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CANARGO ENERGY CORP  
Form 10-Q  
May 15, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD  
ENDED MARCH 31, 2002
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD  
FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NUMBER 0-9147  
-----

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.)

CanArgo Services (UK) Limited  
150 Buckingham Palace Road, London, England  
-----  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

SW1W 9TR  
-----  
(ZIP CODE)

(44) 207 808 4700  
-----

(REGISTRANT'S TELEPHONE NUMBER)

-----  
(FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR, IF CHANGED SINCE LAST  
REPORT)

Indicate by check whether the registrant (1) has filed all reports required to  
be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during  
the preceding 12 months (or for such shorter period that the registrant was  
required to file such reports), and (2) has been subject to such filing  
requirements for the past 90 days. Yes  No

The number of shares of registrant's common stock outstanding on April 30, 2002  
was 97,070,580. An additional 147,866 shares of common stock are issuable at any  
time without additional consideration upon exercise of CanArgo Oil & Gas Inc.  
Exchangeable Shares.

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### FORWARD-LOOKING STATEMENTS

The United States Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for certain forward-looking statements. Such forward-looking statements are based upon the current expectations of CanArgo and speak only as of the date made. These forward-looking statements involve risks, uncertainties and other factors. The factors discussed elsewhere in this Quarterly Report on Form 10-Q are among those factors that in some cases have affected CanArgo's historic results and could cause actual results in the future to differ significantly from the results anticipated in forward looking statements made in this Quarterly Report on Form 10-Q, future filings by CanArgo with the Securities and Exchange Commission, in CanArgo's press releases and in oral statements made by authorized officers of CanArgo. When used in this Quarterly Report on Form 10-Q, the words "estimate," "project," "anticipate," "expect," "intend," "believe," "hope," "may" and similar expressions, as well as "will," "shall" and other indications of future tense, are intended to identify forward-looking statements. Few of the forward-looking statements in this Report deal with matters that are within our unilateral control. Acquisition, financing and other agreements and arrangements must be negotiated with independent third parties and, in some cases, must be approved by governmental agencies. These third parties generally have interests that do not coincide with ours and may conflict with our interests. Unless the third parties and we are able to compromise their various objectives in a mutually acceptable manner, agreements and arrangements will not be consummated.

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PART I - FINANCIAL INFORMATION  
CANARGO ENERGY CORPORATION AND SUBSIDIARIES

ITEM 1. FINANCIAL STATEMENTS  
CONSOLIDATED CONDENSED BALANCE SHEETS

	Unaudited	
	MARCH 31, 2002	DECEMBER 31, 2001
	-----	-----
ASSETS		
Cash and cash equivalents	\$ 4,325,727	\$ 5,891,292
Cash held in trust	1,762,433	--
Accounts receivable	2,911,280	2,646,110
Inventory	348,733	583,849
Prepayments	1,092,171	2,235,712
Other current assets	818,512	733,211
	-----	-----
Total current assets	\$ 11,258,856	\$ 12,090,174
Capital assets, net (including unevaluated amounts of \$29,048,786 and \$24,570,886, respectively)	61,348,333	57,684,710
Investments in and advances to oil and gas and other ventures - net	1,119,146	1,085,922
	-----	-----
TOTAL ASSETS	\$ 73,726,335	\$ 70,860,806
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 2,295,064	\$ 1,618,308
Current portion of long term debt	502,067	392,408
Income taxes payable	100,146	90,456
Accrued liabilities	370,043	400,221
	-----	-----
Total current liabilities	\$ 3,267,320	\$ 2,501,393
Long term debt	382,118	514,352
Provision for future site restoration	82,290	64,290
Minority shareholder advances	895,000	450,000
Minority interest in subsidiaries	1,612,766	1,531,191
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, par value \$0.10 per share	--	--
Common stock, par value \$0.10 per share	9,721,845	9,200,845
Capital in excess of par value	145,136,735	144,057,517
Accumulated deficit	(87,371,739)	(87,458,782)
	-----	-----
Total stockholders' equity	\$ 67,486,841	\$ 65,799,580
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 73,726,335	\$ 70,860,806
	=====	=====

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See accompanying notes to unaudited consolidated condensed financial statements.

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PART I - FINANCIAL INFORMATION  
CANARGO ENERGY CORPORATION AND SUBSIDIARIES

ITEM 1. FINANCIAL STATEMENTS  
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

	Unaudited	
	MARCH 31, 2002	MARCH 31, 2001
Operating Revenues from Continuing Operations:		
Oil and gas sales	\$ 1,637,929	\$ 1,748,195
Refining and marketing	1,364,705	1,849,608
Other	1,243,505	--
	-----	-----
	4,246,139	3,597,803
	-----	-----
Operating Expenses:		
Field operating expenses	595,976	502,217
Purchases of crude oil and products	1,042,066	1,157,724
Refinery operating expenses	--	120,406
Direct project costs	629,439	249,580
Selling, general and administrative	829,876	927,889
Depreciation, depletion and amortization	798,539	1,185,788
	-----	-----
	3,895,896	4,143,604
	-----	-----
OPERATING INCOME (LOSS) FROM CONTINUING OPERATIONS	350,243	(545,801)
	-----	-----
Other Income (Expense):		
Interest, net	(47,686)	391,156
Other	(88,512)	(104,279)
Equity income (loss) from investments	(8,125)	(37,000)
	-----	-----
TOTAL OTHER INCOME (EXPENSE)	(144,323)	249,877
	-----	-----
NET INCOME (LOSS) BEFORE INCOME TAX AND MINORITY INTEREST	205,920	(295,924)
	-----	-----
Income taxes	(37,302)	--
Minority interest in income of consolidated subsidiaries	(81,575)	(30,157)
	-----	-----
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	\$ 87,043	\$ (326,081)
	=====	=====
Weighted average number of common shares outstanding	94,787,113	75,950,681
	-----	-----
NET INCOME (LOSS) PER COMMON SHARE - BASIC	\$ 0.00	\$ (0.00)

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NET INCOME (LOSS) PER COMMON SHARE - DILUTED	\$ 0.00	\$ (0.00)
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See accompanying notes to unaudited consolidated condensed financial statements.

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PART I - FINANCIAL INFORMATION  
CANARGO ENERGY CORPORATION AND SUBSIDIARIES

ITEM 1. FINANCIAL STATEMENTS  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Unaudited	
	MARCH 31, 2002	MARCH 31, 2001
Operating activities:		
Net income (loss)	\$ 87,043	\$ (326,000)
Depreciation, depletion and amortization	798,539	1,185,000
Equity loss (income) from investments	8,125	37,000
Allowance for doubtful accounts	--	100,000
Minority interest in income of consolidated subsidiaries	81,575	30,000
Changes in assets and liabilities:		
Accounts receivable	(265,170)	(845,000)
Inventory	235,116	263,000
Other current assets	(85,301)	(17,000)
Accounts payable	676,756	(306,000)
Income taxes payable	9,690	--
Accrued liabilities	(30,178)	(125,000)
NET CASH GENERATED BY (USED IN) OPERATING ACTIVITIES	1,516,195	(4,000)
Investing activities:		
Capital expenditures	(4,444,162)	(3,766,000)
Investments in and advances to oil and gas and other ventures	(41,349)	(112,000)
Change in non cash working capital items	1,143,541	(2,555,000)
NET CASH USED IN INVESTING ACTIVITIES	(3,341,970)	(6,433,000)
Financing Activities:		
Proceeds from sale of common stock	1,762,433	--
Share issue costs	(162,215)	--
Funds held in trust	(1,762,433)	--
Minority shareholder advances	445,000	--
Advances from minority interest	--	1,701,000
Advances from joint venture partner	--	(3,950,000)
Decrease in long term debt	(22,575)	--
NET CASH PROVIDED BY FINANCING ACTIVITIES	260,210	(2,249,000)

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NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,565,565)	(8,688,
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	5,891,292	28,627,
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 4,325,727	\$ 19,938,

See accompanying notes to unaudited consolidated condensed financial statements.

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### PART I - FINANCIAL INFORMATION CANARGO ENERGY CORPORATION AND SUBSIDIARIES

ITEM 1. FINANCIAL STATEMENTS

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
THREE MONTHS ENDED MARCH 31, 2002 AND MARCH 31, 2001 (UNAUDITED)

(1) Basis of Presentation

The interim consolidated condensed financial statements and notes thereto of CanArgo Energy Corporation and its subsidiaries (collectively, CanArgo) have been prepared by management without audit. In the opinion of management, the consolidated condensed financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results for the interim period. The accompanying consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in CanArgo's Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission. All amounts are in U.S. dollars.

Certain items in the consolidated condensed financial statements have been reclassified to conform to the current year presentation. There was no effect on net loss as a result of these reclassifications.

(2) Need for Significant Additional Capital, Possible Impairment of Assets

Development of the oil and gas properties and ventures in which CanArgo has interests involves multi-year efforts and substantial cash expenditures. Full development of these properties will require the availability of substantial funds from external sources. CanArgo believes that it will be able to generate funds from external sources including quasi-governmental financing agencies, conventional lenders, equity investors and other oil and gas companies that may desire to participate in CanArgo's oil and gas projects, although no firm funding commitments have been received.

Ultimate realization of the carrying value of CanArgo's oil and gas properties will require production of oil and gas in sufficient quantities and marketing such oil and gas at sufficient prices to provide positive cash flow to CanArgo. This is dependent upon, among other factors, achieving significant production at costs that provide acceptable margins, reasonable levels of taxation from local authorities and the ability to market the oil and gas produced at or near world prices. In addition, CanArgo must mobilize drilling

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equipment and personnel to initiate drilling, completion and production activities. If one or more of the above factors, or other factors, are different than anticipated, CanArgo may not recover the carrying value of its oil and gas properties.

CanArgo generally has the principal responsibility for arranging financing for the oil and gas properties and ventures in which it has an interest. There can be no assurance, however, that CanArgo or the entities that are developing the oil and gas properties and ventures will be able to arrange the financing necessary to develop the projects being undertaken or to support the corporate and other activities of CanArgo or that such financing if available will be on terms that are acceptable to or are deemed to be in the best interests of CanArgo, such entities or their respective stockholders or participants.

The consolidated financial statements of CanArgo do not give effect to any additional impairment in the value of CanArgo's oil and gas properties and ventures or other adjustments that would be necessary if financing cannot be arranged for the development of such properties and ventures or if they are unable to achieve profitable operations. Failure to arrange such financing on reasonable terms or failure of such properties and ventures to achieve profitability would have a material adverse effect on the financial position, including realization of assets, results of operations, cash flows and prospects of the CanArgo.

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### (3) Foreign Operations

CanArgo's future operations and earnings will depend upon the results of CanArgo's operations in the Republic of Georgia and the Ukraine. There can be no assurance that CanArgo will be able to successfully conduct such operations, and a failure to do so would have a material adverse effect on CanArgo's financial position, results of operations and cash flows. Also, the success of CanArgo's operations will be subject to numerous contingencies, some of which are beyond management control. These contingencies include general and regional economic conditions, prices for crude oil and natural gas, competition and changes in regulation. Since CanArgo is dependent on international operations, CanArgo will be subject to various additional political, economic and other uncertainties. Among other risks, CanArgo's operations may be subject to the risks and restrictions on transfer of funds, import and export duties, quotas and embargoes, domestic and international customs and tariffs, and changing taxation policies, foreign exchange restrictions, political conditions and regulations.

### (4) Inventory

Inventory at March 31, 2002 and December 31, 2001 consisted of the following:

MARCH 31, 2002	December 31, 2001
-----	-----

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Crude oil	\$226,443	\$373,818
Refined products	122,290	210,031
	-----	-----
	\$348,733	\$583,849
	=====	=====

(5) Capital Assets, Net

Capital assets, net of accumulated depreciation and impairment, at March 31, 2002 and December 31, 2001 include the following:

	MARCH 31, 2002		Decembe
	COST	ACCUMULATED DEPRECIATION AND IMPAIRMENT	NET CAPITAL ASSETS
	-----	-----	-----
OIL AND GAS PROPERTIES			
Proved properties	\$31,900,462	\$15,857,770	\$16,042,692
Unproved properties	29,048,786		29,048,786
	-----	-----	-----
	60,949,248	15,857,770	45,091,478
PROPERTY AND EQUIPMENT			
Oil and gas related equipment	13,676,774	3,391,868	10,284,906
Office furniture, fixtures and equipment and other	1,060,531	516,805	543,726
	-----	-----	-----
	14,737,305	3,908,673	10,828,632
REFINING AND MARKETING	9,598,853	4,170,630	5,428,223
	-----	-----	-----
TOTAL	\$85,285,406	\$23,937,073	\$61,348,333
	=====	=====	=====

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Oil and gas related equipment includes new or refurbished drilling rigs and related equipment, all of which are in the Republic of Georgia for use by CanArgo in the development of the Ninotsminda field.

(6) Investments in and Advances to Oil and Gas and Other Ventures

CanArgo has acquired interests in oil and gas and other ventures through less than majority interests in corporate and corporate-like entities. A summary of CanArgo's net investment in and advances to oil and gas and other ventures at March 31, 2002 and December 31, 2001 is set out below:



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MARCH 31  
2002

INVESTMENTS IN AND ADVANCES TO OIL AND GAS AND OTHER VENTURES	
Ukraine - Stynawske Field, Boryslaw	
Through 45% ownership of Boryslaw Oil Company	\$ 6,739,41
Republic of Georgia - Ninotsminda	
Through an effective 50% ownership of East Georgian Pipeline Co.	192,50
Other Investments	441,61
	-----
TOTAL INVESTMENTS IN AND ADVANCES TO OIL AND GAS AND OTHER VENTURES	\$ 7,373,52
	-----
EQUITY IN PROFIT (LOSS) OF OIL AND GAS AND OTHER VENTURES	
Ukraine - Stynawske Field, Boryslaw	(602,08)
Republic of Georgia - East Georgian Pipeline Co.	(192,50)
	-----
CUMULATIVE EQUITY IN PROFIT (LOSS) OF OIL AND GAS AND OTHER VENTURES	\$ (794,58)
	-----
IMPAIRMENT - STYNAWSKE FIELD	(5,459,79)
	-----
TOTAL INVESTMENTS IN AND ADVANCES TO OIL AND GAS AND OTHER VENTURES, NET OF EQUITY LOSS AND IMPAIRMENT	\$ 1,119,14
	=====

Under the terms of the license Boryslaw Oil Company holds in the Stynawske field, field operations were to be transferred to Boryslaw Oil Company effective January 1, 1999. As a result of prolonged negotiations which created significant uncertainty as to CanArgo's ability to raise funds for the project or enter into a satisfactory farm-out agreement on a timely basis, CanArgo recorded in the third quarter of 1999 an impairment charge of \$5,459,793 against its investment in and advances to Boryslaw Oil Company. At present, certain obligations must be met by June 2002 in order for Boryslaw Oil Company to retain the field licence including the drilling of one new well. CanArgo is currently seeking an extension to the licence to allow a proper assessment of the workovers and development plans. If Boryslaw Oil Company does not proceed with the Stynawske field development programme or if an extension to the current licence cannot be obtained, it may be in breach of obligations it has with regard to the field license and an impairment charge against CanArgo's investment in and advances to Boryslaw Oil Company may be required.

Other investments include CanArgo's 10% interest in a potential Caspian Sea exploration project and two petrol station sites in Tbilisi, Georgia in which CanArgo has a 50% non-controlling interest. CanArgo accounts for its interest in the two petrol station sites using the equity method and consolidates the remaining seventeen sites in which it has controlling interest.

CanArgo's ventures are in the development stage. Accordingly, realization of these investments is dependent upon successful development of and ultimately cash flows from operations of the ventures.

## (7) Accrued Liabilities

Accrued liabilities at March 31, 2002 and December 31, 2001 include the following:

	MARCH 31, 2002 -----	December 31, 2001 -----
Professional fees	\$137,600	\$150,000
Operating costs	--	90,000
Other	232,443	160,221
	-----	-----
	\$370,043	\$400,221
	=====	=====

## (8) Long Term Debt

Bank loans at March 31, 2002 and December 31, 2001 include the following:

	MARCH 31, 2002 -----	December 31, 2001 -----
Outstanding bank loan	\$ 884,185	\$ 906,760
Less current portion	(502,067)	(392,408)
	-----	-----
Long term debt	\$ 382,118	\$ 514,352
	=====	=====

In November 2001, CanArgo Standard Oil Products Limited entered into a \$1 million credit facility agreement with a commercial lender in Georgia to fund further expansion of its petrol station network. In 2001, the full amount of the facility was drawn of which \$884,185 was outstanding as at March 31, 2002. The loan bears interest at 18% per annum and is secured by the assets of three petrol stations. The full amount of the loan is to be repaid by December 2003. No parent company guarantees have been provided by CanArgo with respect to this loan.

## (9) Minority Shareholder Advances

In 2001 CanArgo received \$450,000 and in 2002, \$445,000 on issuance of convertible loans from future shareholders of CanArgo's subsidiary, CanArgo Norio Limited ("Norio"). The cash amount received represents part of the future shareholders share of the cost of drilling an

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exploration well under the Norio and North Kumisi production sharing agreement. CanArgo anticipates increasing its interest to over 60% in Norio through an increased level of funding of this well.

The convertible loans are non interest bearing and will convert into ordinary share capital of Norio 30 days after the final cost of the well is known. It is at this point when the final ownership interest in Norio will be determined and consequently the \$895,000 received to March 31, 2002 and any subsequent advances from the future shareholders towards the cost of the well will be reclassified as minority interest.

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(10) Stockholders' Equity

	COMMON STOCK			
	NUMBER OF SHARES ISSUED AND ISSUABLE	PAR VALUE	ADDITIONAL PAID-IN CAPITAL	AC
TOTAL, DECEMBER 31, 2001	92,008,446	\$ 9,200,845	\$ 144,057,517	\$
Less shares issuable at beginning of period	(148,826)	(14,883)	(279,436)	
Issuance of common stock upon exchange of CanArgo Oil & Gas Inc. Exchangeable Shares	960	96	1,803	
Issuance of common stock pursuant to February private placement	5,210,000	521,000	1,241,433	
Share issue costs			(162,215)	
Net income (loss)	--	--	--	
BALANCE, MARCH 31, 2002	97,070,580	9,707,058	144,859,102	
Shares issuable upon exchange of CanArgo Oil & Gas Inc. Exchangeable Shares without receipt of further consideration	147,866	14,787	277,633	
TOTAL, MARCH 31, 2002	97,218,446	\$ 9,721,845	\$ 145,136,735	\$

On January 24, 2002 CanArgo announced that it has established May 24, 2002 as the redemption date for all of the Exchangeable Shares of CanArgo Oil & Gas Inc.. Each Exchangeable Share will be purchased by CanArgo for shares of CanArgo Common Stock on a share-for-share basis.

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No cash consideration will be issued by CanArgo and the purchase will not increase the total number of shares of Common Stock of CanArgo issued and issuable.

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(11) Net Income (Loss) Per Common Share

Basic and diluted net income (loss) per common share for the three month periods ended March 31, 2002 and 2001 are based on the weighted average number of common shares outstanding during those periods. The weighted average numbers of shares issued and issuable without receipt of additional consideration for the three month periods ended March 31, 2002 and 2001 are 94,787,113 and 75,950,681 respectively. Options to purchase CanArgo's common stock were outstanding at March 31, 2002 but were not included in the computation of diluted net income (loss) per common share because the effect of such inclusion would have been anti-dilutive.

(12) Commitments and Contingencies

OIL AND GAS PROPERTIES AND INVESTMENTS IN OIL AND GAS VENTURES

CanArgo has contingent obligations and may incur additional obligations, absolute and contingent, with respect to acquiring and developing oil and gas properties and ventures. At March 31, 2002, CanArgo had the contingent obligation to issue an aggregate of 187,500 shares of its common stock, subject to the satisfaction of conditions related to the achievement of specified performance standards by the Stynawske field project.

The shareholders agreement with the other shareholder of Norio calls for a bonus payment of \$800,000 to be paid by CanArgo should commercial production be obtained from the Middle Eocene or older strata and a second bonus payment of \$800,000 should production from the Block from the Middle Eocene or older strata exceed 250 tonnes of oil per day over any 90 day period.

(13) Segment Information

Operating revenues for the three month periods ended March 31, 2002 and 2001 by geographical area were as follows:

	MARCH 31, 2002	
	-----	-----
OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION		
Eastern Europe	\$ 1,637,929	\$
REFINING AND MARKETING		
Eastern Europe	1,364,705	

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Other		
Eastern Europe		1,243,505
INTERSEGMENT ELIMINATIONS		--
		-----
TOTAL		\$ 4,246,139
		=====

Operating income (loss) for the three month periods ended March 31, 2002 and 2001 by geographical area was as follows:

		MARCH 31,	
		2002	
		-----	
OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION			
Eastern Europe		\$ 1,589,651	\$
REFINING AND MARKETING			
Eastern Europe		239,913	
CORPORATE AND OTHER EXPENSES		(1,479,321)	
		-----	
TOTAL OPERATING INCOME (LOSS)		\$ 350,243	\$
		=====	

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Net income (loss) before minority interest for the three month periods ended March 31, 2002 and 2001 by geographic area was as follows:

		MARCH 31,	
		2002	
		-----	
OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION			
Eastern Europe		\$ 1,514,055	\$
REFINING AND MARKETING			
Eastern Europe		125,895	
CORPORATE AND OTHER EXPENSES		(1,471,331)	
		-----	
NET INCOME (LOSS) BEFORE MINORITY INTEREST		\$ 168,619	\$
		=====	

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Identifiable assets as of March 31, 2002 and December 31, 2001 by business segment and geographical area were as follows:

	MARCH 31, 2002	
	-----	
CORPORATE		
Eastern Europe	\$ 3,691,814	\$
Western Europe	7,567,042	
	-----	
TOTAL	11,258,856	
	-----	
OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION		
Eastern Europe	55,920,110	
REFINING AND MARKETING		
Eastern Europe	5,428,223	
OTHER ENERGY PROJECTS		
Eastern Europe	1,119,146	
	-----	
IDENTIFIABLE ASSETS - TOTAL	\$73,726,335	\$
	=====	

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### QUALIFYING STATEMENT WITH RESPECT TO FORWARD-LOOKING INFORMATION

THE FOLLOWING INFORMATION CONTAINS FORWARD-LOOKING STATEMENTS. SEE "FORWARD-LOOKING STATEMENTS" BELOW AND ELSEWHERE IN THIS REPORT.

#### LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2002, CanArgo had working capital of \$7,992,000 compared to working capital of \$9,589,000 as of December 31, 2001. The \$1,597,000 decrease in working capital from December 31, 2001 to March 31, 2002 is principally due to a reduction in cash as a result of capital expenditures on the Ninotsminda and Norio fields.

CanArgo's management believes that working capital at March 31, 2002 should be sufficient to cover CanArgo's near term funding requirements with respect to its activities in the Republic of Georgia. Existing cash and cash equivalents at March 31, 2002, however, are not sufficient to adequately finance the acquisition and subsequent development of the Bugaruvativske field in Eastern Ukraine. Both the Bugaruvativske field and the Stynwaske field in Western Ukraine are in the early stage of evaluation and development and are themselves relatively new to CanArgo and additional financing will be required to fully develop and exploit these fields. In addition, CanArgo is in the process of establishing its own administrative and finance infrastructure in the Ukraine. Establishment of this infrastructure may result in a diversion, temporary or otherwise, of time and other resources from other operating activities.

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Prior to the acquisition of Lateral Vector Resources Inc. ("LVR") CanArgo had directed substantially all of its efforts and most of its available funds to the development of the Ninotsminda oil field in the Republic of Georgia and some ancillary activities closely related to the Ninotsminda field project. Immediate development plans are for the completion of testing of well N100 and drilling of well M11, two deep exploration wells in the Republic of Georgia. Drilling of a third exploration well in the Norio block in the Republic of Georgia has also commenced and quantification of the reserve and production potential of discoveries in the Saramatian and Upper Eocene sequences continues.

According to publicly available information at the time of CanArgo's acquisition of LVR, LVR negotiated and concluded with Ukrnafta, the Ukrainian State Oil Company, a Joint Investment Production Activity (JIPA) agreement in 1998 to develop the Bugruvativske field in Eastern Ukraine. To date, neither of the parties has fulfilled their initial contribution requirements which may result in Ukrnafta exercising any rights it might have to terminate and cancel the Joint Investment Production Activity agreement. In addition, certain other aspects of Lateral Vector's interest in the field under the Joint Investment Production Agreement remain to be determined. We are presently in discussions with Ukrnafta regarding these matters and there is no assurance that such discussions will be successfully concluded.

At present, certain obligations must be met by June 2002 in order for Boryslaw Oil Company to retain the field licence including the drilling of one new well. CanArgo is currently seeking an extension to the licence to allow a proper assessment of the workovers and development plans. If Boryslaw Oil Company does not proceed with the Stynawske field development programme or if an extension to the current licence cannot be obtained, it may be in breach of obligations it has with regard to the field license. This could place Boryslaw Oil Company's rights to the Stynawske field at risk and substantially reduce Boryslaw Oil Company's ability to repay amounts advanced to it by CanArgo.

In Ukraine, an assessment of both the Bugruvativske and Stynawske fields and preparation of a development program with Ukrnafta continues. Based on its efforts to date and should funding be available, CanArgo plans to significantly increase production from these fields by investing in both remedial workover activity and potential infill drilling, horizontal drilling and pressure maintenance utilising appropriate technologies.

While a considerable amount of infrastructure for the Ninotsminda, Bugruvativske and Stynawske fields has already been put in place, CanArgo cannot provide assurance that:

- o for the Bugruvativske and Stynawske fields, an adequate investment agreement and development plan can be put in place;
- o funding of field development plans will be timely;
- o that development plans will be successfully completed or will increase production; or
- o that field operating revenues after completion of the development plan will exceed operating costs.

To pursue all of its existing projects and new opportunities, CanArgo will require additional capital. While expected to be substantial, without further exploration work and evaluation the exact amount of funds needed to fully develop all of our oil and gas properties cannot at present, be quantified. Potential sources of funds include additional equity, project financing, debt financing and the participation of other oil and gas entities in CanArgo's projects. Based on CanArgo's past history of raising capital and continuing

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discussions including those with major stockholders, investment bankers and other institutions, CanArgo believes that such required funds may be available. However, there is no assurance that such funds will be available, and if available, will be offered on attractive or acceptable terms.

Development of the oil and gas properties and ventures in which CanArgo has interests involves multi-year efforts and substantial cash expenditures. Full development of CanArgo's oil and gas properties and ventures will require the availability of substantial additional financing from external sources. CanArgo also may, where opportunities

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exist, seek to transfer portions of its interests in oil and gas properties and ventures to entities in exchange for such financing. CanArgo generally has the principal responsibility for arranging financing for the oil and gas properties and ventures in which it has an interest. There can be no assurance, however, that CanArgo or the entities that are developing the oil and gas properties and ventures will be able to arrange the financing necessary to develop the projects being undertaken or to support the corporate and other activities of CanArgo. There can also be no assurance that such financing as is available will be on terms that are attractive or acceptable to or are deemed to be in the best interest of CanArgo, such entities and their respective stockholders or participants.

Ultimate realization of the carrying value of CanArgo's oil and gas properties and ventures will require production of oil and gas in sufficient quantities and marketing such oil and gas at sufficient prices to provide positive cash flow to CanArgo. Establishment of successful oil and gas operations is dependent upon, among other factors, the following:

- o mobilization of equipment and personnel to implement effectively drilling, completion and production activities;
- o achieving significant production at costs that provide acceptable margins;
- o reasonable levels of taxation, or economic arrangements in lieu of taxation in host countries; and
- o the ability to market the oil and gas produced at or near world prices.

CanArgo has plans to mobilize resources and achieve levels of production and profits sufficient to recover the carrying value of its oil and gas properties and ventures. However, if one or more of the above factors, or other factors, are different than anticipated, these plans may not be realized, and CanArgo may not recover the carrying value of its oil and gas properties and ventures. CanArgo will be entitled to distributions from the various properties and ventures in which it participates in accordance with the arrangements governing the respective properties and ventures.

### STATEMENT OF CASH FLOWS

Cash and cash equivalents decreased by \$1,566,000 to \$4,326,000 at March 31, 2002 from \$5,891,000 at December 31, 2001. The decrease was primarily due to the cost of the Cretaceous exploration programme currently underway in Georgia.

Cash held in trust increased to \$1,762,000 at March 31, 2002 from nil at



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December 31, 2001 following a private placement by CanArgo in February 2002. Cash held in trust was released to CanArgo in April 2002.

Accounts receivable increased by \$265,000 to \$2,911,000 at March 31, 2002 from \$2,646,000 at December 31, 2001. The increase is primarily a result of accounts receivable generated from oil, natural gas and refined product sales in 2002 and rental income. Subsequent to March 31 2002, CanArgo received \$1,000,000 from AES included in accounts receivable at March 31, 2002 and December 31, 2001 related to termination in 2002 of AES's participation in a three well exploration programme.

Inventory decreased by \$235,000 to \$349,000 at March 31, 2002 from \$584,000 at December 31, 2001 primarily as result of the sale of oil by Ninotsminda Oil Company from storage. Approximately 25,000 barrels of oil were held in storage by Ninotsminda Oil Company at March 31, 2002 for sale to the Georgian domestic, region or international market.

Prepayments decreased by \$1,144,000 to \$1,092,000 at March 31, 2002 from \$2,236,000 at December 31, 2001 primarily as a result of receipt of materials and services related to CanArgo's exploration activities. This decrease is included in the statement of cash flows as an investing activity.

Capital assets, net increased to \$61,348,000 at March 31, 2001 from \$57,685,000 at December 31, 2001, primarily as a result of investment of \$4,444,000 in capital assets including oil and gas properties and equipment, principally related to the Ninotsminda and Norio fields.

Investments in and advances to oil and gas and other ventures, net increased to \$1,119,000 at March 31, 2002 from \$1,086,000 at December 31, 2001. The increase reflects costs related to CanArgo's investment in Boryslaw Oil Company.

Accounts payable increased by \$677,000 to \$2,295,000 at March 31, 2002 from \$1,618,000 at December 31, 2001, primarily as a result of payments received in advance for oil deliveries to be made in April and May 2002.

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To fund construction of new petrol stations in Georgia, a short term bank loan was drawn by CanArgo Standard Oil Products in Tbilisi, Georgia at an effective interest rate of 18% per annum. Accrued liabilities decreased by \$30,000 to \$370,000 at March 31, 2002 from \$400,000 at December 31, 2001 as identified in note 7 to the unaudited consolidated financial statements.

Long term debt decreased by \$132,000 to \$382,000 at March 31, 2002 from \$514,000 at December 31, 2001. The decrease in long term debt is due to repayments in the period of the credit facility and reclassification of long term debt as current.

Minority shareholder advances increased by \$445,000 to \$895,000 at March 31, 2002 from \$450,000 at December 31, 2001 due to the receipt of convertible loans from future shareholders of CanArgo's subsidiary, CanArgo Norio Limited ("Norio"). The cash amount received represents part of the future shareholders share of the cost of drilling an exploration well under the Norio and North Kumisi production sharing agreement ("PSA"). CanArgo anticipates increasing its interest to over 60% in CanArgo Norio Limited through an increased level of funding of this well.

The convertible loans are non interest bearing and will convert into ordinary share capital of CanArgo Norio Limited 30 days after the final cost of the well is known. It is at this point when the final ownership interest in CanArgo Norio

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Limited will be determined and consequently the \$895,000 received at March 31, 2002 and any subsequent advances from the future shareholders towards the cost of the well will be reclassified as minority interest.

Minority interest in subsidiaries increased to \$1,613,000 at March 31, 2002 compared to \$1,531,000 at December 31, 2001 due to minority interest shareholders share of income in the period. CanArgo consolidates its 50% interest in CanArgo Standard Oil Products as it has the ability to control the strategic operating and financial activities of the joint venture. The remaining 50% interest in CanArgo Standard Oil Products is held by Standard Oil Products of Georgia and an individual who is one of the founders of Standard Oil Products.

On February 12, 2002, CanArgo completed an offering of 5,210,000 common shares at NOK 2.95 per share (approximately US\$0.33 per share) to certain institutions and qualified purchasers for gross proceeds of approximately \$1,762,000 in transactions intended to qualify for an exemption from registration under the Securities Act of 1933 afforded by Regulation S promulgated thereunder. After completion of the offering, CanArgo has 97,218,446 common and Exchangeable shares issued and issuable.

### CONTRACTUAL OBLIGATIONS AND COMMERCIAL TERMS

CanArgo has contingent obligations and may incur additional obligations, absolute or contingent, with respect to the acquisition and development of oil and gas properties and ventures in which it has interests that require or may require CanArgo to expend funds and to issue shares of its Common Stock. At March 31, 2002, CanArgo had a contingent obligation to issue 187,500 shares of common stock to a third party upon satisfaction of conditions relating to the achievement of specified Stynawske field project performance standards. As CanArgo develops current projects and undertakes other projects, it could incur significant additional obligations.

Current drilling obligations with respect to CanArgo's oil and gas properties include, under the second phase of the preliminary work programme for the Norio and Nazvrevi/Block XIII production sharing contracts, the drilling of one well, unless CanArgo decides to terminate the contracts. The second phase of the preliminary work programme under the Norio and North Kumisi production sharing agreement is currently underway with the commencement in January 2002 of the first exploration well at an estimated cost of up to \$4.2 million of which CanArgo's estimated share of costs is \$3.2 million. In addition, certain obligations must be met by June 2002 in order for Boryslaw Oil Company to retain the field licence including the drilling of one new well. CanArgo is currently seeking an extension to the licence to allow a proper assessment of the workovers and development plans. If no extension is obtained Boryslaw Oil Company's rights to the Stynawske field could be at risk and substantially reduce Boryslaw Oil Company's ability to repay amounts advanced to it by CanArgo.

The shareholders agreement with the other shareholder of Norio calls for a bonus payment of \$800,000 to be paid by CanArgo should commercial production be obtained from the Middle Eocene or older strata and a second bonus payment of \$800,000 should production from the Block from the Middle Eocene or older strata exceed 250 tonnes of oil per day over any 90 day period.

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### RESULTS OF OPERATIONS

Three Month Period Ended March 31, 2002 Compared to Three Month Period Ended March 31, 2001

CanArgo recorded operating revenue of \$4,246,000 during the three month period ended March 31, 2002 compared with \$3,598,000 for the three month period ended March 31, 2001. The increase is attributable to rental of CanArgo equipment in Georgia, offsetting declines in oil and gas and refining and marketing revenues.

Ninotsminda Oil Company generated \$1,638,000 of revenue in the three month period ended March 31, 2002 compared with \$1,748,000 for the three month period ended March 31, 2001. Its net share of the 73,374 (815 barrels per day) of gross oil production for sale from the Ninotsminda field in the period amounted to 47,693 barrels. In the period 52,064 barrels of oil were removed from storage and sold resulting in higher oil sales volumes in the first quarter of 2002 than those expected in the second quarter. For the three month period ended March 31, 2001 Ninotsminda Oil Company's net share of the 130,960 barrels (1,423 barrels per day) of gross production was 79,760 barrels.

Ninotsminda Oil Company's entire share of production was sold into the Georgian local and regional market. Because lower transportation costs are involved, CanArgo believes that sales of Ninotsminda oil to customers in the Georgian local and regional market generally yield relatively higher net sales prices to Ninotsminda Oil Company than sales to other customers. Net sale prices for Ninotsminda oil sold during the first quarter of 2002 averaged \$16.20 per barrel as compared with an average of \$20.22 per barrel in the first quarter of 2001. Its net share of the 27,925 mcf of gas delivered was 18,151 mcf at an average net sale price of \$1.18 per mcf of gas. For the three month period ended March 31, 2001, Ninotsminda Oil Company's net share of the 446,700 mcf of gas delivered was 290,330 mcf at an average net sales price of \$1.16 per mcf of gas. Gas deliveries declined significantly due to lower oil and gas production and the shutdown by AES of its thermal power generating station following an accident at the facility.

Refining and marketing revenues for the three month period ended March 31, 2002 relate to activities of Georgian American Oil Refinery and CanArgo Standard Oil Products respectively. Currently only nafta, diesel and mazut can currently be produced by the refinery and of these products, an excise tax on naptha sales remains in place. As a result of these taxes and the local market for naptha in the Republic of Georgia, CanArgo deemed production of naptha as commercially uneconomic and suspended refining activity in the fourth quarter of 2001. In 2002 CanArgo entered into a short-term lease of the refinery to a third party for nominal revenue. During the lease period, all operating costs of the refinery were borne by the lessee. CanArgo continues to monitor demand for product produced by the refinery and is seeking changes to the legislation in support of indigenous refining activities.

Operating income for the three month period ended March 31, 2002 was \$350,000 compared with an operating loss of \$546,000 for the corresponding period in 2001. The increase in operating profit is attributable primarily to marketing activity and profit generated from rental of CanArgo equipment. No new equipment rental contracts have been signed and accordingly this revenue is anticipated to drop sharply in the second quarter of 2002.

Field operating expenses increased to \$596,000 for the three month period ended March 31, 2002 as compared to \$502,000 for the three month period ended March 31, 2001. The increase is primarily a result of increased activity at the Ninotsminda field.

Purchases of crude oil and products of \$1,042,000 for the three month period ended March 31, 2002 relate to operating activities CanArgo Standard Oil

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Products.

Refinery operating expenses were nil for the three month period ended March 31, 2002 as compared to \$120,000 for the three month period ended March 31, 2001 resulting from refining activity being suspended.

Direct project costs increased to \$629,000 for the three month period ended March 31, 2002, from \$250,000 for the three month period ended March 31, 2001, reflecting increased activity at the Ninotsminda field and additional costs associated with the rental by others of CanArgo equipment.

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General and administrative costs decreased to \$830,000 for the three month period ended March 31, 2002, from \$928,000 for the three month period ended March 31, 2001. The decrease is primarily attributable decreased general and administrative costs related to refining activities.

The decrease in depreciation, depletion and amortization expense to \$799,000 for the three month period ended March 31, 2002, from \$1,186,000 for the three month period ended March 31, 2001 is attributable principally to lower production from the Ninotsminda oil field.

CanArgo recorded net other loss of \$144,000 for the three months ended March 31, 2002, as compared to other income of \$250,000 during the three months ended March 31, 2001 as a result of lower cash balances in 2002 and interest expense on its credit facility in Georgia.

Equity loss from investments decreased to \$8,000 for the three month period ended March 31, 2002 from a loss of \$37,000 for the three month period ended March 31, 2001 as a result of equity income from production and sales of crude oil by Boryslaw Oil Company.

The net profit of \$87,000 or \$0.00 per share for the three month period ended March 31, 2002 compares to a net loss of \$326,000, or \$0.00 per share for the three month period ended March 31, 2001. The weighted average number of common shares outstanding was substantially higher during the three month period ended March 31, 2002 than during the three month period ended March 31, 2001, due in large part to private placements in July 2001 and February 2002.

### NEW ACCOUNTING STANDARDS

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. Statement 141 also specifies criteria, which must be met, for intangible assets acquired in a purchase method business combination to be recognized and reported apart from goodwill. Statement 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values.

CanArgo has adopted the provisions of Statement 141 and Statement 142 effective January 1, 2002. Furthermore, any goodwill and any intangible asset determined

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to have an indefinite useful life that are acquired in a purchase business combination will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre-Statement 142 accounting literature.

In August 2001, FASB issued Statement No. 143 Accounting for Asset Retirement Obligations. Statement 143 requires companies to record the fair value of a liability for an asset retirement obligation in the period in which the liability is incurred concurrent with an increase in the long-lived assets carrying value. The increase and subsequent adjustments in the related long-lived assets carrying value is amortised over its useful life. Upon settlement of the liability a gain or loss is recorded for the difference between the settled liability and the recorded amount. This standard will be effective for CanArgo on January 1, 2003. We are in the process of assessing the impact that the adoption of this standard will have on our financial position and results of operations.

In August 2001, FASB issued Statement No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets. Statement 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supersedes Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business (as previously defined in that Opinion). Among other provisions, the new rules change the criteria for classifying an asset as held-for-sale. The standard also broadens the scope of businesses to be disposed of that qualify for reporting as discontinued operations, and changes the timing of recognizing losses on such operations. Statement 144 is

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effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early application encouraged.

### FORWARD LOOKING STATEMENTS

The forward looking statements contained in this Item 2 and elsewhere in this Form 10-Q are subject to various risks, uncertainties and other factors that could cause actual results to differ materially from the results anticipated in such forward looking statements. Included among the important risks, uncertainties and other factors are those hereinafter discussed.

Operating entities in various foreign jurisdictions must be registered by governmental agencies, and production licenses for development of oil and gas fields in various foreign jurisdictions must be granted by governmental agencies. These governmental agencies generally have broad discretion in determining whether to take or approve various actions and matters. In addition, the policies and practices of governmental agencies may be affected or altered by political, economic and other events occurring either within their own countries or in a broader international context.

CanArgo does not have a majority of the equity in the entity that is the licensed developer of some projects, such as the Bugruvativske and Stynawske field projects, that CanArgo may pursue in Eastern Europe, even though we may be the designated operator of the oil or gas field. In these circumstances, the concurrence of co-venturers may be required for various actions. Other parties

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influencing the timing of events may have priorities that differ from ours, even if they generally share our objectives. As a result of all of the foregoing, among other matters, any forward-looking statements regarding the occurrence and timing of future events may well anticipate results that will not be realized. Demands by or expectations of governments, co-venturers, customers and others may affect CanArgo's strategy regarding the various projects. Failure to meet such demands or expectations could adversely affect CanArgo's participation in such projects or our ability to obtain or maintain necessary licenses and other approvals.

CanArgo's ability to finance all of its present oil and gas projects and other ventures according to present plans is dependent upon obtaining additional funding. An inability to obtain financing could require CanArgo to scale back or abandon part of all of CanArgo's project development, capital expenditure, production and other plans. The availability of equity or debt financing to CanArgo or to the entities that are developing projects in which CanArgo has interests is affected by many factors, including:

- o world economic conditions;
- o international relations;
- o the stability and policies of various governments;
- o fluctuations in the price of oil and gas, the outlook for the oil and gas industry and competition for funds; and
- o an evaluation of CanArgo and specific projects in which CanArgo has an interest.

Rising interest rates might affect the feasibility of debt financing that is offered. Potential investors and lenders will be influenced by their evaluations of us and our projects and comparisons with alternative investment opportunities.

The development of oil and gas properties is subject to substantial risks. Expectations regarding production, even if estimated by independent petroleum engineers, may prove to be unrealized. There are many uncertainties inherent in estimating production quantities and in projecting future production rates and the timing and amount of future development expenditures. Estimates of properties in full production are more reliable than production estimates for new discoveries and other properties that are not fully productive. Accordingly, estimates related to CanArgo's properties are subject to change as additional information becomes available.

Most of CanArgo's interests in oil and gas properties and ventures are located in Eastern European countries. Operations in those countries are subject to certain additional risks including the following:

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- o enforceability of contracts;
- o currency convertibility and transferability;
- o unexpected changes in tax rates;
- o sudden or unexpected changes in demand for crude oil and or natural gas; o availability of trained personnel; and

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- o availability of equipment and services and other factors that could significantly change the economics of production.

Production estimates are subject to revision as prices and costs change. Production, even if present, may not be recoverable in the amount and at the rate anticipated and may not be recoverable in commercial quantities or on an economically feasible basis. World and local prices for oil and gas can fluctuate significantly, and a reduction in the revenue realizable from the sale of production can affect the economic feasibility of an oil and gas project. World and local political, economic and other conditions could affect CanArgo's ability to proceed with or to effectively operate projects in various foreign countries.

Demands by or expectations of governments, co-venturers, customers and others may affect CanArgo's strategy regarding the various projects. Failure to meet such demands or expectations could adversely affect CanArgo's participation in such projects or its ability to obtain or maintain necessary licenses and other approvals.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

CanArgo's principal exposure to market risk is due to changes in oil and gas prices and currency fluctuations. As indicated elsewhere in this Report, as a producer of oil and gas CanArgo is exposed to changes in oil and gas prices as well as changes in supply and demand which could affect its revenues. CanArgo does not engage in any commodity hedging activities. Due to the ready market for its production in the Republic of Georgia, CanArgo does not believe that any current exposures from this risk will materially affect CanArgo's financial position at this time, but there can be no assurance that changes in such market will not affect CanArgo adversely in the future.

Also as indicated elsewhere in this Report, because all of CanArgo's operations are being conducted in Eastern Europe, CanArgo is potentially exposed to the market risk of fluctuations in the relative values of the currencies in areas in which it operates. At present CanArgo does not engage in any currency hedging operations since, to the extent it receives payments for its production, refining and marketing activities in local currencies, it is utilizing such currencies to pay for its local operations. In addition, it currently has contracts to sell its production from the Ninotsminda field in the Republic of Georgia which provide for payment in dollars.

While CanArgo Standard Oil Products marketing revenue is denominated in Lari, the local Georgian currency, and is used to pay Lari denominated operating costs, its long term debt is denominated in dollars. As a result, changes in the exchange rate could have a material adverse effect on its ability to pay off non-Lari denominated indebtedness such as its existing credit facility. The sensitivity to changes in exchange rates for CanArgo Standard Oil Products was determined using current market pricing models. We estimate that a 10% appreciation or devaluation in the foreign exchange rate of the Lari against the dollar in 2002 would not have had a significant impact on operations.

CanArgo had no material interest in investments subject to market risk during the period covered by this report.

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### CANARGO ENERGY CORPORATION AND SUBSIDIARIES

#### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

- (C) On February 12, 2002, CanArgo completed an offering of 5,210,000 shares of common stock at Norwegian Kroner 2.95 per share (approximately US\$0.33 per share) to certain institutions and qualified purchasers for gross proceeds of approximately \$1,762,000 in transactions intended to qualify for an exemption from registration under the Securities Act of 1933 afforded by Regulation S promulgated thereunder. ABG Sundal Collier ASA acted as placement agent for this transaction. The placement agent received a commission of 5.75% of the gross proceeds of the placement. Proceeds from the offering will be used for working capital and future capital expenditures in Georgia following termination of the AES Participation Agreement.

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

##### (A) EXHIBITS

Management Contracts, Compensation Plans and Arrangements are identified by an asterisk (\*) Documents filed herewith are identified by a cross (+).

- 1(1) Escrow Agreement with Signature Stock Transfer, Inc. (Incorporated herein by reference from Form S-1 Registration Statement, File No. 333-72295 filed on September 9, 1999).
- 1(2) Selling Agent Agreement with each of Credifinance Securities Limited, David Williamson Associates Limited, and Orkla Finans (Fondsmegling) ASA (Incorporated herein by reference from Form S-1 Registration Statement, File No. 333-72295 filed on September 9, 1999).
- 1(3) Escrow Agreement with Orkla Finans (Fondsmegling) ASA (Incorporated herein by reference from Form S-1 Registration Statement, File No. 333-72295 filed on September 9, 1999).
- 1(4) Selling Agent Agreement with National Securities Corporation (Incorporated herein by reference from Post-Effective Amendment No. 1 to Form S-1 Registration Statement, File No. 333-72295 filed on July 29, 1999).
- 1(5) Escrow Agreement with Continental Stock Transfer & Trust Company (Incorporated herein by reference from Post-Effective Amendment No. 1 to Form S-1 Registration Statement, File No. 333-72295 filed on July 29, 1999).
- 2(1) Agreement Relating to the Sale and Purchase of All the Issued Share Capital of Gastron International Limited dated August 10, 1995 by and among Ribalta Holdings, Inc. as Vendor and Fountain Oil Incorporated as Purchaser, and John Richard Tate as Warrantor (Incorporated herein by reference from October 19, 1995 Form 8-K).
- 2(2) Supplemental Agreement Relating to the Sale and Purchase of All the Issued Share Capital of Gastron International Limited dated November 3, 1995 by and among Ribalta Holdings, Inc. as Vendor and Fountain Oil Incorporated as



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- Purchaser, and John Richard Tate as Warrantor (Incorporated herein by reference from October 19, 1995 Form 8-K).
- 2(3) Supplemental Deed Relating to the Sale and Purchase of All the Issued Share Capital of Gastron International Limited dated May 29, 1996 by and among Ribalta Holdings, Inc. as Vendor and Fountain Oil Incorporated as Purchaser, and John Richard Tate as Warrantor (Incorporated herein by reference from September 30, 1997 Form 10-Q).
- 2(4) Memorandum of Agreement between Fielden Management Services Pty, Ltd., A.C.N. 005 506 123 and Fountain Oil Incorporated dated May 16, 1995 (Incorporated herein by reference from December 31, 1997 Form 10-K/A).
- 2(5) Amended and Restated Combination Agreement between Fountain Oil Incorporated and CanArgo Energy Inc. dated as of February 2, 1998 (Incorporated herein by reference from Form S-3 Registration Statement, File No. 333-48287 filed on September 9, 1998).
- 2(6) Voting, Support and Exchange Trust Agreement (Incorporated herein by reference as Annex G from Form S-3 Registration Statement, File No. 333-48287 filed on September 9, 1998).
- 2(7) Offer Circular relating to a proposed purchase all of the outstanding common shares of Lateral Vector Resources, Inc. dated March 20, 2001 (Incorporated herein by reference from Form 14D-1F dated March 21, 2001).
- 2(8) Notice of Extension and Variation amending Registrant's offer to purchase all of the outstanding common shares of Lateral Vector Resources, Inc. dated April 9, 2001 (Incorporated herein by reference from Amendment No. 1 to Form 14D-1F dated April 11, 2001).
- 3(1) Registrant's Certificate of Incorporation and amendments thereto (Incorporated herein by reference from July 15, 1998 Form 8-K).
- 3(2) Registrant's Bylaws (Incorporated herein by reference from Post-Effective Amendment No. 1 to Form S-1 Registration Statement, File No. 333-72295 filed on July 29, 1999).
- 4(1) Registration Rights Agreement between Registrant and JKK Nederland B.V. dated September 28, 2000, relating to purchase of 21.2% interest in Ninotsminda Oil Company (Incorporated herein by reference from July 20, 2000 Form 8-K).
- \*10(1) Form of Option Agreement for options granted to certain persons, including Directors (Incorporated herein by

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reference from August 31, 1994 Form 10-KSB, filed by Electromagnetic Oil Recovery, Inc., the Company's predecessor).

- \*10(2) Amended and Restated 1995 Long-Term Incentive Plan (Incorporated herein by reference from Post-Effective Amendment No. 1 to Form S-1 Registration Statement, File No. 333-72295 filed on July 29, 1999).
- \*10(3) Amended and Restated CanArgo Energy Inc. Stock Option Plan (Incorporated herein by reference from September 30, 1998 Form 10-Q).
- 10(4) Agreement between Georgian American Oil Refinery Company and CanArgo Petroleum Products Ltd. dated September 26, 1998 (Incorporated herein by reference from Form S-1 Registration Statement, File No. 333-72295 filed on February 12, 1999).
- 10(5) Terrenex Acquisition Corporation Option regarding CanArgo (Nazvrevi) Limited (Incorporated herein by reference from Form S-1 Registration Statement, File No. 333-72295 filed on February 12, 1999).
- 10(6) Production Sharing Contract between (1) Georgia and (2) Georgian Oil and JKK Navtobi Ltd. dated February 12, 1996 (Incorporated herein by reference from Form S-1 Registration Statement, File No. 333-72295 filed on September 7, 1999).
- 10(7) Agreement on Financial Advisory Services between CanArgo Energy Corporation, Orkla Finans (Fondsmegling) A.S and Sundal Collier & Co. ASA dated December 8, 1999 (Incorporated herein by reference from December 28, 1999 Form 8-K).
- 10(8) Form of Subscription Agreement (Incorporated herein by reference from December 28, 1999 Form 8-K).
- 10(9) Agreement between CanArgo Energy Corporation and JKK Nederland BV dated January 19, 2000 (Incorporated herein by reference from December 31, 1999 Form 10-K).
- 10(10) Agreement between Ninotsminda Oil Company and AES Gardabani dated March 10, 2000

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(Incorporated herein by reference from December 31, 1999 Form 10-K).

- 10(11) Term Sheet dated September 27, 2000 relating to sale of 15,660,916 shares of Registrant's common stock (Incorporated herein by reference from July 20, 2000 Form 8-K).
- 10(12) Form of Subscription Agreement relating to sale of 15,660,916 shares of the Registrant's common stock (Incorporated herein by reference from July 20, 2000 Form

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8-K).

- 10(13) Subscription Agreement between Registrant and JKX Nederland B.V. dated September 15, 2000 relating to purchase of 21.2% interest in Ninotsminda Oil Company (Incorporated herein by reference from July 20, 2000 Form 8-K).
- \*10(14) Employment Agreement between CanArgo Energy Corporation and Dr. David Robson dated June 29, 2000 (Incorporated herein by reference from September 30, 2000 Form 10-Q).
- 10(15) Tenancy Agreement between CanArgo Energy Corporation and Grosvenor West End Properties dated September 8, 2000 (Incorporated herein by reference from September 30, 2000 Form 10-Q).
- 10(16) Agreement between CanArgo Energy Corporation and Roger Brittain dated August 18, 2000 (Incorporated herein by reference from December 31, 2000 Form 10-K).
- \*10(17) Employment Agreements between CanArgo Energy Corporation and Murray Chancellor dated September 22, 2000 (Incorporated herein by reference from December 31, 2000 Form 10-K).
- \*10(18) Employment Agreements between CanArgo Energy Corporation and Anthony Potter dated October 1, 2000 (Incorporated herein by reference from December 31, 2000 Form 10-K).
- 10(19) Production Sharing Contract between (1) Georgia and (2) Georgian Oil and CanArgo Norio Limited dated December 12, 2000 (Incorporated herein by reference from December 31, 2000 Form 10-K) (Incorporated herein by reference from December 31, 2000 Form 10-K).
- 10(20) Agreement between CanArgo Energy Corporation and Georgian British Oil Services Company dated November 10, 2000 relating to the purchase of 9.35% interest in Georgian American Oil Refinery (Incorporated herein by reference from December 31, 2000 Form 10-K).
- 10(21) Share Exchange Agreement between CanArgo Energy Corporation and Argonaut Oil and Gas Limited dated November 10, 2000, related to the purchase of 28.7% interest in Georgian American Oil Refinery (Incorporated herein by reference from December 31, 2000 Form 10-K).
- \*10(22) Employment Agreements between CanArgo Energy Corporation and Vincent McDonnell dated December 1, 2000.(Incorporated herein by reference from December 31, 2001 Form 10-K).
- 10(23) Agreement Number 1 dated March 20, 1998 on Joint Investment Production Activity for further development and further exploration of Bugruvativsk Field (Incorporated herein by reference from June 30, 2001 Form 10-Q).
- 21 List of Subsidiaries (Incorporated herein by reference from June 30, 2001 Form 10-Q)

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(b) Reports on Form 8-K:

The following current reports on form 8-K were filed during the quarter ended March 31, 2002.

On January 24, 2002 CanArgo announced that it has established May 24, 2002 as the redemption date for all of the Exchangeable Shares of CanArgo Oil & Gas Inc. ("CAOG"). The Exchangeable Shares were issued in July 1998 in connection with the acquisition by CanArgo of all of the shares of CAOG. As a result, CAOG became a subsidiary of CanArgo, and each previously outstanding share of CAOG common stock was converted into the right to receive 0.8 shares (the "Exchangeable Shares") of CAOG. Each Exchangeable Share is exchangeable at the option of the holder into one share of common stock of CanArgo.

On February 8th 2002, CanArgo announced that its wholly owned subsidiary, Ninotsminda Oil Company (`NOC') has, by mutual agreement, agreed to the termination of the Participation Agreement, which it signed with AES Mktvari LLC in July 2000. The termination, which comes about as a result of AES's intention to focus on its core activities, is expected to become effective in the very near future once legal documentation has been concluded.

On February 12, 2002, CanArgo announced that it closed an offering of approximately 5.2 million shares of its common stock for gross proceeds of approximately \$1.7 million in a transaction intended to qualify for an exemption from registration under the Securities Act of 1933 afforded by Regulation S promulgated thereunder. Such proceeds will be used for working capital purposes and future capital expenditures in Georgia.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CANARGO ENERGY CORPORATION

Date: May 14, 2002

By: /s/Anthony J. Potter

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Anthony J. Potter  
Chief Financial Officer