CANARGO ENERGY CORP
Form 10-K
March 30, 2001

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

FORM 10-K

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

OR

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from

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)

Registrant's telephone number, including area code: (44) 207 808 4700

Securities Registered Pursuant to Section 12(b) of the Act:
NONE

Securities Registered Pursuant to Section 12(g) of the Act:
COMMON STOCK, PAR VALUE $0.10 PER SHARE

(Title of Class)

Indicate by check mark whether the registrant: (1) 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 X ----- NO -----

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the

best of registrant's knowledge, in definitive proxy or information statements incorporated herein by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
[ ]

The aggregate market value of the voting stock held by non-affiliates of the registrant, as of February 28, 2001, was $81,405,986.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: Common Stock, $0.10 par value, 75,534,215 shares outstanding as of February 28, 2001. An additional 416,466 shares of Common Stock are issuable at any time without additional consideration upon exercise of CanArgo Oil & Gas Inc. Exchangeable Shares.

DOCUMENTS INCORPORATED BY REFERENCE

PART III -- Portions of the registrant's definitive proxy statement to be issued in connection with the registrant's annual meeting of stockholders are incorporated by reference to Part III of this report.

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PART I

QUALIFYING STATEMENT WITH RESPECT TO FORWARD-LOOKING INFORMATION

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 in Item 1. "Business - Risks Associated with CanArgo's Oil and Gas Activities", Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Annual Report on Form 10-K 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 Annual Report on Form 10-K, 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 Annual Report on Form 10-K, 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.

ITEM 1. BUSINESS

GENERAL DEVELOPMENT OF BUSINESS

CanArgo Energy Corporation was formed in 1994 to continue, through re-incorporation in Delaware, the business of a predecessor Oklahoma corporation which was formed in 1980. CanArgo changed its name from Fountain Oil Incorporated to CanArgo Energy Corporation in connection with a business combination with CanArgo Oil & Gas Inc. completed on July 15, 1998. CanArgo conducts its principal operations through subsidiaries, and unless otherwise indicated by the context, the term CanArgo refers to CanArgo Energy Corporation and its consolidated subsidiaries, including Ninotsminda Oil Company.

CanArgo initially operated as an oil and gas exploration and production company. It altered its principal focus to the application of electrically enhanced heavy oil recovery technology in 1988, and that focus continued through 1994. In early 1995, CanArgo shifted its principal activities to acquiring and developing interests in Eastern European oil and gas properties. From 1995 to 1997 CanArgo, then known as Fountain Oil Incorporated, established significant ownership interests in four Eastern European oil and gas development projects. As a result of disappointing results and other negative indications, CanArgo during the fourth quarter of 1997 wrote-off its entire investments in three of those four projects and began actively to seek a business combination or similar transaction with another oil and gas company. In 1999, CanArgo wrote-down the fourth and last significant project that was being developed by Fountain Oil Incorporated prior to the business combination.

As a result of this effort, CanArgo then known as Fountain Oil Incorporated entered into a business combination with CanArgo Oil & Gas Inc. Upon completion of the business combination in July 1998, CanArgo Oil & Gas Inc. became a subsidiary of CanArgo, the management of CanArgo Oil & Gas Inc. assumed the senior management positions in CanArgo, and CanArgo changed its name from Fountain Oil Incorporated to CanArgo Energy Corporation. At the time of the business combination, the principal operations and assets of CanArgo Oil & Gas Inc. were associated with the Ninotsminda oil field in the Republic of Georgia. Since completion of the business combination, a large portion of CanArgo's resources have been focused on the development of the producing areas of the Ninotsminda field.

CanArgo's principal activities are development and production of oil and gas and oil and gas exploration. In November and December 2000 respectively, CanArgo expanded this activity with the acquisition of a controlling interest in a refinery and investment in a chain of petrol stations all located in and around Tbilisi, the capital of Georgia. Despite this investment, however, CanArgo continues to direct most of its efforts and resources to the development of the Ninotsminda field. CanArgo also has additional exploratory and developmental oil and gas properties and prospects in Georgia and Ukraine and owns interests in other Eastern European oil and gas projects. CanArgo's principal product is crude oil, and the sale of crude oil and crude oil products is its principal source of revenue.

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NINOTSMINDA OIL FIELD

Since completion of the business combination with CanArgo Oil & Gas Inc., CanArgo's resources have, through its wholly owned subsidiary Ninotsminda Oil Company, been focused on the development of the Ninotsminda oil field and some associated activities. The Ninotsminda oil field covers some 10 square kilometres and is located 40 kilometres north east of the Georgian capital, Tbilisi. It is adjacent to and west of the Samgori oil field, which was Georgia's most productive oil field. The Ninotsminda field was discovered later than the Samgori field and has experienced substantially less development activity. The state oil company, Georgian Oil, and others including Ninotsminda Oil Company have drilled sixteen wells in the Ninotsminda field, of which thirteen are currently classified as producing.

BUSINESS STRUCTURE

CanArgo's activities at the Ninotsminda oil field are conducted through Ninotsminda Oil Company. In May 2000, CanArgo Energy Corporation reached an agreement with JKX Oil & Gas plc to acquire its 21.2% interest in Ninotsminda Oil Company for a direct equity interest in CanArgo. In July 2000 this transaction was completed and Ninotsminda Oil Company became a wholly owned subsidiary of CanArgo.

In November 1999, CanArgo increased its percentage ownership of Ninotsminda Oil Company from 68.5% to 78.8% when JKX Oil & Gas plc chose not to subscribe for its pro rata portion of shares being offered to increase Ninotsminda Oil Company capital. This follows an increase in the percentage ownership from 55.9% to 68.5% in November 1998 when JKX Oil & Gas plc similarly chose not to subscribe for its pro rata portion of shares being offered to increase Ninotsminda Oil Company's capital.

Ninotsminda Oil Company obtained its rights to the Ninotsminda field, including all existing wells, and two other fields under a 1996 production sharing contract with Georgian Oil and the State of Georgia. Ninotsminda Oil Company's rights under the agreement expire in December 2019, subject to possible loss of undeveloped areas prior to that date and possible extension with regard to developed areas. Under the production sharing contract, Ninotsminda Oil Company is required to relinquish at least half of the area then covered by the production sharing contract, but not any portions being actively developed, at five year intervals commencing December 1999. In 1998, these terms were amended with the initial relinquishment being due in 2006 and a reduction in the area to be relinquished at each interval from 50% to 25%.

Under the production sharing contract, Georgian Oil has a priority right to receive oil representing a projection of what the Ninotsminda field would have yielded through 2001 based upon the wells and equipment in use at the time the contract was entered into. The priority right amounts to approximately:

-- 740 barrels of oil per day during 1998
-- 542 barrels of oil per day during 1999;
-- 280 barrels of oil per day during 2000; and
-- 93 barrels of oil per day during 2001;
-- none thereafter.

Of the remaining production, up to 50% will be allocated to Ninotsminda Oil Company for the recovery of the cumulative allowable capital, operating and other project costs associated with the Ninotsminda field, which Ninotsminda Oil Company initially pays. The balance of production is allocated on a 70/30 basis between Georgian Oil and Ninotsminda Oil Company respectively. Thus while Ninotsminda Oil Company continues to have unrecovered costs, it will receive 65% of production in excess of the oil allocated to Georgian Oil on a priority. After recovery of its cumulative capital, operating and other allowable project costs, Ninotsminda Oil Company will receive 30% of production after Georgian Oil's priority allocation. The allocation of a share of production to Georgian Oil relieves Ninotsminda Oil Company of all obligations it would otherwise have to pay taxes and similar levies to the Republic of Georgia with respect to Ninotsminda field operations. Georgian Oil and Ninotsminda Oil Company take their respective shares of production in kind, and they market their oil independently.

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Pursuant to the terms of CanArgo's production sharing contracts in Georgia, including the Ninotsminda production sharing contract, a Georgian not-for-profit company must be appointed as field operator. Currently there are three such field operating companies: Georgian British Oil Company Ninotsminda, Georgian

British Oil Company Nazvrevi and Georgian British Oil Company Norio, each of which is 50% owned by a company within the CanArgo group with the remainder owned by Georgian Oil. The Ninotsminda operating entity, Georgian British Oil Company Ninotsminda, is 50% owned by Ninotsminda Oil Company. The second operating entity, Georgian British Oil Company Nazvrevi, is 50% owned CanArgo (Nazvrevi) Ltd. The third operating entity, Georgian British Oil Company Norio, is 50% owned by CanArgo Norio Ltd. The field operator provides the operating personnel and is responsible for day-to-day operations. CanArgo or a company within the CanArgo group pays the operating company's expenses associated with the development of the Ninotsminda and Nazvrevi fields, and the operating company performs on a non-profit basis. Georgian British Oil Company Ninotsminda currently has 104 full time employees, and substantially all of its activities relate to the development of the Ninotsminda field. The use of such Georgian companies as field operator gives CanArgo less control of operations than it might have if it were conducting operations directly, although CanArgo has board control of these field operating companies.

Ninotsminda field operations are determined by a governing body composed of members designated by Georgian Oil and Ninotsminda Oil Company, with the deciding vote on field development issues allocated to Ninotsminda Oil Company. If Georgian Oil believes that action proposed by Ninotsminda Oil Company with which Georgian Oil disagrees would result in permanent damage to a field or reservoir or in a material reduction in production over the life of a field or reservoir, it may refer the disagreement to a western independent expert for binding resolution. Since CanArgo acquired its interest in Ninotsminda Oil Company, there has been no such disagreement.

OIL FIELD DEVELOPMENT

When Ninotsminda Oil Company assumed developmental responsibility for the Ninotsminda field in 1996, production was minimal. CanArgo believes that the development and productivity of the Ninotsminda field had in the past been hampered by, among other factors, a lack of funding, civil strife and utilization of non-optimal technology.

Ninotsminda Oil Company's initial approach to Ninotsminda field development involved rehabilitating and adding additional perforations to existing wells. This program is continuing while technical data, including additional seismic data about the Ninotsminda field, continues to be gathered. This seismic data, including data gathered in 2000, will be useful in selecting both existing wells for workover and the identification of additional drilling sites. Drilling sites tentatively selected by Ninotsminda Oil Company must be approved by Georgian regulatory authorities before drilling may commence.

In addition to rehabilitating existing wells, an active drilling program exists. The first well was completed in October 1997 and initially produced at the rate of 400 to 600 barrels of oil per day but is currently shut-in. A second well was completed in October 1998 and has been producing at the rate of 160 barrels of oil per day. A third well commenced in October 1998 but was suspended in December 1998 at a depth of 700 meters as a result of undependable electrical supply. Drilling of this well recommenced in July 2000, as part of a three-well exploration program to explore and determine the future development potential of gas prospects in the Ninotsminda field.

Until recently, oil exploration and production at the Ninotsminda field has focused on one zone, the Middle Eocene. In December 2000, CanArgo announced the discovery of a new zone in the Ninotsminda field, the Sarmatian. This new zone, discovered while drilling the first of the three gas exploration wells noted above, is in addition to the previously identified Upper Eocene zone from which oil has been produced in one well. As the Sarmatian zone has only recently been discovered, work is currently underway to quantify the reserve and production potential of this reservoir as well as the Upper Eocene sequence. The discovery may also open up new potential in the upper sequences of other areas currently under license in Georgia. See "Other Georgian Licenses".

While most of the exploration and development of the Ninotsminda field has focused on oil, the Ninotsminda field has a gas cap above the principal producing zone. In December 1999, Ninotsminda Oil Company began commercial production from the gas cap following regulatory approval from the Georgian government. This production was sold pursuant to a one year gas contract with AES - Telasi, a subsidiary of AES Corporation, for delivery to the Gardabani thermal power plant. Under terms of the gas contract, AES-Telasi has agreed to purchase all the gas produced by Ninotsminda Oil Company in priority to all other suppliers with no maximum or minimum volume.

CanArgo has not yet fully evaluated the reserves and economics of production relating to the gas cap and has no current gas supply contracts for production from the gas cap. As production from the gas cap can both aid and hinder the production of crude oil, any evaluation as to the feasibility of sustained production from the gas cap would have to take into consideration the expected impact of natural gas production on the production of crude oil. The evaluation of the gas cap is an on-going process to be confirmed by existing production, the drilling of new wells and reservoir study work currently being performed.

INTERNATIONAL FINANCE CORPORATION

In December 1998, Ninotsminda Oil Company entered into a convertible loan agreement with International Finance Corporation ("IFC"), an affiliate of the World Bank, under which IFC agreed under specified conditions, to lend $6 million to Ninotsminda Oil Company primarily to fund a defined Ninotsminda field development program. Under terms of the loan agreement, if funds were disbursed, IFC would have the right to convert all or part of the loan into common shares of Ninotsminda Oil Company. IFC would also have the ability to accept or reject joint venture or third party investment in the project. As a result of these and other conditions, no funds were disbursed under the loan agreement and in November 2000, Ninotsminda Oil Company formally advised IFC of its withdrawal from the loan agreement.

OTHER FIELDS AND PROSPECTS UNDER NINOTSMINDA PRODUCTION SHARING CONTRACT

On July 21, 2000, Ninotsminda Oil Company executed a binding Participation Agreement with AES Gardabani relating to the exploration and potential future development of gas prospects on CanArgo's Ninotsminda license in Georgia. Under the agreement, AES Gardabani will earn a 50% interest in identified prospects at the Cretaceous stratigraphic level by funding two thirds of the cost of a three-well exploration program. This program is currently underway and is being implemented by CanArgo's existing operations unit in Georgia. The first well of this three-well program, originally scheduled to be N97 (C1) commenced in July 2000. In October 2000, CanArgo announced that for mechanical reasons, the well could not be completed to the Cretaceous but rather would be tested in the newly discovered Sarmatian sequence. In January 2001, drilling began on well N100, which replaces N97 as the first well of the three well exploration program. Site preparation for the second well in the exploration program has also commenced and is scheduled to be spud in April 2001.

In the event of a successful exploration program, the agreement mandates a long term gas sales contract to units 9 and 10 of the Gardabani thermal power plant, recently acquired by AES. In years one to three of the long term gas sales contract, the contract price on the first 400,000 thousand cubic meters of natural gas is fixed at the rate of $45 per thousand cubic meters. Ninotsminda Oil Company is already supplying natural gas to the Gardabani plant from the shallower Middle Eocene reservoir in its producing Ninotsminda field.

In addition to the Ninotsminda field, Ninotsminda Oil Company has under the 1996 production sharing contract rights to one other field, West Rustavi, and one prospect, Manavi. As well as the producing Middle Eocene horizon at Ninotsminda, the West Rustavi field has two prospective horizons being the Upper Eocene and the Cretaceous.

The West Rustavi field is located some 40 km southeast of Ninotsminda. Ten wells were drilled by Georgian Oil in the West Rustavi field area, two of which produced oil. One of the ten wells was drilled to the deeper Cretaceous/ Paleocene horizon. This well was tested and produced one million cubic feet of gas and 3,500 barrels of water per day. Further geo-technical work is required on this horizon to determine its prospectivity. Ninotsminda Oil Company has initiated an appraisal program. The appraisal program, which includes acquiring further seismic data and performing rehabilitation work on some of the wells, is aimed at assessing Georgian Oil's original reserve estimates and ultimately initiating an appropriate development program. In addition, it is planned to drill an exploration well to the Cretaceous horizon. The Manavi prospect is located east of Ninotsminda. Ninotsminda Oil Company has seismic data regarding the Manavi prospect from both work it commissioned and earlier efforts by Georgian Oil. Georgian Oil's attempt to drill in the Manavi prospect was abandoned due to technical problems. No assurances can be given that either of the West Rustavi field or Manavi prospect will be developed by Ninotsminda Oil Company.

OIL AND GAS PRODUCTION

Production History

The Ninotsminda field was discovered and initial development began in 1979. CanArgo is currently producing from the Ninotsminda field approximately 2,930 barrels of oil equivalent (BOE) per day, comprising approximately 2,000 barrels of oil per day and 930 BOE of gas per day (1 BOE =6,000 cubic feet = 170 (m3) gas) from five wells. Gross production from the Ninotsminda field for the past three years was as follows:

YEAR ENDED DECEMBER 31,	OIL - GROSS BARRELS
2000	478,999
1999	415,390
1998	554,633

Productive Wells and Acreage

The following table summarizes as of December 31, 2000 Ninotsminda Oil Company's number of productive oil and gas wells and Ninotsminda Oil Company's total developed acreage for the Ninotsminda field. Such information has been presented on a gross basis, representing the interest of Ninotsminda Oil Company, and on a net basis, representing the interest of CanArgo based on its 100% interest in Ninotsminda Oil Company. Prior to completion of the acquisition of the remaining 21.2% held by JKX Oil & Gas plc, CanArgo's interest was 78.8% of the gross amount.

	GROSS		NET	
	NUMBER OF WELLS	ACREAGE	NUMBER OF WELLS	ACREAGE
Ninotsminda field	13	2,500	13	2,500

On December 31, 2000, there were no productive wells or developed acreage on any of CanArgo's other Georgian properties, except for one gross well on the West Rustavi field which was shut-in at that date.

Reserves

The following table summarizes net hydrocarbon reserves for the Ninotsminda field, which are the only significant reserves for CanArgo. This information is derived from a report as of January 1, 2001 prepared by Ashton Jenkins Mann, independent petroleum consultants. This report is available for inspection at CanArgo's principal executive offices during regular business hours.

MILLION BARRELS	OIL RESERVES - GROSS	PSC ENTITLEMENT VOLUMES (1)
Proved Developed	3.8	2.6
Proved Undeveloped	14.5	7.1
TOTAL PROVEN	18.3	9.7

BILLION CUBIC FEET	GAS RESERVES - GROSS	PSC ENTITLEMENT VOLUMES (1)
Proved Developed	15.2	4.6
Proved Undeveloped	29.8	8.9

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TOTAL PROVEN	45.0	13.5
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(1) PSC Entitlement Volumes attributed to CanArgo using the "economic interest method" applied to the terms of the production sharing contract. PSC Entitlement Volumes are those produced volumes which, through the production sharing contract, accrue to the benefit of Ninotsminda Oil Company after deduction of Georgian Oil's share which includes all Georgian taxes, levies and duties. As a result of CanArgo's interest in Ninotsminda Oil Company, these volumes accrue to the benefit of CanArgo for the recovery of capital, repayment of operating costs and share of profit.

Proved reserves are those reserves estimated as recoverable under current technology and existing economic conditions from that portion of a reservoir which can be reasonably evaluated as economically productive on the basis of analysis of drilling, geological, geophysical and engineering data, including the reserves to be obtained by enhanced recovery processes demonstrated to be economically and technically successful in the subject reservoir. Proved reserves includes proved producing reserves, proved non-producing reserves and proved undeveloped reserves.

Proved producing reserves are those proved reserves that are actually on production or, if not producing, that could be recovered from existing wells or facilities and where the reasons for the current non-producing status is the choice of the owner rather than the lack of markets or some other involuntary reason. An illustration of such a situation is where a well or zone is capable of production but is shut-in because its deliverability is not required to meet commitments.

Proved undeveloped reserves are proven reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where relatively major expenditures are required for the completion of these wells or for installation of processing and gathering facilities prior to the production of these reserves. Reserves on undrilled acreage are limited to those drilling units offsetting productive wells that are reasonably certain of production when drilled.

Considerable uncertainty exists in the interpretation and extrapolation of existing data for the purposes of projecting the ultimate production of oil from underground reservoirs and the corresponding future net cash flows associated with that production. The process of estimating quantities of proved crude oil, and the subcategories thereof, is very

complex. The estimating process requires significant subjective decisions relating to the evaluation of all available geological, engineering and economic data for each reservoir. The data for a given reservoir may change substantially over time as a result of such factors as additional development activity, evolving production history and changing economic conditions. In addition, because the amount and timing of cost recovery is a function of oil and gas prices, changes in these prices can significantly increase or decrease reserves attributable to CanArgo's economic interest. No assurance can be given that the projections included in the report by Ashton Jenkins Mann will be realized. The evaluation by Ashton Jenkins Mann represents the efforts of Ashton Jenkins Mann to predict the performance of the oil recovery project using their expertise and the available data at the effective date of their report.

PROCESSING, SALES AND CUSTOMERS

Georgian Oil built a considerable amount of infrastructure in and adjacent to the Ninotsminda field prior to entering into the production sharing contract with Ninotsminda Oil Company. That infrastructure, including initial processing equipment, is now used by Ninotsminda Oil Company.

The mixed oil, gas and water fluid produced from the Ninotsminda field wells flows into a two-phase separator located at the Ninotsminda field, where gas associated with the oil is separated. The oil and water mixture is then transported eleven kilometers in a pipeline to Georgian Oil's central processing facility at Sartichala for further treatment. The gas is transported to Sartichala in a separate pipeline where some is used for fuel and the rest is piped 34 kilometers to the Gardabani thermal power plant.

At Sartichala, the water is separated from the oil. Ninotsminda Oil Company then sells oil in this state to buyers at Sartichala, and typically buyers at that point assume responsibility for the oil. Depending on the location of the buyer, buyers generally transport the oil at their risk and cost by pipeline 20 kilometers to a railhead at Ghaciani. At the railhead, the oil is loaded into railcars for transport directly to the buyers' or their customers or to the Black Sea port of Batumi, Georgia, where oil can be loaded onto tankers for international shipment.

Ninotsminda Oil Company sells its oil directly to local and international buyers. In 2000, Ninotsminda Oil Company sold its oil production to three customers. Of these customers, each represented sales greater than 10% of oil revenue:

CUSTOMER	PERCENT OF OIL REVENUE
Georgian American Oil Refinery (1)	54.4%
MS	31.4%
Caspian Trading	14.2%

In 1999, Ninotsminda Oil Company sold its production to five customers. Of these customers, three customers represented sales greater than 10% of oil revenue:

CUSTOMER	PERCENT OF OIL REVENUE
Petrotrade	38.0%
Georgian American Oil Refinery (1)	34.0%
Sinan Madenchilik	11.0%

In 1998, Ninotsminda Oil Company sold its production to three customers as follows:

CUSTOMER	PERCENT OF OIL REVENUE
Sis Plus 7 Ltd.	35.9%
Glencore International AG	34.4%
Navtobi Ltd.	29.7%

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(1)51% owned by CanArgo effective November 2000

The price received for oil by Ninotsminda Oil Company has generally been negotiated on the basis of the European spot price for Brent grade crude oil, less discounts for transportation and related charges. The price received by Ninotsminda Oil Company has ranged from the full Brent price to Brent minus $6.00 per barrel. Despite lower transportation costs on sales in Georgia, the price received by Ninotsminda Oil Company on local sales remains relatively inelastic when the price for Brent increases as demand for raw crude within Georgia may be negatively impacted by illegal import of prepared oil products into the country and shipments via tanker through the Black Sea require large quantities of crude to be economic. Despite the lower price, opportunities for domestic sales remain and Ninotsminda Oil Company maintains an inventory of oil available for local buyers principally on cash payment terms. The average per barrel discount from the spot price for Brent grade crude oil is approximately $5.80 at the present time.

Prices for oil and natural gas are subject to wide fluctuations in response to a number of factors including:

-- changes in the supply and demand for oil and natural gas;
-- actions of the Organization of Petroleum Exporting Countries
-- weather conditions;
-- domestic and foreign governmental regulations;
-- the price and availability of alternative fuels;
-- political conditions in the Middle East and elsewhere; and
-- overall economic conditions.

OTHER GEORGIAN LICENSES

Nazvrevi/Block XIII

In February 1998, CanArgo entered into a second production sharing contract with Georgian Oil and the State of Georgia. This contract covers the Nazvrevi and Block XIII areas of East Georgia, a 2,100 square kilometer exploration area adjacent to the Ninotsminda and West Rustavi fields and containing existing infrastructure. The agreement extends for twenty-five years. CanArgo is required to relinquish at least half of the area then covered by the production sharing contract, but not any portions being actively developed, at five year intervals commencing in 2003.

Under the production sharing contract, CanArgo pays all operating and capital costs. CanArgo first recovers its cumulative operating costs from production. After deducting production attributable to operating costs, 50% of the remaining production, considered on an annual basis, is applied to reimburse CanArgo for its cumulative capital costs. While cumulative capital costs remain unrecovered, the other 50% of remaining production is allocated on a 50/50 basis between

Georgian Oil and CanArgo. After all cumulative capital costs have been recovered by CanArgo, remaining production after deduction of operating costs is allocated on a 70/30 basis between Georgian Oil and CanArgo respectively. The allocation of a share of production to Georgian Oil relieves CanArgo of all obligations it would otherwise have to pay the Republic of Georgia for taxes and similar levies related to activities covered by the production sharing contract. Both Georgian Oil and CanArgo will take their respective shares of production under this production sharing contract in kind.

The first phase of the preliminary work program under the Nazvrevi/Block XIII production sharing agreement involves primarily a seismic survey of a portion of the exploration area and the processing and interpretation of the data collected. The seismic survey has been completed, and the results of those studies are currently being interpreted, with a view towards defining possible oil and gas prospects and exploration drilling locations. The cost of the seismic program was approximately $1.2 million.

The second phase of the preliminary work program under the Nazvrevi/Block XIII production sharing agreement involves the drilling of one well at an estimated cost of $4 million. CanArgo can terminate the production sharing contract if it decides not to proceed with drilling.

Norio and North Kumisi Blocks

In December 2000, CanArgo entered into a third production sharing contract with Georgian Oil and the State Agency for Regulation of Oil and Gas Resources in Georgia. This contract covers the Norio and North Kumisi blocks of East Georgia, a 1,542 square kilometre exploration area adjacent to the Ninotsminda and West Rustavi fields. There are two existing oil fields on the Norio block, Norio and Satskenisi which are relatively shallow fields and which have produced oil from the Miocene and Sarmatian sequences. The commercial terms of the production sharing contract are similar to those of the Nazvrevi/Block XIII production sharing contract with the exception that after all cumulative capital costs have been recovered by CanArgo, remaining production after deduction of operating costs is allocated on a 60/40 basis between Georgian Oil and CanArgo respectively. CanArgo currently owns a 50% controlling interest in CanArgo Norio Limited with the remainder held by Georgian investors.

The first phase of the preliminary work program under the Norio and North Kumisi production sharing agreement involves primarily a seismic survey of a portion of the exploration area and the processing and interpretation of the data collected. The seismic survey has been completed, and the results of those studies are currently being interpreted. In addition to the existing upper sequences, the potential of the blocks to produce from the Middle Eocene, Cretaceous and Upper Eocene is being assessed. The cost of the seismic program was approximately $1,200,000.

The second phase of the preliminary work program under the Norio and North Kumisi production sharing agreement involves the drilling of one well at an estimated cost of up to $5 million. CanArgo can terminate the production sharing contract if it decides not to proceed with drilling.

The Norio production sharing agreement provides Georgian Oil with a one time option to take up to a 15% participating interest in petroleum operations. The option period begins on submission of the first development plan and must be exercised within 180 days thereafter. To exercise the option, Georgian Oil must pay their pro rata share of back costs, bear a pro rata share of all future costs and expenses incurred from and after the date of submittal of the first development plan in proportion to the participating interest which it acquired through exercise of the option and execute a joint operating agreement.

OTHER GEORGIAN PROJECTS

Georgian American Oil Refinery

In September 1998, CanArgo purchased for $1,000,000 a 12.9% equity interest in a company which owns a small refinery located at Sartichala, Georgia. On November 12, 2000, CanArgo acquired a further 38.1% of the common stock of Georgian American Oil Refinery for Common Stock consideration valued at $1,666,575. On completion of the acquisition, CanArgo holds 51% of the common stock of Georgian American Oil Refinery and Georgian American Oil Refinery became a subsidiary of CanArgo. Under purchase accounting, Georgian American Oil Refinery's results have been included in CanArgo's consolidated financial statements since the date of acquisition.

The refinery, which utilizes primarily refurbished American equipment, began operations in July 1998 and has a current capacity of approximately 4,000 barrels per day. It is the only refinery in Georgia employing western technology. It is able to produce naphtha, diesel fuel, fuel oil and kerosene. Further capacity expansion and product extension is possible in the future.

Sartichala is the primary processing center for east Georgian oil production, including production from Ninotsminda. Refined products are sold on both the local and export markets. Although the refinery receives some revenue from the sale of its products in the Georgian currency, the Lari, most pricing is related to dollar based world market prices. To mitigate the currency exchange risk, the refinery has established some export sales contracts denominated in United States dollars. CanArgo believes that its involvement in Georgian refining activity strengthens its position in the Georgian energy sector and provides specific support for Ninotsminda Oil Company's activities in Ninotsminda. In 2000, Ninotsminda Oil Company sold approximately 136,400 barrels of oil to the refinery.

CanArgo Standard Oil Products

In December 2000, CanArgo reached an agreement to acquire an interest in several existing petrol stations and sites in Tbilisi, Georgia. These stations and sites, together with several existing CanArgo stations, operate under the CanArgo name and are owned by CanArgo Standard Oil Products, a Georgian company in which CanArgo owns a 50% equity interest.

CanArgo originally moved into the retail gasoline sector in Georgia in April 2000 with the formation of CanArgo Standard Oil Products. This company initially was involved in the construction and operation of three high quality stations under the retail name brand. At December 2000, two stations were operational. Under the exercised option, seven more locations under varying degrees of completion will be vended into CanArgo Standard Oil Products by its Georgian partners, with CanArgo investing a further $1.2 million of development capital. Two of these locations are operating stations, three are under construction, and the development of the final two locations will commence shortly. The new investment funds will be used to accelerate development of the existing sites, purchase more sites in desirable city regions and begin the development of CanArgo Standard Oil Product's business on the important transit routes through Georgia.

OTHER EASTERN EUROPEAN PROJECTS

Stynawske Field, Western Region, Ukraine

In November 1996, CanArgo entered into a joint venture arrangement with the Ukrainian state oil company, Ukranafta, for the development of the 24 square kilometre Stynawske field, located in Western Ukraine near the town of Stryv. CanArgo has a 45% interest in Boryslaw Oil Company, the joint venture entity, with Ukranafta holding the remaining 55% interest. Ukranafta retains rights to base production, representing a projection of what the Stynawske field would produce in the future, based on the physical plant and technical processes in use at the time of license grant, on a declining basis through 2001. The joint venture will be entitled to all incremental production above that declining base.

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. While negotiations continued on the transfer of the field, by the fall of 1999 it was apparent from the length and difficulty of the negotiations that significant uncertainty existed as to CanArgo's ability to raise funds for the project or enter into a satisfactory farm-out agreement on a timely basis. As a result, CanArgo recorded in the year ended December 31, 1999 an impairment charge of $5,459,793 against its investment in and advances to Boryslaw Oil Company. CanArgo's investment in the Stynawa field was the fourth and last significant project that was being developed by Fountain Oil Incorporated prior to the business combination between Fountain Oil Incorporated and CanArgo Oil & Gas Inc.

CanArgo has continued to seek the transfer of the field under satisfactory commercial terms. In December 2000, CanArgo reached agreement with Ukranafta on certain commercial arrangements and for the transfer of field operations to Boryslaw Oil Company.

If CanArgo does not proceed with the Stynawske field development program, it may be in breach of obligations it has with regard to the joint venture with certain obligations being due to be met by June 2002. This could place CanArgo's rights to the Stynawske field at risk and could subject CanArgo to possible liability.

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Bugruvativske Field, Ukraine

On March 8, 2001 CanArgo announced that it intended to make an offer to purchase all outstanding common shares of Lateral Vector Resources Inc. On March 20, 2001 an offer was mailed to Lateral Vector Resources Inc. shareholders offering Canadian $0.10 (approximately $0.065) in cash for each outstanding Lateral Vector Resources Inc. share and based on publicly available information, the transaction value represented by the offer is approximately $2.11 million. The offer, conditional, among other matters, upon the deposit of at least 90% of outstanding Lateral Vector Resources Inc. shares (calculated on a fully diluted basis), is subject to the receipt of all required regulatory approvals including any required in Ukraine and other conditions customary in this type of transaction, including the absence of any material change in the business or operations of Lateral Vector Resources Inc.

According to publicly available information, Lateral Vector Resources Inc. negotiated and concluded a Joint Investment Production Activity agreement in 1998 to develop the Bugruvativske Field together with Ukranafta.

Potential Caspian Exploration Project

In May 1998, CanArgo led a consortium which submitted a bid in a tender for two large exploration blocks in the Caspian Sea, located off the shore of the autonomous Russian republic of Dagestan. The consortium was the successful bidder in the tender and was awarded the right to negotiate licenses for the blocks. Following negotiations, licenses were issued in February 1999 to a majority-owned subsidiary of CanArgo. During 1999 CanArgo concluded that it did not have the resources to progress this project. Accordingly, in November 1999, CanArgo sold all but a 9.5% interest in its subsidiary to private investors in exchange for $250,000 to be paid to CanArgo should additional financing or an equity partner be found for the project. Part of the proceeds from the sale is to continue activities on this project and potentially to increase CanArgo's interest. Potential work in the near future includes seismic and possibly drilling.

RISKS ASSOCIATED WITH CANARGO'S OIL AND GAS ACTIVITIES

Future Dependent on Success of the Ninotsminda Oil Field

CanArgo has directed substantially all of its efforts and most of the 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. This decision is based on management's assessment of the promise of the Ninotsminda field area. However, CanArgo cannot assure investors that the development plans for the Ninotsminda field will be successful. For example, the Ninotsminda field may not produce sufficient quantities of oil and gas to justify the investment CanArgo has made and is planning to make in the field, and CanArgo may not be able to produce the oil and gas at a sufficiently low cost or to market the oil and gas produced at a sufficiently high price to generate a positive cash flow and a profit. Ninotsminda Oil Company has also entered into certain supply and purchase agreements for natural gas associated with crude oil production from the Ninotsminda field. Such agreements may benefit CanArgo, but may in the future also limit its ability to sell associated natural gas at then market prices.

Ninotsminda Field Governed by Production Sharing Contract Which May be Subject to Certain Legal Uncertainties

CanArgo's principal business and assets are derived from production sharing contracts in the Republic of Georgia. The legislative and procedural regimes governing production sharing agreements and mineral use licenses in Georgia have undergone a series of changes in recent years resulting in certain legal uncertainties.

CanArgo's production sharing agreements and mineral use licenses, entered into prior to the introduction in 1999 of a new Petroleum Law governing such agreements have not, as yet, been amended to reflect or ensure compliance with current legislation. As a result, despite references in the current legislation grandfathering the terms and conditions of our production sharing contracts, conflicts between the interpretation of our production sharing contracts and mineral use licenses and current legislation could arise. Such conflicts, if they arose, could cause an adverse effect on our rights under the production sharing contracts.

To confirm the validity of the Ninotsminda production sharing contract and the mineral usage license prior to the introduction in 1999 of the petroleum law, in connection with its preparation of the Convertible Loan Agreement with CanArgo, IFC received in November 1998 confirmation from the State of Georgia, that among other things:

-- The State of Georgia recognizes and confirms the validity and enforceability of the production sharing contract and the license and all undertakings the State has covenanted with Ninotsminda Oil Company thereunder;
-- the license was duly authorized and executed by the State at the time of its issuance and remained in full force and effect throughout its term; and
-- the license constitutes a valid and duly authorized grant by the State, being and remaining in full force and effect as of the signing of this confirmation and the benefits of the license fully extend to Ninotsminda Oil Company by virtue of its interest in the license holder and the contractual rights under the production sharing contract.

Despite this confirmation and the grandfathering of the terms of our production sharing contract in the Petroleum Law, subsequent legislative or other governmental changes could conflict with, challenge our rights or otherwise change current operations under the production sharing contract.

Write Off of Unsuccessful Properties and Projects

In order to realize the carrying value of its oil and gas properties and ventures, CanArgo must produce oil and gas in sufficient quantities and then sell such oil and gas at sufficient prices to produce a profit. CanArgo has a number of unevaluated oil and gas properties. The risks associated with successfully developing unevaluated oil and gas properties are even greater than those associated with successfully continuing development of producing oil and gas properties, since the existence and extent of commercial quantities of oil and gas in unevaluated properties have not been established. During 1997, CanArgo recorded impairment charges totalling $19.4 million relating to three unsuccessful ventures and in 1999, recorded impairment charges totalling $5.5 million relating to a fourth venture. CanArgo could be required in the future to write off its investments in additional projects, including the Ninotsminda field project, if such projects prove to be unsuccessful.

Additional Funds Needed For Long-Term Oil And Gas Development Plans

It will take many years and substantial cash expenditures to develop fully CanArgo's oil and gas properties. CanArgo generally has the principal responsibility to provide financing for its oil and gas properties and ventures. Accordingly, CanArgo may need to raise additional funds from outside sources in order to pay for project development costs beyond those currently budgeted through 2001. CanArgo may not be able to obtain that additional financing. If adequate funds are not available, CanArgo will be required to scale back or even suspend its operations or such funds may only be available on commercially unattractive terms. The carrying value of the Ninotsminda field may not be realized unless additional capital expenditures are incurred to develop the field. Furthermore, additional funds will be required to pursue exploration activities on its existing undeveloped properties.

Oil and Gas Activities Involve Risks, Many of Which Are Beyond CanArgo's Control

CanArgo's exploration, development and production activities are subject to a number of factors and risks, many of which may be beyond its control. First, CanArgo must successfully identify commercial quantities of oil and gas. The development of an oil and gas deposit can be affected by a number of factors which are beyond the operator's control, such as:

-- Unexpected or unusual geological conditions.
-- The recoverability of the oil and gas on an economic basis.
-- The availability of infrastructure and personnel to support operations.
-- Local and global oil prices.
-- Government regulation and legal uncertainties.

CanArgo's activities can also be affected by a number of hazards, such as:

-- Labor disputes.
-- Natural phenomena, such as bad weather and earthquakes.
-- Operating hazards, such as fires, explosions, blow-outs, pipe failures and casing collapses.
-- Environmental hazards, such as oil spills, gas leaks, ruptures and discharges of toxic gases.

Any of these hazards could result in damage, losses or liability for CanArgo. There is also an increased risk of some of these hazards in connection with operations that involve the rehabilitation of fields where less than optimal practices and technology were employed in the past, as was often the case in Eastern Europe. CanArgo does not purchase insurance covering all of the risks and hazards that are involved in oil and gas exploration, development and production.

Development Affected by Conditions in Eastern Europe

CanArgo's principal oil and gas properties, including the Ninotsminda field, are located in Eastern Europe. Development of these fields is subject to a number of conditions endemic to Eastern European countries, including:

-- Political Instability - The present governmental arrangements in Eastern Europe and countries of the former Soviet Union in which CanArgo operates were established relatively recently, when they replaced Communist regimes. If they fail to maintain the support of their citizens, these governments could themselves be replaced by other institutions, including a possible reversion to totalitarian forms of government. CanArgo's operations typically involve joint ventures or other participatory arrangements with the national government or state-owned companies. The production sharing contract covering the Ninotsminda oil field is such an arrangement. As a result of such dependency on government participants, CanArgo's operations could be adversely affected by political instability, changes in government institutions, personnel, policies or legislation, or shifts in political power. There is also the risk that governments could seek to nationalize, expropriate or otherwise take over its oil and gas properties.

-- Social, Economic and Legal Instability - The political institutions in Eastern Europe and countries of the former Soviet Union have recently become more fragmented, and the economic institutions of Eastern European countries have recently converted to a market economy from a planned economy. New laws have recently been introduced, and the legal and regulatory regimes in such regions are often vague, containing gaps and inconsistencies, and are constantly subject to amendment. Social, economic and legal instability have accompanied these changes due to many factors which include:

  - Low standards of living.
  - High unemployment.
  - Undeveloped and constantly changing legal and social institutions.
  - Conflicts with neighboring countries.

  This instability can make continued operations difficult or impossible.

-- Inadequate Or Deteriorating Infrastructure - Countries in Eastern Europe often either have underdeveloped infrastructures or, as a result of shortages of resources, have permitted infrastructure improvements to deteriorate. The lack of necessary infrastructure improvements can adversely affect operations. For example, the lack of a reliable power supply caused Ninotsminda Oil Company to suspend drilling of one well and the testing of a second well during the 1998-1999 winter season.

Currency Risks -- Payment for oil and gas products sold in Eastern European countries may be in local currencies. Although CanArgo currently sells its oil principally for U.S. dollars, it may not be able to continue to demand payment in hard currencies. Although most Eastern European currencies are presently convertible into U.S. dollars, there is no assurance that convertibility will continue. Even if currencies are convertible, the rate at which they convert into U.S. dollars is subject to fluctuation. In addition, the ability to transfer currencies into or out of Eastern European countries may be restricted or limited in the future. CanArgo may also enter into contracts with suppliers in these countries to purchase goods and services in U.S. dollars. If CanArgo cannot receive payment for oil in U.S. dollars and the value of the local currency relative to the U.S. dollar deteriorates, CanArgo could face significant negative changes in working capital.

Tax Risks -- Countries in Eastern Europe frequently add to or amend existing taxation policies in reaction to economic conditions including state budgetary and revenue shortfalls. Since CanArgo is dependent on international operations, specifically those in Georgia, CanArgo is subject to changing taxation policies including the possible imposition of confiscatory excess profits, production, remittance, export and other taxes.

Changes in the Market Price of Oil and Gas

Prices for oil and natural gas are subject to wide fluctuations in response to a number of factors which are beyond CanArgo's control, including:

- Changes in the supply and demand for oil and natural gas.
- Actions of the Organization of Petroleum Exporting Countries.
- Weather conditions.
- Domestic and foreign governmental regulations.

-- The price and availability of alternative fuels.
-- Political conditions in the Middle East and elsewhere.
-- Overall economic conditions.

A reduction in oil prices can affect the economic viability of CanArgo's operations. For example, the significant decline in oil prices during 1998 adversely affected CanArgo's results of operations and increased its operating loss in 1998. There can be no assurance that oil prices will be at a level that will enable CanArgo to operate at a profit.

Oil and Gas Production could Vary Significantly From Reserve Estimates

Estimates of oil and natural gas reserves and their values by petroleum engineers are inherently uncertain. These estimates are based on professional judgements about a number of elements including:

-- The amount of recoverable crude oil and natural gas present in a reservoir.
-- The costs that will be incurred to produce the crude oil and natural gas.
-- The rate at which production will occur.

Reserve estimates are also based on evaluations of geological, engineering, production and economic data. The data can change over time due to, among other things:

-- Additional development activity.
-- Evolving production history.
-- Changes in production costs, market prices and economic conditions.

As a result, the actual amount, cost and rate of production of oil and gas reserves and the revenues derived from sale of the oil and gas produced in the future will vary from those anticipated in the most recent report on the oil and gas reserves prepared by Ashton Jenkins Mann as of January 1, 2001. The magnitude of those variations may be material.

The rate of production from crude oil and natural gas properties declines as reserves are depleted. Except to the extent we acquire additional properties containing proved reserves, conduct successful exploration and development activities or, through engineering studies, identify additional productive zones in existing wells or secondary recovery reserves, our proved reserves will decline as reserves are produced. Future crude oil and natural gas production is therefore highly dependent upon our level of success in replacing depleted reserves.

Oil and Gas Operations are Subject to Extensive Governmental Regulation

Governments at all levels, national, regional and local, regulate oil and gas activities extensively. CanArgo must comply with laws and regulations which govern many aspects of its oil and gas business, including:

-- Exploration.
-- Development.
-- Production.
-- Occupational health and safety.
-- Labor standards.
-- Environmental matters.

CanArgo expects the trend towards more burdensome regulation of its business to result in increased costs and operational delays. This trend is particularly applicable in developing economies, such as those in Eastern Europe where CanArgo has its principal operations. In these countries, the evolution towards a more developed economy is often accompanied by a move towards the more burdensome regulations that typically exist in the more developed economies.

Competition

The oil and gas industry can be highly competitive. CanArgo's competitors include integrated oil and gas companies, independent oil and gas companies, drilling and income programs, and individuals. Many of CanArgo's competitors are large, well-established, well-financed companies. Because of CanArgo's small size and lack of financial resources, CanArgo may not be able to compete effectively with these companies.

Operations are Dependent on Chief Executive

David Robson, the Chief Executive Officer of CanArgo, is CanArgo's executive who has the most experience in the oil and gas industry and who has the most extensive business relationships in Eastern Europe. The business and operations of CanArgo could be significantly harmed if Dr. Robson were to leave CanArgo or become unavailable because of illness or death. Dr. Robson has signed an agreement with a three years non competing clause effective from June 29, 2000, the date of the signing. CanArgo does not carry key employee insurance on any of its employees.

EMPLOYEES

As of December 31, 2000, CanArgo had 16 full time employees. The entity acting as operator of the Ninotsminda oil field for Ninotsminda Oil Company has 104 full time employees, and substantially all of that company's activities relate to the production and development of the Ninotsminda field.

ITEM 2. PROPERTIES

CanArgo does not have through its production sharing contracts outright ownership of any real property. Its real property interests are limited to contractual leasehold and mineral interests.

The refinery owned by CanArgo's subsidiary Georgian American Oil Refinery, is located next to Georgian Oil's central processing facility at Sartichala, Georgia. All of the petrol stations owned by CanArgo's subsidiary CanArgo Standard Oil Products are located in and around Tbilisi, Georgia.

PRODUCTIVE WELLS AND ACREAGE

Productive Wells and Acreage

The following table summarizes as of December 31, 2000 Ninotsminda Oil Company's number of productive oil and gas wells and Ninotsminda Oil Company's total developed acreage for the Ninotsminda field. Such information has been presented on a gross basis, representing the interest of Ninotsminda Oil Company, and on a net basis, representing the interest of CanArgo based on its 100% interest in Ninotsminda Oil Company. Prior to completion of the acquisition of the remaining 21.2% held by JKX Oil & Gas plc, CanArgo's interest was 78.8% of the gross amount.

	GROSS			NET		
	NUMBER OF WELLS	ACREAGE	SQUARE KILOMETRES	NUMBER OF WELLS	ACREAGE	SQUARE KILOMETRES
Ninotsminda field	13	2,500	10	13	2,500	10

On December 31, 2000, there were no productive wells or developed acreage on any of CanArgo's other Georgian properties, except for one well on the West Rustavi field which was shut-in at that date.

Undeveloped Acreage

The following table summarizes the gross and net undeveloped acreage held under the Ninotsminda, Nazvrevi/Block XIII and Norio/North Kumisi production sharing contracts as of December 31, 2000. The information regarding net acreage represents the interest of CanArgo based on its 100% interest in Ninotsminda Oil Company and the subsidiary holding the Nazvrevi/Block XIII contract and its 50% interest in the subsidiary holding the Norio/North Kumisi contract.

	GROSS		NET	
	ACREAGE	SQUARE KILOMETRES	ACREAGE	SQUARE KILOMETRES
Ninotsminda Field	24,000	97	24,000	97
Nazvrevi/Block XIII	518,500	2,098	518,500	2,098
Norio/North Kumisi	380,727	1,540	190,364	770
Total	923,227	3,735	732,864	2,965

CanArgo leases office space in London, England; Calgary, Alberta; Tbilisi, Republic of Georgia; and Maidenhead, England. The leases have remaining terms varying from three months to ten years. CanArgo's sublease of its Maidenhead offices expires March 2001.

ITEM 3. LEGAL PROCEEDINGS

At December 31, 2000 there were no legal proceedings pending involving CanArgo which, if adversely decided, would have a material adverse effect on CanArgo's financial position or business.

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 December 31, 2000, 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.

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

No matters were submitted to a vote of CanArgo's security holders during the fourth quarter of the year ended December 31, 2000.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

On March 30, 1999, CanArgo's common stock commenced trading on the OTC Bulletin Board after trading from April 6, 1995 through March 29, 1999 on the Nasdaq National Market System under the symbol "GUSH". CanArgo's common stock is also listed on the Oslo Stock Exchange and has traded there under the symbol "CNR" since May 1995. As a result of the shift in the principal domestic market for CanArgo common stock from the Nasdaq National Market System to the OTC Bulletin Board, stockholders may:

-- find it more difficult to obtain accurate and timely quotations regarding the bid and asked prices for common stock;
-- experience greater spreads between bid and asked prices;
-- be charged relatively higher transactional costs when buying or selling common stock; and
-- encounter more difficulty in effecting sales or purchases of common stock.

In addition, while securities listed on The Nasdaq National Market System are exempt from the registration requirements of state securities laws, securities traded on the OTC Bulletin Board must comply with the registration requirements of state securities laws, which increases the time and costs associated with complying with state securities laws when raising capital. The listing of CanArgo common stock on the Oslo Stock Exchange had until October, 2000 been a secondary listing, with the primary listing being on The Nasdaq Stock Market. In October, 2000, CanArgo obtained a primary listing on the Oslo Stock Exchange where it is now included on the main list.

The following table sets forth the high and low sales prices of the common stock on The Nasdaq National Market System and the Oslo Stock Exchange for the periods indicated, and the high and low bid prices on the OTC Bulletin Board for the period after March 29, 1999. Average daily trading volume on these markets during these periods is also provided. Nasdaq National Market data is provided by The Nasdaq Stock Market; OTC Bulletin Board data is provided by Nasdaq

Trading and Market Services and or published financial sources and Oslo Stock Exchange data is derived from published financial sources. The over-the-counter quotations reflect inter-dealer prices, without retail markup, mark-down or commissions, and may not represent actual transactions. Sales prices on the Oslo Stock Exchange were converted from Norwegian kroner into United States dollars on the basis of the daily 10:00 am exchange rate for buying United States dollars with the Norwegian kroner announced by the central bank of Norway. Prices in Norwegian kroner are denominated in "NOK". During July 1998, CanArgo effected a 1-for-2 reverse stock split of CanArgo's common stock. Figures for the periods prior to the effective date of the reverse stock split have been restated to give effect to the reverse stock split.

	NASDAQ/OTC			OSE		
	HIGH	LOW	AVERAGE DAILY VOLUME	HIGH	LOW	AVERAGE DAILY VOLUME
FISCAL QUARTER ENDED						
March 31, 1998	2.63	1.44	27,015	2.38	1.60	153,177
June 30, 1998	2.25	1.00	15,220	2.13	1.20	65,617
September 30, 1998	1.81	0.47	10,266	1.60	0.53	24,924
December 31, 1998	0.81	0.22	34,570	0.67	0.20	27,493
March 31, 1999	0.47	0.19	25,642	0.57	0.23	16,412
June 30, 1999	0.50	0.19	23,872	0.41	0.23	18,137
September 30, 1999	1.02	0.25	83,591	0.71	0.27	143,689
December 31, 1999	0.91	0.38	117,872	0.96	0.39	174,042
March 31, 2000	1.00	0.63	95,167	0.97	0.73	144,854
June 30, 2000	1.45	0.69	103,033	1.57	0.79	469,500
September 30, 2000	1.66	1.03	69,800	1.78	1.04	1,097,007
December 31, 2000	1.38	0.75	24,500	1.45	0.75	881,592

At February 28, 2001, the closing price of CanArgo common stock on the OTC Bulletin Board and Oslo Stock Exchange was $1.08 and $1.07 respectively.

On December 31, 2000 the number of holders of record of the common stock of CanArgo was approximately 7,315. CanArgo has not paid any cash dividends on its common stock. CanArgo currently intends to retain future earnings, if any, for use in its business and, therefore, does not anticipate paying any cash dividends in the foreseeable future. The payment of future dividends, if any, will depend, among other things, on CanArgo's results of operations and financial condition and on such other factors as CanArgo's Board of Directors may, in its discretion, consider relevant. In addition, CanArgo may not pay dividends on its common stock unless its subsidiary, CanArgo Oil & Gas Inc., is able to pay and simultaneously pays an equivalent dividend on the exchangeable shares issued by that subsidiary.

ITEM 6. SELECTED FINANCIAL DATA

The following data reflect the historical results of operations and selected balance sheet items of CanArgo and should be read in conjunction with Item 7.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements included in Item 8. "Financial Statements and Supplementary Data" herein.

Reported in $1,000 except for per common share amounts

	YEAR ENDED DECEMBER 31, 2000	YEAR ENDED DECEMBER 31, 1999	YEAR ENDED DECEMBER 31, 1998
FINANCIAL PERFORMANCE			
Total revenue	$ 7,136	$ 2,783	$ 821
Operating loss	(2,297)	(8,078)	(6,327)
Other income (expense)	145	(395)	217
Net loss	(2,152)	(8,473)	(6,110)
Net loss per common share -- basic and diluted	(0.04)	(0.32)	(0.39)
Cash generated by (used in) operations	919	(1,116)	(14,718)
Working capital	22,687	2,729	1,366
Total assets	82,764	43,799	46,568
Notes payable & long-term debt	--	--	--
Stockholders' equity	72,426	37,863	40,031
Cash dividends per common share	--	--	--

ITEM 7. 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 INFORMATION. SEE "FORWARD LOOKING STATEMENTS" BELOW.

LIQUIDITY, CAPITAL RESOURCES AND CHANGES IN FINANCIAL CONDITION

In August 2000, CanArgo closed a private placement of 12,000,000 new shares at Norwegian Kroner (NOK) 11.20 per share. Gross proceeds from the placement were approximately US$14.2 million. In June 2000, CanArgo Energy Corporation completed a private placement of 15,660,916 shares of common stock at NOK 9.00 per share. Gross proceeds from the placement were approximately US$15.4 million. In April 2000, CanArgo closed a private placement resulting in the issuance of 3,695,000 shares of common stock at NOK 7.50 per share for gross proceeds of $3.2 million.

CanArgo's management believes that cash and cash equivalents at December 31, 2000 should be sufficient to cover operating needs for existing projects during the next twelve month period. Also, CanArgo's cash balance at December 31, 2000 satisfies CanArgo's near term funding requirements with respect to its activities in the Republic of Georgia envisaged in August 2000. Current development plans for the Ninotsminda field includes the drilling of exploration well N100, several rehabilitations of existing wells and quantification of the reserve and production potential of the recently announced discovery in the Saramatian sequence. This discovery may also open up new potential in the upper sequences of other areas currently under license in Georgia. These plans are scheduled to be implemented in 2001 and the first half of 2002, but that timing is dependent upon key supplies and other equipment for the development being available promptly as well as adequate financing.

In December 1998, Ninotsminda Oil Company entered into a convertible loan agreement with International Finance Corporation ("IFC"), an affiliate of the World Bank, under which IFC agreed under specified conditions, to lend $6 million to Ninotsminda Oil Company primarily to fund a defined Ninotsminda field development program. Under terms of the loan agreement, if funds were disbursed, IFC would have the right to convert all or part of the loan into common shares of Ninotsminda Oil Company. IFC would also have the ability to accept or reject joint venture or third party investment in the project. As a result of these and other conditions, no funds were disbursed under the loan agreement and in November 2000, Ninotsminda Oil Company formally advised IFC of its withdrawal from the loan agreement.

While a considerable amount of infrastructure for the Ninotsminda field has been put in place, CanArgo cannot provide assurance that:

- funding of the Ninotsminda field development plan will be timely,
- that the development plan will be successfully completed or will increase production, or
- that the Ninotsminda field operating revenues after completion of the development plan will exceed operating costs.

To pursue additional projects and opportunities, CanArgo would require additional capital. 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 companies, 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 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:

- mobilization of equipment and personnel to implement effectively drilling, completion and production activities;
- achieving significant production at costs that provide acceptable margins;
- reasonable levels of taxation, or economic arrangements in lieu of taxation in host countries; and
- 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.

On March 29, 1999, CanArgo was advised that its common stock had been delisted from The Nasdaq Market System effective at the close of business on March 29, 1999. On March 30, 1999, CanArgo's common stock commenced trading on the OTC Bulletin Board. This shift in the principal domestic market for CanArgo common stock may adversely affect the market for CanArgo's common stock. See "Item 5. "Market For Common Equity and Related Stockholder Matters".

CHANGES IN FINANCIAL POSITION

As of December 31, 2000, CanArgo had working capital of $22,687,000, compared to working capital of $2,729,000 as of December 31, 1999. The $19,958,000 increase in working capital from December 31, 1999 to December 31, 2000 is principally due to several private placements and positive contribution to working capital from operations in the year, less capital expenditures.

Cash and cash equivalents increased $25,092,000 during 2000 from $3,535,000 at December 31, 1999 to $28,627,000 at December 31, 2000. The increase was primarily due to several private placements in 2000 for aggregate net proceeds of $29,853,000 and advances from a joint venture partner of $6,000,000 related to funding a portion of the cost of a three-well exploration program less capital expenditures. The utilization of cash during 2000 involved principally capital expenditures of $12,486,000 including oil and gas properties and equipment, principally related to the Ninotsminda field.

Cash and cash equivalents at December 31, 2000 included $5,889,000 held by Ninotsminda Oil Company with respect to initial advances, less capital expenditures, from AES Gardabani related to AES Gardabani's participation in a three well exploration program in the Republic of Georgia.

Accounts receivable increased from $464,000 at December 31, 1999 to $787,000 at December 31, 2000. The increase is primarily as a result of accounts receivable generated from natural gas sales in 2000.

Advances to operator increased from $nil at December 31, 1999 to $1,147,000 at December 31, 2000 as a result of advances to the operator of the Ninotsminda field for future expenditures on behalf and at the direction of CanArgo.

Inventory increased from $189,000 at December 31, 1999 to $696,000 at December 31, 2000 primarily as result of the acquisition in November 2000 of a controlling interest in Georgian American Oil Refinery. In addition to the crude oil and refined product in inventory at Georgian American Oil Refinery, at December 31, 2000, approximately 38,600 barrels of oil were held in storage by Ninotsminda Oil Company for sale in the Georgian domestic and regional market or in the international market. Depending on the demand and price for oil in the Georgian domestic and regional market CanArgo may decide to place, as a strategic initiative, additional production in storage.

Other current assets increased from $94,000 at December 31, 1999 to $334,000 at December 31, 2000, primarily as a result of prepaid insurance, rent and deposits related to the London, England office.

Capital assets, net increased from $37,808,000 at December 31, 1999 to $50,477,000 at December 31, 2000, primarily as a result of investment of $12,486,000 in capital assets including oil and gas properties and equipment, principally related to the Ninotsminda field.

Investments in and advances to oil and gas and other ventures, net decreased from $1,709,000 at December 31, 1999 to $696,000 at December 31, 2000. The decrease reflects principally CanArgo's acquisition of a controlling interest in Georgian American Oil Refinery in November 2000 and subsequent consolidation of the results of Georgian American Oil Refinery and CanArgo's equity share of loss of Uentech International Corporation and East Georgian Pipeline Company. At December 2000, CanArgo held 45% of the voting common shares of Uentech International Corporation and 78% of the total common shares outstanding. Uentech International Corporation specializes in the exploitation of patented downhole-heating technology. East Georgian Pipeline Company leases from Georgian Oil the pipeline used to transport natural gas from Sartichala to the Gardabani power plant.

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. CanArgo believes that it has no further obligation to fund any operations relating to the Lelyaki and Maykop field projects. At December 31, 2000, 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.

Accounts payable increased from $1,160,000 at December 31, 1999 to $2,691,000 at December 31, 2000 primarily related to accounts payable of Georgian American Oil Refinery and amounts due at December 31, 2000 related to the 2000 seismic program.

Advances from joint venture partner increased to $5,889,000 at December 31, 2000 compared to $nil at December 31, 1999 as advances, less capital expenditures, were received from AES Gardabani related to it's participation in a three well exploration program in the Republic of Georgia.

Minority interest in subsidiaries decreased to $1,394,000 at December 31, 2000 compared to $4,371,000 at December 31, 1999 following the acquisition by CanArgo in June 2000 of the minority shareholders 21.2% interest in Ninotsminda Oil Company. Total consideration paid was 4,054,054 new common shares of CanArgo at a price of $1.11 per share for total consideration of $4,500,000. In July, 2000, CanArgo established CanArgo Norio Limited, a new subsidiary in which the subsidiary's minority interest shareholders have contributed $400,000 for use towards the current seismic program. CanArgo holds 50% of the outstanding common shares of CanArgo Norio Limited but has the unilateral ability through CanArgo Norio Limited's governing body to control the strategic, financial and operating decisions of the company. In April 2000, CanArgo took a 50% interest in CanArgo Standard Oil Products and in December 2000 reached agreement with CanArgo Standard Oil Products

other shareholders for CanArgo to have the unilateral ability to control the strategic, financial and operational decisions of the company. Following acquisition of a controlling interest in Georgian American Oil Refinery in November 2000, minority interest at December 31, 2000 also includes a 49% minority interest in Georgian American Oil Refinery.

RESULTS OF OPERATIONS

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

In November 2000, CanArgo acquired a 51% interest in Georgian American Oil Refinery and Georgian American Oil Refinery became a subsidiary of CanArgo. Under purchase accounting, Georgian American Oil Refinery's results have been included in CanArgo's consolidated financial statements since the date of acquisition.

CanArgo recorded operating revenue of $7,136,000 during the year ended December 31, 2000 compared with $2,783,000 for the year ended December 31, 1999. The increase is primarily due to increases in crude oil and natural gas production from the Ninotsminda field, higher crude oil prices, refining and marketing revenue from Georgian American Oil Refinery and CanArgo Standard Oil Products and service revenue from CanArgo's rig equipment.

Ninotsminda Oil Company generated $4,778,000 of oil revenue and $1,331,000 of gas revenue in the year ended December 31, 2000 compared to $2,365,000 of oil revenue and $129,000 gas revenue for the year ended December 31, 1999. Its net share of the 479,000 barrels (1,312 barrels per day) of gross oil production from the Ninotsminda field in the period amounted to 245,947 barrels. From production, 8,735 barrels of oil were placed into storage in the year. For the year ended December 31, 1999, Ninotsminda Oil Company's net share of the 415,400 barrels (1,138 barrels per day) of gross production was 142,900 barrels. During the year ended December 31, 1999, 50,000 barrels of oil were removed from storage and sold. Ninotsminda Oil Company's net share of the 1,764,000 thousand cubic feet (mcf) of gas delivered in the year ended December 31, 2000 was 1,146,000 mcf.

All of Ninotsminda Oil Company's 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. The net oil sales price for Ninotsminda oil sold during the year ended December 31, 2000 averaged $20.14 per barrel as compared with an average of $13.17 per barrel in the year ended December 31, 1999. The net gas sales price during the year ended December 31, 2000 averaged $1.16 per mcf ($41.19 per thousand cubic meter).

Refining and marketing revenue for the year ended December 31, 2000 relate to operating activities of Georgian American Oil Refinery and CanArgo Standard Oil Products for November and December 2000. In December 2000, sales from the refinery were nominal following the imposition of restrictions and subsequent excise tax on feedstock. These issues are being addressed with authorities in Georgia and it is expected that new legislation addressing indigenous refining activities will be put forward in March 2001. No assurance can be given, however, that new legislation will be put forward, that such legislation will be passed or that if passed, it will sufficiently remove existing restrictions and excise taxes on feedstock and refined product. See Risks Associated with CanArgo's Oil and Gas Activities -- Oil and Gas Operations are Subject to Extensive Governmental Regulation. In December 2000, the first of several petrol stations planned to be opened by CanArgo Standard Oil Products over the next 12 months opened in Tbilisi, Georgia

CanArgo recorded in the year ended December 31, 2000 other revenue of $365,000 compared to $289,000 for the year ended December 31, 1999 attributable to rental of CanArgo equipment in Georgia.

The operating loss for the year ended December 31, 2000 amounted to $2,297,000 compared with an operating loss of $8,078,000 for the year ended December 31, 1999. The decrease in the operating loss is attributable primarily to the impairment in 1999 of CanArgo's interest in the Stynawske project, increased oil production and sales, higher oil prices and the addition of gas sales in the year.

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Field operating expenses increased to $1,287,000 for the year ended December 31, 2000 as compared to $1,063,000 for the year ended December 31, 2000. The increase is primarily a result of increased oil and gas production in the year.

Purchases of crude oil and products and refinery operating expenses of $138,000 and $439,000 respectively for the year ended December 31, 2000 relate to operating activities of Georgian American Oil Refinery and CanArgo Standard Oil Products for November and December 2000.

Direct project costs decreased to $738,000 for the year ended December 31, 2000, from $766,000 for the year ended December 31, 1999, reflecting efforts initiated in early 1999 to reduce Ninotsminda project expenses. Direct project costs are expected to increase in 2001 as a result of a significant increase in exploration and development activity in Georgia in the latter part of 2000 and early part of 2001.

General and administrative costs increased to $2,955,000 for the year ended December 31, 2000, from $2,193,000 for the year ended December 31, 1999. The increase is primarily attributable to increased operating and corporate activity in the latter part of 2000, costs related to the transition of administrative and finance functions from Calgary to London in the third and fourth quarters of 2000 and general and administrative costs of $188,000 related to refining and marketing activities.

The increase in depreciation, depletion and amortization expense from $1,145,000 for the year ended December 31, 1999 to $3,876,000 for the year ended December 31, 2000 is attributable principally to higher oil and gas production from the Ninotsminda field and depreciation of drilling equipment. In addition, CanArgo recorded depreciation expenses of $190,000 with respect to refining and marketing assets in 2000.

CanArgo recorded net other income of $110,000 for the year ended December 31, 2000, as compared to net other expenses of $577,000 during the year ended December 31, 1999. The principal reason for the increase is interest income during the year ended December 31, 2000 on cash balances and the payment of facility fees in the year ended December 31, 1999 related to Ninotsminda Oil Company's Loan Agreement with the International Finance Corporation.

The net loss of $2,152,000 or $0.04 per share for the year ended December 31, 2000 compares to a net loss of $8,473,000, or $0.32 per share for the year ended December 31, 1999. The weighted average number of common shares outstanding was substantially higher during the year ended December 31, 2000 than during the year ended December 31, 1999, due in large part to private placements in April, June and August 2000.

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

In 1999, CanArgo completed its restructuring of the combined assets and administration of Fountain Oil Incorporated and CanArgo Oil & Gas Inc. following the business combination of the two companies in July 1998. Since the business combination, CanArgo has focused primarily on the development of the Ninotsminda field and the reduction of corporate overheads. These initiatives, together with increased oil prices, led to a significant increase in revenue over the prior year. Field operating and general and administrative costs were also closely monitored, resulting in further significant improvements to cash flow. CanArgo anticipates, based on current world oil prices and the commencement of commercial gas deliveries, further improvement in cash flow in 2000.

CanArgo recorded operating revenue of $2,783,000 during the year ended December 31, 1999, compared with $821,000 for the year ended December 31, 1998. Ninotsminda Oil Company generated $2,291,000 of revenue in the year ended December 31, 1999 compared to $603,000 of revenue for the year ended December 31, 1998 following the acquisition on July 15, 1998 of CanArgo Oil & Gas Inc. and its subsidiary Ninotsminda Oil Company. Its net share of the 415,400 barrels of gross production from the Ninotsminda field in the year ended December 31, 1999 amounted to 142,900 barrels. During the year ended December 31, 1999, 50,000 barrels of oil in storage at December 31, 1998 were sold. In November and December 1999, 30,000 barrels of oil were placed back into storage. Net sale prices for Ninotsminda oil sold during the year ended December 31, 1999 averaged $13.17 per barrel compared to $10.63 per barrel in 1998. Oil production from the Sylvan Lake property in Alberta, Canada

accounted for $219,000 of revenue in the year ended December 31, 1999 and $202,000 of revenue for the year ended December 31, 1998.

CanArgo recorded in the year ended December 31, 1999, other revenue of $289,000 including revenue of $230,000 with respect to equipment rentals compared to $16,400 in the year ended December 31, 1998 with respect to the sale of electrically enhanced oil recovery equipment.

The operating loss for 1999 amounted to $8,078,000, compared with $6,327,000 for 1998. The increase in the operating loss is attributable primarily to the impairment in 1999 of CanArgo's investment in and advances to Boryslaw Oil Company of $5,460,000. The increase caused by the impairment is partially offset by 1998 costs associated with CanArgo's involvement in some Eastern European oil and gas ventures which involvement CanArgo has effectively terminated, 1998 costs associated with CanArgo's business combination with CanArgo Oil & Gas Inc., and the impairment of oil and gas properties which amounted to $900,000 in 1998.

Field operating expenses increased to $1,063,000 during 1999, as compared to $851,000 for 1998, as a result of the inclusion of an additional six months of Ninotsminda field operating expenses in the 1999 period partially offset by the sale effective September 1, 1999 of the Sylvan Lake property. Operating expenses did not increase significantly despite three additional months of costs as a result of a field operating cost reduction program undertaken by Ninotsminda Oil Company in late 1998 and early 1999.

Direct project costs decreased to $766,000 in 1999 from $1,157,000 for 1998, reflecting 1998 costs associated with CanArgo's involvement in some Eastern European oil and gas ventures which involvement CanArgo has effectively terminated, partially offset by activity related to the Ninotsminda field.

General and administrative expenses decreased to $2,193,000 in 1999 from $3,887,000 for 1998, reflecting the restructuring of CanArgo since the combination with Fountain Oil Incorporated and CanArgo Oil & Gas Inc. and focus on reducing overhead costs.

The increase in depreciation, depletion and amortization expense from $239,000 for 1998 to $1,145,000 during 1999 is 1999 is attributable principally to depletion related to Ninotsminda field oil production and depreciation of drilling equipment in use in the 1999 period. Partially offsetting this increase is the sale of the Sylvan Lake property in 1999.

The equity loss from investments in unconsolidated subsidiaries increased to $261,000 for the year ended December 31, 1999 from $161,000 for the year ended December 31, 1998 as a result of increased activity by Uentech International Corporation developing the EEOR technology and a write-down of property and equipment in the year by CanArgo developing the gas powered turbine. These increases were partially offset by the substantially lower level of activity conducted through unconsolidated subsidiaries in 1999, reflecting the termination of CanArgo's involvement in the development activities of some Eastern European oil and gas ventures conducted through unconsolidated subsidiaries.

Impairment of oil and gas properties decreased to $234,000 in 1999 from $900,000 for 1998 following the write-down in 1999 by CanArgo of its interest in the Caspian project. During the year ended December 31, 1998, CanArgo wrote down its oil and gas properties in the Sylvan Lake project by an aggregate $900,000 as a result of a substantial decline of heavy oil prices and the quarterly application of the full cost ceiling limitation.

CanArgo recorded net other expense of $577,000 for 1999, as compared to net other income of $35,000 during 1998. The principal reason for the decrease is lower interest income as a result of lower cash balances during the year ended December 31, 1999, the payment of facility and commitment fees pursuant to Ninotsminda Oil Company's $6,000,000 Loan Agreement with the International Finance Corporation and the loss in 1999 from the sale of property and equipment not considered essential to ongoing operations.

The net loss of $8,473,000, or $0.32 per share for 1999, compares to a net loss of $6,110,000, or $0.39 per share for 1998. As a result of the issuance of shares in connection with the business combination, the weighted average number of common shares outstanding was substantially higher during 1999 than during 1998.

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NEW ACCOUNTING STANDARDS

In 1998, FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and in June 2000 issued SFAS No. 138,which amended certain provisions of SFAS 133. SFAS 133, as amended, will be adopted in the 2001 annual financial statements and based on present circumstances would not have any material effect on CanArgo's financial statements.

FORWARD LOOKING STATEMENTS

The forward looking statements contained in this Item 7 and elsewhere in this Form 10-K 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.

Few of such forward looking statements deal with matters that are within the unilateral control of CanArgo. Joint venture, acquisition, financing and other agreements and arrangements must be negotiated with independent third parties and, in some cases, must be approved by governmental agencies. Such third parties generally have interests that do not coincide with those of CanArgo and may conflict with CanArgo's interests. Unless CanArgo and such third parties are able to compromise their respective objectives in a mutually acceptable manner, agreements and arrangements will not be consummated.

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 that CanArgo may pursue in Eastern Europe such as the Stynawske field project, even though CanArgo may be the designated operator of the oil or gas field. In such 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 those of CanArgo, even if they generally share CanArgo's objectives. As a result of all of the foregoing, among other matters, the forward looking statements regarding the occurrence and timing of future events may well anticipate results that will not be realized.

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:

- world economic conditions;
- international relations;
- the stability and policies of various governments;
- fluctuations in the price of oil and gas and the outlook for the oil and gas industry;
- competition for funds; and

- 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 CanArgo and its projects and comparisons with alternative investment opportunities. 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 its project development, capital expenditure, production and other plans.

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:

- enforceability of contracts;
- currency convertibility and transferability;
- unexpected changes in tax rates;
- availability of trained personnel; and
- 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Financial Statements required to be filed in this Report begin at Page F-1 of this Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There were no changes in or disagreements between CanArgo and its principal accountants during the two most recent fiscal years.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item is incorporated by reference from the information under the captions "Information Concerning Solicitation and Voting," "Election of Directors" and "Section 16(A) Beneficial Ownership Reporting Compliance" contained in our definitive proxy statement to be filed no later than April 30, 2001 in connection with solicitation of proxies for our annual meeting of stockholders (the "Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference from the information under the captions "Executive Compensation," and "Compensation of Directors" contained in the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is incorporated by reference from the information under the caption "Security Ownership of Certain Beneficial Owners and Management" contained in the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated by reference from the information under the caption "Certain Relationships and Related Transactions" contained in the Proxy Statement.

PART IV

ITEM 14. EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS

Management Contracts, Compensation Plans and Arrangements are identified by an asterisk (*)

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 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).

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).

*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) Workorder between CanArgo Energy Inc. and Nils N. Trulsvik as Consultant (Incorporated herein by reference from September 30, 1998 Form 10-Q).

*10(5) Employment Contract between CanArgo Energy Inc. and Anthony J. Potter (Incorporated herein by reference from September 30, 1998 Form 10-Q).

10(6) Convertible Loan Agreement between Ninotsminda Oil Company (NOC) and International Finance Corporation (IFC) dated December 17, 1998 (Incorporated herein by reference

from Form S-1 Registration Statement, File No. 333-72295 filed on February 12, 1999).

10(7) Put Option Agreement between CanArgo Energy Corporation, JKX Oil & Gas PLC. and IFC dated December 17, 1998 (Incorporated herein by reference from Form S-1 Registration Statement, File No. 333-72295 filed on February 12, 1999).

10(8) Guarantee Agreement between CanArgo Energy Corporation and IFC dated December 17, 1998 (Incorporated herein by reference from Form S-1 Registration Statement, File No. 333-72295 filed on February 12, 1999).

10(9) 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(10) 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(11) Production Sharing Contract between (1) Georgia and (2) Georgian Oil and JKX 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(12) Agreement and Promissory Note dated July 19, 1999, with Terrenex Acquisition 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).

10(13) Agreement between CanArgo Energy Corporation, Ninotsminda Oil Company and IFC dated October 19, 1999 (Incorporated herein by reference from September 30, 1999 Form 10-Q).

10(14) 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(15) Form of Subscription Agreement (Incorporated herein by reference from December 28, 1999 Form 8-K).

10(16) Agreement between CanArgo Energy Corporation and JKX Nederland BV dated January 19, 2000 (Incorporated herein by reference from December 31, 1999 Form 10-K).

*10(17) Employment Agreement between CanArgo Energy Corporation and Paddy Chesterman dated February 24, 2000 (Incorporated herein by reference from December 31, 1999 Form 10-K).

10(18) Agreement between Ninotsminda Oil Company and AES Gardabani dated March 10, 2000 (Incorporated herein by reference from December 31, 1999 Form 10-K).

10(19) 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(20) 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(21) 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(22) 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(23) 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(24) Agreement between CanArgo Energy Corporation and Roger Brittain dated August 18, 2000.

*10(25) Employment Agreements between CanArgo Energy Corporation and Murray Chancellor dated September 22, 2000

*10(26) Employment Agreements between CanArgo Energy Corporation and Anthony Potter dated October 1, 2000

10(27) Production Sharing Contract between (1) Georgia and (2) Georgian Oil and CanArgo Norio Limited dated December 12, 2000

10(28) 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

10(29) 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

21 List of Subsidiaries (Incorporated herein by reference from Form S-1 Registration Statement, File No. 333-72295 filed on February 12, 1999).

23 Consent of PricewaterhouseCoopers LLP.

27 Financial Data Schedule.

(B) REPORTS ON FORM 8-K:

During the year ended December 31, 2000, CanArgo filed the following current reports on Form 8-K:

1. On June 16, 2000, CanArgo filed a Form 8-K dated June 14, 2000 reporting Item 5. Other Events regarding a press announcing its initiatives for the Caspian region.

2. On July 20, 2000, CanArgo filed a Form 8-K dated June 28, 2000 reporting Item 5. Other Events regarding a press release as to the sale of 15,660,916 shares of CanArgo's Common Stock at Norwegian Kroner (NOK) 9.00 per share.

3. On July 28, 2000, CanArgo filed a Form 8-K dated July 20, 2000 reporting Item 5. Other Events regarding a press release as to the agreement with JSC National Oil Company ("Georgian Oil") and the State Agency for the Regulation of Oil and Gas Resources of Georgia on CanArgo's participation in the Norio Block XIC located in eastern Georgia.

4. On August 24, 2000, CanArgo filed a Form 8-K dated August 16, 2000 reporting Item 5. Other Events regarding a press release as to the declaration by the U.S. Securities and

Exchange Commission on August 15, 2000 that CanArgo's Registration Statement on Form S-3 relating to the offer and sale of 25,048,766 shares of its common stock by certain stockholders was declared effective. CanArgo also announced on August 18, 2000 that it had closed a private placement of 12,000,000 shares at NOK 11.20 per share.

5. On September 7, 2000, CanArgo filed a Form 8-K dated August 31, 2000 reporting Item 5. Other Events regarding a press release as to the appointment on August 31, 2000 of Mr. Roger Brittain as non-executive Chairman of the Board of Directors, effective September 1, 2000. On August 31, 2000, CanArgo also announced the initial results of its horizontal well, N98H on the Ninotsminda field in the Republic of Georgia.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CANARGO ENERGY CORPORATION
(Registrant)

By: /s/Anthony J. Potter Date: March 27, 2001

Chief Financial Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/Roger Brittain Date: March 27, 2001

Roger Brittain, Director and
Chairman of the Board

By: /s/David Robson Date: March 27, 2001

David Robson, Managing Director and
Chief Executive Officer

By: /s/Russell Hammond Date: March 27, 2001

Russell Hammond, Director

By: /s/Peder Paus Date: March 27, 2001

Peder Paus, Director

By: /s/Nils N. Trulsvik Date: March 27, 2001

Nils N. Trulsvik, Director

By: /s/Anthony J. Potter Date: March 27, 2001

Anthony J. Potter, Chief Financial Officer

REPORT ON MANAGEMENT'S RESPONSIBILITIES

To the Stockholders of CanArgo Energy Corporation:

CanArgo's management is responsible for the integrity and objectivity of the financial information contained in this Annual Report. The financial statements included in this report have been prepared in accordance with generally accepted accounting principles in the United States and, where necessary, reflect the informed judgements and estimates of management.

Management maintains and is responsible for systems of internal accounting control designed to provide reasonable assurance that all transactions are properly recorded in the Company's books and records, that procedures and policies are adhered to, and that assets are safeguarded from unauthorized use.

The financial statements have been audited by the independent accounting firm of PricewaterhouseCoopers LLP as indicated in their report. Management has made available to PricewaterhouseCoopers LLP all the Company's financial records and related data and minutes of directors' and audit committee meetings.

CanArgo's audit committee, consisting solely of directors who are not employees of CanArgo, is responsible for: reviewing the Company's financial reporting; reviewing accounting and internal control practices; recommending to the Board of Directors and shareholders the selection of independent accountants; and monitoring compliance with applicable laws and company policies. The independent accountants have full and free access to the audit committee and meet with it, with and without the presence of management, to discuss all appropriate matters. On the recommendation of the audit committee, the consolidated financial statements have been approved by the Board of Directors.

/s/Dr. David Robson
Chief Executive Officer

/s/Anthony J. Potter
Chief Financial Officer

March 27, 2001

REPORT OF INDEPENDENT ACCOUNTANTS

To the Directors and Shareholders of CanArgo Energy Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of CanArgo Energy Corporation and its subsidiaries as of December 31, 2000 and 1999, and the results of their operations and cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/PricewaterhouseCoopers LLP

Calgary, Alberta
March 27, 2001

PRICEWATERHOUSECOOPERS LLP
Chartered Accountants