

DATED 24TH JANUARY 2007

CANARGO ENERGY CORPORATION
and
TETHYS PETROLEUM LIMITED

AMI AGREEMENT
(INTERNATIONAL)

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SCHEDULE 1: MAP OF PRIORITY, OPEN AND AMI AREAS



THIS AGREEMENT is made this 24th day of January 2007 between

- (1) **CANARGO ENERGY CORPORATION**, a company incorporated in the State of Delaware, United States of America and having its registered office at 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808, USA ("CanArgo"); and
- (2) **TETHYS PETROLEUM LIMITED**, a company incorporated in Guernsey (Company number 41075) and having its registered office at PO Box 524, St Peter Port, Guernsey, GY1 6EL ("Tethys").

(hereinafter individually or collectively referred to as a "**Party**" or the "**Parties**" respectively).

WHEREAS

- A. The Parties have agreed that they will liaise with each other with regard to oil and gas projects being undertaken in certain areas and further that they will not compete with each other in respect of oil and gas projects in other areas.
- B. The Parties wish to regulate and set forth their respective rights, interests and obligations with regard to the co-operation and non-competition referred to in Recital (A) above.

NOW IT IS HEREBY AGREED as follows:-

1. DEFINITIONS AND INTERPRETATION

- 1.1 For the purpose of this Agreement the following terms shall have the meanings assigned to them in this Clause:

"**Acquiring Party**" has the meaning ascribed thereto in Clause 3.1;

"**Agreement**" means this agreement, including the recitals and Schedule, as the same may be extended, amended or varied from time to time in accordance with its express terms;

"**Affiliate**" means, in relation to a Party, a company or corporation:

- (i) that is, directly or indirectly, controlled by such Party; or
- (ii) that, directly or indirectly controls such Party; or



- (iii) that is, directly or indirectly, controlled by a company or corporation that also, directly or indirectly, controls such Party.

For the purposes of this definition, "**control**" means the right to exercise or cause the exercise of the vote of more than fifty percent (50%) of all the voting shares of such company, or corporation and the expression "**Affiliated**" shall be construed accordingly;

"**AMI Areas**" means Egypt, Estonia, Iran, Iraq, Israel, Latvia, Lebanon, Lithuania, Moldova, Russia, Syria, all as more particularly delineated on the map attached in the Schedule hereto;

"**Effective Date**" means the date hereof;

"**Non-Priority Company**" means: (a) CanArgo in relation to Afghanistan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan; and
(b) Tethys in relation to Armenia, Azerbaijan, Belarus, Georgia, Turkey and Ukraine;

as the context requires.

"**Oil and Gas Projects**" means a project being undertaken or proposed to be undertaken by one or more parties the purpose of which is to explore for oil and/or gas and/or to appraise, develop and /or produce said oil and/or gas.

"**Open Area**" means an area in respect of which there are no restrictions or requirements governing competition or co-operation between the Parties as all such areas are more particularly delineated on the map attached in the Schedule hereto;

"**Priority Area**" means: (a) Armenia, Azerbaijan, Belarus, Georgia, Turkey and Ukraine with regard to CanArgo; or

(b) Afghanistan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan with regard to Tethys;

as the context requires and as all such areas as more particularly delineated on the map attached in the Schedule hereto.

"**Priority Company**" means: (a) CanArgo in relation to Armenia, Azerbaijan, Belarus, Georgia, Turkey and Ukraine or



- (b) Tethys in relation to Afghanistan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan;

as the context requires.

“Working Day” means a day on which banks in the City of London are open for normal business excluding any Saturday, Sunday or a public holiday and for the purpose of service of any notice pursuant to the terms of this Agreement shall be deemed to end at 17:00 hours on the day in question;

- 1.2 A reference to the singular includes a reference to the plural and vice versa.
- 1.3 A reference to a Clause, Sub-clause or Schedule is a reference to a clause, sub-clause or schedule of this Agreement and, unless the context otherwise requires, a reference in any Clause to a Sub-clause is a reference to a Sub-clause of such Clause.
- 1.4 The headings of Clauses and Sub-clauses in this Agreement are included for convenience and ease of reference only and shall not be deemed included in this Agreement for the purposes of the construction or validity hereof.
- 1.5 A reference to any gender includes a reference to all other genders.
- 1.6 Where “including” is used it shall be construed as “including, but not limited to,”.
- 1.7 References to any statute, statutory provision or other legislation shall include a reference to that statute, provision or legislation as amended, re-enacted, consolidated or replaced from time to time (whether before or after the date of this Agreement) and shall include any subordinate legislation made under the relevant statute, statutory provision or legislation.

2. PRIORITY AREAS AND RESTRICTIONS ON INDEPENDENT APPLICATIONS

- 2.1 The Priority Company shall, solely with regard to the Non-Priority Company, have the exclusive rights to locate and negotiate the acquisition of equity or any legal or beneficial interest or other participation of any description in any Oil and Gas Projects situated exclusively in one or more Priority Areas for a period of two (2) years from the date of this Agreement. (the "Exclusivity Period").



2.2 During the Exclusivity Period, the Non-Priority Company shall not and shall procure that its Affiliates and its and their agents, directors or employees (including agency personnel) shall not

- (i) make or attempt to make any application for or seek equity or any form of legal or beneficial interest or participation of any description in any Oil and Gas Project situated exclusively within one or more Priority Areas;
- (ii) have any discussions relating to the acquisition of any interest in any Oil and Gas Project situated exclusively within one or more Priority Areas, whether by way of asset or corporate purchase, farm-in, farm-out, asset swap or any other method whatsoever, with any third party;
- (iii) disclose the existence of this Agreement, to any third party, except with the prior consent of the Priority Company;
- (iv) do any act or thing, or omit to do any act or thing, which could prejudice the ability of the Priority Company, or any joint-venturer of the Priority Company in any attempt by it or them to acquire an interest in any Oil and Gas Project situated exclusively within one or more Priority Areas.

2.3 Subject to any obligations of confidentiality, the Non-Priority Company shall, during the Exclusivity Period, promptly notify the Priority Company of any equity, any interests (legal or beneficial) and/or any participation of any nature which it is offered in any Oil and Gas Projects situated exclusively within one or more Priority Areas and shall, subject to any obligations of confidentiality, furnish the Priority Company with a copy of any information it has been supplied with in relation to said Oil and Gas Projects.

2.4 If the Priority Company does not confirm to the Non-Priority Company that it wishes to seek participation in the Oil and Gas Project it is notified of under Clause 2.3 within thirty (30) days of receipt of a notice under said clause, then the Non-Priority Company shall be free to seek equity, a legal and/or beneficial interest in and/or participation in said project, notwithstanding the provisions of Clause 2.2.

3. AREAS OF MUTUAL INTEREST

3.1 The Parties shall, during the Exclusivity Period, co-operate with each other in respect of any AMI Areas so that if either Party (the "Acquiring Party") acquires or seeks to acquire any equity, legal or



beneficial interest or any participation of any description ("Interest") in any Oil and Gas Project situated exclusively in one or more AMI Area then it shall promptly notify the other Party of its acquisition or intention to acquire said Interest and the terms upon which has or will make such acquisition.

- 3.2 If the Acquiring Party acquires the Interest referred to in Clause 3.1, it shall offer the other Party (the "Incoming Party") forty nine percent (49%) share of its interest in said project, provided that the Incoming Party shall have the option to acquire said interest on the same terms, pro rata, as those under which it was acquired by the Acquiring Party and further provided that the Incoming Party shall pay its equity share of any past costs attributable to the interest it is acquiring hereunder.
- 3.3 The Incoming Party shall have thirty (30) days from the date upon which it is notified of the terms it may acquire the Interest from the Acquiring Party in which to accept the offer to acquire said interest provided that if it does not accept such offer within said thirty (30) day period, the Acquiring Party shall be free to pursue the acquisition of said Interest on its own or with third parties.
- 3.4 Subject to Clause 3.5, if both the Acquiring Party and the Incoming Party acquire the Interest in the proportions referred to in Clause 3.2, it is agreed that the Acquiring Party shall, subject always to any applicable laws and regulatory approvals and subject to the agreement of any third parties (if applicable), have the right to assume operatorship in respect of said Interest and, again subject always to any applicable laws and regulatory approvals and subject to the agreement of any third parties (if applicable) a mutually acceptable joint venture agreement, joint operating agreement, concession agreement or similar agreement shall be negotiated and agreed in accordance with international norms, which agreement shall include sole risk provisions to the extent permissible by applicable laws or regulatory authorities.
- 3.5 Notwithstanding Clause 3.2, if the Parties agree to acquire the interest in equal proportions, it is agreed that, subject to applicable laws and regulatory approvals and subject to the agreement of any third parties (if applicable), both Parties shall operate the Interest, whether by way of an incorporated or unincorporated joint venture.
- 3.6 Except as otherwise provided herein each Party shall bear its own costs and expenses in relation to the preparation and execution of this Agreement

4. OPEN AREAS

- 4.1 For the avoidance of doubt, this Agreement shall have no application in respect of any Open Areas.



5. ASSIGNMENT

5.1 Subject to Clause 5.2, no Party shall assign, transfer, sell or otherwise dispose (hereinafter referred to as a "**transfer**") any of its rights and obligations under this Agreement, except to one of its Affiliates in accordance with Clause 5.2, unless it shall have:

- (i) first received the written approval of the other Party (not to be unreasonably withheld) to both the transfer and the proposed transferee;
- (ii) procured to the reasonable satisfaction of the other Party the transferee's agreement to be bound by the terms of this Agreement.

Subject to the foregoing, the Parties shall promptly execute and deliver all and any documents reasonably necessary to effect any such transfer.

5.2 A Party may freely assign its interest to an Affiliate, provided that (i) it shall promptly notify in writing particulars of the transfer and the transferee to the other Party, (ii) any Affiliate to whom a transfer is to be made shall comply with the requirements of Clauses 5.1(i) and 5.1(ii), and (iii) (except with the express permission to the contrary of the other Party) such Affiliate shall remain an Affiliate of the assignor during the term of this Agreement.

6. RELATIONSHIP OF PARTIES

6.1 The rights, duties, obligations and liabilities of the Parties under this Agreement shall be several and not joint or collective and each Party shall be responsible only for its obligations as set out herein. It is expressly agreed by the Parties that it is not the purpose or intention of this Agreement to create any partnership.

6.2 Each Party shall use all reasonable endeavours to procure that its Affiliates and its and their agents, directors or employees (including agency personnel) shall act in a manner which is consistent with the terms of this Agreement.

7. INDEMNITIES



- 7.1 Neither Party shall be liable to the other Party for any special, indirect or consequential losses and/or damages resulting from or arising out of any breach of this Agreement however the same may be caused and each Party shall indemnify the other in respect any such losses and/or damages incurred or suffered.

8. CONFIDENTIALITY

- 8.1 The existence of this Agreement and all information and data acquired, received or generated for the purposes of this Agreement shall during the term of this Agreement and for a period of one (1) year thereafter be held strictly confidential and shall not be disclosed, given, sold or traded in whole or in part to any third party without the prior written approval of the Party having an ownership interest in such information and data provided that either Party may, without such approval:

- (i) make available or disclose such data and information to any Affiliate of such Party subject to such Affiliate agreeing to keep such data and information confidential. Such Party shall remain responsible hereunder for any disclosure made by its Affiliate in breach of the terms hereof; or
- (ii) make available or disclose such data and information to the extent that the same has become generally available to the public otherwise than by virtue of a breach of this Agreement; or
- (iii) make available or disclose such data and information to the extent required by any licence, or by any applicable law or the regulations of any recognised stock exchange on which the shares of a Party or any of its Affiliates are quoted or the Securities and Exchange Commission of the United States of America or any other regulatory body; or
- (iv) disclose such data and information to any outside professional consultant(s) upon obtaining an undertaking of confidentiality from such consultant(s) on no less onerous terms than this Clause 8.1; or
- (v) disclose such data and information to any bank or financial institution from which a Party or its Affiliate has obtained or is seeking or obtaining finance upon obtaining a undertaking of confidentiality from such bank or financial institution on no less onerous terms than this Clause 8.1.

Any disclosure pursuant to sub-clause (iv) and (v) shall only be permitted to the extent necessary in connection with the purposes of this Agreement.



8.2 No Party or Affiliate thereof shall issue or make any public announcement or press or public release of information or disclose any information regarding this Agreement or any matters specifically provided for in this Agreement, or any application for any equity, participation or legal or beneficial interest in an Oil and Gas Project pursuant hereto unless prior thereto it furnishes the other Party with a copy of such announcement or information and obtains the approval of the other Party, such approval not to be unreasonably withheld or delayed, provided that no Party nor any Affiliate shall be prohibited from issuing or making any such public announcement or disclosing such information if it is necessary to do so in order to comply with any applicable law or the regulations of a recognised stock exchange on which the shares of a Party or any of its Affiliates are quoted or of the Securities and Exchange Commission of the United States of America or other regulatory authority.

8.3 This Clause 8 shall supersede any prior confidentiality agreement entered into between the Parties in relation to the matters contemplated herein and/or in relation to data and information covered hereby.

9 TERM AND SCOPE OF AGREEMENT

9.1 This Agreement shall be effective from the Effective Date and shall remain in force until the expiry of the Exclusivity Period:

9.2 No Party may withdraw from this Agreement except with the prior written consent of the other Party.

10. ENTIRE AGREEMENT

This Agreement represents the entire understanding of the Parties in relation to the matters dealt with herein and (save in the case of fraud) supersedes any previous understandings, commitments, agreements or representations whatsoever relating thereto, whether oral or written. This Agreement shall not be varied except by an instrument in writing of date even herewith or subsequent hereto executed by each Party by its duly authorised representative.

11. GOVERNING LAW

This Agreement shall be governed by and construed according to English law and the Parties hereby submit to the exclusive jurisdiction of the English Courts.

12. NOTICES

All notices served under this Agreement shall be in writing and may be given by delivering the same by hand at, or by sending the same by pre-paid first class post or fax to, the addresses of the Parties'



representatives as set out below (which such addresses may be amended by a Party at any time on giving written notice to the other Party). Any such notice given as aforesaid shall be deemed to have been received:

- (i) in the case of fax on receiving correct answerback or other reasonable evidence of satisfactory transmission and receipt (provided that if it is received after 5 pm on a Working Day, it shall be deemed to have been received on the next following Working Day);
- (ii) in the case of delivery by hand, when so delivered (provided that if it is delivered after 5 pm on a Working Day, it shall be deemed to have been received on the next following Working Day); and
- (iii) in the case of prepaid first class post, on the second Working Day next following the day of sending.

CanArgo Energy Corporation
PO Box 291
St Peter Port
Guernsey GY1 3RR
British Isles
Facsimile: +44 1481 729982
Attention: Vincent McDonnell

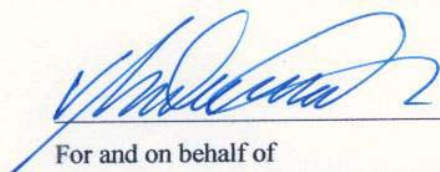
Tethys Petroleum Limited
PO Box 524
St Peter Port
Guernsey GY1 6EL
British Isles
Facsimile: +44 1481 711086
Attention: Bernard Murphy



13. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

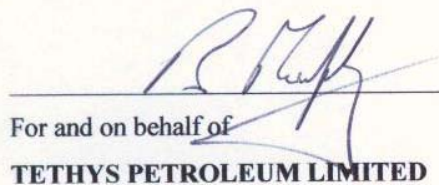
The Parties confirm that no terms of this Agreement are enforceable under the Contracts (Rights of Third Parties) Act 1999 by a person who is not a party to this Agreement.

AS WITNESS the hands of the duly authorised representatives of the Parties.



For and on behalf of

CANARGO ENERGY CORPORATION



For and on behalf of

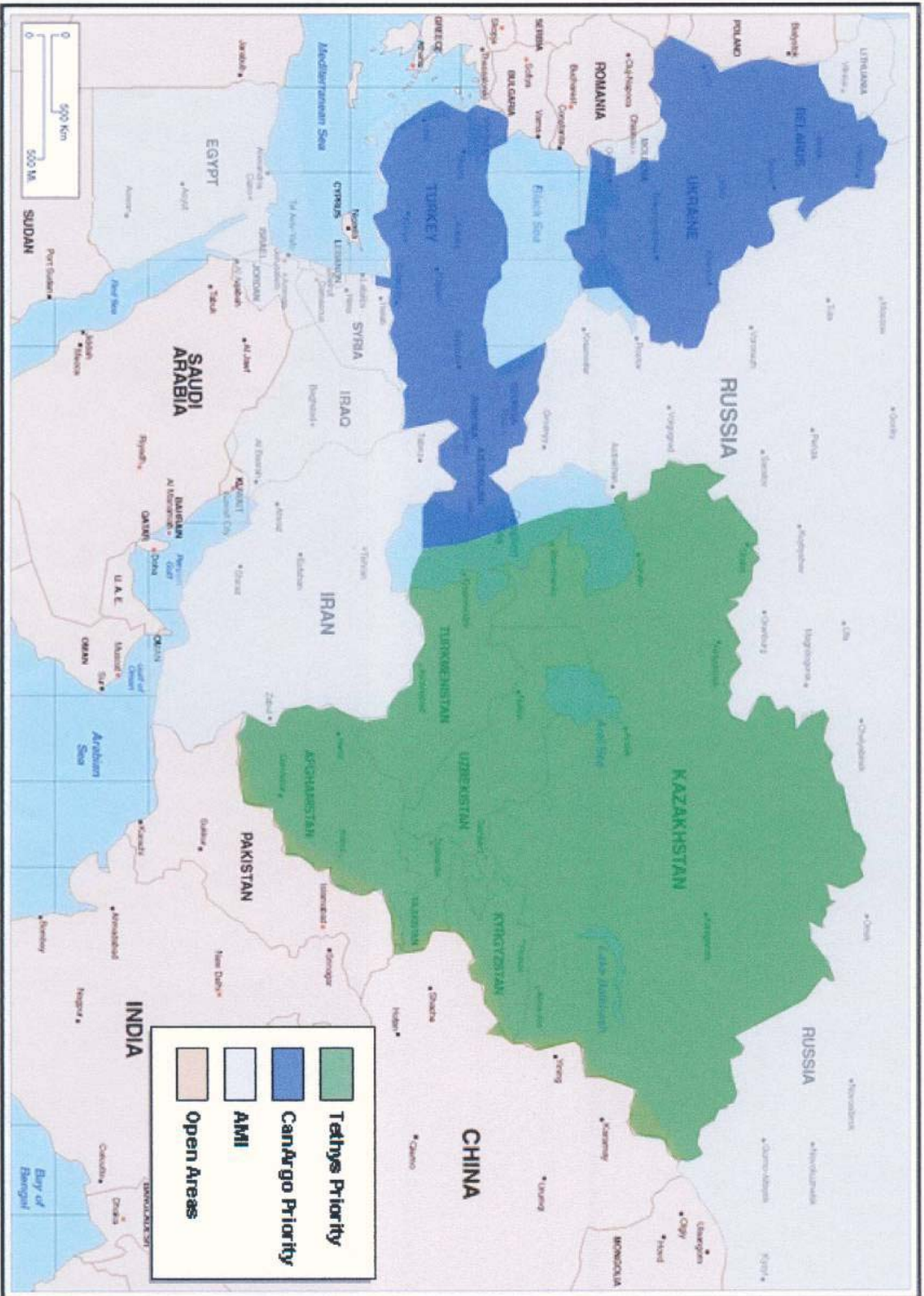
TETHYS PETROLEUM LIMITED

SCHEDULE

MAP OF PRIORITY, OPEN AND AMI AREAS

A handwritten signature in blue ink, consisting of a stylized 'W' or similar character, followed by a period.

Tethys – CanArgo Priority Areas and AMI



[Handwritten signature]