthermore, management has had preliminary discussions with potential investors which may be prepared to underwrite the Offering on a standby basis, subscribing for unsubscribed for shares at the subscription price, subject to the approval of the proposed amendment to the Corporation's Amended and Restated Certificate of Incorporation

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by stockholders, the execution and delivery of mutually agreeable definitive legal agreements and other documentation and the satisfaction of certain other customary conditions, including, without limitation, the declaration of effectiveness of an appropriate registration statement under the Securities Act of 1933, as amended ( Securities Act ), registering the Offering under the Securities Act, as well as, the receipt of all other applicable regulatory and stock exchange approvals. Accordingly, as previously publicly announced by the Company on April 23, 2008, the Board of Directors determined to conduct an underwritten offering to common stockholders (the Offering ) of rights to purchase one share of Common Stock for each share of Common Stock held of record on a date to be announced later. The proposed subscription price for the Offering will be \$0.10 per share. As of June 9, 2008, there were an aggregate of 242,107,390 shares of Common Stock issued and outstanding. The subscription price was determined by the Company in its sole discretion as a result of its discussions with such stockholders, creditors and financial advisors described above as well as discussions with potential standby underwriters. The Company s objective in establishing the subscription price was the achievement of the targeted proceeds from the Offering while providing stockholders with an opportunity to make an additional investment in the Company, and thus avoid an involuntary dilution of their proportionate ownership position in the Company in the event the Company was required to seek additional financing from third parties.

In approving the subscription price, the Board of Directors considered such factors as the alternatives available to the Company for raising capital, the likelihood of consummating a successful Offering, the Company s long and short term loan obligations, the market price of the common stock, the business prospects for the Company and the general condition of the securities markets.

Further, in approving the subscription price, the Board of Directors acted upon the recommendation of a committee of disinterested directors of the Board of Directors of the Company (the Independent Committee ) comprised of Messrs. Michael Ayre, Russ Hammond and Anthony Perry.

On June 16, 2008, we announced that a group of eight separate foreign private investors have signed non-binding letters of intent with the Company detailing the principal terms of a proposed standby underwriting agreement that upon execution is expected to provide an aggregate firm commitment to purchase up to \$24.2 million in unsubscribed for shares in the Company s planned Rights Offering. The standby underwriters will agree to purchase, at the same subscription price as common stockholders, shares of Common Stock not otherwise purchased by stockholders in the Rights Offering. The underwriting agreement, which will contain customary underwriting conditions including registering the offering with the U.S. Securities and Exchange Commission, is expected to be put in place if and when stockholders approve the planned share capital expansion set forth in Proposal 2. Assuming that such investors execute and deliver such underwriting agreement and that the transactions contemplated thereby are consummated in accordance therewith the Company should obtain the maximum funds it seeks from a successful consummation of the Rights Offering.

As a result of general indications we have received from stockholders to our investor relations consultant following announcement of the planned Offering and the strengthening of our stock price since the announcement we believe, however, that many of our stockholders may exercise their subscription rights. On this basis, we believe it is not entirely necessary for the standby underwriters to purchase all unsubscribed for shares in order to raise the maximum proceeds that we seek; nevertheless, currently, we would not plan to proceed with the Offering if we fail to secure an underwriting for unsubscribed shares in an amount at least equal 50% of the Offering.

In the event stockholders fail to approve the amendment increasing the number of authorized shares of Common Stock the Company will be unable to conduct the Offering as planned and, in management s view, the Company s opportunities for raising additional capital needed to continue operations will be significantly reduced and, as described in the Risk Factors section of the Company s Annual Report, the Company may be required to significantly curtail operations and to seek to dispose of assets, in either case with uncertain results.



**Table of Contents****Use of Proceeds**

The Board of Directors currently intends to use the funds we expect to raise from the Offering (including any possible proceeds from a standby underwriting) principally to finance the Company's activities in Georgia. The following table sets out the use of gross proceeds assuming that the Offering is fully subscribed based on a subscription price of \$.10 per share for an aggregate issuance of 242,107,390 shares and, alternatively, if the Offering is only 50% subscribed for at the same subscription price but for only 121,053,695 shares. In either case, it is expected that the Company will incur customary offering fees and expenses:

**Use of Proceeds from a Fully Subscribed Offering of Rights to Subscribe for 242,107,390 Shares  
at \$0.10 per share (Maximum) and a 50% Subscribed Offering of Rights to  
Subscribe for 121,053,695 Shares at \$0.10 per Share (Minimum) \$000 s**

	Maximum	Minimum
Production enhancement program at the Ninotsminda Field which may include: the drilling of a new well in the eastern part of the Field with up to two horizontal completions;	\$ 12.0	\$ 8.0
the drilling of a new vertical well on the northern flank of the Field;		
the evaluation of new technology such as radial drilling to produce trapped oil from shallower reservoirs overlying the main Field area; and		
general workover activity		
On-going evaluation of the Manavi 12 well with a focus on increasing oil production	3.0	2.5
Progress farm-out strategy in respect of other exploration acreage	1.0	
Repayment of indebtedness <sup>(1)</sup>	5.0	
General business development and working capital (including payment of expenses of the Offering)	3.2	1.6
<b>Totals</b>	<b>\$ 24.2</b>	<b>\$ 12.1</b>
<b>==</b>		

- (1) The repayment of indebtedness would comprise payment of the Company's outstanding Subordinated Notes, which have a maturity date of September 1, 2009 and currently incur interest at a rate of 10% per annum.

The foregoing table represents management's current best estimate of the use of gross proceeds from the Offering (this does not take into consideration customary offering fees and expenses which would be normally expected to be incurred in connection with a registered public rights offering or any underwriting fees and expenses that may be incurred in connection with any standby underwriting). However, unforeseen or changing circumstances may alter the use and allocation of such proceeds.

In addition, the Board of Directors believes that it is advisable and in the best interests of the Company to have available additional authorized but unissued shares of Common Stock in an amount adequate to provide for the future business needs of the Company and to take advantage of future corporate opportunities. The increase in authorized Common Stock will not have any immediate effect on the rights of existing stockholders. However, the additional shares will be available for issuance from time to time by the Company, at the discretion of the Board of Directors, without further authorization by vote of the stockholders unless applicable law or regulation or stock exchange requirements otherwise require such authorization. These shares may be issued for any proper corporate purpose including, without limitation, in addition to the proposed Offering discussed above, acquiring other businesses in exchange for shares of Common Stock; entering into joint venture arrangements with other companies in which

Common Stock or the right to acquire Common Stock are part of the consideration; stock splits or stock dividends; raising capital through the sale of Common Stock or securities convertible into or exercisable or exchangeable for Common Stock; and attracting and retaining valuable employees and consultants by the issuance of additional stock, stock options or use of stock-based plans.

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Although the Company may engage in the foregoing actions in the future, except for the issuance of additional stock options under the Company's 2004 Long Term Stock Incentive Plan (see **Proposal 3** below), the proposed Offering and the possible further sale of shares of Common Stock or securities convertible into or exercisable or exchangeable for Common Stock to raise additional capital, no such actions involving the issuance of additional shares of Common Stock are pending as of the date hereof. As indicated in "Use of Proceeds" above, the Board of Directors would intend to use any funds raised from any such possible issuances to finance principally the Company's existing and proposed activities in Georgia.

If the proposed amendment is approved, the Board of Directors would be able to authorize the issuance of shares of Common Stock without the necessity, and related costs and delays, of either calling a special stockholders' meeting or waiting for the next regularly scheduled meeting of stockholders in order to increase the authorized shares of Common Stock.

## **Dilution**

The issuance of the additional shares of Common Stock could have the effect of diluting earnings per share and book value per share, which could adversely affect the Company's existing stockholders. As indicated in the Annual Report, the Company faces numerous risks. Among the most significant is its need for additional capital in order to implement its proposed business plan for 2008. It is the Board's belief, however, that the proposed Offering presents the best alternative for stockholders since it permits stockholders to participate in financing the Company's activities on the same basis that a third party financing source could be expected to provide funds to the Company but without existing stockholders suffering the same degree of dilution that a third party financing would create. As of May 30, 2008, the closing price of the Common Stock on The American Stock Exchange was \$0.34. The proposed subscription price for shares in the Offering of \$0.10 per share represents a 71% discount off such market price. As indicated above, in the event that the Offering is consummated as currently contemplated, under the terms of the Company's outstanding Subordinated Notes and the Company's outstanding 12% Notes the price at which the holders of the Notes would be entitled to convert Notes into shares of Common Stock as well as the exercise price of certain warrants to purchase shares of Common Stock issued in connection with the 12% Notes shall reset from a current price of \$1.00 per share to the subscription price in the Offering of \$0.10 per share resulting in a potential increase in the total number of shares of Common Stock issuable in connection with the conversion of such Notes and the exercise of all such outstanding warrants from an aggregate of 48,861,111 shares as at June 9, 2008 to 186,111,111 shares of Common Stock.

Assuming that the Offering is consummated in full and such Notes are fully converted and such warrants are fully exercised at the reset conversion and exercise prices, and assuming that all other shares reserved for issuance are not issued pursuant to outstanding contractual commitments, options and warrants (see "Shares Reserved for Future Issuance" above for a discussion of shares reserved for issuance by the Company) and further excluding any additional shares of Common Stock being issued to a standby underwriter that the Company may successfully secure to subscribe for unsubscribed shares in the Offering, then there will be an aggregate of 670,325,891 shares of Common Stock issued and outstanding, an increase in 428,218,501 shares over the amount issued and outstanding as of June 9, 2008. The 186,111,111 shares issued in respect of Notes and the exercise of warrants would represent 27.8% of the shares of Common Stock issued and outstanding under these assumptions. However, as indicated above both the Notes and such warrants are subject to certain limitations regarding the number of shares of common stock issuable upon conversion and exercise, respectively.

The Company determined to conduct a rights offering to existing stockholders, as opposed to a public or private offering to third parties, in an attempt to reduce the potential dilution to existing stockholders any such offer to third parties would entail, assuming that the rights offering is fully subscribed for by stockholders. By way of illustration, our net tangible book value as of December 31, 2007 was approximately \$37.9 million, or \$0.16 per share of our

Common Stock (based upon an aggregate of 242,107,390 shares outstanding as of December 31, 2007). Our net tangible book value per share represents the amount of our total tangible assets less the amount of total liabilities, divided by the number of shares of Common Stock outstanding. Dilution per share equals the difference between the amount per share paid by purchasers of shares of Common Stock in the Offering and the pro forma net tangible book value per share of our Common Stock immediately after the Offering. Without giving effect to any changes in net tangible book value after December 31, 2007 other than sale of the shares in the Offering and receipt

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of the gross proceeds, although it is expected that customary offering fees and expenses will be incurred, therefrom, our net tangible book value at December 31, 2007 would have been approximately \$62.1 million or \$0.09 per share of Common Stock. Absent the purchase of the shares offered in the Offering by existing stockholders and assuming that the Company is successful in securing one or more standby underwriters to subscribe for unsubscribed shares, this would represent an immediate decrease in net tangible book value of \$.07 per share of Common Stock held by existing stockholders and an immediate dilution of \$0.01 per share to the standby underwriters purchasing unsubscribed shares. If the Offering is fully subscribed for by existing stockholders they would suffer an immediate decrease in net tangible book value of \$.07 per share of Common Stock held by them. The foregoing assumes a fully subscribed Offering and no exercise of any outstanding options or warrants or issuances of Common Stock pursuant to existing contractual arrangements including upon conversion of the Notes. To the extent such options and warrants are exercised or additional shares are issued pursuant to such contractual arrangements there will be further dilution to stockholders.

Set forth below is a table illustrating the effective dilution to stockholders assuming a fully subscribed for Offering of 242,107,390 shares (maximum) and an Offering of 121,053,695 shares (minimum) that is only 50% subscribed, each at the subscription price of \$0.10 per share.

	<b>Maximum \$ Per Share</b>	<b>Minimum \$ Per Share</b>
Subscription price	\$ 0.10	\$ 0.10
Net tangible book value per share prior to Offering	\$ 0.16	\$ 0.16
Decrease per share attributable to the Offering	\$ (0.07)	\$ (0.07)
Pro forma net tangible book value per share after the Offering	\$ 0.09	\$ 0.09
Dilution in pro forma net tangible book value per share to purchasers	\$ 0.01	\$ 0.01

**The foregoing discussion of the possible Offering, the background and reasons for the Proposal, the use of proceeds from the Offering, the potential dilution that may be incurred by stockholders as a result of the Offering and related matters does not constitute an offer to sell or a solicitation of an offer to purchase any securities by the Company which offer can only be made pursuant to an effective registration statement filed pursuant to the Securities Act and in compliance with all other applicable securities laws and stock exchange rules and regulations.**

**Change of Control**

Issuing additional shares of Common Stock may also have the effect of delaying or preventing a change of control of the Company. The Company's authorized but unissued Common Stock could be issued in one or more transactions that would make more difficult or costly, and less likely, a takeover of the Company. The proposed amendment to the Certificate is not being recommended in response to any specific effort of which the Company is aware to obtain control of the Company and the Board of Directors has no present intention to use the additional shares of Common Stock in order to impede a takeover attempt.

**Vote Required**

The affirmative vote of a majority of the issued and outstanding shares of Common Stock of the Company entitled to vote at the Annual Meeting is required for approval of this amendment to the Certificate to increase the Company's authorized shares of Common Stock. An abstention will, accordingly, result in a vote against the proposal.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE IN FAVOUR OF THIS PROPOSAL (Proposal 2)**

**Forward Looking Statements**

*The foregoing discussion, including, without limitation, regarding the proposed Offering, the future plans of the Company, and the descriptions set forth in Background and Reasons for the Proposal and Use of Proceeds above, contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E*

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*of the Securities Exchange Act of 1934, as amended. When used herein, the words estimate, project, anticipate, expect, intend, believe, hope, may and similar expressions, as well as will, could, shall and other indicative, are intended to identify forward-looking statements. The forward-looking statements are based on our current expectations and speak only as of the date made. These forward-looking statements involve risks, uncertainties and other factors that in some cases have affected our historical results and could cause actual results in the future to differ significantly from the results anticipated in forward-looking statements made in this Proxy Statement. Important factors that could cause such a difference are discussed in the sections entitled Cautionary Statement Regarding Forward-Looking Statements , Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations in the Annual Report accompanying this Proxy Statement and stockholders are urged to review the information set forth therein. You are cautioned not to place undue reliance on the forward-looking statements.*

Although we believe our expectations reflected in forward-looking statements are based on reasonable assumptions, no assurance can be given that these expectations will prove to have been correct.

In light of these risks, uncertainties and assumptions, the events anticipated by our forward-looking statements might not occur. We undertake no obligation to update or revise our forward-looking statements, whether as a result of new information, future events or otherwise.

**PROPOSAL 3 APPROVAL OF AMENDMENT OF THE 2004 LONG TERM STOCK INCENTIVE PLAN TO INCREASE THE NUMBER OF SHARES OF COMMON STOCK ISSUABLE UNDER THE PLAN**

At the Annual Meeting, the stockholders of the Company will be asked to approve an amendment of the 2004 Long Term Stock Incentive Plan (the 2004 Plan ) to increase the number of shares of Common Stock issuable under the 2004 Plan by an additional 17,500,000 shares, to an aggregate of 35,000,000 shares. The 2004 Plan was adopted by the Board of Directors in May 2004 and it became effective on May 18, 2004 upon approval of the stockholders at the 2004 Annual Meeting and originally authorized the issuance of up to 10,000,000 shares of Common Stock. The 2004 Plan was subsequently amended with the approval of stockholders at the 2006 Annual Meeting to increase the number of shares of Common Stock issuable thereunder to 17,500,000 shares.

On April 23, 2008, the Board approved an amendment of the 2004 Plan, subject to stockholder approval, to increase the number of shares of Common Stock authorized for issuance under the 2004 Plan by 17,500,000 shares, to a total of 35,000,000 shares. The Board of Directors adopted this amendment because it believes that:

additional shares are necessary to attract new employees and executives;

additional shares are needed to further the goal of retaining and motivating existing personnel; and

the issuance of options to our employees is an integral component of the Company s compensation policy.

As of April 23, 2008, awards (net of canceled awards) covering an aggregate of 8,917,000 shares of Common Stock had been granted under the 2004 Plan. A total of 8,583,000 shares of Common Stock (plus any shares that might in the future be returned to the 2004 Plan as a result of cancellations or expiration of awards) remained available for future grant under the 2004 Plan.

Assuming that stockholders approve an amendment of the 2004 Plan to increase the number of shares of Common Stock issuable under the 2004 Plan by an additional 17,500,000 shares, to an aggregate of 35,000,000 shares, a total of 26,083,000 shares of Common Stock (plus any shares that might in the future be returned to the 2004 Plan as a result of cancellations or expiration of awards) would remain available for future grant under the 2004 Plan.

The affirmative vote of a majority of the votes cast at the Annual Meeting is required for approval of this amendment to the 2004 Plan to increase the number of shares of Common Stock issuable under the plan. Brokers do not have discretion to vote on this proposal without your instruction. If you do not instruct your broker how to vote on this proposal, your broker will deliver a non-vote on this proposal. Broker non-votes, if any, will have no effect on the outcome of the vote on this proposal. Abstentions will have the effect of a vote against the proposal.

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**THE BOARD OF DIRECTORS RECOMMENDS A VOTE IN FAVOR OF THIS PROPOSAL (Proposal 3).**

**Summary of the 2004 Plan**

A copy of the 2004 Plan, as currently in effect, is attached to this Proxy Statement as Annex I. The following description of the 2004 Plan is a summary and so is qualified by reference to the complete text of the 2004 Plan.

**General**

The purpose of the 2004 Plan is to help the Company and its subsidiaries hire and keep directors, consultants, officers and other employees of outstanding ability and to motivate employees to exe