CANARGO ENERGY CORP
Form DEF 14A
April 19, 2004

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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 þ

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

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

þ Definitive Proxy Statement

o Definitive Additional Materials

o 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)

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þ No fee required.

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(1) Amount previously paid:

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

(3) Filing Party:

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CANARGO ENERGY CORPORATION

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON May 18, 2004

April 16, 2004

To Our Stockholders:

The 2004 annual meeting of stockholders of CanArgo Energy Corporation (the Company) will be held at the offices of Satterlee Stephens Burke & Burke LLP, 230 Park Avenue, Suite 1130, New York, N.Y. 10169 on May 18, 2004 at 10:30 a.m. local time for the following purposes:

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

2. To approve the Company s 2004 Long Term Stock Incentive Plan;

3. To ratify the appointment of our independent auditors for fiscal 2004; and

4. 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 29, 2004 as the record date for determination of the stockholders entitled to notice of and to vote at the annual meeting. 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 9:45 a.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. No voting will be permitted in 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
April 16, 2004, St. Peter Port, Guernsey, British Isles

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CANARGO ENERGY CORPORATION

P.O Box 291, St. Peter Port, Guernsey GY1 3RR, British Isles

PROXY STATEMENT

ABOUT THE MEETING

This proxy statement contains information related to the annual meeting of stockholders of CanArgo Energy Corporation (the Company) to be held on May 18, 2004, beginning at 10:30 a.m., at the offices of Satterlee Stephens Burke & Burke LLP, 230 Park Avenue, Suite 1130, New York, N.Y. 10169, and at any postponements or adjournments thereof. This proxy statement is being mailed to stockholders on or about April 19, 2004 at the direction of the Board of Directors of the Company.

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, approval of our 2004 Long Term Stock Incentive Plan, and ratification of the Company s independent auditors 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 29, 2004, the record date for the meeting, are entitled to receive notice of and to participate in the annual meeting. If you were a shareholder 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 9:45 a.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, 109,284,724 shares of Common Stock, representing the same number of votes, were outstanding. Thus, the presence of the holders of Common Stock representing at least 54,642,362 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?

If you complete and properly sign the accompanying proxy card and return it to the Company, it will be voted as you direct.

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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.

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);

For the approval of the Company s 2004 Long Term Stock Incentive Plan (see Proposal 2);

For ratification of the appointment of L J Soldinger Associates LLC as the Company s independent auditors for fiscal year 2004 (see Proposal 3).

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, in 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.

Other Items. For each other item, 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 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.

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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:

Name	Age	Positions Held
David Robson	46	Chairman of the Board, Chief Executive Officer and President
Vincent McDonnell	45	Director, Chief Financial Officer and Chief Commercial Officer
Michael Ayre (1)	47	Director
Russ Hammond (1) (2)	62	Director
Nils N. Trulsvik (1) (2)	55	Director
Liz Landles	43	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 Member of The Institute of Business Administration (MInstBA).

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

The Company s Board of Directors held nine meetings during the year ended December 31, 2003. No director has attended less than 75% of all meetings of the Board and those Committees on which he served in 2003.

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 the Board as a whole.

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*). The Audit Committee met four times during fiscal 2003.

The members of the Audit Committee at the end of 2003 were Russ Hammond and Nils Trulsvik. Michael Ayre became a member and the Chairman of the Audit Committee on March 5, 2004. 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 chair of the Committee, is qualified as an audit committee financial expert within the meaning of SEC regulations and the Board has determined that he has accounting and related financial management expertise within the meaning of the listing standards of the American Stock Exchange.

Compensation Committee. The members of the Compensation Committee at the end of 2003 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 2003, the Compensation Committee met four 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 considers candidates for Board membership suggested by its members, as well as management and stockholders. 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 the Company s Corporate Secretary or any director in writing with whatever supporting material the shareholder considers appropriate.

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Once the Board has 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 Chairman of the Board 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.

How does the Board determine which directors are considered independent?

On February 11, 2004, the Company made an application to list its shares of Common Stock for trading on the American Stock Exchange (the Exchange). In connection with its listing application, the Board determined to meet or exceed the new listing standards adopted last year by the Exchange. The full text of the American Stock Exchange requirements can be found in its website ().

Pursuant to the Exchange requirements, the Board undertook its review of director independence in February 2004. 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-What related party transactions involved directors?* 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 American Stock Exchange requirements, the purpose of this review 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 American Stock Exchange. 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 2003 the Company paid directors fees on a quarterly basis at a rate of £25,000 Pounds Sterling (£) per year plus £1,000 for each meeting of the Audit Committee that they attend. 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 2003 received options to purchase 153,750 shares of the Company s Common Stock in fiscal 2003. Each option grant, vesting immediately and having a five-year term, permits the holder to purchase shares at $0.10, some 2.5 times their fair market value on the date of grant, which was $0.04 in the case of options granted in 2003. 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.

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, 2003:

Name	Directors Fees and Other Compensation*	Consulting Payments	Options and Warrants Granted
	$	$	
Russ Hammond	51,576(1)		153,750
Nils N. Trulsvik	51,576(1)		153,750

(1) Using December 31, 2003 exchange rate of £1 = $1.7785. * The Directors 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 XIc) 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 is a minority interest holder, which was established to progress potential projects in Kazakhstan. Mr Hammond did not receive any compensation in connection with these transactions and disclaims any beneficial ownership of any shares of Company Common Stock received by Provincial Securities Limited.

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 non-interested directors.

How do stockholders communicate with the Board?

Stockholders and other parties interested in communicating directly with the non-management directors as a group 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 correspondence and regularly forwards to the Board a summary of all such correspondence and 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 correspondence. Concerns relating to accounting, internal controls or auditing matters 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.

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*). 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.

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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 also recommends to the Board of Directors the selection of the Company s independent auditors. The Board of Directors determined that the members of the Audit Committee are independent in accordance with American Stock Exchange listing standards. 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. Mr Ayre was appointed as an independent non-employee director and Chairman of the Audit Committee on March 5, 2004.

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. 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 2003. 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 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 and L J Soldinger Associates LLC for audit and non-audit services. See the Principal Accounting Firm Fees chart located in the section of the Proxy marked Proposal 3.- Approval Of Appointment Of Independent Auditors .

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 that the Company s audited consolidated financial statements for the fiscal year ended December 31, 2003 be included in the Company s Annual Report on Form 10-K.

Russ Hammond, Chairman*
Nils Trulsvik

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* Mr. Michael Ayre replaced Mr. Hammond as Chairman of the Audit Committee effective March 5, 2004.

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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 2003.

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 2003.

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 four meetings during fiscal 2003

Stock Based Compensation Plans

At December 31, 2003, 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, 2003, 5,050,917 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, 2003, 719,000 options issued under this plan were outstanding; and

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, 2003, 2,220,000 special stock options and warrants issued under this plan were outstanding.

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In March 2003, following the unanimous recommendation of the Compensation Committee, the Company amended the terms of the above stock based compensation plans which are currently in issue (the Plans). The amendments to the Plans were made in order to retain and incentivise key members of the management team. The options were repriced at US$0.10 each, approximately 2.5 times the market price of the Company s Common Stock at the date of the recommendation of the Compensation Committee. These options vested immediately and expire on March 4, 2008. See Repricing of Stock Options March 5, 2003 below for details of repriced stock options held by Named Officers.

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.

Annual Incentives: An annual cash incentive has been developed and approved for the Chief Executive Officer.

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 2003, the Compensation Committee approved a series of new stock options to a broad range of employees and officers and in 2002, approved new stock options to one officer and one employee. The stock option awards were granted under the various plans available in the company.

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.

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Compensation of the Chief Executive Officer

The Compensation Committee reviews annually the compensation of the Chief Executive Officer and recommends any adjustments to the Board of Directors for approval. 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 2003, 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 recommended, and the Board of Directors approved, a base salary of £150,000 (approx $217,500) for Dr. Robson, effective July 1, 2003.
>
> *Short-Term Incentives*: In 2003, incentive compensation for Dr. Robson was based solely upon increase in cash flow per quarter. Based on 2003 cash flow performance each quarter, Dr. Robson qualified for a quarterly bonus in 2003 of $17,632 in total. The bonus is capped at one times salary for a given quarter.

In June 2003, the Compensation Committee renewed the Chief Executive Officer s contract giving a mutual 6 (six) month notice period for termination.

It is the Compensation Committee s intention that, when taken together, the components of Dr. Robson s pay, including base salary, 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

Stock Option Repricing

The Compensation Committee also provided the following report relating to the repricing of stock options which took place in March 2003:

In order to provide continuing incentivisation for key members of the management team and to incentivise staff in general, the Compensation Committee met to consider the repricing of stock options which were priced at a significant premium to the market price. It was agreed that with the Company wishing to move forward with a program to develop its projects in Georgia, it was necessary to retain and incentivise such employees and that a repricing of the options should certainly be considered. The potential implications of this were considered by the Committee and it was unanimously agreed to recommend that a repricing take place. It was noted that the Company s stock was trading at $0.04, but the Committee recommended that the repricing should be at $0.10, approximately 2.5 times the market price. This was unanimously agreed by the Compensation Committee and the Compensation Committee requested that this be implemented.

Nils Trulsvik, Chairman
Russ Hammond

Compensation Committee Interlocks and Insider Participation

During 2003, 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-What related party transactions involved directors?* .

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 2003 a base salary of £12,500 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.

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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.

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 insurance 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.

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Summary Compensation Table

The following table shows all compensation paid or accrued by the Company and its subsidiaries during the years ended December 31, 2003, 2002 and 2001 to the Chief Executive Officer and the four other most highly compensated executive officers of the Company who served in such capacities as of such dates (the Named Officers) for services rendered to the Company and its subsidiaries during each of the past three fiscal years.

		Annual Compensation					
Name and Principal Position	Year Ended	Salary (6) (GBP)	Salary (6) ($ equiv)	Bonus ($)	Securities Underlying options /SAR's	All Other Compensation (5),(6) (GBP)	All Other Compensation (5),(6) ($ equiv)
	2003	150,000	266,775	17,573	3,000,000	13,500	24,010
David Robson	2002	150,000	240,660	29,000	0	13,500	19,575
Chairman & CEO (1)	2001	150,000	240,660	15,075	585,000	13,500	19,575
	2003	30,000	53,355		0	2,700	4,802
Murray Chancellor	2002	120,000	192,528		0	10,800	15,660
COO(2)	2001	120,000	174,180		200,000	10,800	15,660
	2003	120,000	213,420		600,000	10,800	19,207
Vincent McDonnell	2002	106,000	170,066		100,000	9,540	13,822
CFO and CCO(3)	2001	95,000	137,892		100,000	8,550	12,398
	2003	57,000	101,374		200,000	5,130	9,124
Liz Landles	2002	57,000	91,451		0	5,130	7,695
Corporate Secretary (4)	2001	47,244	68,574		72,000	0	0

(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 Chancellor served as Chief Operating Officer from September 12, 2000 to March 31, 2003.

(3) Mr McDonnell has served as Chief Commercial Officer since April 1, 2001. Prior thereto he served as Commercial Manager from December 1, 2000. In September 18, 2002 he was appointed Chief Financial Officer of the Company. In May 2, 2003 he was appointed Director.

(4) Mrs Landles has served as Company Secretary since August 1, 2002.

(5) Primarily the Company s contributions to or accruals with respect to individual retirement and pension plans.

(6) Salaries and Other Compensation are paid in UK Pounds Sterling (GBP). Exchange rates used to convert from GBP to $ used were as follows; for 2001 and 2002 1 GBP = $1.6044, and for 2003 the year end rate of 1 GBP = $1.7785.

Option Grants During the Year Ended December 31, 2003

The following table sets forth information concerning options granted to the Named Officers who were employed during the year ended December 31, 2003.

Name	Number of Securities Underlying Options Granted	% of Total Options Granted to Employees in 2003	Exercise Price	Expiration Date	Grant Date Present Value(2) Per Share	Grant Date Present Value(2) Total

David Robson (1)	333,333	21.0%	$0.10	04/03/2008	$0.0603	$20,100
Vincent McDonnell(1)	300,000	18.9%	$0.10	04/03/2008	$0.0603	$18,090
Liz Landles (1)	28,000	1.8%	$0.10	04/03/2008	$0.0603	$ 1,688

(1) The options were granted at an exercise price approximately 2.5 times the share price at the time of issue. All the options vested immediately.

(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.

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Exercise Price	Dividend Yield	Volatility	Risk-Free Interest Rate	Expected Term
$0.10	0.00%	80.47%	2.91%	5 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 s as at December 31, 2003.

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)