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CANARGO ENERGY CORP
Form 10-Q
August 14, 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 JUNE 30, 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

91-0881481

(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

(I.R.S. EMPLOYER IDENTIFICATION NO.)

CanArgo Services (UK) Limited
150 Buckingham Palace Road, London, England

SW1W 9TR

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(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 June 30, 2002 was 97,356,206.

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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

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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 | |
|--|----------------------|----------------------|
| | JUNE 30, 2002 | December 31, 2001 |
| ASSETS | | |
| Cash and cash equivalents | \$ 3,068,524 | \$ 5,891,299 |
| Accounts receivable | 1,084,417 | 2,097,222 |
| Inventory | 323,180 | 583,844 |
| Prepayments | 402,239 | 2,235,711 |
| Other current assets | 734,748 | 733,211 |
| Total current assets | \$ 5,613,108 | \$ 11,541,287 |
| Capital assets, net (including unevaluated amounts of \$34,169,177 and \$24,570,886, respectively) | 65,612,659 | 57,684,711 |
| Investments in and advances to oil and gas and other ventures - net | 810,339 | 1,085,922 |
| TOTAL ASSETS | \$ 72,036,106 | \$ 70,311,919 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Accounts payable | \$ 1,710,455 | \$ 1,069,411 |
| Current portion of long term debt | 620,223 | 392,400 |
| Income taxes payable | 82,660 | 90,450 |
| Accrued liabilities | 333,414 | 400,222 |
| Total current liabilities | \$ 2,746,752 | \$ 1,952,503 |
| Long term debt | 370,092 | 514,350 |
| Provision for future site restoration | 100,290 | 64,290 |
| Minority shareholder advances | 926,000 | 450,000 |
| Minority interest in subsidiaries | 1,617,499 | 1,531,190 |
| Commitments and contingencies (Note 12) | | |
| Stockholders' equity: | | |
| Common stock, par value \$0.10 per share | 9,735,620 | 9,200,840 |
| Capital in excess of par value | 145,151,475 | 144,057,511 |
| Foreign currency translation adjustment | 51,257 | |
| Accumulated deficit | (88,662,879) | (87,458,780) |
| Total stockholders' equity | \$ 66,275,473 | \$ 65,799,581 |

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TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

\$ 72,036,106
=====

\$ 70,311,91
=====

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 Three Months Ended | | Unaudited Si |
|--|------------------------------|------------------|------------------|
| | JUNE 30, 2002 | June 30, 2001 | JUNE 30, 2002 |
| | ----- | ----- | ----- |
| Operating Revenues from Continuing Operations: | | | |
| Oil and gas sales | \$ 825,515 | \$ 869,711 | \$ 2,463,444 |
| Refining and marketing | 1,890,929 | 2,093,925 | 3,255,634 |
| Other | 154,648 | - | 1,398,153 |
| | ----- | ----- | ----- |
| | 2,871,092 | 2,963,636 | 7,117,231 |
| | ----- | ----- | ----- |
| Operating Expenses: | | | |
| Field operating expenses | 283,385 | 611,260 | 879,361 |
| Purchases of crude oil and products | 1,530,166 | 1,471,760 | 2,572,232 |
| Refinery operating expenses | - | 76,619 | - |
| Direct project costs | 352,263 | 321,625 | 981,702 |
| Selling, general and administrative | 1,655,235 | 1,019,697 | 2,485,111 |
| Depreciation, depletion and amortization | 544,210 | 916,524 | 1,342,749 |
| | ----- | ----- | ----- |
| | 4,365,259 | 4,417,485 | 8,261,155 |
| | ----- | ----- | ----- |
| OPERATING LOSS FROM CONTINUING OPERATIONS | (1,494,167) | (1,453,849) | (1,143,924) |
| | ----- | ----- | ----- |
| Other Income (Expense): | | | |
| Interest, net | (45,645) | 112,057 | (93,331) |
| Other | 127,443 | 20,949 | 38,930 |
| Equity income from investments | 99,115 | 65,861 | 90,990 |
| | ----- | ----- | ----- |
| TOTAL OTHER INCOME (EXPENSE) | 180,913 | 198,867 | 36,589 |
| | ----- | ----- | ----- |
| NET LOSS BEFORE INCOME TAX AND MINORITY INTEREST | (1,313,255) | (1,254,983) | (1,107,335) |
| | ----- | ----- | ----- |
| Income taxes | 26,848 | - | (10,454) |

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| | | | |
|--|----------------|----------------|----------------|
| Minority interest in income of consolidated subsidiaries | (4,733) | 51,542 | (86,308) |
| | ----- | ----- | ----- |
| NET LOSS | \$ (1,291,139) | \$ (1,203,440) | \$ (1,204,097) |
| | ===== | ===== | ===== |
| Other Comprehensive Loss: | | | |
| Foreign currency translation | (51,257) | - | (51,257) |
| | ----- | ----- | ----- |
| COMPREHENSIVE LOSS | \$ (1,342,396) | \$ (1,203,440) | \$ (1,255,354) |
| | ===== | ===== | ===== |
| Weighted average number of common shares outstanding | 97,268,403 | 75,950,681 | 96,034,612 |
| | ----- | ----- | ----- |
| NET LOSS PER COMMON SHARE - BASIC | \$ (0.01) | \$ (0.02) | \$ (0.01) |
| | ----- | ----- | ----- |
| NET LOSS PER COMMON SHARE - DILUTED | \$ (0.01) | \$ (0.02) | \$ (0.01) |
| | ----- | ----- | ----- |

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 Six Months Ended | |
|--|----------------------------|------------------|
| | JUNE 30, 2002 | June 30, 2001 |
| | ----- | ----- |
| Operating activities: | | |
| Net income (loss) | \$ (1,204,097) | \$ (1,529,52) |
| Depreciation, depletion and amortization | 1,342,749 | 2,102,31 |
| Equity income from investments | (90,990) | (28,86 |
| Allowance for doubtful accounts | 275,000 | 100,00 |
| Minority interest in income of consolidated subsidiaries | 86,308 | (21,38 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 737,804 | (434,15 |
| Inventory | 260,669 | (475,97 |
| Other current assets | (1,537) | (900,54 |
| Accounts payable | 641,036 | 894,43 |
| Income taxes payable | (7,796) | |
| Accrued liabilities | (66,807) | (145,63 |
| Advances from joint venture partner | - | (5,711,00 |
| | ----- | ----- |
| NET CASH GENERATED BY (USED IN) OPERATING ACTIVITIES | 1,972,339 | (6,150,32 |

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| | | |
|---|--------------|--------------|
| Investing activities: | | |
| Capital expenditures | (9,183,441) | (8,876,42 |
| Acquisitions, net of cash acquired | - | (4,044,97 |
| Proceeds from disposition of investment | - | 125,00 |
| Investments in and advances to oil and gas and other ventures | 366,573 | (589,23 |
| Change in non cash working capital items | 1,833,473 | (664,76 |
| NET CASH USED IN INVESTING ACTIVITIES | (6,983,395) | (14,050,39 |
| Financing Activities: | | |
| Proceeds from sale of common stock | 1,790,948 | |
| Share issue costs | (162,215) | |
| Minority shareholder advances | 476,000 | |
| Advances from minority interest | - | 1,806,87 |
| Increase in long term debt | 83,555 | |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 2,188,288 | 1,806,87 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (2,822,768) | (18,393,84 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 5,891,292 | 29,697,26 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 3,068,524 | \$ 11,303,42 |

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
SIX MONTHS ENDED JUNE 30, 2002 AND JUNE 30, 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.

During 2002, the Company adopted the self-sustaining method of

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accounting for CanArgo Standard Oil Products. The adoption of the self-sustaining method was necessitated by the fact that CanArgo Standard Oil Products was no longer financially and operationally dependant upon its parent company. Under the self-sustaining method of foreign currency translation, assets and liabilities are translated into US dollars at period end exchange rates and income and expenses are translated into US dollars at average rates in effect during the period. Exchange gains and losses on translation are reflected as a separate component of shareholders' equity.

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

CanArgo has incurred recurring operating losses, and its current operations are not generating positive cash flows. The ability of CanArgo to continue as a going concern and to pursue its principal activities of acquiring interests in and developing oil and gas fields is dependent upon CanArgo reducing costs, generating funds from internal sources including the sale of certain non-core assets, external sources and, ultimately, achieving sufficient positive cash flows from operating activities.

In order to preserve available cash resources while still maintaining essential field operations and development activities in Georgia, a significant cost reduction plan is being implemented. External sources of funding are also being pursued. Should such funding not be forthcoming and CanArgo be unable to sell some or all of its non-core assets, further cost reductions will be required in order for CanArgo to remain a going concern.

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 equipment and personnel to initiate drilling, completion and production activities. If one or more of the

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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

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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 CanArgo.

(3) Foreign Operations

CanArgo's future operations and earnings will depend upon the results of CanArgo's operations in the Republic of Georgia, the Ukraine and Russia. 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 June 30, 2002 and December 31, 2001 consisted of the following:

| | JUNE 30, 2002 | December 31, 2001 |
|------------------|------------------|----------------------|
| | ----- | ----- |
| Crude oil | \$ 87,402 | \$373,818 |
| Refined products | 235,778 | 210,031 |
| | ----- | ----- |
| | \$323,180 | \$583,849 |
| | ===== | ===== |

(5) Capital Assets, Net

Capital assets, net of accumulated depreciation and impairment, at

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June 30, 2002 and December 31, 2001 include the following:

| | JUNE 30, 2002 | | | Dece 2 |
|--|------------------|--|-----------------------|-----------|
| | COST | ACCUMULATED DEPRECIATION AND IMPAIRMENT | NET CAPITAL ASSETS | CAPIT |
| OIL AND GAS PROPERTIES | | | | |
| Proved properties | \$31,900,462 | \$16,224,771 | \$15,675,691 | \$1 |
| Unproved properties | 34,169,177 | - | 34,169,177 | 2 |
| | ----- | ----- | ----- | ----- |
| | 66,069,639 | 16,224,771 | 49,844,868 | 4 |
| PROPERTY AND EQUIPMENT | | | | |
| Oil and gas related equipment | 12,374,219 | 3,476,868 | 8,897,351 | 1 |
| Office furniture, fixtures and equipment and other | 1,087,047 | 561,506 | 525,541 | |
| | ----- | ----- | ----- | ----- |
| | 13,461,266 | 4,038,374 | 9,422,892 | 1 |
| REFINING AND MARKETING | 10,551,147 | 4,206,248 | 6,344,899 | |
| | ----- | ----- | ----- | ----- |
| TOTAL | \$90,082,052 | \$24,469,393 | \$65,612,659 | \$5 |
| | ===== | ===== | ===== | ===== |

Unproved property additions relate to CanArgo's exploration activity in the period. Oil and gas related equipment includes new or refurbished drilling rigs and related equipment, all of which are in the Republic of Georgia.

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(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 June 30, 2002 and December 31, 2001 is set out below:

| INVESTMENTS IN AND ADVANCES TO OIL AND GAS AND OTHER VENTURES | JUNE 30, 2002 |
|---|------------------|
|---|------------------|

Ukraine - Stynawske Field, Boryslaw

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| | |
|---|-------------|
| Through 45% ownership of Boryslaw Oil Company Republic of Georgia - Ninotsminda | \$ 6,613,60 |
| Through an effective 50% ownership of East Georgian Pipeline Co. Other Investments | 159,50 |
| | ----- |
| TOTAL INVESTMENTS IN AND ADVANCES TO OIL AND GAS AND OTHER VENTURES | \$ 6,773,10 |
| | ----- |
| EQUITY IN PROFIT (LOSS) OF OIL AND GAS AND OTHER VENTURES | |
| Ukraine - Stynawske Field, Boryslaw | (502,97 |
| Republic of Georgia - East Georgian Pipeline Co. | |
| | ----- |
| CUMULATIVE EQUITY IN PROFIT (LOSS) OF OIL AND GAS AND OTHER VENTURES | \$ (502,97 |
| | ----- |
| IMPAIRMENT - STYNAWSKE FIELD, BORYSLAW | (5,459,79 |
| | ----- |
| TOTAL INVESTMENTS IN AND ADVANCES TO OIL AND GAS AND OTHER VENTURES, NET OF EQUITY LOSS AND IMPAIRMENT | \$ 810,33 |
| | ===== |

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 entire investment in and advances to Boryslaw Oil Company.

In 2001 an agreement was reached to undertake a limited investment and development program by June 2002 in respect of Boryslaw Oil Company to increase production and to meet certain work commitments under the Stynawske field licence. These obligations have not been fully met, however, Boryslaw Oil Company is seeking modifications to the licence to allow a proper assessment of the workovers and development plans completed to date. A repayment schedule of CanArgo's advances to Boryslaw Oil Company has also been agreed of which \$120,000 was repaid by June 30, 2002. Boryslaw Oil Company has so far not been given notice by the Ukrainian licensing body of early termination of the license. CanArgo is actively seeking to farm-out part of its interest in Boryslaw Oil Company in return for finance to carry out the work programme. If Boryslaw Oil Company does not proceed with the Stynawske field development programme or if modifications to the current licence agreement 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 Caspian Sea exploration project and three petrol station sites in Tbilisi, Georgia in which CanArgo has a 50% non-controlling interest. CanArgo accounts for its interest in the three petrol station sites using the equity method and consolidates the remaining sixteen sites in which it has controlling interest. In 2002, CanArgo purchased the remaining 50% of Petro-

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Invest, a petrol station site in which CanArgo previously held a 50% non-controlling interest. This site is now consolidated in CanArgo's financial statements.

In 2002, two of the three petrol station sites that CanArgo has a 50% non-controlling interest had entered into credit facility agreements of \$250,000 and \$100,000 respectively with a commercial lender in Georgia. In May 2002, the full amount of the facilities were drawn and as at June 30, 2002, \$350,000 under the facilities were outstanding. The loans bear interest at 18% per annum and are secured by the assets of the petrol stations. The full amount of the loans are to be repaid by June 2004. No company guarantees have been provided by CanArgo with respect to these loans.

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 June 30, 2002 and December 31, 2001 include the following:

| | JUNE 30, 2002 ----- | December 31, 2001 ----- |
|------------------------|---------------------------|-------------------------------|
| Professional fees | \$ 37,600 | \$150,000 |
| Operating costs | - | 90,000 |
| Refinery closure costs | 125,000 | - |
| Other | 170,814 | 160,221 |
| | ----- | ----- |
| | \$333,414 | \$400,221 |
| | ===== | ===== |

As at December 31, 2001 \$90,000 was accrued for liabilities relating to the winding up of East Georgian Pipeline Company.

(8) Long Term Debt

Bank loans at June 30, 2002 and December 31, 2001 include the following:

| | JUNE 30, 2002 ----- | December 31, 2001 ----- |
|------------------------|---------------------------|-------------------------------|
| Outstanding bank loans | \$ 990,315 | \$ 906,760 |
| Less current portion | (620,223) | (392,408) |
| | ----- | ----- |
| Long term debt | \$ 370,092 | \$ 514,352 |
| | ===== | ===== |

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In November 2001, CanArgo Standard Oil Products Limited entered into a \$1 million credit facility agreement, and in May 2002 a further \$240,000 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 first facility was drawn and in 2002 \$180,000 of the second facility was drawn. As at June 30, 2002, \$990,315 of the total facility was outstanding. The loans bear interest at 18% per annum and are secured by the assets of three petrol stations. The full amount of the first loan is to be repaid by December 2003 and the second loan by November 2004 . No parent company guarantees have been provided by CanArgo with respect to these loans.

(9) Minority Shareholder Advances

In 2001 CanArgo received \$450,000 and in 2002, \$476,000 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 exploration well under the Norio

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and North Kumisi production sharing agreement. 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 \$926,000 received to June 30, 2002 and any subsequent advances from the future shareholders towards the cost of the well will be reclassified as minority interest.

(10) Stockholders' Equity

| | COMMON STOCK | | | | |
|--|---|-------------|----------------------------------|------------------------------------|-------|
| | NUMBER OF SHARES ISSUED AND ISSUABLE | PAR VALUE | ADDITIONAL PAID-IN CAPITAL | FOREIGN CURRENCY TRANSLATION | AC |
| TOTAL, DECEMBER 31, 2001 | 92,008,446 | \$9,200,845 | \$144,057,517 | \$ - | \$ (8 |
| 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 | 148,826 | 14,883 | 279,436 | - | |
| Issuance of common stock | | | | | |

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| | | | | |
|--|------------|-------------|---------------|----------|
| pursuant to February private placement | 5,210,000 | 521,000 | 1,241,433 | - |
| Issuance of common stock pursuant to May private placement | 137,760 | 13,775 | 14,740 | - |
| Share issue costs | - | - | (162,215) | - |
| Current year adjustment | | | | 51,257 |
| Net loss | - | - | - | - |
| TOTAL, JUNE 30, 2002 | 97,356,206 | \$9,735,620 | \$145,151,475 | \$51,257 |

On May 24, 2002 CanArgo acquired all of the Exchangeable Shares of CanArgo Oil & Gas Inc. for shares of CanArgo Common Stock on a share-for-share basis.

(11) Net Loss Per Common Share

Basic and diluted net loss per common share for the six month periods ended June 30, 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 six month periods ended June 30, 2002 and 2001 are 96,034,612 and 75,950,681 respectively. Options to purchase CanArgo's common stock were outstanding at June 30, 2002 but were not included in the computation of diluted net 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

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.

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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 June 30, 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.

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(13) Segment Information

Operating revenues for the six month periods ended June 30, 2002 and 2001 by geographical area were as follows:

| | JUNE 30, 2002 ----- | June 30, 2001 ----- |
|---|---------------------------|---------------------------|
| OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION | | |
| Eastern Europe | \$2,463,444 | \$3,524,451 |
| REFINING AND MARKETING | | |
| Eastern Europe | 3,255,634 | 3,943,533 |
| OTHER | | |
| Eastern Europe | 1,398,153 | - |
| INTERSEGMENT ELIMINATIONS | - | (906,545) |
| | ----- | ----- |
| TOTAL | \$7,117,231 ===== | \$6,561,439 ===== |

Other Eastern Europe operating revenue relates to income from the hire of CanArgo equipment. Operating income (loss) for the six month periods ended June 30, 2002 and 2001 by geographical area was as follows:

| | JUNE 30, 2002 ----- | June 30, 2001 ----- |
|---|---------------------------|---------------------------|
| OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION | | |
| Eastern Europe | \$ 1,841,009 | \$ 673,245 |
| REFINING AND MARKETING | | |
| Eastern Europe | 358,618 | 15,322 |
| CORPORATE AND OTHER EXPENSES | (3,343,551) | (2,403,030) |
| INTERSEGMENT ELIMINATIONS | - | (385,187) |
| | ----- | ----- |
| TOTAL OPERATING INCOME (LOSS) | \$(1,143,924) ===== | \$(2,099,650) ===== |

Net income (loss) before minority interest for the six month periods ended June 30, 2002 and 2001 by geographic area was as follows:

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| | JUNE 30, 2002 | June 30, 2001 |
|---|------------------|------------------|
| | ----- | ----- |
| OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION | | |
| Eastern Europe | \$ 1,841,009 | \$ 664,746 |
| REFINING AND MARKETING | | |
| Eastern Europe | 170,970 | (46,659) |
| CORPORATE AND OTHER EXPENSES | 3,129,768) | (1,783,806) |
| INTERSEGMENT ELIMINATIONS | - | (385,187) |
| | ----- | ----- |
| NET INCOME (LOSS) BEFORE MINORITY INTEREST | \$ (1,117,789) | \$ (1,550,906) |
| | ===== | ===== |

Identifiable assets as of June 30, 2002 and December 31, 2001 by business segment and geographical area were as follows:

| | JUNE 30, 2002 | December 31, 2001 |
|---|------------------|----------------------|
| | ----- | ----- |
| CORPORATE | | |
| Eastern Europe | \$ 949,071 | \$ 3,926,930 |
| Western Europe | 4,664,037 | 8,163,244 |
| TOTAL | 5,613,108 | 12,090,174 |
| OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION | | |
| Eastern Europe | 59,267,760 | 52,424,569 |
| REFINING AND MARKETING | | |
| Eastern Europe | 6,344,899 | 4,711,252 |
| OTHER ENERGY PROJECTS | | |
| Eastern Europe | 810,339 | 1,085,922 |
| | ----- | ----- |
| IDENTIFIABLE ASSETS - TOTAL | \$72,036,106 | \$70,311,917 |
| | ===== | ===== |

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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 June 30, 2002, CanArgo had working capital of \$2,866,000 compared to

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working capital of \$9,589,000 as of December 31, 2001. The \$6,723,000 decrease in working capital from December 31, 2001 to June 30, 2002 is principally due to a reduction in cash and prepayments related to capital expenditures on the Ninotsminda, Manavi and Norio projects.

As a result of unexpected mechanical difficulties drilling wells M11 and Norio 72 and delays in testing well N100, capital expenditures have exceeded initial estimates and production volumes available for sale are less than anticipated. These events have resulted in lower than expected cash resources from which CanArgo can continue its development activities in Georgia. In order to preserve available cash resources while still maintaining essential field operations and development activities in Georgia, a significant cost reduction plan is being implemented. Both direct project and general and administrative costs are to be reduced. CanArgo's management believes that these reductions together with a prepayment on the sale of crude oil, the selective sale of certain non-core assets including CanArgo's generator and a portion or all of CanArgo's drilling equipment should provide CanArgo the working capital necessary to cover CanArgo's immediate and near term funding requirements with respect to its activities in the Republic of Georgia. Provided funds are available, immediate and near term development plans include the completion of testing of well N100 and the continued drilling of wells M11 and Norio 72, two deep exploration wells. CanArgo has temporarily suspended further drilling of well M11 below its current casing point in order to fully review available technical data, and estimate the cost to complete the well. While drilling of well Norio 72 continues, completion of drilling of this well will be dependent upon partners continuing to fund their share of costs of this well and no new technical difficulties.

Existing cash and cash equivalents at June 30, 2002, are also not sufficient to adequately finance the immediate or near term development of the Bugruvativske field in Eastern Ukraine. Both the Bugruvativske field and the Stynawske 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.

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. CanArgo is actively seeking to farm-out part of its interest in the JIPA in return to initiate the JIPA and begin development of the Bugruvativske field. Based on discussions to date, CanArgo believes that a farm-in partner would be willing to take an interest in the project, although no assurance can be given that a farm-in to the JIPA would be on attractive or acceptable terms.

In 2001 an agreement was reached to undertake a limited investment and development program by June 2002 in respect of Boryslaw Oil Company to increase production and to meet certain work commitments under the Stynawske field licence. These obligations have not been fully met, however, Boryslaw Oil Company is seeking modifications to the licence agreement to allow a proper assessment of the workovers and development plans completed to date. A repayment

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schedule of CanArgo's advances to Boryslaw Oil Company has also been agreed of which \$120,000 was repaid by June 30, 2002. Boryslaw Oil Company has so far not been given notice by the Ukrainian licensing body of early termination of the license. CanArgo is actively seeking to farm-out part of its

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interest in Boryslaw Oil Company in return for finance to carry out the work programme. If Boryslaw Oil Company does not proceed with the Stynawske field development programme or if modifications to the current licence agreement 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.

Despite limited funding 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 existing projects beyond CanArgo's immediate development plan and to pursue 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 qualified. 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 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. Should such funding not be forthcoming and CanArgo be unable to sell some or all of its non-core assets, further cost reductions will be required in order for CanArgo to remain a going concern.

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 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

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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.

Subject to the raising of additional capital, above, 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

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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 \$2,822,000 to \$3,069,000 at June 30, 2002 from \$5,891,000 at December 31, 2001. The decrease was primarily due to the cost of the Manavi and Norio exploration programmes currently underway in Georgia.

Accounts receivable decreased by \$1,013,000 to \$1,084,000 at June 30, 2002 from \$2,097,000 at December 31, 2001. The decrease is primarily a result of the receipt of \$1,000,000 from AES relating to the termination of AES's participation in a three well exploration programme, an increase in allowance for a doubtful debt of \$275,000 generated from gas sales to the Rustavi Plant in Georgia, offset partially by accounts receivable related to rental income generated in 2002.

Inventory decreased by \$261,000 to \$323,000 at June 30, 2002 from \$584,000 at December 31, 2001 primarily as result of the sale of oil by Ninotsminda Oil Company from storage. Approximately 18,000 barrels of oil were held in storage by Ninotsminda Oil Company at June 30, 2002 for sale to the Georgian domestic, region or international market.

Prepayments decreased by \$1,834,000 to \$402,000 at June 30, 2002 from \$2,236,000

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at December 31, 2001 primarily as a result of receipt of materials and services related to CanArgo's exploration activities transferred to capital assets in the period. This decrease is included in the statement of cash flows as an investing activity.

Capital assets, net increased to \$65,613,000 at June 30, 2002 from \$57,685,000 at December 31, 2001, primarily as a result of investment of \$9,183,000 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 decreased to \$810,000 at June 30, 2002 from \$1,086,000 at December 31, 2001. The decrease reflects repayments by Boryslaw Oil Company of CanArgo's advances in 2001 and the purchase and subsequent consolidation of a petrol station that CanArgo previously had a 50% non-controlling interest in. This was partially offset by an increase in equity income related to CanArgo's investment in Boryslaw Oil Company.

Accounts payable increased by \$641,000 to \$1,710,000 at June 30, 2002 from \$1,069,000 at December 31, 2001 due to an increase in payables relating to petrol station construction activity.

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 \$67,000 to \$333,000 at June 30, 2002 from \$400,000 at December 31, 2001 as identified in note 7 to the unaudited consolidated financial statements.

Long term debt decreased by \$144,000 to \$370,000 at June 30, 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 \$476,000 to \$926,000 at June 30, 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").

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. When final ownership interest in CanArgo Norio Limited is determined minority shareholder advances will be reclassified as minority interest. CanArgo anticipates increasing its interest to over 60% in CanArgo Norio Limited through an increased level of funding of this well.

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Minority interest in subsidiaries increased to \$1,617,000 at June 30, 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, Mr. Levan Pkhakazde, who is one of the founders of Standard Oil Products.

On February 12, 2002, CanArgo completed an offering of 5,210,000 common shares

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at NOK 2.95 per share (approximately US\$0.33 per share) to a financial institution 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.

On May 28, 2002, CanArgo completed an offering of 137,760 common shares at NOK 1.68 per share (approximately US\$0.21 per share) to David Robson, CanArgo's Chief Executive Officer, for gross proceeds of approximately \$29,000. The shares have not been registered under the Securities Act of 1933 and are "restricted" as that term is defined in Rule 144 under the Securities Act. The shares may not be offered for sale, sold or otherwise transferred except pursuant to an effective registration statement under the Securities Act or pursuant to an exemption from registration under the Securities Act, the availability of which is to be established to the satisfaction of CanArgo.

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 June 30, 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 2001 an agreement was reached to undertake a limited investment and development program by June 2002 in respect of Boryslaw Oil Company to increase production and to meet certain work commitments under the Stynawske field licence. These obligations have not been fully met, however, Boryslaw Oil Company is seeking modifications to the licence agreement to allow a proper assessment of the workovers and development plans completed to date. A repayment schedule of CanArgo's advances to Boryslaw Oil Company has also been agreed of which \$120,000 was repaid by June 30, 2002. Boryslaw Oil Company has so far not been given notice by the Ukrainian licensing body of early termination of the license. CanArgo is actively seeking to farm-out part of its interest in Boryslaw Oil Company in return for finance to carry out the work programme. If Boryslaw Oil Company does not proceed with the Stynawske field development programme or if modifications to the current licence agreement 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.

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.

In August 2002, Ninotsminda Oil Company entered into a 12 month crude oil sales agreement to sell its monthly share of oil produced under the Ninotsminda

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production sharing contract. As security for payment the buyer will pay to Ninotsminda Oil Company \$1 million to be repaid by Ninotsminda Oil Company at the end of the twelve month period through the delivery of additional crude oil equal to the value of the security. Under the agreement, crude oil will be sold at dated Brent less a fixed discount per barrel depending on the Brent price. The discount ranges from a minimum of \$6.00 per barrel when dated price is less than \$15.00 per barrel to a maximum \$7.50 per barrel when dated Brent is greater than \$25.01 per barrel.

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RESULTS OF OPERATIONS

Six Month Period Ended June 30, 2002 Compared to Six Month Period Ended June 30, 2001

CanArgo recorded operating revenue of \$7,117,000 during the six month period ended June 30, 2002 compared with \$6,561,000 for the six month period ended June 30, 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 \$2,410,000 of revenue in the six month period ended June 30, 2002 compared with \$2,618,000 for the six month period ended June 30, 2001. Its net share of the 142,684 (788 barrels per day) of gross oil production for sale from the Ninotsminda field in the period amounted to 92,745 barrels. In the period 59,282 barrels of oil were removed from storage and sold. For the six month period ended June 30, 2001 Ninotsminda Oil Company's net share of the 232,186 barrels (1,283 barrels per day) of gross production was 140,140 barrels. The decline in production is due to limited workover investment resulting in a natural reservoir rate of decline.

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 half of 2002 averaged \$15.85 per barrel as compared with an average of \$19.15 per barrel in the first half of 2001. Its net share of the 68,435 mcf of gas delivered was 44,483 mcf at an average net sale price of \$1.22 per mcf of gas. For the six month period ended June 30, 2001, Ninotsminda Oil Company's net share of the 692,700 mcf of gas delivered was 450,250 mcf at an average net sales price of \$1.15 per mcf of gas. Gas deliveries for the six months ended June 30, 2002 declined significantly due to lower oil and gas production and the temporary shutdown by AES of its thermal power generating station following an accident at the facility. Although AES has now re-opened, its demand for gas is too great for CanArgo to meet from current production.

Refining and marketing revenues for the six month period ended June 30, 2002 relate solely to CanArgo Standard Oil Products petrol stations. With regard to the refinery owned by Georgian American Oil Refinery, currently only naptha, diesel and mazut can currently be produced 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. This lease expired in May 2002 and a new lease has not been identified. CanArgo continues to monitor demand for

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product produced by the refinery and is seeking changes to the legislation in support of indigenous refining activities, although no assurance can be given that such changes can be made. The refinery is now in a care and maintenance condition and \$125,000 has been accrued with respect to closing costs including severance.

Operating loss for the six month period ended June 30, 2002 was \$1,144,000 compared with an operating loss of \$2,100,000 for the corresponding period in 2001. The decrease in operating loss 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 half of 2002.

Field operating expenses decreased to \$879,000 for the six month period ended June 30, 2002 as compared to \$1,113,000 for the six month period ended June 30, 2001. The decrease is primarily a result of decreased activity at the Ninotsminda field offset partially by costs relating to sales of oil from storage in the first half of the year.

Purchases of crude oil and products decreased to \$2,572,000 for the six month period ended June 30, 2002 as compared to \$2,629,000 for the six month period ended June 30, 2001. The decrease relates to the suspension of refining activity in the fourth quarter of 2001 partially offset by increased operating activity by CanArgo Standard Oil Products.

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Refinery operating expenses were nil for the six month period ended June 30, 2002 as compared to \$197,000 for the six month period ended June 30, 2001 resulting from refining activity being suspended.

Direct project costs increased to \$982,000 for the six month period ended June 30, 2002, from \$571,000 for the six month period ended June 30, 2001, reflecting additional cost associated with the rental by others of CanArgo equipment.

General and administrative costs increased to \$2,485,000 for the six month period ended June 30, 2002, from \$2,048,000 for the six month period ended June 30, 2001 due to an allowance for doubtful accounts of \$275,000 from previous gas sales, an accrual for \$125,000 with respect to closure costs including severance at the refinery and more corporate activity.

The decrease in depreciation, depletion and amortization expense to \$1,343,000 for the six month period ended June 30, 2002, from \$2,102,000 for the six month period ended June 30, 2001 is attributable principally to lower production from the Ninotsminda oil field.

CanArgo recorded net other income of \$37,000 for the six months ended June 30, 2002, as compared to other income of \$549,000 during the six months ended June 30, 2001 as a result of lower cash balances in 2002 and interest expense on its credit facility in Georgia.

Equity income from investments increased to \$91,000 for the six month period ended June 30, 2002 from \$29,000 for the six month period ended June 30, 2001 as a result of equity income from production and sales of crude oil by Boryslaw Oil Company.

The net loss of \$1,204,000 or \$0.01 per share for the six month period ended June 30, 2002 compares to a net loss of \$1,530,000, or \$0.02 per share for the six month period ended June 30, 2001. The weighted average number of common

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shares outstanding was substantially higher during the six month period ended June 30, 2002 than during the six month period ended June 30, 2001, due in large part to private placements in July 2001, February and May 2002.

Three Month Period Ended June 30, 2002 Compared to Three Month Period Ended June 30, 2001

CanArgo recorded operating revenue of \$2,871,000 during the three month period ended June 30, 2002 compared with \$2,964,000 for the three month period ended June 30, 2001. The decrease is due to declines in oil and gas and refining and marketing revenues.

Ninotsminda Oil Company generated \$793,000 of revenue in the three month period ended June 30, 2002. Its net share of the 69,310 barrels (753 barrels per day) of gross oil production for sale from the Ninotsminda field in the period amounted to 45,052 barrels. An additional 7,200 barrels of oil were removed from storage and sold in the period. For the three month period ended June 30, 2001, Ninotsminda Oil Company's net share of the 101,230 barrels (1,112 barrels per day) of gross production was 60,380 barrels. The decline in production is due to limited workover investment resulting in a natural reservoir rate of decline.

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 second quarter of 2002 averaged \$15.18 per barrel as compared with an average of \$19.49 per barrel in the second quarter of 2001. Its net share of the 41,000 mcf of gas delivered was 26,000 mcf at an average net sale price of \$1.25 per mcf of gas. For the three month period ended June 30, 2001, Ninotsminda Oil Company's net share of the 238,000 mcf of gas delivered was 154,700 mcf at an average net sales price of \$1.18 per mcf of gas.

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Refining and marketing revenues for the three month period ended June 30, 2002 relate solely to CanArgo Standard Oil Products petrol stations. With regard to the refinery owned by Georgian American Oil Refinery, currently only naptha, diesel and mazut can currently be produced 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 which expired in May 2002. During the lease period, all operating costs of the refinery were borne by the lessee. This lease expired in May 2002 and a new lease has not been identified. CanArgo continues to monitor demand for product produced by the refinery and is seeking changes to the legislation in support of indigenous refining activities, although no assurance can be given that such changes can be made. The refinery is now in a care and maintenance condition and \$125,000 has been accrued with respect to closing costs including severance.

CanArgo had \$155,000 revenue from equipment rentals in the second quarter of 2002 compared to nil revenue from equipment rentals for the three month period ended June 30, 2001.

The operating loss for the three month period ended June 30, 2002 amounted to

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\$1,494,000 compared with an operating loss of \$1,454,000 for the corresponding period in 2001. The increase in operating loss is attributable primarily to increased general and administrative cost and lower refining and marketing income, offset partially by a reduced depreciation, depletion and amortization charge in the period.

Field operating expenses decreased to \$283,000 for the three month period ended June 30, 2002 as compared to \$611,000 for the three month period ended June 30, 2001. The decrease is primarily a result of decreased activity at the Ninotsminda field.

Purchases of crude oil and products of \$1,530,000 for the three month period ended June 30, 2002 as compared to \$1,472,000 for the three month period ended June 30, 2001 relate to increased operating activities of CanArgo Standard Oil Products.

Refinery operating expenses were nil for the three month period ended June 30, 2002 as compared to \$77,000 for the three month period ended June 30, 2001 resulting from refining activity being suspended.

Direct project costs increased to \$352,000 for the three month period ended June 30, 2002, from \$322,000 for the three month period ended June 30, 2001 reflecting additional cost associated with the rental by others of CanArgo equipment.

General and administrative costs increased to \$1,655,000 for the three month period ended June 30, 2002, from \$1,020,000 for the three month period ended June 30, 2001. The increase is primarily attributable to an allowance for a doubtful accounts of \$275,000 from previous gas sales, an accrual for \$125,000 with respect to closure costs including severance at the refinery and the under accrual of corporate costs in the first quarter recorded subsequently in the second quarter.

The decrease in depreciation, depletion and amortization expense to \$544,000 from \$917,000 for the three month period ended June 30, 2002 is attributable principally to lower production from the Ninotsminda field.

The equity income from investments increased to \$99,000 for the three month period ended June 30, 2002, from \$66,000 for the three month period ended June 30, 2001 as a result of equity income from production and sales of crude oil by Boryslaw Oil Company.

CanArgo recorded net other income of \$181,000 for the three months ended June 30, 2002, as compared to other income of \$199,000 during the three months ended June 30, 2001. The principal reason for the decrease is lower interest income on cash balances partially offset by higher equity income from investments and foreign exchange gains in the second quarter.

The net loss of \$1,291,000 or \$0.01 per share for the three month period ended June 30, 2002 compares to a net loss of \$1,203,000, or \$0.02 per share for the three month period ended June 30, 2001. The weighted average number of common shares outstanding was substantially higher during the three month period ended June 30, 2002 than during

the three month period ended June 30, 2001, due in large part to private placements in July 2001, February 2002 and May 2002.

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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 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 or 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

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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
- 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.

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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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PART II - OTHER INFORMATION 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 a financial institution 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
- (d) On May 28, 2002, CanArgo completed an offering of 137,760 common shares at NOK 1.68 per share (approximately US\$0.21 per share) to David Robson, CanArgo's Chief Executive Officer, for gross proceeds of approximately \$29,000. The shares have not been registered under the Securities Act of 1933 and are "restricted" as that term is defined in Rule 144 under the Securities Act. The shares may not be offered for sale, sold or otherwise transferred except pursuant to an effective registration statement under the Securities Act or pursuant to an exemption from registration under the Securities Act, the availability of which is to be established to the satisfaction of CanArgo.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On May 29, 2002, the Annual Meeting of Stockholders was held at the

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Theatersalen, Hotel Continental, Oslo, Norway to elect four directors to serve until the next Annual Meeting of Stockholders or until their successors are duly elected and qualified. The matter was voted upon at the meeting, and the number of votes cast for, against or withheld, where applicable, is set forth below.

| PROPOSAL | VOTES FOR | VOTES AGAINST | VOTES WITHHELD |
|--|------------|---------------|----------------|
| To elect Messrs. Roger Brittain, David Robson, Russell Hammond and Nils Trulsvik to the Board of Directors | 82,627,217 | - | 42,556 |

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

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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

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Limited dated November 3, 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(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 JKX 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 reference from August 31, 1994 Form 10-KSB, filed by Electromagnetic Oil Recovery, Inc., the Company's predecessor).

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- *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 (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 8-K).
- 10(13) Subscription Agreement between Registrant and JKK 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

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(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

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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 Bugruvativske Field (Incorporated herein by reference from June 30, 2001 Form 10-Q).
- 10(24) Crude Oil Sales Agreement dated August 13, 2002.
- 21 List of Subsidiaries (Incorporated herein by reference from June 30, 2001 Form 10-Q)
- 99(1) Certification of Chief Executive Officer pursuant to 18.U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
- 99(2) Certification of Chief Financial Officer pursuant to 18.U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

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(b) Reports on Form 8 K:

The following current reports on form 8-K were filed during the quarter ended June 30, 2002.

On May 29, 2002 CanArgo made a corporate presentation at its Annual General Meeting in Oslo, Norway.

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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: August 14, 2002

By: /s/ Anthony J. Potter

Anthony J. Potter
Chief Financial Officer

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EXHIBIT INDEX

FILED
HEREWITH

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