

CANARGO ENERGY CORP

Form POS AM

November 17, 2008

**Table of Contents**

**As filed with the Securities and Exchange Commission on November 17, 2008**

**Registration No. 333-150625**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
POST-EFFECTIVE AMENDMENT NO. 1  
TO  
Form S-3  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933  
CanArgo Energy Corporation  
(Exact name of registrant as specified in its charter)**

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**91-0881481**  
(I.R.S. Employer  
Identification No.)

**P.O. Box 291, St Peter Port  
Guernsey, GY1 3RR, British Isles  
+(44) 1481 729 980**  
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Jeffrey Wilkins  
Chief Financial Officer  
P.O. Box 291, St Peter Port  
Guernsey, GY1 3RR, British Isles  
+(44) 1481 729 980**  
(Name, address, including zip code, and telephone number, including area code of agent for service)

***Please forward a copy of all correspondence to:***

**Peter A. Basilevsky, Esq.  
Satterlee Stephens Burke & Burke LLP  
11th Floor, 230 Park Avenue  
New York, NY 10169  
(212) 818-9200**

**Date of commencement of sale to the public:** October 6, 2008

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

Edgar Filing: CANARGO ENERGY CORP - Form POS AM

If this form is a post-effective amendment to a registration statement filed pursuant to General Instructions I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
 (Do not check if a smaller reporting company)

**CALCULATION OF REGISTRATION FEE**

<b>Title of Each Class of Securities to be Registered</b>	<b>Amount to Be Registered(1)(2)</b>	<b>Proposed Maximum Offering Price per Share(3)</b>	<b>Proposed Maximum Aggregate Offering Price(3)</b>	<b>Amount of Registration Fee(3)</b>
Common stock, \$0.10 par value	259,047,390 Shares(2)	\$ 0.10	\$ 25,904,739	\$1,018.06
Common stock subscription rights	242,107,390 Rights	\$ 0.10(3)	\$ 24,210,739(3)	\$ 951.48(3)
<b>Total</b>				<b>\$1,969.54(4)</b>

(1) In the event of a stock split, stock dividend or similar transaction involving the shares of common stock, in order to prevent dilution, the number of shares registered shall be automatically increased to cover the additional shares in accordance with Rule 416 under the Securities Act of 1933.

(2) Maximum amount of shares issuable

upon exercise of all transferable subscription rights ( Rights ). Includes up to a maximum of 16,940,000, in aggregate, shares of common stock which may be issued to the Standby Underwriters pursuant to a conditional right for such Standby Underwriters to elect to receive their commission in shares in lieu of cash.

- (3) No consideration will be received by the Registrant for the issuance of the Rights. The Rights are transferable and may be reoffered to the public by stockholders. The registration fee was calculated in accordance with Rule 457(g) on the basis of the price at which the Rights may be exercised.

- (4) Previously paid.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this**

**Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

---

**Table of Contents**

**EXPLANATORY NOTE**

This Post-Effective Amendment No. 1 (the "Post-Effective Amendment") relates to the Registration Statement on Form S-3 (File No. 333-150625) of CanArgo Energy Corporation (the "Registrant"), which was filed with the Securities and Exchange Commission on May 2, 2008, as amended pursuant to Amendment No. 1 filed on August 20, 2008, Amendment No. 2 filed on September 19, 2008, Amendment No. 3 filed on September 30, 2008 and as subsequently amended pursuant to Rule 424(b)(5) under the Securities Act of 1933, as amended, on October 3, 2008 and Current Reports on Form 8-K filed on October 9, 14, 15, 20 and November 10, 2008 and a Quarterly Report on Form 10-Q filed on November 7, 2008 (as amended, the "Registration Statement"). The purpose of this Post-Effective Amendment is to supplement and revise the Prospectus dated as of October 3, 2008 ("Prospectus") to reflect that, after such date: as previously announced and incorporated by reference into Registration Statement, the expiration date of the subscription period in the Rights Offering, that began on October 6, 2008, was duly extended in the U.S. from 4:00 p.m., U.S. Eastern time on October 24, 2008, the originally scheduled U.S. Expiration Time, until 4:00 p.m., U.S. Eastern time on November 21, 2008; that the subscription period in Norway expired on November 11, 2008; that subscribers in the U.S. Rights Offering were granted withdrawal rights that expire no later than 5:30 p.m. U.S. Eastern time on November 20, 2008; that trading in the rights on the American Stock Exchange was extended to 4:00 p.m. U.S. Eastern time on November 20, 2008 and ceased on the Oslo Stock Exchange on November 11, 2008; that subscriptions for an aggregate of approximately 8.2 million shares of common stock from Rights Holders who held their shares and Rights in the VPS System were received in accordance with the terms of the Rights Offering, and amending the description of the Standby Underwriting and Plan of Distribution in the Prospectus, as a result of the recent unprecedented turbulence in global capital markets resulting in the receipt of indications from the Standby Underwriters of their possible inability or unwillingness to meet their obligations (as previously announced and incorporated by reference into this Post-Effective Amendment). Accordingly, this Prospectus Supplement No. 1 should be read together with the Prospectus to give effect to such events despite the forward-looking nature of the language describing the Rights Offering and Standby Underwriting contained in this Post-Effective Amendment.

---

**Table of Contents**

The information contained in this prospectus is not complete and may be changed. We may not sell these securities until the Registration Statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

**SUBJECT TO COMPLETION DATED NOVEMBER 17, 2008.**

**PROSPECTUS SUPPLEMENT NO. 1 DATED NOVEMBER , 2008  
TO PROSPECTUS DATED OCTOBER 3, 2008**

**CANARGO ENERGY CORPORATION  
Subscription Rights to Purchase 242,107, 390 Shares  
of Common Stock at \$0.10 per Full Share**

This Prospectus Supplement No. 1 (the Prospectus Supplement ) supplements and amends our prospectus dated October 3, 2008 (the Prospectus ), relating to our rights offering which commenced on October 6, 2008 ( Rights Offering ) pursuant to which we have distributed to our stockholders transferable subscription rights ( Rights ) to purchase one share of common stock for each share held of record on October 2, 2008, at a cash subscription price of \$.10 per share. Capitalized terms not expressly defined herein have the meanings ascribed thereto in the Prospectus.

As previously announced by the Company on October 13, 14, 20 and November 10, 2008, the eight Standby Underwriters listed in the table in the Standby Underwriting and Plan of Distribution section of the Prospectus (collectively, the Standby Underwriters ), who previously severally and unconditionally agreed to underwrite the unsubscribed for shares (the Unsubscribed Shares ) in their respective pro rata portions of their respective underwriting commitments at the subscription price for up to 242,000,000 of such shares in aggregate, have indicated to the Company that they are unable or unwilling, or may be unable or unwilling, to fulfill their underwriting obligations. See The Amended Rights Offering Standby Underwriting Commitments on page 5 and Standby Underwriting and Plan of Distribution Standby Underwriting beginning on page 23. As a result, the Company also announced that it had:

First extended the scheduled expiration dates and times of the Rights Offering described in the Prospectus, from 4:00 p.m., U.S. Eastern time on October 24, 2008, the scheduled U.S. Expiration Time, until 4:00 p.m., U.S. Eastern time on October 31, 2008, and from 5:30 p.m., CET, on October 14, 2008, the scheduled Norwegian Expiration Time, until 5:30 p.m., CET, on October 21, 2008 and, subsequently, after securing the consent of the Standby Underwriters, further extended the expiration dates and times of the Rights Offering from 4:00 p.m., U.S. Eastern time on October 31, 2008, the rescheduled U.S. Expiration Time, until 4:00 p.m., U.S. Eastern time on November 21, 2008, and from 5:30 p.m., CET, on October 21, 2008, the rescheduled Norwegian Expiration Time, until 5:30 p.m., CET, on November 11, 2008;

First extended trading in Rights on the AMEX until 4:00 p.m. U.S. Eastern time, on October 30, 2008, the last business day prior to the scheduled U.S. expiration date of this Rights Offering, as amended, and on the OSE until 5:30 p.m. (CET) on October 21, 2008, the scheduled Norwegian expiration date, as amended, and subsequently extended trading in Rights on the AMEX until 4:00 p.m. U.S. Eastern time, on November 20, 2008, the last business day prior to the scheduled U.S. expiration date of this Rights Offering, as subsequently amended, and on the OSE until 5:30 p.m. (CET) on November 11, 2008, the rescheduled Norwegian expiration date, as amended;

**Table of Contents**

Granted withdrawal rights to U.S. Rights Holders (which can be exercised by written notice to the U.S. Subscription Agent provided it receives notice of such exercise by no later than 5:30 p.m. U.S. Eastern time on November 20, 2008);

Granted withdrawal rights to Norwegian Rights Holders, such withdrawal rights being capable of exercise within two days of the publication on November 10, 2008 of a supplement to the Norwegian Offering Circular dated October 3, 2008; and

Allowed the Norwegian portion of the Rights Offering to expire on November 11, 2008 in accordance with its terms.

Norwegian Rights Holders subscribed for an aggregate of approximately 8.2 million shares of common stock for an aggregate of approximately \$820,000 in gross subscription proceeds due to be received by the Norwegian Subscription Agent upon settlement of the subscriptions on November 14, 2008.

Our shares of common stock are traded on the American Stock Exchange, or AMEX, and on the Oslo Stock Exchange, or OSE, under the symbol CNR . The closing price of our shares of common stock on November 13, 2008 was \$0.09 per share and NOK 0.62, on the AMEX and OSE, respectively. The Rights are transferable and are listed for trading on the AMEX under the symbol CNR. RT until 4:00 p.m. U.S. Eastern time on November 20, 2008.

Based on the results of the Norwegian portion of the Rights Offering and the possible defaults of one or more of the Standby Underwriters the Company may receive significantly reduced proceeds from the Rights Offering than originally anticipated. This would require a significant reduction in and reallocation of the use of proceeds. See Use of Proceeds commencing on page 12. The pro-forma capitalization of the Company and the effects of the anticipated dilution resulting from the Rights Offering would also change significantly and are reflected in the sections entitled Dilution , Use of Proceeds and Capitalization commencing at pages 13, 12 and 15.

If you have any questions or need further information about this rights offering, please call Computershare our U.S. Subscription Agent for the Rights Offering, at (800) 962-4284 ( toll-free).

**An investment in our common stock involves risks. See Risk Factors beginning on page 10 of this Prospectus Supplement and page 12 of the Prospectus.**

**Neither the Securities and Exchange Commission nor any state securities regulators have approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

	Per Share	Total
Public Offering Price	\$ 0.10	\$24,210,739
Underwriters' Commission <sup>(1)</sup>	\$0.007	\$ 1,694,000 <sup>(2)</sup>
Proceeds to CanArgo Energy <sup>(3)</sup>	\$0.093	\$22,516,739

(1) Assuming that all the Standby Underwriters meet their underwriting obligations the commissions will be paid to the Standby Underwriters whether or not the Rights



Offering is completed. Each Standby Underwriter who satisfies its obligations is entitled to receive a commission equal to 7% of the aggregate Subscription Price in respect of all of the unsubscribed shares of the Rights Offering that are being underwritten by such Standby Underwriter, and the Standby Underwriter has a conditional right to elect to receive its commission in shares of common stock in lieu of cash; provided, however, that if the Standby Underwriter is an existing shareholder, it will only receive a commission for its part of the underwritten amount that exceeds the pro rata amount of shares that it would receive pursuant to an exercise of its Rights. See Risk Factors and Standby

Underwriting  
and Plan of  
Distribution  
herein and in the  
Prospectus.

- (2) Calculated on the basis of a maximum of 242,000,000 possible underwritten Shares, instead of 242,107,390 shares issuable upon exercise in full of the Rights Offering by existing shareholders, and without giving effect to any possible defaults by any Standby Underwriters and any reduction to the commission otherwise payable to each Standby Underwriter who meets its underwriting obligations and is an existing shareholder on account of its pro rata amount of shares that it would receive pursuant to the exercise of its Rights. Assumes that all underwriting commissions are paid in cash, that no Standby Underwriter

defaults in its obligation and if the Standby Underwriter meets its underwriting obligation it does not elect to exercise its election to receive its commissions in shares of common stock in lieu of cash. See Risk Factors and Standby Underwriting and Plan of Distribution herein and in the Prospectus.

- (3) After underwriters commissions but before other expenses of the Rights Offering assuming that all Standby Underwriters meet their respective underwriting obligations. See Use of Proceeds and Standby Underwriting and Plan of Distribution herein.

**RS Platou Markets AS**  
**This Prospectus Supplement is dated November , 2008**

---

**TABLE OF CONTENTS**

**PROSPECTUS SUPPLEMENT**

<u>Summary of Amended Rights Offering</u>	1
<u>Going Concern</u>	8
<u>Recent Developments</u>	8
<u>Risk Factors</u>	10
<u>Cautionary Statement Regarding Forward-Looking Statements</u>	12
<u>Use of Proceeds</u>	12
<u>Recent Price Range of Common Stock and Dividend Policy</u>	12
<u>Dilution</u>	13
<u>Capitalization</u>	15
<u>The Amended Rights Offering</u>	16
<u>Standby Underwriting and Plan of Distribution</u>	23
<u>Documents Incorporated by Reference</u>	24

**PROSPECTUS**

Important Information	i
Prospectus Summary	1
Risk Factors	12
Cautionary Statement Regarding Forward-Looking Statements	24
Use of Proceeds	25
Price Range of Common Stock and Dividend Policy	26
Dilution	26
Capitalization	29
The Rights Offering	30
Certain Income Tax Considerations	43
Standby Underwriting and Plan of Distribution	44
Limitation of Liability and Indemnification	49
Section 203 of the Delaware General Corporation Law	49
Legal Matters	50
Experts	50
Where You Can Find More Information	50
Documents Incorporated by Reference	50
<u>EX-23.2</u>	

**Table of Contents**

**SUMMARY OF AMENDED RIGHTS OFFERING**

*The following summary highlights selected information contained in the Prospectus as amended and supplemented by the Prospectus Supplement. This summary does not contain all the information you should consider before investing in the securities and is qualified in its entirety by the more detailed information appearing elsewhere in the Prospectus Supplement and accompanying Prospectus. Before making an investment decision, you should read the entire Prospectus Supplement and accompanying Prospectus and the information incorporated by reference herein and therein carefully, including the Risk Factors sections.*

Unless the context requires otherwise, references to the *Company*, *CanArgo*, *we*, *us* and *our* are to CanArgo Energy Corporation and its subsidiaries. A glossary of certain oil and gas terms and definitions used in the Prospectus Supplement and accompanying Prospectus is set forth on page 8 of the Prospectus. References to persons comprise references both to individuals and to legal entities.

**The Company**

The Company is an independent oil and gas exploration and production company engaged in oil and gas exploration, development and production in Georgia. The Company's executive offices are located at PO Box 291, St Peter Port, Guernsey, GY1 3RR, British Isles and its telephone number is +(44) 1481 729 980.

**Risk Factors**

The investment in the common stock or the Rights offered hereby is subject to risk factors that should be carefully reviewed prior to determining whether to purchase the common stock or purchase or exercise the Rights. These factors relate to the Company's financial condition, risks associated with operations in Georgia and other countries in the former Soviet Union, risks inherent in oil and gas operations, and volatility in our stock price. See Risk Factors beginning on page 10 below and on page 12 in the Prospectus.

**The Offering**

**Rights Offering**

Each record holder of common stock ( *Record Date Holder* ) as of 5:00 p.m., U.S. Eastern time, on October 2, 2008 (the *Record Date* ) has been distributed at no charge one transferable subscription right ( *Right* ) for each share of common stock held of record on the Record Date. Each Right entitles the holder thereof ( *Rights Holder* ) to purchase from the Company one share of common stock (an *Underlying Share* ) for a price of \$0.10 per share (the *Subscription Price* ). An aggregate maximum of up to 259,047,390 shares of common stock may be issued in the Offering upon a full exercise of the Rights, including pursuant to the exercise by the Standby Underwriters of their conditional rights to acquire up to 16,940,000 shares in lieu of payment of their underwriting commissions in cash assuming that they do not default in their underwriting obligations. The Rights are evidenced by transferable certificates (the *Subscription Rights Certificates* ) except for those stockholders who hold their shares of common stock in the book entry system maintained by the Depository Trust Company ( *DTC* ), whose Rights are evidenced by an electronic book entry certificate registered with DTC. The Norwegian portion of the Rights Offering expired on November 11, 2008 in accordance with its terms and Rights to purchase an aggregate of approximately 8.2 million shares of common stock were exercised for an aggregate of approximately \$820,000 in subscription proceeds due to be received on November 14, 2008, the payment date.

**Conditions to Rights Offering**

There are no conditions to the completion of the Rights Offering other than compliance with all requisite regulatory requirements.

**Basic Subscription Privilege**

Rights Holders are entitled to purchase, at the Subscription Price, one Underlying Share for each whole Right held (the Basic Subscription Privilege ). No fractional shares will be issued. See The Rights Offering Subscription Privileges Basic Subscription Privilege in the Prospectus.

**Table of Contents**

**Table of Contents**

If you are a record holder of a Subscription Rights Certificate, you may sell your Rights through Computershare (the U.S. Subscription Agent), in which case, you must deliver your properly completed and executed Subscription Rights Certificate, with appropriate instructions, to the U.S. Subscription Agent. The U.S. Subscription Agent will only facilitate subdivisions, transfers or direct sales (other than on the AMEX) of Rights until 5:00 p.m. U.S. Eastern time, on November 18, 2008, three business days prior to the scheduled November 21, 2008 U.S. expiration date of this Rights Offering. You may also choose to sell your Rights through a broker, custodian bank or other nominee. Foreign registered stockholders should see Foreign and Other Stockholders below and The Amended Rights Offering Foreign and Other Stockholders herein.

The deadline to sell your Rights is subject to extension if we extend the expiration date of this Rights Offering with the consent of the Standby Underwriters if the Rights Offering is extended beyond seven weeks in length. See The Amended Rights Offering Methods for Transferring and Selling Subscription Rights herein.

**Record Date**

5:00 p.m., U.S. Eastern time on October 2, 2008

**Expiration Time**

4:00 p.m., U.S. Eastern time, November 21, 2008, or such later time to which the Offering may have been extended (the U.S. Expiration Time). The Norwegian portion of the Rights Offering expired on November 11, 2008 in accordance with its terms. See The Amended Rights Offering Expiration and Extension of the Rights Offering herein. Rights not exercised prior to the U.S. Expiration Time will expire and become worthless.

**Procedure for Exercising Rights**

Subject to certain limited conditions as described in Risk Factors, you may exercise your Rights pursuant to the following steps:

If you are a record holder of a Subscription Rights Certificate, you may exercise your Rights by properly completing and signing your Subscription Rights Certificate. For the exercise of a Right to be effective, your Subscription Rights Certificate, together with full payment of the Subscription Price, must be received by the U.S. Subscription Agent on or prior to the U.S. Expiration Time of this Rights Offering, and payment must clear prior to the expiration of this Rights Offering, provided that if you cannot deliver your Subscription Rights Certificate to the U.S. Subscription Agent on time and you are a U.S. record holder, you may follow the guaranteed delivery procedures described under The Rights Offering Guaranteed Delivery Procedures in the Prospectus. If you use the mail, we recommend that you use insured, registered mail, return receipt requested. See The Amended Rights Offering Exercise of Rights by Rights Holders herein.



**Table of Contents**

If you hold shares of our common stock through a broker, custodian bank or other nominee, we will ask your broker, custodian bank or other nominee to notify you of this Rights Offering. If you wish to sell or exercise your Rights, you will need to have your broker, custodian bank or other nominee act for you. If you are a U.S. stockholder to exercise your Rights, you should complete and return to your broker, custodian bank or other nominee the form entitled Beneficial Owner Election Form such that it will be received by 5:00 p.m., U.S. Eastern time, on November 20, 2008, the last business day prior to the U.S. Expiration Time of this Rights Offering. You should receive this form or similar form from your broker, custodian bank or other nominee with the other Rights Offering materials. You should contact your broker, custodian bank or other nominee if you do not receive this form. See The Amended Rights Offering Beneficial Owners herein.

If you are a foreign registered stockholder, see Foreign and Other Stockholders below and The Amended Rights Offering Foreign and Other Stockholders herein.

**Withdrawal Rights**

U.S. Rights Holders may withdraw their subscriptions by written notice to the U.S. Subscription Agent provided it receives notice of such exercise by no later than 5:30 p.m. U.S. Eastern time on November 20, 2008. Rights not exercised prior to the expiration of this Rights Offering will expire and will be void and no longer exercisable. Please see The Amended Rights Offering Withdrawal Rights herein.

**Persons Holding Common Stock, or Wishing to Exercise Rights Through Others**

Persons holding shares of common stock beneficially, and receiving the Rights issuable with respect thereto, through a broker, dealer, commercial bank, trust company or other nominee, as well as persons holding certificates for common stock directly who would prefer to have such institutions effect transactions relating to the Rights on their behalf, should contact the appropriate institution or nominee and request it to effect such transactions for them. See The Amended Rights Offering Exercise of Rights by Rights Holders and The Amended Rights Offering Beneficial Owners herein.

**Issuance of Common Stock**

Certificates representing shares of common stock purchased pursuant to the Basic Subscription Privilege will be delivered to subscribers as soon as practicable after the closing of the Rights Offering, corresponding Rights have been validly exercised and payment therefor has been received by the Company with the exception of those stockholders whose shares are included in the book entry system maintained by DTC. Such stockholders will not receive stock certificates and instead will have their shareholdings appropriately registered in such book entry systems.

**Table of Contents**

**Extension of the Rights Offering**

We have the option to extend this Rights Offering and the period for exercising your Rights for any reason, subject to the prior receipt of the consent of the Standby Underwriters if we extend the Rights Offering beyond seven weeks in length, including if we determine that changes in the market price of our common stock warrant an extension or if we decide to give stockholders more time to exercise their Rights in this Rights Offering, although we do not presently intend to do so. See The Amended Rights Offering Expiration and Extension of the Rights Offering herein.

**Commissions or Fees**

We will not charge a brokerage commission or a fee to Rights Holders for exercising their Rights. However, if you exercise your Rights through a broker, custodian bank or other nominee, you will be responsible for any fees charged by your broker, custodian bank or other nominee.

If you sell your Rights, you will be responsible for any commissions, taxes or broker fees arising from any such sale. If the U.S. Subscription Agent sells Rights for you, it will aggregate and sell concurrently all Rights being sold on a particular day and will send you a check for the net proceeds from the sale of any of your Rights, less a commission and any applicable taxes or broker fees, as soon as practicable following the sale. Any sales through the U.S. Subscription Agent will be deemed to be effected at the weighted average net sale price of all Rights sold by the U.S. Subscription Agent on the relevant date of sale.

If you sell your Rights through your broker, custodian bank or other nominee either because you are a beneficial holder or because you are a record holder that chooses to sell your Rights through a broker, custodian bank or other nominee, you may receive a different amount of proceeds than if you are a record holder and you choose to sell the same amount of Rights through the U.S. Subscription Agent. If you sell your Rights through your broker, custodian bank or other nominee instead of the U.S. Subscription Agent, your sales proceeds will be the actual sales price of your Rights less any applicable broker's commission, taxes or other fees, rather than the weighted average net sale price of all Rights sold by the U.S. Subscription Agent on the relevant date as described above.

**Standby Underwriting Commitments**

The Standby Underwriters named in the table set forth in the Standby Underwriting and Plan of Distribution section in the Prospectus have previously each severally and not jointly agreed to underwrite up to a maximum of 242,000,000 of the unsubscribed for Underlying Shares (the Unsubscribed Shares ) at the Subscription Price per share pro rata to their respective underwriting commitments as indicated in the table. However, as previously announced by the Company, the Company has been advised by the Standby Underwriters that they are, or may be, unable or unwilling to fulfill their underwriting obligations. For further details of the notifications received from the Standby Underwriters see Recent Developments below. As also previously announced, the Company has determined to proceed with the Rights Offering as planned and, to the extent that stockholders do not

take up their Rights, to call upon the Standby Underwriters to comply with their underwriting obligations. In the event that any Standby Underwriter fails to comply with its underwriting obligations when called upon to do so, the Company will at that time consider its options and remedies. Regardless, the shares already subscribed for by Rights Holders will be issued according to the previously announced schedule.

**Table of Contents**

As of the date hereof, there are no new developments with regard to the willingness or capability of the Standby Underwriters to fulfill their underwriting obligations. See [Recent Developments](#) , [Risk Factors](#) , [The Amended Rights Offering](#) [Standby Underwriting Commitments](#) and [Standby Underwriting and Plan of Distribution](#) herein.

**AMEX and OSE Symbols for Common Stock and Rights**

CNR is the symbol for the common stock on both the AMEX and OSE; the AMEX symbol for the Rights is CNR.RT.

**Use of Proceeds**

The gross proceeds from the Rights Offering, before the payment of expenses of the Rights Offering, including any compensation due to the Standby Underwriters, are estimated to be a maximum of \$24.2 million and a minimum of \$1.36 million based upon the results of the Norwegian portion of the Rights Offering and assuming that the balance of the Rights Offering is only subscribed on a similar percentage basis and that, despite there being firm and unconditional underwriting agreements in place, all of the Standby Underwriters default completely on their underwriting obligations, but before the Company considers its options and remedies with respect to the defaulting underwriters. The Prospectus sets forth the use of proceeds assuming a successful completion of a fully underwritten Rights Offering. However, based on the assumption outlined above used to arrive at the minimum case scenario, there would be no net proceeds available following payment of the expenses of the Rights Offering. See [Use of Proceeds](#) below for this minimum case scenario.

**Deciding Not to Exercise Subscription Rights**

You will retain your current number of shares of our common stock even if you do not exercise your Rights. You are not required to subscribe in this Rights Offering. However, if you do not exercise your Rights, the percentage of our common stock that you own will decrease, and your voting and other rights will be diluted as a result of the issuance of approximately 259,547,390 shares of our common stock pursuant to this Rights Offering (assuming this Rights Offering is fully subscribed and the Standby Underwriters are entitled to and exercise their right to elect to take their commissions in shares of common stock rather than in cash). Based upon the results of the Norwegian portion of the Rights Offering and assuming that the balance of the Rights Offering is only subscribed on a similar percentage basis and that the Standby Underwriters fail to meet their underwriting obligations (notwithstanding that the underwriting commitments are firm and unconditional and that the Company intends to call on the Standby Underwriters to comply with their underwriting obligations) then your voting and other rights will be diluted as a result of the issuance of approximately 13,579,821 shares of our common stock pursuant to this Rights Offering. See [Dilution](#) herein.

**Manager**

We and RS Platou Markets AS (formerly known as Glitnir Securities AS) have entered into an engagement agreement, dated June 26, 2008, pursuant to which RS Platou Markets is acting as manager and has acted as the Norwegian Subscription Agent in connection with this Rights Offering. We

will pay a fee and all expenses of RS Platou Markets in connection with the Rights Offering for acting as the manager and as Norwegian Subscription Agent. The fee attributable to the Rights Offering is 2.5% of the gross proceeds to be raised in the Rights Offering, or a minimum of \$600,000. We will also pay all fees and expenses of Computershare related to its role as U.S. Subscription Agent in connection with this Rights Offering. The address, telephone number and the terms of engagement of the manager have not changed although effective October 24, 2008 the manager was purchased from its Icelandic parent by its employees and RS Platou Markets AS. See Standby Underwriting and Plan of Distribution The Manager herein.

**Table of Contents**

**No Recommendations**

An investment in our common stock must be made pursuant to each investor's evaluation of such investor's best interests. Accordingly, the Company, the manager and the Standby Underwriters make no recommendations to the holders of our common stock regarding whether they should exercise, sell or let lapse their Rights. Stockholders that exercise Rights risk loss of their investment. We cannot assure you that the market price for our common stock will be above the Subscription Price or that anyone purchasing shares at the Subscription Price will be able to sell those shares in the future at the same price or a higher price. Neither the manager nor the Standby Underwriters will engage in any stabilization transactions which may maintain the market price of our common stock above the Subscription Price. You are urged to make your decision based on your own assessment of our business and this Rights Offering. Please see the section entitled "Risk Factors" in the Prospectus and herein for a discussion of some of the risks involved in investing in our common stock and "Recent Price Range of our Common Stock and Dividend Policy" and "The Amended Rights Offering - No Recommendation" herein.

**Certain U.S. Federal Income Tax Considerations**

For U.S. federal income tax purposes, you should not recognize income or loss upon receipt or exercise of a Right. You should consult your own tax advisor as to the tax consequences to you of the receipt, exercise or lapse of the Rights in light of your particular circumstances. See "Certain Income Tax Considerations" in the Prospectus.

**Foreign and Other Stockholders**

We will not mail the Subscription Rights Certificates to stockholders with addresses that are outside the United States (other than stockholders with an address in certain Canadian provinces) or that have an army post office or fleet post office address. The U.S. Subscription Agent will hold these Subscription Rights Certificates for their account. If stockholders have an address outside the U.S. (other than in certain Canadian provinces) or an army post office or a fleet post office address, to exercise their Rights they must notify the U.S. Subscription Agent before 5:00 p.m., U.S. Eastern time, on November 18, 2008, three business days prior to the U.S. expiration date of the Rights Offering, and with respect to holders whose addresses are outside the U.S. (other than in certain Canadian provinces) they must provide evidence satisfactory to us, such as a legal opinion from local counsel, that it is lawful for them to receive and exercise their Rights under applicable law. See "The Amended Rights Offering - Foreign and Other Stockholders" herein.

**Information Agents**

If you have questions or need assistance, please contact the U.S. Subscription Agent. U.S. banks and brokerage firms please call (800) 962-4284.

**Shares Outstanding After Completion of this Rights Offering**

Assuming no options or other derivative securities of the Company are exercised or converted prior to the expiration of this Rights Offering, the Standby Underwriters elect to take their commissions in shares of common stock rather than in cash and the full 242,107,390 shares are subscribed for by our common stockholders (and not by the Standby Underwriters pursuant

to their standby underwriting commitments), we expect approximately 501,154,780 shares of our common stock will be outstanding immediately after completion of this Rights Offering.

Assuming no options or other derivative securities of the Company are exercised or converted prior to the expiration of this Rights Offering and based on the results of the Norwegian portion of the Rights Offering and assuming that the balance of the Rights Offering is only subscribed on a similar percentage basis and assuming that the Standby Underwriters default in their respective underwriting obligations, we expect approximately 255,687,211 shares of our common stock will be outstanding immediately after completion of this Rights Offering.

**U.S. Subscription Agent**

Computershare, 350 Indiana Street, Suite 800, Golden, CO 80401;  
Telephone Number: (303) 262-0600; Facsimile Number: (303) 262-0609

**Table of Contents**

**GOING CONCERN**

Our ability to continue to pursue our principal activities of oil and gas production, marketing and sales, acquiring interests in and developing oil and gas fields is dependent upon generating funds from internal sources, external sources and, ultimately, maintaining sufficient positive cash flows from operating activities (see Risk Factors ).

Our financial statements have been prepared in accordance with U.S. GAAP, which contemplates continuation of the Company as a going concern. In respect of the Company's 2007 audited financial statements, the audit opinion issued in the auditors' independent report contained additional explanatory language to the standard audit report in respect of the Company's ability to continue as a going concern.

As described in greater detail in the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 7, 2008 and incorporated by reference herein, we currently have sufficient cash on hand to support our current operations through to at least the end of November. In order to fund our planned capital expenditure program and to continue our operations thereafter, we need to raise substantial funds. Accordingly, we are pursuing raising additional funds through the Rights Offering to stockholders. We are also actively pursuing the farming out of a number of our exploration projects and may seek to enforce our legal rights against any defaulting Standby Underwriters. However, if the Rights Offering is unsuccessful and the Standby Underwriters default in their obligations the Company will be required to significantly curtail its operations or cease them altogether. See Risk Factors herein and in the Prospectus.

Depending on the results of the underwritten Rights Offering we will use a portion of the proceeds from the Rights Offering for a short term production enhancement program at the Ninotsminda Field in order to generate additional near term cash flows. We believe that if we improve near term cash flow as a result of our production enhancement efforts and if we are eventually able to successfully complete testing the Manavi 12 well such that a significant quantity of oil flows are produced, we will be able to raise additional debt and/or equity funds in order to continue operations, continue our development plans for the Ninotsminda Field, properly develop the Manavi Field, continue appraising the Norio discoveries, and further develop our business in the region.

**RECENT DEVELOPMENTS**

On October 13, 2008, we announced that the Company was advised by certain of the Standby Underwriters that, in light of current market conditions, those Underwriters were unable or unwilling, or may be unable or unwilling, to fulfill their underwriting obligations. The Company also stated that it was considering its position with respect to the Rights Offering but, due to the situation, it was possible that the Rights Offering would proceed with a reduced or no underwriting in place, subject to compliance with regulatory requirements, in both Norway and the US or just in Norway. In the interim, and particularly in view of the scheduled Norwegian expiration date at 5:30 p.m., CET, on October 14, 2008, the Company extended the scheduled expiration dates and times of the Rights Offering from 4:00 p.m. ..., U.S. Eastern time on October 24, 2008, the scheduled U.S. expiration date, until 4:00 p.m., U.S. Eastern time on October 31, 2008, and from 5:30 p.m., CET, on October 14, 2008, the scheduled Norwegian expiration date, until 5:30 p.m., CET, on October 21, 2008.

On October 15, 2008 the Company released details of notices that it received from the Standby Underwriters in respect of their underwriting obligations as follows:



**Table of Contents**

<b>Underwriter</b>	<b>Reason for withdrawal or potential withdrawal from obligation</b>	<b># of shares</b>	<b>Amount (USD),</b>
Caldwell Associates Limited	Reserve right not to be committed having become aware that other underwriters may not be able or willing to fulfill their commitments	100,000,000	10,000,000
Provincial Securities Limited	Unable to fulfill	50,000,000	5,000,000
Heritage Cie S.A.	Reserve right to withdraw having become aware that other underwriters may not be able or willing to fulfill their commitments	42,000,000	4,200,000
Salahi Öztürk	Has proposed suspension of underwriting obligation on basis of alleged force majeure	20,000,000	2,000,000
Osman Necdel Turkey	Has proposed suspension of underwriting obligation on basis of alleged force majeure	15,000,000	1,500,000
Hasan Gürhan Berker	Has proposed suspension of underwriting obligation on basis of alleged force majeure	5,000,000	500,000
Fevzi Bozer	Has proposed suspension of underwriting obligation on basis of alleged force majeure	5,000,000	500,000
Hasip Buldanlioglu	Has proposed suspension of Underwriting obligation on basis of alleged force Majeure	5,000,000	500,000
<b>Total</b>		<b>242,000,000</b>	<b>24,200,000</b>

The Company also stated that after the new expiration dates, unexercised Rights would expire and have no value. In the event that the Rights Offering generates less proceeds than expected, the Company would focus on production enhancement work at the Ninotsminda Field and the continuation of well testing operations at Manavi at the expense of early repayment of debt and its other planned use of proceeds. However, as previously indicated in the Prospectus, further unforeseen or changing circumstances may alter the amount, use and allocation of such proceeds.

The extension of the expiration dates of the Rights Offering was intended to provide additional time to enable the Company (1) to continue discussions with the Standby Underwriters and (2) to advance discussions which it

commenced with other parties who had expressed an interest in providing a possible alternative underwriting of the Rights Offering.

## Table of Contents

In light of these developments the Company amended the terms of the Rights Offering to permit those U.S. Rights Holders and foreign stockholders who have received Subscription Rights Certificates and have exercised their Rights and paid the Subscription Price to the U.S. Subscription Agent to withdraw their subscriptions and request a return of their payments, without interest. Rights Holders who held their Shares and/or Rights in the VPS System were also offered withdrawal rights which had to be exercised in accordance with the provisions of the Supplement to the Norwegian Offering Circular dated 14 October 2008 on file with the Oslo Stock Exchange.

On October 20, 2008, the Company entered into eight separate amendment agreements (each an Amendment Agreement ) in terms of which the Company and the Standby Underwriters agreed to amend the terms of the eight Standby Underwriting Agreements. In terms of the Amendment Agreements, each of which is in substantially similar form, the parties agreed that the subscription period for the Rights Offering would be extended from a maximum of four weeks to a maximum of seven weeks .. Save as thereby amended, the Company and the Standby Underwriters agreed that the original Standby Underwriting Agreements remain in full force and effect in accordance with their terms. In accordance with the terms of the Amendment Agreements , the Company further extended the expiration dates of the Rights Offering to November 11, 2008 in Norway and November 21, 2008 in the United States and extended withdrawal rights to U.S .. Rights holders to expire on November 20, 2008.

Effective October 24, 2008, in connection with the purchase of Glitnir Securities AS, the Manager of the Rights Offering, from its Icelandic parent by its employees and RS Platou Markets AS, the firm changed its name to RS Platou Markets AS. The address, phone number and terms of the manager 's engagement remained the same.

On November 6, 2008, the Board of Directors of the Company resolved to proceed with the Rights Offering as planned and, to the extent that stockholders do not take up their Rights, to call upon the Standby Underwriters to comply with their underwriting obligations. In the event that any Standby Underwriter fails to comply with its underwriting obligations when called upon to do so, the Company will at that time consider its options and remedies. Regardless , the shares already subscribed for by Rights Holders would be issued according to the previously announced schedule. The Rights Offering expired on November 11, 2008 in Norway and will expire on November 21, 2008 in the United States. The Rights will no longer be excisable in Norway after November 11, 2008 and in the United States after November 21, 2008 and will have no value ..

On November 7, 2008 the Company filed its Quarterly Report on Form 10-Q.

On November 10, 2008 the Company issued a second Supplement to the Norwegian Offering Circular which provided Rights Holders who held their Shares and/or Rights in the VPS System with: (i) the Company 's results for the 9 month period ended September 30, 2008; (ii) notification that the Company was proceeding with the Rights Offering; and (iii) withdrawal rights (now expired) which had to be exercised in accordance with the terms of the second Supplement to the Norwegian Offering Circular.

On November 11, 2008, the Norwegian portion of the Rights Offering expired with subscriptions for approximately 8.2 million shares of common stock received by the Company for approximately \$820,000 in gross proceeds to be paid on November 14, 2008, the settlement date.

## **RISK FACTORS**

***An investment in our common stock is subject to significant risks and uncertainties which may result in a loss of all or a part of your investment. You should carefully consider the risks described below, as well as the risks described in the Prospectus and all other information contained or incorporated by reference in this Prospectus Supplement and accompanying Prospectus, before investing in our common stock. The risks described below are not the only ones facing the Company. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations and adversely affect the price of our shares***  
***The Need for Additional Capital and Its Affect on Continuing Operations***

We need additional capital in the immediate near term if we are to continue current operations. We still do intend raising funding through our Rights Offering. As elsewhere described in the Prospectus and this Prospectus Supplement, the hostilities between Georgia and the Russian Federation and the unprecedented turmoil in global capital markets that have been experienced in recent months, which we understand has prompted the Standby Underwriters to indicate that they may be unable or unwilling to meet their obligations under their Standby

Underwriting Agreements, coupled with the recent significant drop in world oil prices in anticipation of a global recession and the recent trading range for our shares of common stock at prices below the exercise price of the Rights, have materially increased the risk that we will be unable to consummate the Rights Offering successfully. Failure to raise significant funds from the Rights Offering will leave the Company in a difficult financial position which it may not be able to resolve quickly, if at all. If the Company is unable to obtain sufficient additional capital in the near term it may have to significantly curtail or cease operations altogether.

**Table of Contents*****Rights Offering and Shares Eligible For Future Sale***

The Company currently has outstanding \$4,650,000 in aggregate principal amount of 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 Notes. The 12% Subordinated Notes are held by Persistency. Both the Subordinated Notes and the 12% Subordinated 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 16,111,000 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. 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. 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 in aggregate principal amount of Senior Secured Notes due July 25, 2009 (the Senior Notes) into shares of Tethys common stock (such Senior Notes have since been repaid by the Company).

The holders of such Notes and warrants, in aggregate, would currently be entitled to receive a maximum of 36,361,111 shares of common stock upon conversion of their Notes pursuant to the Note conversion price of \$1.00 per share and the exercise of the warrants. However, after the Rights Offering, the holders of the Notes and warrants could receive up to a possible maximum of 173,611,111 shares of common stock upon conversion of their Notes and exercise of certain warrants following the re-set of the conversion and exercise prices of the Notes and warrants to \$0.10 from \$1.00 per share.

Such shares of common stock issuable to the Note holders are subject to contractual registration rights. Sales of shares of common stock under Rule 144 or pursuant to an effective registration statement could have a material adverse effect on the price of the common stock and could impair our ability to raise additional capital through the sale of our equity securities.

Additionally, an aggregate of 16,940,000 shares of common stock may become issuable to the Standby Underwriters in lieu of cash commissions from the Company pursuant to their respective Standby Underwriting Agreements, assuming that they are not in breach of their obligations thereunder.

***Continuing Tensions Between Georgia and the Russian Federation may Adversely Affect the Company***

The recent hostilities between Georgia and the Russian Federation over the separatist regions of South Ossetia and Abkhazia did not interrupt or adversely affect our operations or our ability to market our production from the Ninotsminda Field, however, should military operations resume and extend to the areas in which we operate this could have an adverse effect on our operations or interfere with the methods by which we market our production. Oil production operations, at the present time, continue as normal at the Company's Ninotsminda Field which is located 35 kilometers to the east of the capital city Tbilisi and over 100 kilometers from South Ossetia. As a precautionary measure, the Company has increased security and the number of personnel on duty at its production sites. In addition, continuing political tensions may adversely affect the Company's ability to raise additional capital to the extent that the situation dissuades potential investors from investing in the Company or makes the terms of any such investments prohibitively expensive. The Company is closely monitoring the situation and the efforts of the United States, NATO, the European Union and the United Nations to reduce tensions and to restore a degree of normality to the area.

***Continued listing on The American Stock Exchange***

In accordance with the requirements of the AMEX, on March 18, 2008, we announced that in respect of the Company's 2007 audited financial statements, the audit opinion issued in the auditors independent report contained additional explanatory language to the standard audit report in respect of the Company's ability to continue as a going concern. The independent audit report