CANARGO ENERGY CORP
Form 10-Q
November 14, 2001

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ____________ TO ________________

COMMISSION FILE NUMBER 0-9147

CANARGO ENERGY CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware	91-0881481
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)
CanArgo Services (UK) Limited 150 Buckingham Palace Road, London, England	SW1W 9TR
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

(44) 207 808 4700

(REGISTRANT'S TELEPHONE NUMBER)

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

Indicate by check whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X]   No [   ]

The number of shares of registrant's common stock outstanding on November 1, 2001 was 91,659,940. An additional 348,506 shares of common stock are issuable at any time without additional consideration upon exercise of CanArgo Oil & Gas Inc. Exchangeable Shares.

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FORWARD-LOOKING STATEMENTS

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

PART I - FINANCIAL INFORMATION
CANARGO ENERGY CORPORATION AND SUBSIDIARIES

ITEM 1. FINANCIAL STATEMENTS
CONSOLIDATED CONDENSED BALANCE SHEETS

	Unaudited SEPTEMBER 30, 2001	December 31, 2000
ASSETS		
Cash and cash equivalents	$ 10,579,754	$ 28,627,013
Accounts receivable	2,862,129	786,570
Advances to operator	1,432,282	1,146,584
Inventory	1,386,545	695,909
Other current assets	571,713	334,402
Total current assets	$ 16,832,423	$ 31,590,478
Capital assets	66,626,167	50,477,344
Investments in and advances to oil and gas and other ventures - net	801,793	696,374
TOTAL ASSETS	$ 84,260,383	$ 82,764,196
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 2,593,366	$ 2,691,118
Advances from joint venture partner	--	5,888,573
China projects payables	700,940	--
Bank loan	$ 460,220	--
Accrued liabilities	172,393	323,936
Total current liabilities	$ 3,926,919	$ 8,903,627
Provision for future site restoration	61,290	40,990
Minority interest in subsidiaries	3,271,133	1,393,915
Stockholders' equity:		
Preferred stock, par value $0.10 per share	--	--
Common stock, par value $0.10 per share	9,200,845	7,595,069
Capital in excess of par value	144,057,517	139,071,031
Accumulated deficit	(76,257,321)	(74,240,436)
Total stockholders' equity	$ 77,001,041	$ 72,425,664
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 84,260,383	$ 82,764,196

See accompanying notes to unaudited consolidated condensed financial statements.

PART I - FINANCIAL INFORMATION
CANARGO ENERGY CORPORATION AND SUBSIDIARIES

ITEM 1. FINANCIAL STATEMENTS
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

	Unaudited Three Months Ended		Unaudite
	SEPTEMBER 30, 2001	SEPTEMBER 30, 2000	SEPTEMBER 3 2001
Operating Revenues:			
Oil and gas sales	$ 1,201,779	$ 1,163,277	$ 3,819,6
Refining and marketing	2,880,643	--	6,824,1
Other	--	--	
	4,082,422	1,163,277	10,643,8
Operating Expenses:			
Field operating expenses	452,560	231,558	1,566,0
Purchases of crude oil and products	1,621,447	--	4,250,9
Refinery operating expenses	649,908	--	846,9
Direct project costs	365,625	178,200	936,8
General and administrative	1,035,037	780,718	3,082,6
Depreciation, depletion and amortization	656,520	761,000	2,758,8
	4,781,097	1,951,476	13,442,1
OPERATING LOSS	(698,675)	(788,199)	(2,798,3
Other Income (Expense):			
Interest, net	143,617	268,450	646,8
Other	(11,008)	(37,980)	5,6
Equity income (loss) from investments	45,431	(155,000)	74,2
TOTAL OTHER INCOME (EXPENSE)	178,040	75,470	726,7
NET LOSS BEFORE MINORITY INTEREST	(520,635)	(712,729)	(2,071,5
Minority interest in income of consolidated	33,271	--	54,6
NET LOSS AND COMPREHENSIVE LOSS	$ (487,364)	$ (712,729)	$ (2,016,8
Weighted average number of common shares outstanding	91,484,823	66,574,449	81,185,6
NET LOSS PER COMMON SHARE - BASIC	$ (0.01)	$ (0.01)	$ (0.

NET LOSS PER COMMON SHARE - DILUTED	$ (0.01)	$ (0.01)	$ (0.

See accompanying notes to unaudited consolidated condensed financial statements.

PART I - FINANCIAL INFORMATION
CANARGO ENERGY CORPORATION AND SUBSIDIARIES

ITEM 1. FINANCIAL STATEMENTS
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Unaudited	
	SEPTEMBER 30, 2001	SEPTEMBER 30, 2000
Operating activities:		
Net loss	$ (2,016,885)	$ (892,019)
Depreciation, depletion and amortization	2,758,832	2,640,080
Issuance of common stock for services	--	112,700
Equity loss (income) from investments	(74,292)	237,154
Allowance for doubtful accounts	100,000	--
Minority interest in income of consolidated subsidiaries	(54,656)	134,188
Changes in assets and liabilities:		
Accounts receivable	(1,909,043)	(186,090)
Advances to operator	(285,698)	(1,063,972)
Inventory	(690,636)	(33,181)
Other current assets	(225,456)	69,238
Accounts payable	(1,527,021)	(259,426)
China projects payables	700,940	--
Accrued liabilities	(423,938)	(71,141)
Receipt (use of) advances from joint venture partner	(5,888,573)	5,200,334
NET CASH GENERATED BY (USED IN) OPERATING ACTIVITIES	(9,536,426)	5,887,865
Investing activities:		
Capital expenditures	(12,860,984)	(6,266,871)
Acquisitions, net of cash acquired	(4,044,973)	--
Proceeds from disposition of investment	125,000	13,408
Investments in and advances to oil and gas and other ventures	(589,232)	(580,467)
NET CASH USED IN INVESTING ACTIVITIES	(17,370,189)	(6,833,930)
Financing Activities:		
Proceeds from sales of common stock	7,235,337	32,928,728
Share issue costs	(643,075)	(2,560,512)
Advances from minority interest	1,806,874	400,000
Increase in bank loan	460,220	--

NET CASH PROVIDED BY FINANCING ACTIVITIES	8,859,356	30,768,216
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(18,047,259)	29,822,151
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	28,627,013	3,534,983
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 10,579,754	$ 33,357,134

See accompanying notes to unaudited consolidated condensed financial statements.

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PART I - FINANCIAL INFORMATION
CANARGO ENERGY CORPORATION AND SUBSIDIARIES

ITEM 1. FINANCIAL STATEMENTS

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2001 AND SEPTEMBER 30, 2000 (UNAUDITED)

(1) Basis of Presentation

The interim consolidated condensed financial statements and notes thereto of CanArgo Energy Corporation and its subsidiaries (collectively, CanArgo) have been prepared by management without audit. In the opinion of management, the consolidated condensed financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results for the interim period. The accompanying consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in CanArgo's Annual Report on Form 10-K for the year ended December 31, 2000 filed with the Securities and Exchange Commission. All amounts are in U.S. dollars.

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

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

Development of the oil and gas properties and ventures in which CanArgo has interests involves multi-year efforts and substantial cash expenditures. Full development of these properties will require the availability of substantial funds from external sources. CanArgo believes that it will be able to generate funds from external sources including quasi-governmental financing agencies, conventional lenders, equity investors and other oil and gas companies that may desire to participate in CanArgo's oil and gas projects.

Ultimate realization of the carrying value of CanArgo's oil and gas properties will require production of oil and gas in sufficient quantities and marketing such oil and gas at sufficient prices to provide positive cash flow to CanArgo. This is dependent upon, among other factors, achieving significant production at costs that provide acceptable margins, reasonable levels of taxation from local authorities and the ability to market the oil and gas produced at or near world prices. In addition, CanArgo must mobilize drilling equipment and personnel to initiate drilling, completion and production activities. If one or more of the above factors, or other factors, are different than anticipated, CanArgo may not recover the carrying value of its oil and gas properties.

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

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

(3) Foreign Operations

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

(4) Acquisitions

In April 2001, CanArgo acquired approximately 82% (77% on a fully diluted basis) of the outstanding common shares of Lateral Vector Resources Inc. ("LVR") pursuant to an unsolicited offer to purchase all of its outstanding common shares. According to publicly available information at the time CanArgo made its offer in March 2001, LVR negotiated and concluded with Ukrnafta, the Ukrainian State Oil Company, a Joint Investment Production Activity agreement in 1998 to develop the Bugruvativske Field in Eastern Ukraine. In July 2001, CanArgo completed the acquisition of the remaining outstanding common shares and LVR became a wholly owned subsidiary of CanArgo.

Under purchase accounting, LVR's results have been included in CanArgo's consolidated financial statements since April 30, 2001 the date of the initial acquisition of the LVR shares. Including acquisition costs, total cash consideration paid was allocated to the net assets of LVR as follows:

Cash	$ 52,618
Other current assets	273,251
Accounts payable and accrued liabilities	(1,662,880)
Capital assets (a)	4,956,984
Minority interest	--
Total cash consideration paid	$ 3,619,973

(a) Includes $4,256,044 of unevaluated properties.

In April 2001, CanArgo acquired the remaining 50% interest it did not own in CanArgo Power Corporation ("CanArgo Power") for cash consideration of $425,000. On completion of the acquisition, CanArgo Power became a wholly owned subsidiary of CanArgo. Under purchase accounting, CanArgo Power's results have been included in CanArgo's consolidated financial statements since the date of acquisition. Total cash consideration paid was allocated to the net assets of CanArgo Power as follows:

Cash	$ 223
Other current assets	69
Accounts payable and accrued liabilities	(33,733)
Capital assets	458,441
Minority interest	--
Total cash consideration paid	$ 425,000

(5) Capital Assets, Net

Capital assets, net of accumulated depreciation and impairment, at September 30, 2001 and December 31, 2000 include the following:

	SEPTEMBER 30, 2001 COST	SEPTEMBER 30, 2001 ACCUMULATED DEPRECIATION AND IMPAIRMENT	SEPTEMBER 30, 2001 NET CAPITAL ASSETS	DECEMBER 31, 2000 NET CAPITAL ASSETS
OIL AND GAS PROPERTIES				
Proved properties	$ 38,633,110	$ (7,739,509)	$ 30,893,601	$ 22,702,703
Unproved properties	17,328,613	--	17,328,613	13,897,096
	55,961,723	(7,739,509)	48,222,214	36,599,799
PROPERTY AND EQUIPMENT				
Oil and gas related equipment	12,963,761	(3,395,576)	9,568,185	8,895,300
Office furniture, fixtures and equipment and other	1,235,872	(693,378)	542,494	462,502
	14,199,633	(4,088,954)	10,110,679	9,357,802
REFINING AND MARKETING	8,797,081	(503,807)	8,293,274	4,519,743
	$ 78,958,437	$(12,332,270)	$ 66,626,167	$ 50,477,344

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

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

CanArgo has acquired interests in oil and gas and other ventures through less than majority interests in corporate and corporate-like entities. A summary of CanArgo's net investment in and advances to oil and gas and other ventures at September 30, 2001 and December 31, 2000 is set out below:

INVESTMENTS IN AND ADVANCES TO OIL AND GAS AND OTHER VENTURES	SEPTEMBER 30, 2001
Ukraine - Stynawske Field, Boryslaw	
Through 45% ownership of Boryslaw Oil Company	$ 6,636,254
Republic of Georgia	

Through 50.0% effective ownership CanArgo Power Corporation	--
Republic of Georgia - Ninotsminda	
Through an effective 50% ownership of East Georgian Pipeline Co.	152,500
Uentech International Corporation	
Through an effective 45% voting interest	--
Other Investments	75,001
TOTAL INVESTMENTS IN AND ADVANCES TO OIL AND GAS AND OTHER VENTURES	$ 6,863,755
EQUITY IN PROFIT (LOSS) OF OIL AND GAS AND OTHER VENTURES	
Ukraine - Stynawske Field, Boryslaw	(490,169)
Republic of Georgia - CanArgo Power Corporation	--
Republic of Georgia - East Georgian Pipeline Co.	(112,000)
Uentech International Corporation	--
CUMULATIVE EQUITY IN PROFIT (LOSS) OF OIL AND GAS AND OTHER VENTURES	$ (602,169)
IMPAIRMENT - STYNAWSKE FIELD	(5,459,793)
TOTAL INVESTMENTS IN AND ADVANCES TO OIL AND GAS AND OTHER VENTURES, NET OF EQUITY LOSS AND IMPAIRMENT	$ 801,793

In April 2001, CanArgo acquired from a wholly owned subsidiary of Terrenex Acquisition Corporation the remaining 50% interest it did not own in CanArgo Power for cash consideration of $425,000. In a related but separate transaction, CanArgo sold in April 2001 all of its voting and non-voting shares of Uentech International Corporation to a wholly owned subsidiary of Terrenex Acquisition Corporation. Proceeds from the sale of Uentech International Corporation were $125,000. On completion of the acquisition, CanArgo Power became a wholly owned subsidiary of CanArgo. The transactions were approved by an independent committee of the Board of Directors.

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

(7) Accrued Liabilities

Accrued liabilities at September 30, 2001 and December 31, 2000 include the following:

	SEPTEMBER 30, 2001	DECEMBER 31, 2000

Professional fees	$100,000	$175,000
Office relocation	--	126,666
Other	72,393	22,270
	$172,393	$323,936

(8) Stockholders' Equity

	COMMON STOCK			
	SHARES ISSUED AND ISSUABLE	PAR VALUE	ADDITIONAL PAID-IN CAPITAL	A
TOTAL, DECEMBER 31, 2000	75,950,681	$ 7,595,069	$139,071,031	$
Less shares issuable at beginning of period	(423,791)	(42,379)	(795,712)	
Issuance of common stock upon exchange of CanArgo Oil & Gas Inc. Exchangeable Shares	75,285	7,528	141,355	
Issuance of common stock pursuant to July Private Placement	16,057,765	1,605,776	4,986,486	
Net income (loss)	--	--	--	
BALANCE, SEPTEMBER 30, 2001	91,659,940	$ 9,165,994	$143,403,160	$
Shares issuable upon exchange of CanArgo Oil & Gas Inc. Exchangeable Shares without receipt of further consideration	348,506	34,851	654,357	
TOTAL, SEPTEMBER 30, 2001	92,008,446	$ 9,200,845	$144,057,517	$

(9) Net Income (Loss) Per Common Share

Basic and diluted net income (loss) per common share for the nine month periods ended September 30, 2001 and 2000 are based on the weighted average number of common shares outstanding during those periods. The weighted average numbers of shares issued and issuable without receipt of additional consideration for the nine month periods ended September 30, 2001 and 2000 are 81,185,630 and 48,221,542 respectively. Options to purchase CanArgo's common stock were outstanding at September 30, 2001 but were not included in the computation of diluted net income (loss) per common share because the effect of such inclusion would have been anti-dilutive.

(10) Commitments and Contingencies

OIL AND GAS PROPERTIES AND INVESTMENTS IN OIL AND GAS VENTURES

CanArgo has contingent obligations and may incur additional obligations, absolute and contingent, with respect to acquiring and developing oil and gas properties and ventures. At September 30, 2001, 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. In December 2000, CanArgo announced that a preliminary development plan had been reached with the joint venture partner.

(11) Segment Information

For the nine month period ended September 30, 2000, CanArgo operated through one business segment, oil and gas exploration and production. In the fourth quarter of 2000, CanArgo expanded its oil and gas exploration and production activities to include the refining and marketing of crude oil and crude oil products.

Operating revenues for the nine month periods ended September 30, 2001 and 2000 by geographical area were as follows:

	SEPTEMBER 30, 2001	September 30, 2000
OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION		
Eastern Europe	$ 4,726,230	$ 4,759,348
REFINING AND MARKETING		
Eastern Europe	6,824,176	--
INTERSEGMENT ELIMINATIONS	(906,545)	--
TOTAL	$10,643,861	$ 4,759,348

Operating income (loss) for the nine month periods ended September 30, 2001 and 2000 by geographical area was as follows:

	SEPTEMBER 30, 2001	September 30, 2000
OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION		
Eastern Europe	$ 645,542	$ 975,227
REFINING AND MARKETING		
Eastern Europe	(64,283)	--
CORPORATE AND OTHER EXPENSES	(3,313,356)	(1,828,111)
INTERSEGMENT ELIMINATIONS	(66,228)	--
TOTAL OPERATING INCOME (LOSS)	$(2,798,325)	$ (852,884)

Net income (loss) before minority interest for the nine month periods ended September 30, 2001 and 2000 by geographic area was as follows:

	SEPTEMBER 30, 2001	September 30, 2000
OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION		
Eastern Europe	$ 754,470	$ 738,073
REFINING AND MARKETING		
Eastern Europe	(116,809)	--
CORPORATE AND OTHER EXPENSES	(2,642,974)	(1,495,904)
INTERSEGMENT ELIMINATIONS	(66,228)	--
NET INCOME (LOSS) BEFORE MINORITY INTEREST	$(2,071,541)	$ (757,831)

Identifiable assets as of September 30, 2001 and December 31, 2000 by business segment and geographical area were as follows:

	SEPTEMBER 30, 2001	December 31, 2000
CORPORATE		

Eastern Europe	$ 1,452,778	$ 695,909
Western Europe	15,379,645	30,894,569
TOTAL	16,832,423	31,590,478
OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION		
Eastern Europe	57,949,764	45,957,601
China	700,490	--
TOTAL	58,250,254	45,957,601
REFINING AND MARKETING		
Eastern Europe	8,375,913	4,519,743
OTHER ENERGY PROJECTS		
Eastern Europe	801,793	696,374
IDENTIFIABLE ASSETS - TOTAL	$84,260,383	$82,764,196

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

QUALIFYING STATEMENT WITH RESPECT TO FORWARD-LOOKING INFORMATION

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

LIQUIDITY, CAPITAL RESOURCES AND CHANGES IN FINANCIAL CONDITION

In July 2001, CanArgo closed a private placement of 16,057,765 new shares at NOK 4.25 per share (approximately US$0.45 per share) to certain institutions and qualified purchasers. Gross proceeds from the placement were some NOK 68 million (approximately US$7.2 million). After completion of the private placement, CanArgo had 92,008,446 common and Exchangeable shares issued and issuable. From the net proceeds, CanArgo was required to pay subscribers to the private placement a cash fee of 3.33% of the purchase price of their shares for each full 30 day period after closing until a registration statement registering such shares was declared effective by the Securities and Exchange Commission. The cash fee paid was 3.33% of the purchase price.

CanArgo's management believes that cash and cash equivalents at September 30, 2001 should be sufficient to cover CanArgo's near term funding requirements with respect to its activities in the Republic of Georgia. Existing cash and cash equivalents at September 30, 2001, however, are not sufficient to adequately finance the acquisition and subsequent development of the Bugruvativske field in Eastern Ukraine. The July 2001 private placement of 16,057,765 new shares to certain institutions and qualified purchasers provided CanArgo with funds necessary to begin development of the Bugruvativske field, but both the Bugruvativske field and the Stynwaske field in Western Ukraine are in the early stage of evaluation and development and are themselves relatively new to CanArgo and additional financing will be required to fully develop and exploit these fields. In addition, CanArgo is in the process of establishing its own administrative and finance infrastructure in the Ukraine. Establishment of this infrastructure may result in a diversion, temporary or otherwise, of time and other resources from other operating activities.

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

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

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

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

To pursue all of its existing projects and new opportunities, CanArgo will require additional capital. Potential sources of funds include additional equity, project financing, debt financing and the participation of other oil and gas entities in CanArgo's projects. Based on CanArgo's past history of raising capital and continuing discussions including those with major stockholders, investment bankers and other institutions, CanArgo believes that such required funds may be available. However, there is no assurance that such funds will be available, and if available, will be offered on attractive or acceptable terms.

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.

CHANGES IN FINANCIAL POSITION

As of September 30, 2001, CanArgo had working capital of $12,906,000, compared to working capital of $22,687,000 as of December 31, 2000. The $9,781,000 decrease in working capital from December 31, 2000 to September 30, 2001 is principally due to a reduction in cash as a result of the acquisition of LVR, capital and operating expenditures.

Cash and cash equivalents decreased from $28,627,000 at December 31, 2000 to $10,580,000 at September 30, 2001. The decrease was primarily due to the cost of a three-well exploration program currently underway at the Ninotsminda field, workovers, investment in refining and marketing activities and the acquisition of LVR.

Accounts receivable increased from $787,000 at December 31, 2000 to $2,862,000 at September 30, 2001. The increase is primarily a result of accounts receivable generated from oil, natural gas and refined product sales in 2001, remaining proceeds from the July private placement received subsequent to September 30, 2001 and $980,000 due from AES Gardabani relating to their contractual participation in a three well exploration in the Republic of Georgia.

Advances to operator increased from $1,147,000 at December 31, 2000 to $1,432,000 at September 30, 2001 as a result of advances to the operator of the Ninotsminda and Norio fields for future expenditures on behalf and at the direction of CanArgo.

Inventory increased from $696,000 at December 31, 2000 to $1,387,000 at September 30, 2001 primarily as result of the sale of oil by Ninotsminda Oil Company to Georgian American Oil Refinery. Crude oil and refined product inventory increased to provide the refinery feedstock to commence operations and re-establish its position in the domestic and regional market. In addition to crude oil and refined product inventory at Georgian American Oil Refinery, approximately 24,000 barrels of oil were held in storage by Ninotsminda Oil Company at September 30, 2001 for sale either to Georgian American Oil Refinery or the Georgian domestic, region or international market.

Capital assets, net increased from $50,477,000 at December 31, 2000 to $66,626,000 at September 30, 2001, primarily as a result of investment of $12,861,000 in capital assets including oil and gas properties and equipment, principally related to the Ninotsminda field. Capital assets also increased as a result of construction of new petrol stations and the acquisition of LVR and CanArgo Power in April 2001. Included in oil and gas related equipment acquired as part of the acquisition of LVR is $701,000 with respect to oil and gas equipment located in China which CanArgo intends to either sell or apply against outstanding liabilities of LVR.

Investments in and advances to oil and gas and other ventures, net increased from $696,000 at December 31, 2000 to $802,000 at September 30, 2001. The increase is primarily due to advances to Boryslaw Oil Company of $550,000 relating to a three well workover program currently underway on the Stynawske field, partially offset by the sale in April 2001 of CanArgo's investment in Uentech and the purchase of a 50% interest in CanArgo Power resulting in CanArgo Power becoming a wholly owned subsidiary of CanArgo.

CanArgo has contingent obligations and may incur additional obligations, absolute or contingent, with respect to the acquisition and development of oil and gas properties and ventures in which it has interests that require or may require CanArgo to expend funds and to issue shares of its Common Stock. At September 30, 2001, 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 decreased to $2,593,000 at September 30, 2001 from $2,691,000 at December 31, 2000. China projects payables increased to $701,000 at September 30, 2001 from nil at December 31, 2000 due to liabilities related to a previous LVR project in China. To fund construction of new petrol stations in Georgia, a short term bank loan by CanArgo Standard Oil Products in Tbilisi, Georgia was drawn at an effective rate of 18% per annum. Accrued liabilities decreased to $172,000 at September 30, 2001 from $324,000 at December 31, 2000 as identified in note 7 to the unaudited consolidated financial statements.

Advances from joint venture partner decreased to nil at September 30, 2001 compared to $5,889,000 at December 31, 2000 as capital expenditures were incurred as part of a three well exploration program in the Republic of Georgia. Amounts due from the joint venture partner, AES, of $980,000 are included in accounts receivable.

Minority interest in subsidiaries increased to $3,271,000 at September 30, 2001 compared to $1,394,000 at December 31, 2000 following the expansion of CanArgo Standard Oil Products in Tbilisi, Georgia and related investment by CanArgo's partners in the venture. CanArgo consolidates its 50% interest in CanArgo Standard Oil Products as it has the ability to control the strategic operating and financial activities of the joint venture.

RESULTS OF OPERATIONS

Nine Month Period Ended September 30, 2001 Compared to Nine Month Period Ended September 30, 2000

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. In December 2000, the first of several petrol stations planned by CanArgo Standard Oil Products also opened in Tbilisi, Georgia.

CanArgo recorded operating revenue of $10,644,000 during the nine month period ended September 30, 2001 compared with $4,759,000 for the nine month period ended September 30, 2000. The increase is primarily due to refining and marketing revenue from Georgian American Oil Refinery and CanArgo Standard Oil Products.

Ninotsminda Oil Company generated $3,820,000 of oil and gas revenue in the nine month period ended September 30, 2001. Its net share of the 323,000 barrels (1,183 barrels per day) of gross oil production for sale from the Ninotsminda field in the period amounted to 193,689 barrels. An additional 14,800 barrels of oil were removed from storage and sold in the period. For the nine month period ended September 30, 2000, Ninotsminda Oil Company's net share of the 382,500 barrels (1,400 barrels per day) of gross production was 191,600 barrels.

Ninotsminda Oil Company's entire share of production was sold into the Georgian local and regional market. Because lower transportation costs are involved, CanArgo believes that sales of Ninotsminda oil to customers in the Georgian local and regional market generally yield relatively higher net sales prices to Ninotsminda Oil Company than sales to other customers. Net sale prices for Ninotsminda oil sold during the first nine months of 2001 averaged $19.79 per barrel as compared with an average of $18.46 per barrel in the first nine months of 2000. Its net share of the 951,688 mcf of gas delivered was 618,600 mcf at an average net sale price of $1.14 per mcf of gas. For the nine month period ended September 30, 2000, Ninotsminda Oil Company's net share of the 1,379,000 mcf of gas delivered was 896,000 mcf at an average net sales price of $1.16 per mcf of gas.

Refining and marketing revenue for the nine month period ended September 30, 2001 relates to operating activities of Georgian American Oil Refinery and CanArgo Standard Oil Products. In the first nine months of 2001, sales from the refinery continued to be nominal following the imposition of restrictions and subsequent excise tax on feedstock and refined product. Although in April 2001 new legislation addressing indigenous refining activities was passed by the Republic of Georgia that removed or reduced excise taxes on feedstock and refined product, the refinery has since experienced unexpected technical difficulties which has effectively curtailed the production of gasoline. As a result, only nafta, diesel and mazut can currently be produced by the refinery and of these products, an excise tax on naptha sales remains in place. Due to these taxes, production of naptha is currently commercially uneconomic and hence refining activity has been suspended. CanArgo has initiated discussions with authorities in the Republic of Georgia to remove or reduce the excise tax to a level, which would support the recommencement of refining operations. While CanArgo believes from discussions to date that such changes are possible, no assurance can be given that any such changes will be made.

CanArgo had no revenue from equipment rentals in the first nine months of 2001 compared to other revenue from equipment rentals of $365,000 for the nine month period ended, September 30, 2000. In September 2001, CanArgo entered into an agreement to provide drilling services to a third party using one of CanArgo's rigs. Commercial drilling operations commenced in October 2001 and are expected to continue through January 2002.

The operating loss for the nine month period ended September 30, 2001 amounted to $2,798,000 compared with an operating loss of $853,000 for the corresponding period in 2000. The increase in operating loss is attributable primarily to lower oil and gas revenue as a result of lower production and significant increases in operating and corporate activity.

Lease operating expenses increased to $1,566,000 for the nine month period ended September 30, 2001 as compared to $864,000 for the nine month period ended September 30, 2000. The increase is primarily a result of increased activity at the Ninotsminda field.

Purchases of crude oil and products and refinery operating expenses of $4,251,000 and $847,000 respectively for the nine month period ended September 30, 2001 relate to operating activities of Georgian American Oil Refinery and CanArgo Standard Oil Products.

Direct project costs increased to $937,000 for the nine month period ended September 30, 2001, from $562,000 for the nine month period ended September 30, 2000, reflecting increased activity within Georgia and reestablishment of activity with respect to the license Boryslaw Oil Company holds in the Stynawske field, Ukraine. Direct project costs are expected to further increase following the acquisition of Lateral Vector Resources Inc. LVR negotiated and concluded a Joint Investment Production Activity (JIPA) agreement in 1998 to develop the Bugruvativske field

in eastern Ukraine together with Ukrnafta. CanArgo believes that under the terms of this JIPA, LVR has certain rights to incremental production from the field. Ukrnafta and LVR are required under the terms of the JIPA to make a total initial contribution of $2 million prior to December 31, 2000. LVR's portion of the initial contribution was $960,000, which it failed to make. Furthermore, until such time as an investment agreement and valuation of the assets to be contributed by Ukrnafta is completed and accepted by LVR, LVR is not entitled to any of this production and any sharing of future production is to be determined after consideration of base oil. CanArgo is presently evaluating LVR's interest and obligations under the JIPA and information regarding the field, and is in discussions with Ukrnafta to resolve these and other open issues under the JIPA. There is no assurance as to whether such discussions will be successfully completed or, if completed, on what terms.

General and administrative costs increased to $3,083,000 for the nine month period ended September 30, 2001, from $1,547,000 for the nine month period ended September 30, 2000. The increase is primarily attributable to significant increased operating and corporate activity, higher costs attributed to the London office following the move of administrative and finance functions from Calgary to London in 2000 and general and administrative costs of $637,000 related to refining and marketing activities.

The increase in depreciation, depletion and amortization expense to $2,759,000 from $2,640,000 for the nine month period ended September 30, 2000 is attributable principally to higher capital costs related to Ninotsminda field oil production and depreciation of drilling equipment.

CanArgo recorded net other income of $727,000 for the nine months ended September 30, 2001, as compared to net other income of $95,000 during the nine months ended September 30, 2000. The principal reason for the increase is interest income on cash balances and equity income from investments.

The equity income from investments increased to $74,000 for the nine month period ended September 30, 2001, from a loss of $237,000 for the nine month period ended September 30, 2000 as a result of equity income from production and sales of crude oil by Boryslaw Oil Company and the sale of Uentech International Corporation. Equity income from Boryslaw Oil Company was partially offset by expenses related to operation of the gas pipeline from Ninotsminda to the Gardabani power station and Rustavi industrial complex.

The net loss of $2,017,000 or $0.02 per share for the nine month period ended September 30, 2001 compares to a net loss of $892,000, or $0.02 per share for the nine month period ended September 30, 2000. The weighted average number of common shares outstanding was substantially higher during the nine month period ended September 30, 2001 than during the nine month period ended September 30, 2000, due in large part to private placements in April, June and August 2000 and July 2001.

Three Month Period Ended September 30, 2001 Compared to Three Month Period Ended September 30, 2000

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. In December 2000, the first of several petrol stations planned by CanArgo Standard Oil Products also opened in Tbilisi, Georgia.

CanArgo recorded operating revenue of $4,082,000 during the three month period ended September 30, 2001 compared with $1,163,000 for the three month period ended September 30, 2000. The increase is due to refining and marketing revenue from Georgian American Oil Refinery and CanArgo Standard Oil Products. In the three month period ended September 30, 2001 no oil was sold from Ninotsminda Oil Company to its affiliate, Georgian American Oil Refinery.

Ninotsminda Oil Company generated $1,202,000 of revenue in the three month period ended September 30, 2001. Its net share of the 90,800 barrels (987 barrels per day) of gross oil production for sale from the Ninotsminda field in the period amounted to 53,500 barrels. 2,200 barrels of oil were added to storage in the period. For the three month period ended September 30, 2000, Ninotsminda Oil Company's net share of the 126,053 barrels (1,370 barrels per day) of gross production was 65,000 barrels.

Ninotsminda Oil Company's entire share of production was sold into the Georgian local and regional market. Because lower transportation costs are involved, CanArgo believes that sales of Ninotsminda oil to customers in the Georgian local and regional market generally yield relatively higher net sales prices to Ninotsminda Oil Company than sales to other customers. Net sale prices for Ninotsminda oil sold during the third quarter of 2001 averaged $19.69 per barrel as compared with an average of $19.88 per barrel in the third quarter of 2000. Its net share of the 259,006 mcf of gas delivered was 168,354 mcf at an average net sale price of $1.13 per mcf of gas. For the three month period ended September 30, 2000, Ninotsminda Oil Company's net share of the 588,303 mcf of gas delivered was 382,397 mcf at an average net sales price of $1.18 per mcf of gas.

Refining and marketing revenues for the three month period ended September 30, 2001 relate to operating activities of Georgian American Oil Refinery and CanArgo Standard Oil Products. In the third quarter of 2001, sales from the refinery continued to be nominal following the imposition of restrictions and subsequent excise tax on feedstock and refined product. Although in April 2001 new legislation addressing indigenous refining activities was passed by the Republic of Georgia that removed or reduced excise taxes on feedstock and refined product the refinery has since experienced unexpected technical difficulties which has effectively curtailed the production of gasoline. As a result, only nafta, diesel and mazut can currently be produced by the refinery and of these products, an excise tax on naptha sales remains in place. As a result of these taxes and the local market for naptha in the Republic of Georgia, production of naptha is currently commercially uneconomic and hence refining activity has been suspended.

The operating loss for the three month period ended September 30, 2001 amounted to $699,000 compared with an operating loss of $788,000 for the corresponding period in 2000. The decrease in operating loss is attributable primarily to refining and marketing sales partially offset by increases in operating and corporate activity.

Lease operating expenses increased to $453,000 for the three month period ended September 30, 2001 as compared to $231,000 for the three month period ended September 30, 2000. The increase is primarily a result of increased activity at the Ninotsminda field.

Purchases of crude oil and products and refinery operating expenses of $1,621,000 and $650,000 respectively for the three month period ended September 30, 2001 relate to operating activities of Georgian American Oil Refinery and CanArgo Standard Oil Products.

Direct project costs increased to $366,000 for the three month period ended September 30, 2001, from $178,000 for the three month period ended September 30, 2000, reflecting increased activity within Georgia and reestablishment of activity with respect to the licence Boryslaw Oil Company holds in the Stynawske field, Ukraine. Direct project costs are expected to further increase following the acquisition of Lateral Vector Resources Inc. See the discussion regarding the acquisition of LVR and projected activities on the Bugruvativske field under the nine-month comparison of operating results set forth above.

General and administrative costs increased to $1,035,000 for the three month period ended September 30, 2001, from $781,000 for the three month period ended September 30, 2000. The increase is primarily attributable to significant increased operating and corporate activity, higher costs attributed to the London office following the move of administrative and finance functions from Calgary to London in 2000 and general and administrative costs of $262,000 related to refining and marketing activities.

The decrease in depreciation, depletion and amortization expense to $657,000 from $761,000 for the three month period ended September 30, 2000 is attributable principally to lower production from the Ninotsminda oil field.

CanArgo recorded net interest income of $144,000 for the three months ended September 30, 2001, as compared to other income of $268,000 during the three months ended September 30, 2000 as a result of lower cash balances in 2001.

Equity income from investments increased to $45,000 for the three month period ended September 30, 2001, from a loss of $155,000 for the three month period ended September 30, 2000 as a result of equity income from production and sales of crude oil by Boryslaw Oil Company and the sale of Uentech International Corporation. Equity income

from Boryslaw Oil Company was partially offset by expenses related to operation of the gas pipeline from Ninotsminda to the Gardabani power station.

The net loss of $487,000 or $0.01 per share for the three month period ended September 30, 2001 compares to a net loss of $713,000, or $0.01 per share for the three month period ended September 30, 2000. The weighted average number of common shares outstanding was substantially higher during the three month period ended September 30, 2001 than during the three month period ended September 30, 2000, due in large part to private placements in April, June and August 2000 and July 2001.

NEW ACCOUNTING STANDARDS

In July 2001, the FASB issued Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. Statement 141 also specifies criteria, which must be met, for intangible assets acquired in a purchase method business combination to be recognized and reported apart from goodwill. Statement 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.

CanArgo is required to adopt the provisions of Statement 141 immediately and Statement 142 effective January 1, 2002. Furthermore, any goodwill and any intangible asset determined to have an indefinite useful life that are acquired in a purchase business combination completed after June 30, 2001 will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre-Statement 142 accounting literature. Based on present circumstances SFAS No. 141 and No. 142 would not have any material effect on

CanArgo's financial statements.

FORWARD LOOKING STATEMENTS

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

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

CanArgo does not have a majority of the equity in the entity that is the licensed developer of some projects that CanArgo may pursue in Eastern Europe such as the Bugruvativske and Stynawske field projects, 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;
- sudden or unexpected changes in demand for crude oil and or natural gas;
- 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 including recent political events in the Republic of Georgia could affect CanArgo's ability to proceed with or to effectively operate projects in various foreign countries. In addition, we are unable to predict the effects, if any, of the September 11, 2001 terrorist attacks in the United States and their related aftermath on the markets in which we operate.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

CanArgo's principal exposure to market risk is due to changes in oil and gas prices and currency fluctuations. As indicated elsewhere in this Report, as a producer of oil and gas CanArgo is exposed to changes in oil and gas prices as well as changes in supply and demand which could affect its revenues. CanArgo does not engage in any commodity hedging activities. Due to the ready market for its production in the Republic of Georgia, CanArgo does not believe that any current exposures from this risk will materially affect CanArgo's financial position at this time, but there can be no assurance that changes in such market will not affect CanArgo adversely in the future. Also as indicated elsewhere in this Report, because all of CanArgo's operations are being conducted in Eastern Europe, CanArgo is potentially exposed to the market risk of fluctuations in the relative values of the currencies in areas in which it operates. At present CanArgo does not engage in any currency hedging operations since, to the extent it receives payments in local currencies, it is utilizing such currencies to pay for its local operations. In addition, it currently has contracts to sell its production from the Ninotsminda field in the Republic of Georgia which provide for payment in dollars. Accordingly, at present CanArgo does not believe that any exposure to the risk of fluctuations in currency values will materially affect CanArgo's financial position. There can be no assurance, however, that this continues into the future.

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

PART II - OTHER INFORMATION
CANARGO ENERGY CORPORATION AND SUBSIDIARIES

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS

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

1(1) Escrow Agreement with Signature Stock Transfer, Inc. (Incorporated herein by reference from Form S-1 Registration Statement, File No. 333-72295 filed on September 9, 1999).

1(2) Selling Agent Agreement with each of Credifinance Securities Limited, David Williamson Associates Limited, and Orkla Finans (Fondsmegling) ASA (Incorporated herein by reference from Form S-1 Registration Statement, File No. 333-72295 filed on September 9, 1999).

1(3) Escrow Agreement with Orkla Finans (Fondsmegling) ASA (Incorporated herein by reference from Form S-1 Registration Statement, File No. 333-72295 filed on September 9, 1999).

1(4) Selling Agent Agreement with National Securities Corporation (Incorporated herein by reference from Post-Effective Amendment No. 1 to Form S-1 Registration Statement, File No. 333-72295 filed on July 29, 1999).

1(5) Escrow Agreement with Continental Stock Transfer & Trust Company (Incorporated herein by reference from Post-Effective Amendment No. 1 to Form S-1 Registration Statement, File No. 333-72295 filed on July 29, 1999).

2(1) Agreement Relating to the Sale and Purchase of All the Issued Share Capital of Gastron International Limited dated August 10, 1995 by and among Ribalta Holdings, Inc. as Vendor and Fountain Oil Incorporated as Purchaser, and John Richard Tate as Warrantor (Incorporated herein by reference from October 19, 1995 Form 8-K).

2(2) Supplemental Agreement Relating to the Sale and Purchase of All the Issued Share Capital of Gastron International Limited dated November 3, 1995 by and among Ribalta Holdings, Inc. as Vendor and Fountain Oil Incorporated as 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,

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1998).

2(7) Offer Circular relating to a proposed purchase all of the outstanding common shares of Lateral Vector Resources, Inc. dated March 20, 2001 (Incorporated herein by reference from Form 14D-1F dated March 21, 2001).

2(8) Notice of Extension and Variation amending Registrant's offer to purchase all of the outstanding common shares of Lateral Vector Resources, Inc. dated April 9, 2001 (Incorporated herein by reference from Amendment No. 1 to Form 14D-1F dated April 11, 2001).

3(1) Registrant's Certificate of Incorporation and amendments thereto (Incorporated herein by reference from July 15, 1998 Form 8-K).

3(2) Registrant's Bylaws (Incorporated herein by reference from Post-Effective Amendment No. 1 to Form S-1 Registration

Statement, File No. 333-72295 filed on July 29, 1999).

4(1)	Registration Rights Agreement between Registrant and JKX Nederland B.V. dated September 28, 2000, relating to purchase of 21.2% interest in Ninotsminda Oil Company (Incorporated herein by reference from July 20, 2000 Form 8-K).
*10(1)	Form of Option Agreement for options granted to certain persons, including Directors (Incorporated herein by reference from August 31, 1994 Form 10-KSB, filed by Electromagnetic Oil Recovery, Inc., the Company's predecessor).
*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)	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(7)	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(8)	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(9)	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(10)	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(11) 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(12) 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(13) 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(14) Form of Subscription Agreement (Incorporated herein by reference from December 28, 1999 Form 8-K).

10(15) 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(16) 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(17) Agreement between Ninotsminda Oil Company and AES Gardabani dated March 10, 2000 (Incorporated herein by reference from December 31, 1999 Form 10-K).

10(18) 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(19) 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(20) 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(21) 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(22) 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(23) Agreement between CanArgo Energy Corporation and Roger Brittain dated August 18, 2000 (Incorporated herein by reference from December 31, 2000 Form 10-K).

*10(24) Employment Agreements between CanArgo Energy Corporation and Murray Chancellor dated September 22, 2000 (Incorporated herein by reference from December 31, 2000 Form 10-K).

*10(25) Employment Agreements between CanArgo Energy Corporation and Anthony Potter dated October 1, 2000 (Incorporated herein by reference from December 31, 2000 Form 10-K).

10(26) Production Sharing Contract between (1) Georgia and (2) Georgian Oil and CanArgo Norio Limited dated December 12, 2000 (Incorporated herein by reference from December 31, 2000 Form 10-K) (Incorporated herein by reference from December 31, 2000 Form 10-K).

10(27) Agreement between CanArgo Energy Corporation and Georgian British Oil Services Company dated November 10, 2000relating to the purchase of 9.35% interest in Georgian American Oil Refinery (Incorporated herein by reference from December 31, 2000 Form 10-K).

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 (Incorporated herein by reference from December 31, 2000 Form 10-K).

10(29) Agreement Number 1 dated March 20, 1998 on Joint Investment Production Activity for further development and further exploration of Bugruvativsk Field (Incorporated herein by reference from June 30, 2001 Form 10-Q).

21 List of Subsidiaries (Incorporated herein by reference from June 30, 2001 Form 10-Q)

(b) Reports on Form 8-K:

On July 5, 2001 CanArgo completed the acquisition of the remaining outstanding common shares of Lateral Vector Resources Inc. ("LVR") and LVR became a wholly owned subsidiary of CanArgo. LVR is an oil and gas company with activities principally in east Ukraine. According to publicly available information, LVR negotiated and concluded a Joint Investment Production Activity (JIPA) agreement in 1998 to develop the Bugruvativske Field (the "Field") in eastern Ukraine together with Ukrnafta. Under the terms of this JIPA, LVR have certain rights to incremental production from the Field, which CanArgo understands is currently producing oil, and is one of the larger oil fields in that area.

On July 4, 2001, CanArgo announced that it closed a private placement of approximately 16 million shares of its common stock for net proceeds of approximately $6.8 million. Such proceeds will be used to replenish cash resources used to acquire LVR, to initiate development of its Ukrainian properties and for working capital purposes. Sundal Collier & Co ASA and Den norske Bank ASA, DnB Markets acted as placement agents for this transaction and received a success fee of 5.75% of the gross proceeds of NOK 68,245,500 (approximately US$ 7,280,000). The shares to be issued in connection with this placement were issued under Regulation S of the Securities Act of the United States and have not been registered under the Securities Act of 1933, as amended, and may not be offered or sold in the United States or to U.S. persons (as defined in such Regulation) absent registration or an applicable exemption from registration.

SIGNATURES

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

CANARGO ENERGY CORPORATION

Date: November 14, 2001

By: /s/Anthony J. Potter

Anthony J. Potter
Chief Financial Officer