CANARGO ENERGY CORP
Form 10-K/A
December 17, 2002

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

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FORM 10-K/A
AMENDMENT NO. 1

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

OR

[ ] TRANSITION REPORT UNDER 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)

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. [X]

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, 97,356,206 shares outstanding as of December 16, 2002.

The aggregate market value of the common equity held by non-affiliates of the registrant, as of December 16, 2002, was $4,186,317.

DOCUMENTS INCORPORATED BY REFERENCE

PART III -- None

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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 harbour" 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 investment in three of those four projects and began to actively seek a business combination or similar transaction with another oil and gas company.

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 and its Georgian exploration programme and in 1999, CanArgo wrote-down the fourth and last significant project that was being developed by Fountain Oil Incorporated prior to the business combination.

To increase efficiency within the company's current structure and to better position the company for future growth, CanArgo announced in November 2001 plans to recommend to its shareholders a move of the company's domicile from the United States to Europe. These plans continue to progress and will be subject to shareholder, regulatory, tax and all other related approvals and rulings as applicable. Further information will be provided to shareholders once a formal plan is completed.

CanArgo's principal activities are oil and gas exploration, development and production of oil and gas. These activities are carried out under three production sharing arrangements (PSC's), these being the Ninotsminda, Manavi and West Rustavi Production Sharing Contract, the Nazvrevi and Block XIII Production Sharing Contract and the Norio (Block XIc) and North Kumisi Production Sharing Agreement. In late 2000 CanArgo also began to engage in oil and gas marketing and refining activities in Georgia. In November 2000, CanArgo acquired a 51% interest in Georgian American Oil Refinery which held a refurbished American refinery with a design capacity of approximately 4,000 barrels per day. Shortly thereafter, in December 2000, CanArgo expanded its interest in Georgia to include a 50% controlling interest in CanArgo Standard Oil Products with the objective of developing within Georgia a chain of retail petrol stations. In September 2002, CanArgo approved a plan to sell CanArgo Standard Oil Products to finance Georgian and Ukrainian development projects and in October 2002, CanArgo agreed to sell its 50% holding with legal ownership being transferred upon receipt of final payment due in August 2003. Discontinued Operation activity and segment and geographical information for refining including revenue from external customers, operating profit (loss) and total assets is incorporated herein by reference from notes 14 and 15 to the consolidated financial statements.

EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES

In Georgia CanArgo's exploration, development and production activities are carried out under three production sharing arrangements (PSC's), these being the Ninotsminda, Manavi and West Rustavi Production Sharing Contract, the Nazvrevi and Block XIII Production Sharing Contract in which CanArgo owns a 100% interest through its subsidiary CanArgo (Nazvrevi) Limited, and the Norio (Block XIc) and North Kumisi Production Sharing Agreement which CanArgo entered into through its subsidiary CanArgo Norio Limited. 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 exploration programme and the Ninotsminda field.

[EXPLORATION, DEVELOPMENT & PRODUCTION ACTIVITIES MAP]

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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 east 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 seventeen wells in the Ninotsminda field, of which thirteen are currently classified as producing.

CanArgo believes the field license to have significant exploration potential, and has invested substantial funds in an exploration programme.

OTHER PROJECTS

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. In Ukraine, CanArgo's activities are focused on the further development of the Stynawske oilfield, through the Boryslaw Oil Company joint venture, and the Bugruvativske oilfield, through the Joint Investment Production Activity (JIPA) agreement. CanArgo's principal product is crude oil, and the sale of crude oil and crude oil products is its principal source of revenue.

[OTHER PROJECTS MAP]

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BUSINESS STRUCTURE

CanArgo and its active subsidiaries are as follows:

[BUSINESS STRUCTURE FLOW CHART]

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 had 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.

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 had 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;
- 93 barrels of oil per day during 2001; and
- none thereafter.

These priority rights represented 49%, 48%, 21% and 8% of gross production respectively. 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. 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. Thus, while

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Ninotsminda Oil Company is responsible for all of the costs associated with development of the Ninotsminda field, it is only entitled to receive 30% of production after cost recovery and Georgian Oil's priority allocation. The allocation of a share of production to Georgian Oil, however, relieves Ninotsminda Oil Company 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. Georgian Oil and Ninotsminda Oil Company take their respective shares of production in kind, and they market their oil independently.

Pursuant to the terms of CanArgo's PSC's in Georgia, including the Ninotsminda, Manavi and West Rustavi production sharing contract, a Georgian not-for-profit company must be appointed as field operator. Currently there are three such field operating companies, relating to CanArgo's three PSC's: 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 fields, and the operating company performs on a non-profit basis. Georgian British Oil Company Ninotsminda currently has 114 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. Similar procedures apply to CanArgo's other two Georgian PSC's.

NINOTSMINDA FIELD DEVELOPMENT

When Ninotsminda Oil Company assumed developmental responsibility for the Ninotsminda field in 1996, production was minimal. CanArgo believed that the development and production obtainable from the Ninotsminda field had in the past been hampered by, among other factors, a lack of funding, civil strife and utilization of old technology and methods.

Ninotsminda Oil Company's initial approach to Ninotsminda field development was to produce oil from one zone or underground formation, the Middle Eocene. This development included repairing and adding perforations to existing wells, obtaining additional seismic data and a limited drilling programme. The first exploration well in search of a new reservoir 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 exploration well was completed in October 1998 and has been producing at the rate of 160 barrels of oil per day.

A third oil exploration well commenced in October 1998 but drilling 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 a potential gas exploration well but in October 2000, CanArgo announced that as a result of difficult drilling conditions, the well could not be completed to the deeper Cretaceous zone as originally planned but rather would be tested in the newly discovered Sarmatian zone. While some work has been undertaken to identify the reserve and production potential of this and a previously identified Upper Eocene zone from which oil has been produced from one well, further work is required. Such information may, however, also open up new potential in the upper zones of other areas currently under license in Georgia. See "Other Georgian Licenses".

While most of the exploration and development of the Ninotsminda field prior to 2000 focused on oil, a layer of gas above the oil or gas cap was known to exist above the principal producing zone. In December 1999, Ninotsminda Oil Company began commercial production of this 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 had agreed to purchase all the gas produced by Ninotsminda Oil Company in priority to all other suppliers with no maximum or minimum volume. AES continued to purchase gas from Ninotsminda Oil Company on similar contractual terms during 2000 and into 2001.

With increases in demand for natural gas produced in Georgia, in 2001 Ninotsminda Oil Company commenced the first and second wells of a three-well exploration programme to explore and determine the future development potential of gas prospects in the Ninotsminda field. In January 2002, the first of these wells, N100, reached target depth and is currently undergoing testing to determine if hydrocarbons are present in the well and if present, the possible extent of the hydrocarbons. Drilling of the second well in the exploration programme, M11, began in June 2001 is currently at a depth of 3,436 meters.

The gas exploration programme was initiated under a binding Participation Agreement with AES Gardabani dated July 19, 2000 relating to the exploration and potential future development of Sub Middle Eocene gas prospects on CanArgo's Ninotsminda production sharing contract in Georgia. Under the agreement, AES Gardabani was to earn a 50% interest in identified prospects at the Sub Middle Eocene stratigraphic level (rock older than the Middle Eocene sequence) by funding two thirds of the cost of a three-well exploration programme. Under terms of the Participation Agreement, the exploration was and continues to be implemented by CanArgo's existing operations unit in Georgia. However, prior to completion of the exploration programme as defined in the Participation Agreement, AES indicated in January 2002 that it wished to withdraw from the Participation Agreement in order to focus on its core business. Agreement was subsequently reached pending completion of formal legal documentation to terminate the Participation Agreement without AES earning any rights to any of the Ninotsminda field reservoirs. If gas from the Sub Middle Eocene is discovered and produced, AES would be entitled to recover at the rate of 15% of future gas sales from the Sub Middle Eocene, net of operating costs, their funding under the Participation Agreement. AES would also have an option to enter into a five year take or pay gas sales agreement for a quantity up to 200 million cubic meters per year at an initial contract price of $46.00 per one thousand cubic meters. Gas purchased by AES would likely to be supplied to the Gardabani thermal power plant.

CanArgo has not yet fully evaluated the reserves and economics of production from the upper oil zones, the gas cap or from potential oil and gas zones below the Middle Eocene. To fully evaluate these zones, further seismic, technical interpretation and drilling will be required. Drilling sites tentatively selected by Ninotsminda Oil Company must be approved by Georgian regulatory authorities before drilling may commence. With respect to gas production, no gas supply contracts currently exist for production directly from the gas cap.

Gas currently produced from the Middle Eocene and upper zones is subject to market conditions and environmental constraints within Georgia and the ability of Ninotsminda Oil Company to arrange short term gas supply agreements as required.

OTHER FIELDS AND PROSPECTS UNDER NINOTSMINDA PRODUCTION SHARING CONTRACT

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 currently identified prospect, Manavi. As well as the producing Middle Eocene horizon at Ninotsminda, the West Rustavi field has additional prospective horizons at the Cretaceous/Paleocene levels.

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 1 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.

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The second well in the planned three-well Cretaceous drilling programme is being drilled on the Manavi prospect located east of the Ninotsminda field. The well was located on the Manavi prospect based on seismic data regarding the Manavi prospect obtained by Ninotsminda Oil Company from work it commissioned and earlier efforts by Georgian Oil. A previous attempt by Georgian Oil to drill in the Manavi prospect was abandoned due to technical problems.

Seismic and well data are currently being interpreted to identify further prospects in the Ninotsminda area at several different stratigraphic levels.

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 1,324 barrels of oil equivalent (BOE) per day, comprising approximately 1,039 barrels of oil per day and 285 BOE of gas per day (1 BOE = 6,000 cubic feet = 170 (m3) gas) from thirteen wells. Gross production from the Ninotsminda field for the past three years was as follows:

YEAR ENDED DECEMBER 31,	OIL - GROSS BARRELS
2001	413,724
2000	478,999
1999	415,390

Productive Wells and Acreage

The following table summarizes as of December 31, 2001 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.

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

On December 31, 2001, 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. This information is derived from a report dated as of January 1, 2002 prepared by Ashton Jenkins Mann, independent petroleum consultants. This report is available for inspection at CanArgo's principal executive offices during regular business hours. The reserve information in the table below has also been filed with the Oslo Stock Exchange.

MILLION BARRELS	OIL RESERVES - GROSS	PSC ENTITLEMENT VOLUMES (1)
Proved Developed	4.0	2.9
Proved Undeveloped	1.1	0.8
TOTAL PROVEN	5.1	3.7

BILLION CUBIC FEET	GAS RESERVES - GROSS	PSC ENTITLEMENT VOLUMES (1)
Proved Developed	12.9	3.9
Proved Undeveloped	3.9	1.1
TOTAL PROVEN	16.8	5.0

(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. For PSC Entitlement Volume calculations only, only oil volumes have been assumed to be used to recover cumulative capital and operating costs.

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 include proved developed reserves (producing and non-producing reserves) and proved undeveloped reserves.

Proved developed reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

Proved undeveloped reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditures is required for recompletion. Reserves on undrilled acreage are limited to those drilling units offsetting productive wells that are reasonably certain of production when drilled.

Uncertainties exist 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 estimating process requires educated decisions relating to the evaluation of all available geological, engineering and economic data for each reservoir. The amount and timing of cost recovery is a function of oil and gas prices. The oil and gas price used in the report by Ashton Jenkins Mann as of January 1, 2002 were $15.08 per barrel and $1.13 per mcf respectively. Having considered the geological and engineering data in the interpretation process, the Company believes with reasonable certainty that the stated proven reserves represent the estimated quantities of oil and gas to be recoverable in future years under existing operating and economic conditions.

No independent reserves have been assessed for the West Rustavi field, and independent reserve estimates for other properties are described in the appropriate part of the text in this document.

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 kilometres 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 kilometres to Rustavi where it is delivered to the Gardabani thermal power plant or other industrial consumers.

At Sartichala, the water is separated from the oil. Ninotsminda Oil Company then sells oil in this state to buyers at Sartichala for local consumption or transfers it by pipeline 20 kilometres to a railhead at Gatchiani primarily for export sales. At the railhead, the oil is loaded into railcars for transport to the Black Sea port of Batumi, Georgia, where oil can be loaded onto tankers for international shipment. Buyers transport the oil at their own risk and cost from the delivery points.

Ninotsminda Oil Company sells its oil directly to local and international buyers. In 2001, Ninotsminda Oil Company sold its oil production to three customers.

CUSTOMER	PERCENT OF OIL REVENUE
Caspian Trading	63.8%
Georgian American Oil refinery (1)	23.5%
MS	12.7%

In 2000, Ninotsminda Oil Company sold its oil production to three customers.

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%

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(1) 51% owned by CanArgo effective November 2000

Sales to both the domestic and international markets are based on the average of a number of quotations for dated Brent Mediterranean with an appropriate discount for transportation and other charges. Sales in 2001 were at an average discount of $6.29 to Brent, although this discount has been reduced to $4.41 in recent sales.

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

- global 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 2,008 square kilometre 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. Thus, while CanArgo is responsible for all of the costs associated with development of the Nazvrevi field, it is only entitled to receive 30% of production after cost recovery. The allocation of a share of production to Georgian Oil, however, 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 programme under the Nazvrevi/Block XIII production sharing agreement involved 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 continue to be interpreted, with a view towards defining possible oil and gas prospects and exploration drilling locations. The cost of the seismic programme was approximately $1.5 million, and met the minimum obligatory work commitment under the contract. The second phase of the preliminary work programme under the Nazvrevi/Block XIII production sharing contract involves the drilling of one well, unless CanArgo decides to terminate the contract. As the Nazvrevi and Block XIII license is an exploration area and no discoveries have been made on this license, it is not possible to estimate the expenditures needed to discover and if discovered, produce commercial quantities of oil and gas.

Norio (Block XIc) and North Kumisi Blocks

In December 2000, CanArgo entered into a third PSC with the State of Georgia represented by Georgian Oil and the State Agency for Regulation of Oil and Gas Resources in Georgia. This agreement covers the Norio and North Kumisi blocks of East Georgia, a 1,542 square kilometre exploration area adjacent to the Ninotsminda, West Rustavi and Samgori fields. There are two existing oil fields on the Norio block, Norio and Satskhenisi which are relatively shallow fields and which have produced oil from the Miocene and Sarmatian sequences. The commercial terms of the production sharing agreement 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. Thus, while CanArgo is responsible for all of the costs associated with development of the Norio field, it is only entitled to receive 40% of production after cost recovery. CanArgo currently owns a 50% controlling interest in CanArgo Norio Limited with the remainder held by Georgian and other private investors.

The first phase of the preliminary work programme under the Norio and North Kumisi production sharing agreement involved 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 have and will continue to be interpreted. In addition to the existing upper sequences, the potential of the blocks to produce from the Middle Eocene, Cretaceous and Upper Eocene are being assessed. The cost of the seismic programme was approximately $1.5 million.

The second phase of the preliminary work programme under the Norio and North Kumisi production sharing agreement commenced in January 2002 with the first exploration well at an estimated cost of up to $4.4 million of which CanArgo's estimated share of costs is $3.2 million. The State Agency for Oil and Gas Regulations in Georgia has confirmed that CanArgo has satisfied all drilling and work obligations under the terms of the Norio and Kumisi production sharing agreement. The well is currently suspended while CanArgo actively seeks partners for funding to deepen the well to the target zone.

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In November 2002, CanArgo reached agreement with the other shareholders in CanArgo's subsidiary, CanArgo Norio Limited (Norio), on increasing CanArgo's interest in Norio. Under the agreement CanArgo's interest increased from 50% to 64% in Norio and its existing Norio and North Kumisi production sharing agreement.

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.

The two shallow oilfields on the block (Norio and Satskhenisi) are currently producing small amounts of oil. These oilfields are currently being operated by Georgian Oil under permission from CanArgo, the licence holder. Georgian Oil takes the production from these fields as full payment for any costs. CanArgo is currently reviewing the potential for economic rehabilitation of these small fields, and if CanArgo wishes to proceed it could take over field operations and production forthwith. As the area in which CanArgo is currently drilling is an exploration area with no discoveries, it is not possible to estimate the expenditures needed to discover and if discovered, produce commercial quantities of oil and gas.

Norio Block XIG (Tbilisi) and Block XIH (Rustavi)

In November 2002, CanArgo's subsidiary, CanArgo Norio Limited (Norio), won the tender for the oil and gas exploration and production rights to Block XIG (Tbilisi) and Block XIH (Rustavi) in Eastern Georgia. By successfully winning the tender, under the tender conditions issued by the Georgian State Agency for Regulation of Oil and Gas Resources, CanArgo should be awarded a licence for these blocks following negotiation of a Production Sharing Agreement with the Georgian State authorities.

REFINING AND OTHER ACTIVITIES

CanArgo also engages in oil and gas, refining and other activities in Georgia. Segment and geographical information including revenue from continuing operations from external customers, operating profit (loss) from continuing operations and total assets is incorporated herein by reference from note 15 to the consolidated financial statements.

Georgian American Oil Refinery

In September 1998, CanArgo purchased for $1,000,000 a 12.9% equity interest in Georgian American Oil Refinery, 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 design capacity of approximately 4,000 barrels per day. Operating as a straight-run distillation unit it produces naphtha, diesel, fuel oil and kerosene. Further product expansion is possible with the addition of additives and or a catalytic reformer.

For much of 2001 and to date, the refinery has not been operating. Since its acquisition, sales from the refinery have been negatively impacted by the imposition of restrictions and subsequent excise tax on feedstock and refined products. 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 product quality concerns which has effectively curtailed the enhancement of the basic product stream into gasoline. As a result, the refinery can only produce straight distillation products such as naptha, diesel and mazut and not high octane gasoline as required by petrol stations. Due to the presence of excise tax on naphtha, there is limited economic demand

for the product in Georgia, either as a feedstock for a separate refining company or for the blending with higher octane gasoline to produce "normal" grade gasoline for the local market.

Currently only naptha, diesel and mazut can be produced and of these products, an excise tax on naptha sales remains in place. As a result of these taxes and the local market for naptha in the Republic of Georgia, CanArgo deemed production of naptha as commercially uneconomic and suspended refining activity in the fourth quarter of 2001. In January 2002, GAOR entered into a short-term lease of the refinery to a third party for nominal revenue. During the lease period, all operating costs of the refinery were borne by the lessee. This lease expired in May 2002 and has not been renewed. CanArgo continues to monitor demand for product able to be produced by the refinery and is seeking changes to the legislation in support of indigenous refining activities, although no assurance can be given that such changes can be made. As a result of the uncertainty as to the ultimate recoverability of the carrying value of the refinery, CanArgo recorded in 2001 a write-down of the refinery's property, plant and equipment of approximately $3.5 million. The refinery is now in a care and maintenance condition.

In 2001, Ninotsminda Oil Company sold approximately 49,055 barrels of oil to the refinery and in 2000 sold 136,400 barrels of oil to the refinery.

Drilling Rigs and Associated Equipment

CanArgo owns several items of drilling equipment, and other related machinery which are primarily for use in its Georgian operations. These include three drilling rigs, pumping equipment and ancillary machinery. In addition CanArgo owns a mobile 3 megawatt duel fuel power plant. The rigs and related equipment are being used in CanArgo's Georgian operations, and have also been leased out to other operators on a service basis.

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, Ukrnafta, 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 Ukrnafta holding the remaining 55% interest. Ukrnafta 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.

In December 2000, CanArgo reached agreement with Ukrnafta on certain commercial arrangements and for the transfer of field operations to Boryslaw Oil Company. To commence a three well workover programme (the Pilot Development Scheme), a $500,000 credit facility was established for Boryslaw Oil Company in 2001 and $550,000 advanced as a deposit against the facility. In 2001 an agreement was reached to undertake a limited investment and development program by June 2002 in respect of Boryslaw Oil Company to increase production and to meet certain work commitments under the Stynawske field licence. These obligations have not been fully met, however, Boryslaw Oil Company is seeking modifications to the licence agreement to allow a proper assessment of the workovers and development plans completed to date. A repayment schedule of CanArgo's advances to Boryslaw Oil Company has also been agreed of which

$250,000 was repaid by September 30, 2002. Boryslaw Oil Company has so far not been given notice by the Ukrainian licensing body of early termination of the license. CanArgo is actively seeking to farm-out part of its interest in Boryslaw Oil Company in return for finance to carry out the work programme. If Boryslaw Oil Company does not proceed with the Stynawske field development programme or if an extension to the current licence cannot be obtained, it may be in breach of obligations it has with regard to the field license. This could place Boryslaw Oil Company's rights to the Stynawske field at risk and substantially reduce Boryslaw Oil Company's ability to repay amounts advanced to it by CanArgo under the credit facility and deposit.

The following table summarizes net hydrocarbon reserves for the Pilot Development Scheme for the Stynawske field. This information is derived from a report as of January 1, 2002 prepared by Ashton Jenkins Mann, independent petroleum consultants. This report is available for inspection at CanArgo's principal executive offices during regular business hours. The reserve information in the table below has also been filed with the Oslo Stock Exchange.

MILLION BARRELS	OIL RESERVES - GROSS	CANARGO SHARE (45%)
Proved Developed	0.7	0.3
Proved Undeveloped	--	--
TOTAL PROVEN	0.7	0.3

BILLION CUBIC FEET	GAS RESERVES - GROSS	CANARGO SHARE (45%)
Proved Developed	4.1	1.8
Proved Undeveloped	--	--
TOTAL PROVEN	4.1	1.8

For information as to the definition of proved, proved producing and proved undeveloped reserves and considerations with respect to estimations of proved reserves, see the description of Ninotsminda reserves.

The oil and gas price used in the report by Ashton Jenkins Mann as of January 1, 2002 was $21.50 per barrel and $0.57 per mcf respectively. 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.

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, 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.

Bugruvativske Field, Ukraine

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 a Joint Investment Production Activity (JIPA) 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.

In September 2002 CanArgo agreed terms with Ukrnafta, the Ukrainian State Oil Company, on revisions to the existing Joint Investment Production Activity agreement (JIPA) for the development of the Bugruvativske field in Ukraine and reached an agreement with Gals-K Limited, an unaffiliated local Ukrainian oil and gas

company on the terms of a farm-in to the JIPA. The terms of the farm-in, arrived at in arms-length negotiations, are that the local Ukrainian oil and gas company will invest approximately $3 million in the Bugruvativske field over the course of 12 months in order to drill two new wells and will bear the financial risk under the JIPA during this period. CanArgo can match up to the amount invested by the local Ukrainian oil and gas company, prior to December 31, 2003. Additionally, agreement has been reached with Ukrnafta, on revisions to the commercial terms of the JIPA. The revised JIPA provides that (assuming CanArgo matches the local Ukrainian oil and gas company's initial expenditure) the financing risk shall be shared between CanArgo and a subsidiary of the local Ukrainian oil and gas company, IPEC. Ukrnafta shall be entitled to 25% of all net profits distributed to the parties to the JIPA and the remainder shall be shared between CanArgo and IPEC. Assuming that CanArgo matches the local Ukrainian oil and gas company's initial expenditure, CanArgo will be entitled to approximately 34.5% of net profits generated under the JIPA (or a proportionally smaller amount if the amount invested is less than that invested by IPEC). In the event that CanArgo decides not to invest in the project by December 31, 2003, it will receive an ongoing project fee of between 3-4 % of the net profits generated under the JIPA in recognition of its earlier involvement in the project. To date, CanArgo has not made any investment in the Bugruvativske field and subsequently, hydrocarbon reserves are classified as unproved until CanArgo's investment is made.

Both the Bugruvativske field and the Stynawske field in Western Ukraine are in the early stage of evaluation and development and are themselves relatively new to CanArgo and additional financing will be required to fully develop and exploit these fields. In addition, CanArgo is in the process of establishing its own operational and finance infrastructure in Ukraine. Establishment of this infrastructure may result in a diversion, temporary or otherwise, of time and other resources from other operating activities.

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 reduced its interest to a 9.5% in exchange for $250,000 credit to CanArgo should additional financing or an equity partner be found for the project. Subsequent to this, a restructuring of interests in the project took place with CanArgo increasing its interest slightly to 10%, and with Rosneft, the Russian State owned oil company, becoming the majority owner of the project with 75.1%. Seismic was acquired as part of this restructuring, with CanArgo utilising its credit, and future plans include interpretation of this data and possible drilling.

DISCONTINUED OPERATIONS

CanArgo Standard Oil Products

In December 2000, CanArgo expanded its downstream retail business in Georgia through an agreement to acquire an interest in several existing petrol stations and sites in Tbilisi. These stations and sites, together with several existing CanArgo stations, operate under the name "CanArgo Standard Oil Products", a Georgian company in which CanArgo owns a 50% controlling interest. Of the remaining 50%, 41.65% is held by Standard Oil Products, an unrelated third party entity, and 8.35% is held by an individual, Mr Levan Pkhakadze, who is one of the founders of Standard Oil Products and is an officer and director of CanArgo Standard Oil Products.

In September 2002, CanArgo approved a plan to sell CanArgo Standard Oil Products to finance Georgian and Ukrainian development projects and in October 2002, CanArgo agreed to sell its 50% holding to Westrade Alliance LLC, an unaffiliated company, for $4 million in an arms-length transaction, with legal ownership being transferred upon receipt of final payment due in August 2003. The minority interest related to CanArgo Standard Oil Products has not been reclassified for any of the periods presented in the Consolidated Financial Statements included herein; however net income from discontinued operations is disclosed net of taxes and minority interest. Additional financial information with respect thereto is incorporated herein by reference from note 14 to the Consolidated Financial Statements included herein. See "Selected Financial Data" herein.

CanArgo originally moved into the retail gasoline sector in Georgia in April 2000 with the formation of CanArgo Standard Oil Products. The original objective of CanArgo was to create a premium chain of petroleum product outlets. In February 2002, CanArgo Standard Oil Products had 14 sites in operation with five further sites under construction. CanArgo Standard Oil Products has a total of 23 licences/sites in its portfolio and expects to have all locations in operation by the end of 2002.

CanArgo Standard Oil Products sells several different grades of petrol to a broad range of corporate and retail customers. No one customer purchases more than 10% of total sales.

RISKS ASSOCIATED WITH CANARGO'S ACTIVITIES

Current Operations Dependent on Success of the Ninotsminda Oil Field and Georgian Exploration

We have directed substantially all of our efforts and most of our available funds to the development of the Ninotsminda oil field in the Republic of

Georgia, exploration in that area 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, our focus on the Ninotsminda field has over the past several years resulted in overall losses for CanArgo and CanArgo has yet to be profitable. We cannot assure investors that the exploration and 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 we have made and are planning to make in the field, and we 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 production from the Ninotsminda field. Such agreements may benefit us, but may in the future also limit our ability to sell associated natural gas at then market prices. Our Georgian exploration programme is an important factor for future success, and this programme may not be successful, as it carries substantial technical risk.

Minimum Investment Requirements in Ukraine Have Not Been Met

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

In September 2002 CanArgo agreed terms with Ukrnafta, the Ukrainian State Oil Company, on revisions to the existing Joint Investment Production Activity agreement (JIPA) for the development of the Bugruvativske field in Ukraine and reached an agreement with Gals-K Limited, an unaffiliated local Ukrainian oil and gas company on the terms of a farm-in to the JIPA. The terms of the farm-in, arrived at in arms-length negotiations, are that the local Ukrainian oil and gas company will invest approximately $3 million in the Bugruvativske field over the course of 12 months in order to drill two new wells and will bear the financial risk under the JIPA during this period. CanArgo can match up to the amount invested by the local Ukrainian oil and gas company, prior to December 31, 2003. Additionally, agreement has been reached with Ukrnafta, on revisions to the commercial terms of the JIPA. The revised JIPA provides that (assuming CanArgo matches the local Ukrainian oil and gas company's initial expenditure) the financing risk shall be shared between CanArgo and a subsidiary of the local Ukrainian oil and gas company, IPEC. Ukrnafta shall be entitled to 25% of all net profits distributed to the parties to the JIPA and the remainder shall be shared between CanArgo and IPEC. Assuming that CanArgo matches the local Ukrainian oil and gas company's initial expenditure, CanArgo will be entitled to approximately 34.5% of net profits generated under the JIPA (or a proportionally smaller amount if the amount invested is less than that invested by IPEC). In the event that CanArgo decides not to invest in the project by December 31, 2003, it will receive an ongoing project fee of between 3-4 % of the net profits generated under the JIPA in recognition of its earlier involvement in the project. To date, CanArgo has not made any investment in the Bugruvativske field and subsequently, hydrocarbon reserves are classified as unproved until CanArgo's investment is made.

In 2001 an agreement was reached to undertake a limited investment and development program by June 2002 in order for Boryslaw Oil Company, a company in which CanArgo has a 45% ownership interest, to retain the field licence including the drilling of one new well. These obligations have not been fully met, however, Boryslaw Oil Company is seeking modifications to the licence agreement to allow a proper assessment of the workovers and development plans completed to date. A repayment schedule of CanArgo's advances to Boryslaw Oil Company has also been agreed of which $250,000 was repaid at September 30, 2002. Boryslaw Oil Company has so far not been given notice by the Ukrainian licensing body of early termination of the license. CanArgo is actively seeking to farm-out part of its interest in Boryslaw Oil Company in return for financing to carry out the work programme. If Boryslaw Oil Company does not proceed with the Stynawske field development programme or if an extension to the current licence cannot be obtained, it may be in breach of obligations it has with regard to the field license. This could place Boryslaw Oil Company's rights to the Stynawske field at risk and substantially reduce Boryslaw Oil Company's ability to repay amounts advanced to it by CanArgo.

Ukraine Projects in Early Stage of Evaluation and Development

The Bugruvativske field together with the Stynawske field in Western Ukraine, are both in the early stage of evaluation and development and are themselves relatively new to us. At present, we have yet to establish our own operational 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.

Write Off of Unsuccessful Properties and Projects

In order to realize the carrying value of our oil and gas properties and ventures, we must produce oil and gas in sufficient quantities and then sell such oil and gas at sufficient prices to produce a profit. We have 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. In 2001, we recorded an impairment charge of $7.3 million following application of the full cost ceiling limitation with respect to capitalized oil and gas property costs as a result of a decline in Brent oil prices at December 31, 2001, lower reserve quantities following production declines in 2001 and reduced development plans. During 1997, we 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. We could be required in the future to write off our investments in additional projects, including the Ninotsminda field project, if such projects prove to be unsuccessful.

Possible Inability to Finance Present Oil and Gas Projects

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

o world economic conditions;

o international relations

o the stability and policies of various governments;

- fluctuation in the price of oil and gas, the outlook for the oil and gas industry and 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 us and our projects and comparison with alternative opportunities.

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

It will take many years and substantial cash expenditures to develop fully our oil and gas properties. We generally have the principal responsibility to provide financing for our oil and gas properties and ventures. Accordingly, we may need to raise additional funds from outside sources in order to pay for project development costs beyond those currently budgeted through 2002. We may not be able to obtain that additional financing. If adequate funds are not available, we will be required to scale back or even suspend our 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. While expected to be substantial, without further exploration work and evaluation the amount of funds needed to fully develop all of our oil and gas properties cannot at present, be quantified.

Oil and Activities Involve Risks, Many of Which Are Beyond Our Control

Our exploration, development and production activities are subject to a number of factors and risks, many of which may be beyond our control. First, we 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.

Our activities can also be affected by a number of hazards, such as:

- Labour 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 us. 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. We do not purchase insurance covering all of the risks and hazards that are involved in oil and gas exploration, development and production.

Risk of Political Instability with Respect to Foreign Operations

Our principal oil and gas properties and activities are in the Republic of Georgia, Ukraine and Russia all of which are located in Eastern Europe. In addition, our refinery and all of our petrol stations are located in and around Tbilisi, Georgia. Operation and development of these assets 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 we operate 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. Our 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 and the Joint Investment Production Activity Agreement covering the Bugruvativske oil field are examples of such arrangements. As a result of such dependency on government participants, our 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 our oil and gas properties. We are not insured against such political risks because management deems the premium costs of such insurance to be currently prohibitively expensive.

Risk of 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. Application and enforceability of these laws may also vary widely from region to region within these countries. Due to this instability, Eastern European countries are subject to certain additional risks including the following:

- Enforceability of contracts;
- 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

Within Georgia, the Georgian government has recently requested assistance from the United States to combat terrorism in the Pankisi Gorge, a region of Georgia bordering the separatist Chechnya region of Russia. 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 within and with neighbouring countries.

This instability can make continued operations difficult or impossible.

Inadequate or Deteriorating Infrastructure in Eastern Europe

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 in Eastern Europe

Payment for oil and gas products sold in Eastern European countries may be in local currencies. Although we currently sell our oil principally for U.S. dollars, we 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.

We may enter into contracts with suppliers in Eastern European countries to purchase goods and services in U.S. dollars. We may also obtain from lenders credit facilities or other debt denominated in U.S. dollars. If we cannot receive payment for oil and oil products in U.S. dollars and the value of the local currency relative to the U.S. dollar deteriorates, we could face significant negative changes in working capital.

Tax Risks in Eastern Europe

Countries in Eastern Europe frequently add to or amend existing taxation policies in reaction to economic conditions including state budgetary and revenue shortfalls. Since we are dependent on international operations, specifically those in Georgia, we are subject to changing taxation policies including the possible imposition of confiscatory excess profits, production, remittance, export and other taxes. While CanArgo is not aware of any recent or proposed tax changes which could materially affect our operations, such changes could occur.

Conflicting Interests with our Partners

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. These third parties generally have objectives and interests that may not coincide with ours and may conflict with our interests. Unless we are able to compromise these conflicting objectives and interests in a mutually acceptable manner, agreements and arrangements with these third parties will not be consummated.

CanArgo does not have a majority of the equity in the entity that is the licensed developer of some projects, such as the Bugruvativske and Stynawske field projects, that CanArgo may pursue in Eastern Europe, even though we may be the designated operator of the oil or gas field. In these circumstances, the concurrence of co-ventures may be required for various actions. Other parties influencing the timing of events may have priorities that differ from ours, even if they generally share our objectives. Demands by or expectations of governments, co-venturers, customers, and others may affect CanArgo's strategy regarding the various projects. Failure to meet such demand or expectations could adversely affect CanArgo's participation in such projects or our ability to obtain or maintain necessary licenses and other approvals.

Demand 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.

Governmental Registration

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.

Changes in the Market Price of Oil and Gas

Prices for oil and natural gas and their refined products are subject to wide fluctuations in response to a number of factors which are beyond our control, including:

o Global changes in the supply and demand for oil and natural gas.

o Actions of the Organization of Petroleum Exporting Countries.

o Weather conditions.

o Domestic and foreign governmental regulations.

o The price and availability of alternative fuels.

o Political conditions in the Middle East and elsewhere.

o Overall economic conditions.

A reduction in oil prices can affect the economic viability of our operations. For example, the significant decline in oil prices during 1998 adversely affected our results of operations and increased our operating loss in 1998. There can be no assurance that oil prices will be at a level that will enable us to operate at a profit. In 2002 the spot price for Brent crude oil increased from $19.29 per barrel at December 31, 2001 to

$26.23 per barrel at December 10, 2002. CanArgo may also not benefit from rapid increases in oil prices as have occurred in the first quarter of 2002 as the market for the levels of crude oil produced in Georgia by Ninotsminda Oil Company can in such an environment be relatively inelastic and contract prices are often set at a specified price determined with reference to Brent when the contract is entered into or over a short period when the crude oil is delivered.

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 judgments about a number of elements:

- 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, 2002. 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

- Refining

- Marketing

- Transportation

- Occupational health and safety

- Labour standards

- Environmental matters

We expect the trend towards more burdensome regulation of our business to result in increased costs and operational delays. This trend is particularly applicable in developing economies, such as those in Eastern Europe where we have our 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 more developed economies.

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Competition

The oil and gas industry including the refining and marketing of crude oil products is highly competitive. Our competitors include integrated oil and gas companies, independent oil and gas companies, drilling and income programmes, and individuals. Many of our competitors are large, well-established, well-financed companies. Because of our small size and lack of financial resources, we may not be able to compete effectively with these companies.

Operations are Dependent on Chairman of the Board and Chief Executive

Dr. David Robson, the Chairman of the Board and Chief Executive Officer of CanArgo, is our executive who has the most experience in the oil and gas industry and who has the most extensive business relationships in Eastern Europe. Our business and operations could be significantly harmed if Dr. Robson were to leave us or become unavailable because of illness or death. Dr. Robson through his company, Vazon Energy Limited, has signed a comprehensive Management Services Agreement with a two-year non competition clause effective from June 29, 2003, the date of termination of the agreement. We do not carry key employee insurance on any of our employees.

Employees

As of December 31, 2001, CanArgo had 235 full time employees. Of its full time employees, the entity acting as operator of the Ninotsminda oil field for Ninotsminda Oil Company has 114 full time employees, and substantially all of that company's activities relate to the production and development of the Ninotsminda field. CanArgo Standard Oil Products has 101 full time employees at its office and petrol stations.

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.

PRODUCTIVE WELLS AND ACREAGE

Productive Wells and Acreage

The following table summarizes as of December 31, 2001 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.

	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, 2001, 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, 2001. 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 current 50% interest in the subsidiary holding the Norio/North Kumisi contract.

	GROSS		NET	
PSC	ACREAGE	SQUARE KILOMETRES	ACREAGE	SQUARE KILOMETRES
Ninotsminda Manavi and West Rustavi	27,739	113	27,739	113
Nazvrevi and Block XIII	492,914	2,008	492,914	2,008
Norio (Block XIc) and North Kumisi	378,523	1,542	189,262	771
Total	899,176	3,663	709,915	2,892

CanArgo leases office space in London, England; Calgary, Alberta; Tbilisi, Republic of Georgia and Kiev, Ukraine. The leases have remaining terms varying from three months to nine years and annual rental charges ranging from $7,000 to $243,000.

ITEM 3. LEGAL PROCEEDINGS

At December 31, 2001 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.

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, 2001.

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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". The common stock was delisted from the NASDAQ Stock Market following the failure to meet Nasdaq's continued listing requirement that the bid price for a listed security be at least $1.00 per share. 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 Oslo Stock Exchange, and the high and low bid prices on the NASDAQ OTC Bulletin Board for the periods indicated. Average daily trading volume on these markets during these periods is also provided. 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 exchange rate for buying United States dollars with Norwegian kroner announced by the central bank of Norway. Prices in Norwegian kroner are denominated in "NOK".

	NASDAQ/OTCBB	OSE
	AVERAGE	AVE

	HIGH	LOW	DAILY VOLUME	HIGH	LOW	DAIL
FISCAL QUARTER ENDED						
March 31, 2000	1.00	0.63	95,167	0.97	0.73	1
June 30, 2000	1.45	0.69	103,033	1.57	0.79	4
September 30, 2000	1.66	1.03	69,800	1.78	1.04	1,0
December 31, 2000	1.38	0.75	24,500	1.45	0.75	8
March 31, 2001	1.19	0.75	12,933	1.32	0.79	7
June 30, 2001	0.87	0.50	4,467	0.86	0.43	3
September 30, 2001	0.50	0.24	20,923	0.56	0.21	2
December 31, 2001	0.43	0.24	12,757	0.49	0.23	8
March 31, 2002	0.36	0.26	32,697	0.36	0.25	5
June 30, 2002	0.38	0.19	3,508	0.32	0.14	2
September 30, 2002	0.20	0.05	9,156	0.20	0.05	2
December 31, 2002 (through December 16, 2002)	0.10	0.04	33,208	0.08	0.04	6

At December 16, 2002, the closing price of our common stock on the OTC Bulletin Board and Oslo Stock Exchange was $0.045 and $0.043 respectively.

On October 30, 2002 the number of holders of record of our common stock was approximately 8,150. We have not paid any cash dividends on our common stock. We currently intend to retain future earnings, if

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any, for use in our business and, therefore, do not anticipate paying any cash dividends in the foreseeable future. The payment of future dividends, if any, will depend, among other things, on our results of operations and financial condition and on such other factors as our Board of Directors may, in their discretion, consider relevant.

On July 4, 2001, CanArgo closed a private placement of 16,057,765 shares of its common stock at NOK 4.25 per share (approximately US$0.45 per share) for net proceeds of $6,592,262. Such proceeds were 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 $7,235,337. The shares issued in connection with this placement were issued in reliance on the exemption from registration under the United States Securities Act of 1933 ("Securities Act") afforded by Regulation S promulgated thereunder. In August 2001, a registration statement on Form S-1 registering resales of the common shares issued in the private placement under the Securities Act was declared effective by the United States Securities and Exchange Commission.

ITEM 6. SELECTED FINANCIAL DATA

Reference is hereby made to the Section entitled "QUALIFYING STATEMENT WITH RESPECT TO FORWARD-LOOKING INFORMATION" with respect to certain qualifications regarding the following information.

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 $000's except for per common share amounts	YEAR ENDED DECEMBER 31,				
	2001	2000	1999	1998	1997
FINANCIAL PERFORMANCE					
Total revenue from continuing operations	7,171	7,010	2,783	821	313
Operating income (loss) from continuing operations	(16,091)	(2,401)	(8,119)	(6,357)	(25,583)
Other income (expense)	2,529	258	(354)	247	(2,100)
Net income (loss) from continuing operations	(13,562)	(2,143)	(8,473)	(6,110)	(27,683)
Net income (loss) from discontinued operations, net of taxes and minority interest(1)	344	(8)	--	--	--
Net income (loss)	(13,218)	(2,152)	(8,473)	(6,110)	(27,683)
Net loss per common share - basic and diluted from continuing operations	(0.16)	(0.04)	(0.32)	(0.39)	(2.47)
Net loss per common share - basic and diluted from discontinued operations	(0.00)	(0.00)	--	--	--
Net loss per common share - basic and diluted	(0.16)	(0.04)	(0.32)	(0.39)	(2.47)
Cash generated by (used in) operations	(12,364)	7,881	(1,210)	(14,718)	(4,176)

Reported in $000's except for per common share amounts	YEAR ENDED DECEMBER 31,				
	2001	2000	1999	1998	1997
Working capital	9,948	23,322	2,729	1,366	13,971

Total assets	70,312	82,849	43,948	46,618	37,434
Minority shareholder advances	450	--	--	--	--
Stockholders' equity	65,800	72,426	37,863	40,031	26,779
Cash dividends per common share	--	--	--	--	--

(1) In September 2002, CanArgo approved a plan to sell CanArgo Standard Oil Products to finance Georgian and Ukrainian development projects and in October 2002, CanArgo agreed to sell its 50% holding to Westrade Alliance LLC, an unaffiliated company, for $4 million in an arms-length transaction, with legal ownership being transferred upon receipt of final payment due in August 2003. The agreed consideration to be exchanged does not result in an impairment of the carrying value of assets held for sale. The assets and liabilities of CanArgo Standard Oil Products have been classified as "Assets of subsidiary held for sale" and "Liabilities of subsidiary held for sale" for all periods presented. The results of operations of CanArgo Standard Oil Products have been classified as discontinued for all periods presented. The minority interest related to CanArgo Standard Oil Products has not been reclassified for any of the periods presented, however net income from discontinued operations is disclosed net of taxes and minority interest. CanArgo Standard Oil Products was purchased in 2000 and operations were developed in 2001, therefore prior to 2000 there is no effect on the financial statements in respect of discontinued operations.

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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 "Qualifying Statement With Respect To Forward-Looking Information" above and "Forward Looking Statements" below.

LIQUIDITY AND CAPITAL RESOURCES

CanArgo's activities and investment in CanArgo common stock involves a high degree of risk. Each of the risks in Item 1 may have a significant impact on CanArgo's future financial condition and results of operations.

In November and December 2000 respectively, CanArgo expanded its oil and gas exploration and development activities with the acquisition of a controlling interest in a refinery for common share consideration in the amount of $1,667,000 and investment in a chain of petrol stations all located in and around Tbilisi, the capital of Georgia. In April 2001, CanArgo acquired Lateral Vector Resources Inc. ("LVR") for total cash consideration of $3,421,000 which according to publicly available information at the time had concluded with Ukrnafta a Joint Investment Production Activity (JIPA) agreement to develop the Bugruvativske Field in Eastern Ukraine. Funding for the LVR acquisition was provided from existing cash resources.

As of December 31, 2001, CanArgo had working capital from continuing operations of $9,948,000, compared to working capital from continuing operations of

$22,587,000 as of December 31, 2000. The $12,639,000 decrease in working capital from continuing operations from December 31, 2000 to December 31, 2001 is principally due to a reduction in cash as a result of cash used in operations, capital and operating expenditures.

Cash used in continuing operations in 2001 was $12,364,000 compared to cash from continuing operations in 2000 of $7,881,000 in 2000. Cash used in continuing operations increased significantly due to the acquisition of LVR and the use of cash received from AES related to CanArgo's exploration programme in Georgia.

On February 12, 2002, CanArgo completed a private placement of 5,210,000 common shares at NOK 2.95 per share (approximately US$0.33 per share) to an institution and another qualified purchaser for gross proceeds of approximately $1,719,000.

As of September 30, 2002, CanArgo had working capital from continuing operations of $1,658,000 compared to working capital from continuing operations of $9,948,000 as of December 31, 2001. The $8,290,000 decrease in working capital from continuing operations from December 31, 2001 to September 30, 2002 is principally due to a reduction in cash and prepayments related to capital expenditures on the Ninotsminda, Manavi and Norio projects.

As a result of unexpected mechanical difficulties drilling exploration wells M11 and MK72 and delays in testing well N100, capital expenditures have exceeded initial estimates and production volumes available for sale are less than anticipated. These events have resulted in lower than expected cash resources from which CanArgo can continue its development activities in Georgia. In order to preserve available cash resources while still maintaining essential field operations and development activities in Georgia, a significant cost reduction plan is being implemented. Both direct project and general and administrative costs are to be reduced. CanArgo's management believes that these reductions together with a prepayment on the sale of crude oil, the selective sale of certain non-core assets including CanArgo's generator and a portion or all of CanArgo's drilling equipment should provide CanArgo the working capital necessary to cover CanArgo's immediate and near term funding requirements with respect to its activities in the Republic of Georgia. Provided funds are available, immediate and near term development plans include the completion of testing of well N100 and the continued drilling of wells M11 and Norio MK72, two deep

exploration wells. CanArgo has temporarily suspended further drilling of well M11 below its current casing point at 4,182 metres in order to fully review available technical data, and to estimate the cost to complete the well. Norio MK72, has been cased at a depth of 2,932 metres in the Lower Sarmatian. Farm-in partners are currently being sought to provide additional capital for completing these wells.

In September 2002 CanArgo agreed terms with Ukrnafta, the Ukrainian State Oil Company, on revisions to the existing Joint Investment Production Activity agreement (JIPA) for the development of the Bugruvativske field in Ukraine and reached an agreement with Gals-K Limited, an unaffiliated local Ukrainian oil and gas company on the terms of a farm-in to the JIPA. The terms of the farm-in, arrived at in arms-length negotiations, are that the local Ukrainian oil and gas company will invest approximately $3 million in the Bugruvativske field over the course of 12 months in order to drill two new wells and will bear the financial risk under the JIPA during this period. CanArgo can match up to the amount invested by the local Ukrainian oil and gas company, prior to December 31, 2003. Additionally, agreement has been reached with Ukrnafta, on revisions to the commercial terms of the JIPA. The revised JIPA provides that (assuming CanArgo matches the local Ukrainian oil and gas company's initial expenditure) the financing risk shall be shared between CanArgo and a subsidiary of the local Ukrainian oil and gas company, IPEC. Ukrnafta shall be entitled to 25% of all net profits distributed to the parties to the JIPA and the remainder shall be shared between CanArgo and IPEC. Assuming that CanArgo matches the local Ukrainian oil and gas company's initial expenditure, CanArgo will be entitled to approximately 34.5% of net profits generated under the JIPA (or a proportionally smaller amount if the amount invested is less than that invested by IPEC). In the event that CanArgo decides not to invest in the project by December 31, 2003, it will receive an ongoing project fee of between 3-4 % of the net profits generated under the JIPA in recognition of its earlier involvement in the project.

In September 2002, CanArgo approved a plan to sell CanArgo Standard Oil Products to finance Georgian and Ukrainian development projects and in October 2002, CanArgo agreed to sell its 50% holding to Westrade Alliance LLC, an unaffiliated company, for $4 million in an arms-length transaction, with legal ownership being transferred upon receipt of final payment due in August 2003. The agreed consideration to be exchanged does not result in an impairment of the carrying value of assets held for sale.

In 2001 an agreement was reached to undertake a limited investment and development program by June 2002 in respect of Boryslaw Oil Company to increase production and to meet certain work commitments under the Stynawske field licence. These obligations have not been fully met, however, Boryslaw Oil Company is seeking modifications to the licence agreement to allow a proper assessment of the workovers and development plans completed to date. A repayment schedule of CanArgo's advances to Boryslaw Oil Company has also been agreed of which $250,000 was repaid at September 30, 2002. Boryslaw Oil Company has so far not been given notice by the Ukrainian licensing body of early termination of the license. CanArgo is actively seeking to farm-out part of its interest in Boryslaw Oil Company in return for financing to carry out the work programme. If Boryslaw Oil Company does not proceed with the Stynawske field development programme or if modifications to the current licence agreement cannot be obtained, it may be in breach of obligations it has with regard to the field license and an impairment charge against CanArgo's investment in and advances to Boryslaw Oil Company may be required.

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

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

- 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 existing projects beyond CanArgo's immediate development plan and to pursue new opportunities, CanArgo will require additional capital. While expected to be substantial, without further exploration work and evaluation the exact amount of funds needed to fully develop all of our oil and gas properties cannot at present, be quantified. Potential sources of funds include additional equity, project financing, debt financing and the participation of other oil and gas entities in CanArgo's projects. Based on CanArgo's past history of raising capital and continuing discussions including those with major stockholders, investment bankers and other institutions, CanArgo believes that such required funds may be available. However, there is no assurance that such funds will be available, and if available, will be offered on attractive or acceptable terms. Should such funding not be forthcoming and CanArgo be unable to sell some or all of its non-core assets, further cost reductions will be required in order for CanArgo to remain a going concern.

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

Subject to the raising of additional capital, above, CanArgo has plans to mobilize resources and achieve levels of production and profits sufficient to recover the carrying value of its oil and gas properties and ventures. However, if unforeseen circumstances occur or 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 should be entitled to distributions from the various properties and ventures in which it participates in accordance with the arrangements governing the respective properties and ventures.

STATEMENT OF CASH FLOWS

All balances represent results from continuing operations, unless disclosed otherwise.

Cash and cash equivalents decreased $23,806,000 from $29,697,000 at December 31, 2000 to $5,891,000 at December 31, 2001. The decrease was primarily due to the cost of the Cretaceous exploration programme currently underway in Georgia, workovers, expansion of marketing activities and the acquisition of LVR. The December 2000 closing cash position was high due to the timing of proceeds received from the 2000 private placements.

Operating Activities

Net cash used in operating activities in the year ended December 31, 2001 was $12,364,000 compared to net cash generated from operating activities in 2000 of $7,881,000. Cash used in operating activities increased primarily due to the use of cash received from AES Gardabani with respect to its participation in a three well exploration programme, increases in accounts receivable and decreases in accounts payable.

Accounts receivable increased from $317,000 at December 31, 2000 to $2,007,000 at December 31, 2001. The increase is primarily a result of accounts receivable generated from oil, natural gas and refined product sales in 2001, rental income due from the lease of one of CanArgo's drilling rigs to a third party and $1,000,000 due from AES Gardabani relating to the announced termination of their participation in a planned three well exploration programme in the Republic of Georgia. Formal documentation, while completed, is not binding until such time as payment of the $1,000,000 termination fee is made. Should AES Gardabani not comply with the terms of the Termination Agreement, then CanArgo may at its sole option seek further compensation from AES for the full amount of AES's share of exploration costs under the original Participation Agreement. Prior to the announcement of the termination of the Participation Agreement, AES owed approximately $2,725,000 for its share of costs to January 31, 2002. The residual balance of $1,725,000 has been classified within unproved oil and gas properties.

Prepayments increased from $686,000 at December 31, 2000 to $2,236,000 at December 31, 2001 primarily as a result of increased prepaid expenditures to suppliers related to the Cretaceous and Norio exploration programmes.

Other currents assets increased from $201,000 at December 31, 2000 to $698,000 at December 31, 2001 as a result of the reclassification of power generating equipment held for resale as a current asset.

Inventory decreased from $668,000 at December 31, 2000 to $406,000 at December 31, 2001 primarily as result of the sale of refined product inventory following the suspension of operations at Georgian American Oil Refinery. At December 31, 2001, the majority of inventory relates to approximately 77,000 barrels of oil held in storage by Ninotsminda Oil Company at December 31, 2001 for sale to the Georgian domestic, region or international market.

Accounts payable decreased to $828,000 at December 31, 2001 from $2,684,000 at December 31, 2000 primarily as a result of payments in 2001 of liabilities at December 31, 2000 related to the 2000 Norio seismic programme.

Accrued liabilities decreased to $400,000 at December 31, 2001 from $409,000 at December 31, 2000 as identified in note 7 to the consolidated financial statements.

Advances from joint venture partner decreased to nil at December 31, 2001 compared to $5,889,000 at December 31, 2000 as capital expenditures were incurred under the proposed three well exploration programme with AES Gardabani in the Republic of Georgia. In 2002 the Participation Agreement with AES Gardabani was terminated and the agreed settlement amount of $1,000,000 is included in accounts receivable at December 31, 2001.

Investing Activities

Net cash used in investing activities increased to $17,189,000 in the year ended December 31, 2001 from $12,230,000 in the year ended December 31, 2000. The increase in cash used in investing activities was primarily due to capital expenditures related to the Ninotsminda field and the acquisition of LVR.

Capital assets, net increased from $49,849,000 at December 31, 2000 to $52,535,000 at December 31, 2001, primarily as a result of investment of $11,117,000 in capital assets including oil and gas properties and equipment, principally related to the Ninotsminda field. Capital assets also increased as a result of the acquisition of LVR and CanArgo Power in April 2001. During 2001, CanArgo wrote down its oil and gas properties in the Ninotsminda field by an aggregate $7,300,000 on application of the full cost ceiling test as a result of a decline in Brent oil prices at December 31, 2001, lower reserve quantities following production

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declines in 2001 and reduced development plans. If oil prices or production levels further decline, CanArgo may experience additional impairment of this property. As a result of both product stability and continued difficulties addressing excise taxes on refined products, refinery and related equipment was written-down by $3,360,000 to reflect, under current conditions, the estimated net recoverable amount of the refinery. While efforts to change the current excise tax regime as well other opportunities to utilize the refinery are being pursued, no assurance can be given that these activities will be successful. CanArgo further wrote-down during 2001, other oil and gas related equipment by $500,000 following a decision to dispose of a power generating unit which CanArgo has identified as surplus to its existing requirements. This write-down is classified in the statement of operations within Impairment of other assets.

Investments in and advances to oil and gas and other ventures, net increased from $696,000 at December 31, 2000 to $719,000 at December 31, 2001. The increase is primarily due to advances to Boryslaw Oil Company of $550,000 relating to a three well workover programme 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.

Financing Activities

Cash from financing activities decreased to $8,974,000 for the year ended December 31, 2001 from $31,143,000 for the year ended December 31, 2000 due primarily to fewer sales of common stock partially offset by an increase in advances from minority shareholders.

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). 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.

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

On May 28, 2002, CanArgo completed an offering of 137,760 common shares at NOK 1.68 per share (approximately US$0.21 per share) to David Robson, CanArgo's Chief Executive Officer, for gross proceeds of approximately $29,000 in transactions intended to qualify for an exemption from registration under Section 4(2) of the Securities Act of 1933 afforded by Regulation S promulgated thereunder.. The shares have not been registered under the Securities Act of 1933 and are "restricted" as that term is defined in Rule 144 under the Securities Act. The shares may not be offered for sale, sold or otherwise transferred except pursuant to an effective registration statement under the Securities Act or pursuant to an exemption from registration under the Securities Act, the availability of which is to be established to the satisfaction of CanArgo.

Minority shareholder advances as at December 31, 2001 related to the receipt of convertible loans from new minority shareholders of CanArgo's subsidiary, CanArgo Norio Limited (Norio). The cash amount received represented part of the new minority shareholder's share of the cost of drilling an exploration well under the Norio and North Kumisi production sharing agreement. In November 2002, CanArgo reached agreement with the other shareholders in Norio on increasing CanArgo's interest in Norio. Under the agreement CanArgo's interest increased from 50% to 64% in Norio and its existing Norio and North Kumisi production sharing agreement. Subsequently, the convertible loans have been reclassified as minority interest on finalisation of respective equity shares.

Minority interest in continuing and discontinued subsidiaries increased to $1,531,000 at December 31, 2001 compared to $1,394,000 at December 31, 2000 primarily as a result of CanArgo Standard Oil Products in Tbilisi, Georgia and related investment of $1,932,000 by CanArgo's partners in this venture.

Discontinued Operations

Assets of subsidiary held for sale, as a result of discontinued operations, increased by $5,085,000 to $5,820,000 at December 30, 2001 from $735,000 at December 31, 2000 primarily due to activity at CanArgo Standard Oil Products relating to the addition of new petrol stations in Georgia.

Liabilities of subsidiaries held for sale, of discontinued operations, increased by $1,170,000 to $1,177,000 at December 30, 2001 from $7,000 at December 31, 2000 primarily due to additional bank loans drawn by CanArgo Standard Oil Products in Tbilisi at an effective interest rate of 18% per annum, in order to fund the construction of new petrol stations in Georgia.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL TERMS

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

Our production sharing contracts 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. However the Norio (Block XIc) and North Kumisi Production Sharing Agreement was concluded after enactment of the Petroleum Law, and under the terms and conditions of this legislation.

To confirm that the Ninotsminda production sharing contract and the mineral usage license issued prior to the introduction in 1999 of the Petroleum Law were validly issued, in connection with its preparation of the Convertible Loan Agreement with us, the International Finance Corporation, an affiliate of the World Bank received in November 1998 confirmation from the State of Georgia, that among other things:

o 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;

o 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

o 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.

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, 2002, CanArgo had a contingent obligation to issue 187,500 shares of common stock to a third party upon satisfaction of conditions relating to the achievement of specified Stynawske field project

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performance standards. As CanArgo develops current projects and undertakes other projects, it could incur significant additional obligations.

Current drilling obligations with respect to CanArgo's oil and gas properties include, under the third phase of the preliminary work programme for the Nazvrevi/Block XIII production sharing contract, the drilling of one well, unless CanArgo decides to terminate the contract. There is no depth or financial commitment relating to this well. The second phase of the preliminary work programme under the Norio and North Kumisi production sharing agreement commenced in January 2002 with the first exploration well at an estimated cost of up to $4.4 million of which CanArgo's estimated share of costs is $3.2 million. The State Agency for Oil and Gas Regulations in Georgia has confirmed that CanArgo has satisfied all drilling and work obligations under the terms of the Norio and Kumisi production sharing agreement. The well is currently suspended while CanArgo actively seeks partners for funding to deepen the well to the target zone.

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

In 2001 an agreement was reached to undertake a limited investment and development program by June 2002 in respect of Boryslaw Oil Company to increase production and to meet certain work commitments under the Stynawske field licence. These obligations have not been fully met, however, Boryslaw Oil Company is seeking modifications to the licence agreement to allow a proper assessment of the workovers and development plans completed to date. A repayment schedule of CanArgo's advances to Boryslaw Oil Company has also been agreed of which $250,000 was repaid by September 30, 2002. Boryslaw Oil Company has so far not been given notice by the Ukrainian licensing body of early termination of the license. CanArgo is actively seeking to farm-out part of its interest in Boryslaw Oil Company in return for finance to carry out the work programme. If Boryslaw Oil Company does not proceed with the Stynawske field development programme or if modifications to the current licence agreement cannot be obtained, it may be in breach of obligations it has with regard to the field license and an impairment charge against CanArgo's investment in and advances to Boryslaw Oil Company may be required.

In August 2002, Ninotsminda Oil Company entered into a 12 month crude oil sales agreement to sell its monthly share of oil produced under the Ninotsminda production sharing contract. As security for payment the buyer has paid to Ninotsminda Oil Company $1 million to be repaid at the end of the twelve month period through the delivery of additional crude oil equal to the value of the security. Under the agreement, crude oil will be sold at dated Brent less a fixed discount per barrel depending on the Brent price. The discount ranges from a minimum of $6.00 per barrel when dated price is less than $15.00 per barrel to a maximum $7.50 per barrel when dated Brent is greater than $25.01 per barrel.

RESULTS OF OPERATIONS

RESULTS OF CONTINUING OPERATIONS

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

CanArgo recorded operating revenue of $7,171,000 during the year ended December 31, 2001 compared with $7,010,000 for the year ended December 31, 2000. The increase is primarily due to increased refining revenue from Georgian American Oil Refinery and other revenue, representing rental of CanArgo equipment in Georgia partially offset by lower oil and gas revenues.

Ninotsminda Oil Company generated $3,967,000 of oil and gas revenue in the year ended December 31, 2001. Its net share of the 414,000 barrels (1,133 barrels per day) of gross oil production for sale from the Ninotsminda field in the period amounted to 247,179 barrels. In 2001, 38,731 barrels of oil were added to storage. For the year ended December 31, 2000, Ninotsminda Oil Company's net share of the 479,000 barrels (1,312 barrels per day) of gross oil production was 245,947 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 2001 averaged $19.43 per barrel as compared with an average of $20.14 per barrel in 2000. Its net share of the 1,110,390 thousand cubic feet (mcf) of gas delivered was 721,754 mcf at an average net sale price of $1.14 per mcf of gas. For the year ended December 31, 2000, Ninotsminda Oil Company's net share of the 1,764,000 mcf of gas delivered was 1,146,000 mcf at an average net sales price of $1.16 per mcf of gas.

Refining revenue for the year ended December 31, 2001 relates solely to operating activities of Georgian American Oil Refinery. In 2001, sales from the refinery continued to be affected 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 have effectively curtailed the production of gasoline. As a result, only naphtha, diesel and mazut can currently be produced by the refinery and of these products, an excise tax on naphtha sales remains in place. Due to these taxes, production of naphtha is currently commercially uneconomic and 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 that 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. As a result, CanArgo recorded a write-down of $3,360,000 to reflect, under current conditions, the estimated net recoverable amount of the refinery.

CanArgo had revenue from equipment rentals in 2001 of $608,000 compared to other revenue from equipment rentals of $365,000 for the year ended, December 31, 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 continued through February 2002.

The operating loss from continuing operations for the year ended December 31, 2001 amounted to $16,107,000 compared with an operating loss of $2,401,000 for 2000. The increase in operating loss is attributable primarily to the impairment of oil and gas properties of $7,300,000, impairment of refinery assets of $3,860,000, lower oil and gas revenue of $2,141,000 as a result of lower production and significant increases in operating and corporate activity.

Field operating expenses increased to $1,568,000 ($4.27 per BOE) for the year ended December 31, 2001 as compared to $1,287,000 ($2.95 per BOE) for 2000. The increase is primarily a result of increased activity at the Ninotsminda field. Operating costs per BOE increased as day to day field operations in Georgia include a proportionately higher fixed to variable cost component combined with lower production rates.

Purchases of crude oil and products and refinery operating expenses of $1,451,000 and $791,000 respectively for the year ended December 31, 2001 relate to operating activities of Georgian American Oil Refinery. The increase is due to a full year of consolidation of activity in 2001.

Direct project costs increased to $1,300,000 for the year ended December 31, 2001, from $738,000 for the year ended December 31, 2000, reflecting project cost associated with an agreement to provide drilling services to a third party using CanArgo rig equipment, increased activity within Georgia, reestablishment of activity with respect to the license Boryslaw Oil Company holds in the Stynawske field, Ukraine and the acquisition of LVR.

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.

Selling, general and administrative costs increased to $3,742,000 for the year ended December 31, 2001, from $3,050,000 for the year ended December 31, 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, an allowance for $200,000 against a potential bad debt and general and administrative costs of $261,000 related to refining activity.

The decrease in depreciation, depletion and amortization expense to $3,250,000 for the year ended December 31, 2001 from $3,876,000 for the year ended December 31, 2000 is attributable principally to lower depletion resulting from lower sales of oil and gas during the year.

During 2001, CanArgo wrote down its oil and gas properties in the Ninotsminda field by an aggregate $7,300,000 on application of the full cost ceiling test as a result of a decline in Brent oil prices at December 31, 2001, lower reserve quantities following production declines in 2001 and reduced development plans. The write-down was a non-cash write-down. If oil prices or production levels decline further, CanArgo may experience additional impairment of this property.

As a result of both product instability and continued difficulties addressing excise taxes on refined products, refinery and related equipment was written-down by $3,360,000 to reflect, under current conditions, the estimated net recoverable amount of the refinery. During 2001, CanArgo further wrote down other oil and gas related equipment by $500,000 following a decision to dispose of a power generating unit which CanArgo has identified as surplus to its existing requirements. This equipment is included in current assets as at December 31, 2001.

CanArgo recorded net other income of $407,000 for the year ended December 31, 2001, as compared to net other income of $231,000 during the year ended December 31, 2000. The principal reason for the increase in net other income is a decrease in loss from equity investments and higher cash balances in 2001.

Equity loss from investments primarily relate to expenses related to operation by East Georgian Pipeline Company of the gas pipeline from Ninotsminda to the Gardabani power station and Rustavi industrial complex. Equity loss from investments decreased to $160,000 for the year ended December 31, 2001, from a loss of $240,000 for the year ended December 31, 2000 as a result of equity income from production and sales of crude oil by Boryslaw Oil Company and the sale of CanArgo's small investment in Uentech International Corporation. No material gain resulted from the sale of Uentech International Corporation.

The net loss from continuing operations of $13,562,000 or $0.16 per share for the year ended December 31, 2001 compares to a net loss from continuing operations of $2,143,000 or $0.04 per share for the year ended December 31 2000. The weighted average number of common shares outstanding was substantially higher during the year ended December 31, 2001 than during the year ended December 31, 2000, due in large part to private placements in April, June and August 2000 and July 2001.

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 $7,010,000 during the year ended December 31, 2000 compared with $2,783,000 for the year ended December 31, 1999. The increase was 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. Oil production from the Sylvan Lake property in Alberta, Canada, a property sold in 1999, accounted for $219,000 of revenue in the year ended December 31, 1999.

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). The net oil sales price for oil sold from the Sylvan Lake property in Alberta, Canada, a property sold in 1999, averaged $12.88 per barrel in the year ended December 31, 1999.

Refining revenue for the year ended December 31, 2000 relate solely to operating activities of Georgian American Oil Refinery 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.

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 from continuing operations for the year ended December 31, 2000 amounted to $2,401,000 compared with an operating loss of $8,119,000 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.

Field operating expenses increased to $1,287,000 ($2.95 per BOE) for the year ended December 31, 2000 as compared to $1,063,000 ($5.12 per BOE) for the year ended December 31, 1999. The increase is primarily a result of increased oil and gas production in the year. Field operating expenses per BOE decreased primarily as net production increased as a proportion to gross production in the year. Field operating expenses at Ninotsminda Oil Company and the Sylvan Lake property in Alberta, Canada, a property sold in 1999, were $4.39 and $12.88 per BOE respectively for the year ended December 31, 1999.

Purchases of crude oil and products and refinery operating expenses of $21,000 and $439,000 respectively for the year ended December 31, 2000 relate to solely to operating activity of Georgian American Oil Refinery 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

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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.

Selling, general and administrative costs increased to $3,050,000 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 $184,000 related to refining activity.

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 $231,000 for the year ended December 31, 2000, as compared to net other expenses of $535,000 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 from continuing operations of $2,143,000 or $0.04 per share for the year ended December 31, 2000 compares to a net loss from continuing operations 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.

RESULTS OF DISCONTINUED OPERATIONS

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

The net income from discontinued operations, net of taxes and minority interest for the year ended December 31, 2001 amounted to $344,000 compared with a loss of $8,000 for the corresponding period in 2000. The increase in net income from discontinued operations, net of taxes and minority interest is due to additional operating petrol stations in Georgia and relates entirely to the activities of CanArgo standard Oil Products.

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

The net loss from discontinued operations, net of taxes and minority interest for the year ended December 31, 2000 amounted to $8,000 is due to operating activities of CanArgo Standard Oil Products. CanArgo Standard Oil Products was purchased in 2000 and operations were developed in 2001.

RELATED PARTY TRANSACTIONS

The majority of refined product purchased by CanArgo Standard Oil Products for resale at its petrol stations is purchased from a company controlled by Standard Oil Products who together with an individual shareholder own the 50% interest in CanArgo Standard Oil Products not held by CanArgo. Total product purchases from the related company in 2001 were $4,941,000. Certain equipment is provided to Georgian British Oil Company Ninotsminda by a company owned by significant employees of Georgian British Oil Company Ninotsminda. Total rental payments for this equipment in 2001 was $124,078.

J.F. Russell Hammond, a non-executive director of CanArgo, is also an investment advisor to Provincial Securities who became a minority shareholder in the Norio and North Kumisi Production Sharing Agreement through a farm-in agreement to the Norio MK72 well.

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In April 2001, CanArgo acquired from a wholly owned subsidiary of Terrenex Acquisition Corporation, a former shareholder of CanArgo, 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. Two members of the Board of Directors of CanArgo, Messrs. Hammond and

Paus, who were also members of the Board of Directors of Terrenex Acquisition Corporation abstained from voting on the transactions.

SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to establish accounting policies and make estimates and assumptions that affect the reported amounts of assets and liabilities. Such accounting policies include the method used to account for capital assets such as oil and gas properties, property and equipment and refining and marketing assets.

Capital assets are recorded at cost less accumulated provisions for depreciation, depletion and amortization unless the carrying amount is viewed as not recoverable in which case the carrying value of the assets is reduced to the estimated recoverable amount. See "Impairment of Long-Lived Assets" below. Expenditures for major renewals and betterments, which extend the original estimated economic useful lives of applicable assets, are capitalized. Expenditures for normal repairs and maintenance are charged to expenses as incurred. The cost and related accumulated depreciation of assets sold or retired are removed from the accounts and any gain or loss thereon is reflected in operations.

Oil And Gas Properties - CanArgo and the unconsolidated entities for which it accounts using the equity method account for oil and gas properties and interests under the full cost method. Under this accounting method, costs, including a portion of internal costs associated with property acquisition and exploration for and development of oil and gas reserves, are capitalized within cost centers established on a country-by-country basis. Capitalized costs within a cost center, as well as the estimated future expenditures to develop proved reserves and estimated net costs of dismantlement and abandonment, are amortized using the unit-of-production method based on estimated proved oil and gas reserves. All costs relating to production activities are charged to expenses as incurred.

Capitalized oil and gas property costs, less accumulated depreciation, depletion and amortization and related deferred income taxes, are limited to an amount (the ceiling limitation) equal to (a) the present value (discounted at 10%) of estimated future net revenues from the projected production of proved oil and gas reserves, calculated at prices in effect as of the balance sheet date (with consideration of price changes only to the extent provided by fixed and determinable contractual arrangements), plus (b) the lower of cost or estimated fair value of unproved and unevaluated properties, less (c) income tax effects related to differences in the book and tax basis of the oil and gas properties.

Estimated undiscounted future site restoration, dismantlement and abandonment costs of $820,000 at December 31, 2001 are amortized on a unit of production basis and reflected with accumulated depreciation, depletion and amortization. CanArgo identifies and estimates such costs based upon its assessment of applicable regulatory requirements, its operating experience and oil and gas industry practice in the areas in which its properties are located. To date CanArgo has not been required to expend any material amounts to satisfy such obligations.

Property and Equipment - Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets ranging from three to five years for office furniture and equipment to three to fifteen years for oil and gas related equipment.

Refining - The refinery and additions thereto are depreciated over the estimated useful lives of the assets ranging fifteen to twenty years.

Discontinued Operations - CanArgo Standard Oil Products petrol stations and additions thereto were depreciated over the estimated useful lives of the assets ranging from ten to fifteen years until operations were reclassified as discontinued.

NEW ACCOUNTING STANDARDS

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

CanArgo has adopted the provisions of Statement 141 and Statement 142 effective January 1, 2002. No adjustments were required as a result of adoption. Furthermore, any goodwill and any intangible asset determined to have an indefinite useful life that are acquired in a purchase business combination will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre-Statement 142 accounting literature.

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

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("FAS 146"). This standard will require companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The standard replaces the existing guidance provided by EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The statement is effective for fiscal years beginning after December 31, 2002. CanArgo does not expect the adoption of this standard to have a material effect on its financial statements.

FORWARD LOOKING STATEMENTS

The forward looking statements contained in this Item 7 and elsewhere in this Annual Report on Form 10-K/A 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 the forward-looking statements in this Annual Report deal with matters that are within CanArgo's unilateral control. 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. These third parties generally have objectives and interests that may not coincide with CanArgo's and may conflict with CanArgo's interests. Unless we are able to compromise these conflicting objectives and interests in a mutually acceptable manner, agreements and arrangements with these third parties 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. Finally, due to the developing nature of the legal regimes in many Eastern European countries where CanArgo operates, our contractual rights and remedies may be subject to certain legal uncertainties.

CanArgo does not have a majority of the equity in the entity that is the licensed developer of some projects, such as the Bugruvativske and Stynawske field projects, that CanArgo may pursue in Eastern Europe, even though we may be the designated operator of the oil or gas field. In these circumstances, the concurrence of co-venturers may be required for various actions. Other parties influencing the timing of events may have priorities that differ from ours, even if they generally share our objectives. As a result of all of the foregoing, among other matters, any forward-looking statements regarding the occurrence and timing of future events may well anticipate results that will not be realized. Demands by or expectations of governments, co-venturers, customers and others may affect CanArgo's strategy regarding the various projects. Failure to meet such demands or expectations could adversely affect CanArgo's participation in such projects or our ability to obtain or maintain necessary licenses and other approvals.

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

- world economic conditions;
- international relations;
- the stability and policies of various governments;
- fluctuations in the price of oil and gas, the outlook for the oil and gas industry and 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 us and our projects and comparisons with alternative investment opportunities.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

While CanArgo Standard Oil Products marketing revenue is denominated in Lari, the local Georgian currency, and is used to pay Lari denominated operating costs, its long term debt is denominated in dollars. As a result, changes in the exchange rate could have a material adverse effect on its ability to pay off non-Lari denominated indebtedness such as its existing credit facility. The sensitivity to changes in exchange rates for CanArgo Standard Oil Products was determined using current market pricing models. We estimate that a 10% appreciation or devaluation in the foreign exchange rate of the Lari against the dollar in 2001 would not have had a significant impact on operations. No assurance can be given, however, that changes in exchange rates would be limited to a 10% appreciation or devaluation in the foreign exchange rate.

CanArgo had no material 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

Current Directors and Executive Officers of the Company are as follows:

NAME	AGE	OFFICE OR OFFICES
David Robson(1)	44	Chairman of the Board, Managing Director and Chief Executive Officer
Russell Hammond(2)(3)	60	Director
Nils N. Trulsvik(2)(3)	53	Director
Murray Chancellor	49	Chief Operating Officer
Vincent McDonnell (4)	43	Chief Commercial Officer and Chief Financial Officer

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(1) On November 11 2002, Roger Brittain resigned as non-executive Chairman of the Board and on November 21 2002, the Board appointed Mr. Robson Chairman and Chief Executive Officer of the Company

(2) Member of Audit Committee

(3) Member of Compensation Committee

(4) On September 23 2002, the Board appointed Vincent McDonnell Chief Commercial Officer and Chief Financial Officer of the Company to replace Anthony J. Potter who resigned in September 2002 and who previously held the position of Chief Financial Officer.

DAVID ROBSON, a resident of Guernsey, was elected a Director, Chairman of the Board and Chief Executive Officer of the Company on July 15, 1998 and subsequently Managing Director and Chief Executive Officer. He has also served as a Director, Chairman of the Board and Chief Executive Officer of the Company's subsidiary, CanArgo Oil & Gas Inc., since July 1997, as President of CanArgo Oil & Gas Inc.'s subsidiary, Ninotsminda Oil Company, since 1996, and as Managing Director and sole owner of Vazon Energy Limited, a company which provides consulting services to the energy industry, since March 1997. From April 1992 until July 1993, Dr. Robson was General Manager of JP Kenny/Intershelf Oil & Gas Resources, from July 1993 until December 1993, Operations Director of JP Kenny Exploration and Production Limited ("JP Kenny"), from December 1993 until November 1994, Managing Director, JP Kenny and from November 1994 until March 1997, Dr. Robson was Chief Executive Officer of JKX Oil &Gas. Prior to this he was employed in technical and commercial positions in Britoil plc, Hamilton Oil and Mobil. He holds a B.Sc. (Hons) in Geology and a Ph.D. in Geochemistry from the University of Newcastle upon Tyne, and an MBA from the University of Strathclyde. Dr. Robson devotes substantially all of his time to CanArgo.

RUSSELL HAMMOND, a resident of the UK, was elected a Director of the Company on July 15, 1998. He has also served as a Director of the Company's subsidiary, CanArgo Oil & Gas Inc., since June 1997. Although retired, Mr. Hammond has over the past five years been an investment advisor to Provincial Securities Ltd., a private investment company. Mr. Hammond has been Chairman of Terrenex

Acquisition Corporation, an oil and gas and joint venture company since 1992 and a director of Cadiz Inc., a Nasdaq National Market listed company, from 1989 to January 1999.

NILS N. TRULSVIK, a resident of the UK, was elected a Director of the Company on August 17, 1994. He has served the Company as President and Chief Executive Officer from February 4, 1997 to July 15, 1998 and from November 21, 1994 to March 9, 1995; and as Executive Vice President from March 9, 1995 to February 4, 1997 and from September 8, 1994 until November 21, 1994. Since January 2, 1999 Mr. Trulsvik has served as the Chief Executive Officer of Force Petroleum. From August 1998 Mr. Trulsvik has been a partner in a consulting company, The Bridge Group, located in Norway. Mr. Trulsvik is a petroleum explorationist with extensive experience in petroleum exploration and development throughout the world. Prior to joining the Company, he held various positions with Nopec a.s. a Norwegian petroleum consultant group of companies of which he was a founder, including Managing Director from 1987 to 1993 and Special Advisor from 1993 to August 1994.

Murray Chancellor, a resident of the UK, was elected Chief Operating Officer of the Company on September 11, 2000. Mr. Chancellor joined the company from Aminex PLC, a UK oil and gas exploration company, where he was most recently involved as General Director of Russian Operations from April 1998 until September 2000. From 1996 until April 1998, Mr. Chancellor served as Deputy General Director and Technical Director of Poltava Petroleum Company. Mr. Chancellor has an extensive experience in the oil and gas sector having worked in the UK, Norway, Australia, North America, the Middle East and the Former Soviet Union. An engineer by profession, he has been involved in engineering and project management activities both onshore and offshore. He has held senior management positions in oil and gas development projects in both Russia and Ukraine, as well as having extensive experience in the North Sea. Mr. Chancellor holds a Bachelor of Engineering (Civil) degree.

Vincent McDonnell, a resident of the UK, was elected Chief Commercial Officer of the Company on April 1, 2001. Prior thereto, he served CanArgo as Commercial Manager from December 2000. Prior to joining the Company, he was an independent oil and gas consultant from May 1998 until October 2000. From 1994 until April 1998, Mr. McDonnell served as Oil and Gas Exploration and Production Commercial Manager of JKX Oil & Gas plc. Prior to 1997, Mr. McDonnell worked in various business, commercial and technical roles with a number of companies, including Mobil Oil and Britoil. He holds a Bachelor of Science (Hons.) degree in Geology, a Master of Science degree in Geophysics together with a Master of Business Administration (MBA) degree.

Directors hold office until the next annual meeting of stockholders and until their successors are duly elected and qualified. Officers serve at the pleasure of the Board of Directors.

SECTION 16 (A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires CanArgo's executive officers and directors, and persons who own more than 10% of the registered class of CanArgo's equity securities ("Reporting Persons"), to file reports of ownership and changes of ownership with the Securities and Exchange Commission. Reporting persons are required by SEC Regulations to furnish CanArgo with copies of all forms they file pursuant to Section 16(a). Based solely on CanArgo's review of reports filed under Section 16(a) of the Securities Exchange Act of 1934 and certain representations, CanArgo believes that all filing requirements applicable to its officers, directors and persons who own more than 10% of a registered class of CanArgo's securities have been complied with.

ITEM 11. EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table shows all compensation paid or accrued by CanArgo and its subsidiaries during the years ended December 31, 2001, 2000 and 1999 to certain executive officers of CanArgo (the "Named Officers").

	ANNUAL COMPENSATION			LONG-TERM COMPENSATION	
NAME AND PRINCIPAL POSITION	YEAR ENDED	SALARY ($)	BONUS ($)	SECURITIES UNDERLYING OPTIONS/SARS (#)	ALL OTHER COMPENSATION ($)(5)
David Robson(1)	12/01	217,500	15,075	585,000	19,575
	12/00	197,420	37,500	1,295,000	9,941
	12/99	144,000	--	1,000,000	--
Murray Chancellor(2)	12/01	174,000	--	200,000	15,660
	12/00	50,750	--	250,000	4,568
Vincent McDonnell(3)	12/01	137,750	--	100,000	12,398
Anthony J. Potter(4)	12/01	210,000	--	100,000	--
	12/00	120,116	--	117,000	1,333
	12/99	60,152	6,667	125,000	1,600

(1) Mr. Robson has served as Chief Executive Officer since July 15, 1998 and provides services to CanArgo through Vazon Energy Limited.

(2) Mr. Chancellor has served as Chief Operating Officer since September 12, 2000.

(3) Mr. McDonnell has served as Chief Commercial Officer since April 1, 2001. Prior thereto he served as Commercial Manager from December 1, 2000. In September 2002 he was appointed Chief Financial Officer of the Company.

(4) Mr. Potter served as Chief Financial Officer from September 2000 until September 2002. Prior thereto he served as Vice-President Finance and Group Controller from July 15, 1998.

(5) Primarily CanArgo's contributions to or accruals with respect to individual retirement and pension plans.

OPTION GRANTS DURING THE YEAR ENDED DECEMBER 31, 2001

The following table sets forth information concerning options granted to the Named Officers who were employed during the year ended December 31, 2001.

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN 2001	EXERCISE PRICE	EXPIRATION DATE	GRANT D PRESENT VA PER SHARE
David Robson(1)	585,000	30%	$0.687	08/07/2006	$0.1378
Murray Chancellor(2)	200,000	10%	$0.687	08/07/2006	$0.2224
Vincent McDonnell(3)	100,000	5%	$0.687	08/07/2006	$0.2224
Anthony Potter(4)	100,000	5%	$0.687	08/07/2006	$0.2224

(1) The options were granted at an exercise price in excess of the fair market value of CanArgo's Common Stock on the date of grant. The options vest 3/4 on 09/07/2001 and 1/4 on 30/06/2002.

(2) The options were granted at an exercise price in excess of the fair market value of CanArgo's Common Stock on the date of grant. The options vest 1/3 on 30/06/2002, 1/3 on 30/06/2003 and 1/3 on 30/06/2004.

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(3) The options were granted at an exercise price in excess of the fair market value of CanArgo's Common Stock on the date of grant. The options vest 1/3 on 30/06/2002, 1/3 on 30/06/2003 and 1/3 on 30/06/2004.

(4) The options were granted at an exercise price in excess of the fair market value of CanArgo's Common Stock on the date of grant. The options vest 1/3 on 30/06/2002, 1/3 on 30/06/2003 and 1/3 on 30/06/2004.

(5) These values were derived using the Black-Scholes option pricing model applying the following assumptions:

EXERCISE PRICE	DIVIDEND YIELD	VOLATILITY	RISK-FREE INTEREST RATE	EXPECTED TERM
$0.687	0%	75.15%	4.61%	3.37 years

Pursuant to the terms of CanArgo's various stock option plans, the Compensation Committee may, subject to each plan's limits, modify the terms of outstanding options, including the exercise price and vesting schedule thereof. These values are not intended to forecast future appreciation of CanArgo's stock price. The actual value, if any, that an executive officer may realize from his options (assuming that they are exercised) will depend solely on the increase in the market price of the shares acquired through option exercises over the exercise price, measured when the shares are sold.

OPTION VALUES AT DECEMBER 31, 2001

The following table sets forth information concerning option exercises and the number and hypothetical value of stock options held by the Named Officers at December 31, 2001.

NAME	NUMBER OF SHARES ACQUIRED ON EXERCISE	VALUE REALIZED ($) (1)	NUMBER OF SHARES UNDERLYING UNEXERCISED OPTIONS HELD AT FISCAL YEAR END(2)		VALU IN-THE-MO Y
			EXERCISABLE	UNEXERCISABLE	EXERCISAB
David Robson	--	--	1,640,416	1,026,251	150
Murray Chancellor	--	--	83,333	366,667	--
Vincent McDonnell	--	--	33,333	200,000	--
Anthony Potter	--	--	64,500	152,500	--

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(1) The amounts in this column have been calculated based upon the difference between the quoted market price of the securities underlying each stock option on the date of exercise and its exercise price.

(2) The exercise of stock options is not dependent on performance criteria and may be exercised in full when vested.

(3) The amounts in this column have been calculated based upon the difference between the quoted market price of CanArgo's common stock on December 31, 2001 and the exercise price per share.

COMPENSATION OF DIRECTORS

In 2001 CanArgo paid directors' fees on a quarterly basis at a rate of $36,000 per year plus (pound)1,000 for each meeting of the Audit Committee and Compensation Committee that they attend. CanArgo also reimburses ordinary out-of-pocket expenses for attending Board and Committee meetings. The Chairman of the Board of Directors is paid 35,000 Pound Sterling per year payable on a quarterly basis.

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The following table shows the compensation paid to all persons who were non-employee directors, including their respective affiliates, during the year ended December 31, 2001:

NAME	DIRECTORS FEES AND OTHER COMPENSATION	CONSULTING PAYMENTS	OPTIONS AND WARRANTS GRANTED
	$	$	
Roger Brittain	59,450	--	--
Russell Hammond	37,450	--	--
Peder Paus	21,276	--	--
Nils N. Trulsvik	44,700	--	--

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During 2001, CanArgo's Compensation Committee consisted of Messrs. Trulsvik, Brittain, Hammond and to June 7, 2001 Messr. Paus, all of whom are or were non-employee directors. See the section entitled "Certain Relationships and Related Transactions".

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The Committee's Responsibilities

The Compensation Committee of the Board of Directors is composed entirely of non-employee directors. The Compensation Committee is responsible for setting and administering policies which govern CanArgo's executive compensation programs. The purpose of this report is to summarize the compensation philosophy and policies that the Compensation Committee applied in making executive compensation decisions in 2001.

Compensation Philosophy

The Compensation Committee has approved compensation programs intended to:

- Attract and retain talented executive officers and key employees by providing total compensation competitive with that of other executives employed by companies of similar size, complexity and lines of business;
- Motivate executives and key employees to achieve strong financial and operational performance;
- Emphasize performance-based compensation, which balances rewards for short-term and long-term results;
- Reward individual performance;
- Link the interests of executives with shareholders by providing a significant portion of total pay in the form of stock incentives;
- Encourage long-term commitment to CanArgo.

The Compensation Committee held four meetings during fiscal 2001.

Stock Based Compensation Plan

- At December 31, 2001, stock options and warrants had been issued from the following stock based compensation plans: 1995 Long-Term Incentive Plan. Adopted by CanArgo in February 1996, this plan allows for 7,500,000 shares of CanArgo's Common Stock to be issued to officers, directors, employees, consultants and advisors. As of December 31, 2001, 4,065,334 options were outstanding.

- CAOG Plan. Adopted by CanArgo following the acquisition by CanArgo of CanArgo Oil & Gas Inc. in 1998, this plan allowed for 988,000 shares of CanArgo's Common Stock to be issued to employees, consultants and advisors. As of December 31, 2001, 806,667 options were outstanding.
- Special Stock Options and Warrants. Adopted by CanArgo in September 2000, this plan was created to allow CanArgo to retain and provide incentives to existing executive officers and directors and to allow

recruitment of new officers and directors following the Company's decision to relocate finance and administrative functions from Calgary, Canada to London, England. As of December 31, 2001, 2,220,000 special stock options and warrants were outstanding.

Compensation Methodology

Each year the Compensation Committee reviews data from market surveys, proxy statements issued by competitors and independent consultants to assess CanArgo's competitive position with respect to the following three components of executive compensation:

- base salary;
- annual incentives; and
- long-term incentives.

The Compensation Committee also considers individual performance, level of responsibility, and skills and experience in making compensation decisions for each executive.

Components of Compensation

Base Salary: Base salaries for executives are determined based upon job responsibilities, level of experience, individual performance, comparisons to the salaries of executives in similar positions obtained from market surveys, and competitive data obtained from consultants and staff research. The goal for the base pay component is to compensate executives at a level which approximates the median salaries of individuals in comparable positions with comparable companies in the oil and gas industry. The Compensation Committee approves all salary increases for executive officers. No base pay increases were approved in 2001 for executive officers of CanArgo.

Annual Incentives: Annual cash incentives have been developed in conjunction with performance objectives for CanArgo Energy Corporation and the executive's particular business unit. In 2000, the Compensation Committee approved an annual cash incentive for the Chief Executive Officer and in 2001 approved an annual cash incentive for other executives.

Long-Term Incentive Compensation: The Compensation Committee has structured long-term incentive compensation to provide for an appropriate balance between rewarding performance and encouraging employee retention. Long-term incentives are granted primarily in the form of stock options. The purpose of stock options is to align compensation directly with increases in shareholder value. The number of options granted is determined by reviewing survey data to determine the compensation made to other executives and management employees in comparable positions with comparable companies in the oil and gas sector. In determining the number of options to be awarded, the Compensation Committee also considers the grant recipient's qualitative and quantitative performance, the size of stock option awards in the past, and expectations of the grant recipient's future performance.

In 2001, the Compensation Committee approved a series of new stock options to a broad range of employees. The stock option awards were granted under the various plans available in the company.

Compliance with Section 162(m) of the Internal Revenue Code

Under Section 162(m) of the Internal Revenue Code, CanArgo Energy Corporation may not deduct annual compensation in excess of $1 million paid to certain employees, generally its Chief Executive Officer and its four other most highly compensated executive officers, unless that compensation qualifies as performance-based compensation. While the Compensation Committee intends to structure performance-related awards in a way that will preserve the maximum deductibility of compensation awards, the Compensation Committee may from time to time approve awards which would vest upon the passage of time or other compensation which would not result in qualification of those awards as performance-based compensation. It is not anticipated that compensation realized by any executive officer under CanArgo Energy Corporation plans and programs now in effect will result in a material loss of tax deductions.

Compensation of the Chief Executive Officer

The Compensation Committee reviews annually the compensation of the Chief Executive Officer and recommends any adjustments to the Board of Directors for approval. The Chief Executive Officer participates in the same programs and receives compensation under the same programs as other executives. However, the Chief Executive Officer's compensation reflects the greater policy and decision-making authority that the Chief Executive Officer holds and the higher level of responsibility he has with respect to the strategic direction of CanArgo Energy Corporation and its financial and operating results. For 2001, the components of Dr. Robson's compensation were:

- Base Salary: After considering CanArgo's overall performance and competitive practices, and the signing of a 3 year contract, the Compensation Committee recommended, and the Board of Directors approved, a base salary of (pound)150,000 (approx $217,500) for Dr. Robson, effective July 1, 2000.

- Short-Term Incentives: In 2001, incentive compensation for Dr. Robson was based solely upon increase in cash flow per quarter. Based on 2001 cash flow performance each quarter, Dr. Robson qualified for a quarterly bonus in 2001 of $15,075. The bonus is capped at one times salary for a given quarter.

- Long-Term Incentives: In 2001, Dr. Robson received 585,000 performance share awards all under the CanArgo Energy Corporation 1995 Long-Term Incentive Plan. The optioned shares have a term of five years, with 438,750 currently vested and the remainder vesting on 30 June 2002.

In August 2000, the Compensation Committee elected to schedule its annual review of Chief Executive Officer performance and compensation for April of each year, to assure thorough consideration of year-end results. Actions taken by the Board of Directors in April 2002 with respect to Dr. Robson's 2002 compensation will be reflected in the proxy statement for the 2003 meeting of shareholders.

It is the Compensation Committee's intention that, when taken together, the components of Dr. Robson's pay, including base salary, annual incentives, short-term incentive opportunity and long-term incentives, will result in compensation which approximates compensation paid by companies of similar size and industry.

This report has been provided by the Compensation Committee.

NILS N. TRULSVIK, CHAIRMAN
ROGER BRITTAIN
RUSSELL HAMMOND

PERFORMANCE MEASUREMENT COMPARISON

The chart set forth below shows the value of an investment of $100 on December 31, 1997 in each of CanArgo's Common Stock, the NASDAQ Composite Index and a peer group of certain oil and gas exploration and development companies. The peer group consists of the following independent oil and gas exploration companies: A&B Geoscience Corporation, Aminex plc, Bitech Petroleum Corporation, Bow Valley Energy Ltd., ASA, EuroGas, JKX Oil & Gas plc, Centurion Energy International Inc., Lundin Oil AB, Ramco Energy plc and Soco International plc.

All values assume reinvestment of the pre-tax value of dividends paid by companies included in these indices and are calculated as of December 31 of each year. The historical stock price performance of the Common Stock shown in the performance graph below is not necessarily indicative of future stock price performance.

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

YEAR END	CANARGO STOCK PRICE	PEER GROUP INDEX	NASDAQ COMPOSITE INDEX
1997	100	100	100
1998	33	69	140
1999	82	82	260
2000	94	80	158
2001	31	75	110

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of December 31, 2001 with respect to aggregate beneficial ownership of outstanding shares of Common Stock and shares of Common Stock that would be issued upon exchange of Exchangeable Shares either outstanding or issuable for no additional consideration, by each person known by CanArgo to be the beneficial owner of more than 5% of the aggregate of such shares, by each Director and Named Officer of CanArgo and by all Directors and executive officers of CanArgo as a group.

NAME OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP		PERCENT OF CLASS
Roger Brittain	122,133	(1)	*
David Robson	1,760,416	(2)	1.9%
Nils N. Trulsvik	391,366	(3)	*
Russell Hammond	317,916	(4)	*
Murray Chancellor	83,333	(5)	*
Vincent McDonnell	33,333	(6)	*
Anthony Potter	64,500	(7)	*
All Directors and executive officers as a group (7 persons)	2,772,997	(8)	3.0%

* Less than 1%.

(1) Includes 83,333 shares underlying presently exercisable options.

(2) Includes 1,640,416 shares underlying presently exercisable options.

(3) Includes 317,916 shares underlying presently exercisable options.

(4) Includes 317,916 shares underlying presently exercisable options.

(5) Includes 83,333 shares underlying presently exercisable options.

(6) Includes 33,333 shares underlying presently exercisable options.

(7) Includes 64,500 shares underlying presently exercisable options.

(8) Includes 2,540,747 shares underlying presently exercisable options held by directors and executive officers as a group.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Of the 50% of CanArgo Standard Oil Products not held by CanArgo, 41.65% is held by Standard Oil Products, an unrelated third party entity, and 8.35% is held by an individual, Mr Levan Pkhakadze, who is one of the founders of Standard Oil Products and is an officer and director of CanArgo Standard Oil Products. The majority of refined product purchased by CanArgo Standard Oil Products for resale at its petrol stations is purchased from a company controlled by Standard Oil Products who together with and an individual shareholder, own the 50% interest in CanArgo Standard Oil Products not held by CanArgo. Total product purchases from the related company in 2001 were $4,941,000. Certain equipment is provided to Georgian British Oil Company Ninotsminda by a company owned by significant employees of Georgian British Oil Company Ninotsminda. Total rental payments for this equipment in 2001 was $124,078.

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. Two members of the Board of Directors of CanArgo who were also members of the Board of Directors of Terrenex Acquisition Corporation, Messrs. Hammond and Paus, abstained from voting on the transactions.

Dr. David Robson, Chief Executive Officer, provides all of his services to CanArgo through Vazon Energy Limited of which he is the Managing Director.

J.F. Russell Hammond, a non-executive director of CanArgo, is also an investment advisor to Provincial Securities who became a minority shareholder in the Norio and North Kumisi Production Sharing Agreement through a farm-in agreement to the Norio MK72 well.

Transactions with affiliates or other related parties including management of affiliates are to be undertaken on the same basis as third party arms-length transactions. Transactions with affiliates are reviewed and voted on solely by non-interested directors.

PART IV

ITEM 14. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

(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).

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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).

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).

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*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) Agreement between Georgian American Oil Refinery Company and CanArgo Petroleum Products Ltd. dated September 26, 1998 (Incorporated herein by reference from Form S-1 Registration Statement, File No. 333-72295 filed on February 12, 1999).

10(5) Terrenex Acquisition Corporation Option regarding CanArgo (Nazvrevi) Limited (Incorporated herein by reference from Form S-1 Registration Statement, File No. 333-72295 filed on February 12, 1999).

10(6) Production Sharing Contract between (1) Georgia and (2) Georgian Oil and 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(7) Agreement on Financial Advisory Services between CanArgo Energy Corporation, Orkla Finans (Fondsmegling) A.S and Sundal Collier & Co. ASA dated December 8, 1999 (Incorporated herein by reference from December 28, 1999 Form 8-K).

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

10(9) Agreement between CanArgo Energy Corporation and JKX Nederland BV dated January 19, 2000 (Incorporated herein by reference from December 31, 1999 Form 10-K).

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

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

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

10(13) Subscription Agreement between Registrant and JKX Nederland B.V. dated September 15, 2000 relating to purchase of 21.2% interest in Ninotsminda Oil Company (Incorporated herein by reference from July 20, 2000 Form 8-K).

*10(14) Employment Agreement between CanArgo Energy Corporation and Dr. David Robson dated September 29, 2000 (Incorporated herein by reference from September 30, 2000 Form 10-Q).

10(15) Tenancy Agreement between CanArgo Energy Corporation and Grosvenor West End Properties dated September 8, 2000 (Incorporated herein by reference from September 30, 2000 Form 10-Q).

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10(16) Agreement between CanArgo Energy Corporation and Roger Brittain dated August 18, 2000 (Incorporated herein by reference from December 31, 2000 Form 10-K).

*10(17) Employment Agreements between CanArgo Energy Corporation and Murray Chancellor dated September 22, 2000 (Incorporated herein by reference from December 31, 2000 Form 10-K).

*10(18) Employment Agreements between CanArgo Energy Corporation and Anthony Potter dated October 1, 2000 (Incorporated herein by reference from December 31, 2000 Form 10-K).

10(19) Production Sharing Contract between (1) Georgia and (2) Georgian Oil and CanArgo Norio Limited dated December 12, 2000 (Incorporated herein by reference from December 31, 2000 Form 10-K) (Incorporated herein by reference from December 31, 2000 Form 10-K).

10(20) Agreement between CanArgo Energy Corporation and Georgian British Oil Services Company dated November 10, 2000 relating to the purchase of 9.35% interest in Georgian American Oil Refinery (Incorporated herein by reference from December 31, 2000 Form 10-K).

10(21) Share Exchange Agreement between CanArgo Energy Corporation and Argonaut Oil and Gas Limited dated November 10, 2000, related to the purchase of 28.7% interest in Georgian American Oil Refinery (Incorporated herein by reference from December 31, 2000 Form 10-K).

*10(22) Employment Agreements between CanArgo Energy Corporation and Vincent McDonnell dated December 1, 2000. (Incorporated herein by reference from December 31, 2001 Form 10-K).

10(23) Agreement Number 1 dated March 20, 1998 on Joint Investment Production Activity for further development and further exploration of Bugruvativske Field (Incorporated herein by reference from September 30, 2001 Form 10-Q).

10(24) Crude Oil Sales Agreement dated August 13, 2002 (Incorporated herein by reference from June 30, 2000 Form 10-Q).

10(25) Covenant on terms and conditions of participation in investment activity under the Joint Investment Production Activity agreement dated of March 20, 1998, dated July 23, 2002. (Incorporated herein by reference from September 30, 2001 Form 10-Q).

10(26) Stock sale purchase contract of IPEC between Lateral Vector Resources and Northern Industrial Development dated July 25, 2002. (Incorporated herein by reference from September 30, 2001 Form 10-Q).

10(27) Amendments of and Additions to Joint Investment Production Activity agreement of March 20, 1998, dated August 8, 2002. (Incorporated herein by reference from September 30, 2001 Form 10-Q).

10(28) Amendment of Clause 9.3.1 of Amendments of and Additions to the Joint Investment Production Activity agreement of March 20, 1998, dated September 17, 2002. (Incorporated herein by reference from September 30, 2001 Form 10-Q).

10(29) Stock sale purchase contract of IPEC between Lateral Vector Resources Inc. and Lystopad dated September 24, 2002. (Incorporated herein by reference from September 30, 2001 Form 10-Q).

+10(30) Stock sale purchase contract of IPEC between Lateral Vector Resources Inc. and Lyutyi dated September 24, 2002. (Incorporated herein by reference from September 30, 2001 Form 10-Q).

10(31) Sale agreement of CanArgo Petroleum Products Limited between CanArgo Limited and Westrade Alliance LLC dated October 14, 2002. (Incorporated herein by reference from September 30, 2001 Form 10-Q).

21 List of Subsidiaries (Incorporated herein by reference from

September 30, 2001 Form 10-Q).

+23 Consent of PricewaterhouseCoopers.

+99(1) Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

+99(2) Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

(b) REPORTS ON FORM 8-K:

The following current reports on form 8-K were filed during 2002.

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

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

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

On May 29, 2002 CanArgo made a corporate presentation at its Annual General Meeting in Oslo, Norway. On September 17, 2002, CanArgo Energy Corporation announced that it agreed terms with Ukrnafta, the Ukrainian State Oil Company, on revisions to the existing Joint Investment Production Activity Agreement for the development of the Bugruvativske Field in Ukraine and reached agreement with a local Ukrainian oil and gas company, on the terms of a farm-in to the JIPA.

On September 23, 2002 CanArgo announced the appointment of Vincent McDonnell as Chief Financial Officer.

On October 17 2002, CanArgo announced that it agreed binding terms for the sale of its interest in its Georgian gasoline station business, CanArgo Standard Oil Products, for a cash consideration of US$ 4 million.

On November 12 2002 CanArgo announced that its subsidiary, CanArgo Norio Limited, has won the tender for the oil and gas exploration and production rights to Block XIG (Tbilisi) and Block XIH (Rustavi) in Eastern Georgia ("the Blocks"). CanArgo also announced that it has reached agreement with the other shareholders in CanArgo Norio on increasing CanArgo's interest in CanArgo Norio.

On November 12 2002 CanArgo announced the resignation of Roger Brittain, non-executive Chairman of the Board.

On November 27 2002 CanArgo announced that Dr David Robson has been appointed to the position of Chairman of the Board of CanArgo Energy Corporation in addition to his current duties as Chief Executive Officer.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CANARGO ENERGY CORPORATION
(Registrant)

By: /s/ Vincent McDonnell   Date: December 17, 2002
Chief Financial Officer

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CERTIFICATIONS PURSUANT TO RULE 13a-14 UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, David Robson, Chairman of the Board and Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K/A (Amendment No. 1) of CanArgo Energy Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

December 17, 2002   /S/ DAVID ROBSON

DAVID ROBSON
CHAIRMAN AND CHIEF
EXECUTIVE OFFICER

CERTIFICATIONS PURSUANT TO RULE 13a-14 UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Vincent McDonnell, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K/A (Amendment No. 1) of CanArgo Energy Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

December 17, 2002

/S/ VINCENT McDONNELL

VINCENT McDONNELL
CHIEF FINANCIAL OFFICER

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CANARGO ENERGY CORPORATION:

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REPORT OF INDEPENDENT ACCOUNTANTS

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, 2001 and 2000, and the results of their operations and cash flows for each of the three years in the period ended December 31, 2001 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
PricewaterhouseCoopers
Chartered Accountants

London, England
March 18, 2002, except for Note 14, Discontinued Operations, which is as of 30 October 2002.

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CANARGO ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2001 AND 2000
(EXPRESSED IN UNITED STATES DOLLARS)

	DECEMBER 31, 2001	December 2000
ASSETS		
Cash and cash equivalents	$ 5,891,038	29,696
Accounts receivable	2,007,112	316
Inventory	405,918	668
Prepayments	2,235,712	685
Other current assets	697,827	201

Total current assets	$ 11,237,607	31,568
Capital assets, net (including unevaluated amounts of $24,570,886 and $13,897,096, respectively)	52,535,420	49,849
Investments in and advances to oil and gas and other ventures - net	719,308	696
Assets of subsidiary held for sale	5,819,582	735
TOTAL ASSETS	$ 70,311,917	82,849
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 828,461	2,684
Advances from joint venture partner	-	5,888
Income taxes payable	61,000	
Accrued liabilities	400,221	409
Total current liabilities	$ 1,289,682	8,982
Provision for future site restoration	64,290	40
Liabilities of subsidiary held for sale	1,177,174	6
Minority shareholder advances	450,000	
Minority interest in subsidiaries	1,531,191	1,393
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, par value $0.10 per share	-	
Common stock, par value $0.10 per share	9,200,845	7,595
Capital in excess of par value	144,057,517	139,071
Accumulated deficit	(87,458,782)	74,240,
Total stockholders' equity	$ 65,799,580	$ 72,425
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 70,311,917	$ 82,849

The accompanying notes are an integral part of
the consolidated financial statements

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CANARGO ENERGY CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999
(EXPRESSED IN UNITED STATES DOLLARS)

DECEMBER 31, December

	2001	2000
Operating Revenues from Continuing Operations:		
Oil and gas sales	3,967,078	$ 6,108,
Refining	2,595,763	535,
Other	608,032	364,
	7,170,873	7,009,
Operating Expenses:		
Field operating expenses	1,568,011	1,287,
Purchases of crude oil and products	1,451,083	20,
Refinery operating expenses	791,139	439,
Direct project costs	1,300,423	737,
Selling, general and administrative	3,741,826	3,050,
Depreciation, depletion and amortization	3,249,962	3,875,
Impairment of oil and gas properties	7,300,000	
Impairment of oil and gas ventures	-	
Impairment of other assets	3,859,795	
Loss on disposition of assets	16,130	
	23,278,369	9,410,
OPERATING LOSS FROM CONTINUING OPERATIONS	(16,107,496)	(2,401,
Other Income (Expense):		
Interest, net	642,216	549,
Other	(74,796)	(78,
Equity income (loss) from investments	(160,000)	(240,
TOTAL OTHER INCOME (EXPENSE)	407,420	230,
NET LOSS BEFORE MINORITY INTEREST	(15,700,076)	(2,170,
Minority interest in loss of consolidated subsidiaries	2,138,163	26,
NET LOSS FROM CONTINUING OPERATIONS	(13,561,912)	$(2,143,
NET INCOME FROM DISCONTINUED OPERATIONS, NET OF TAXES AND MINORITY INTEREST	343,566	$ (8,
NET AND COMPREHENSIVE LOSS	(13,218,346)	$(2,151,
Weighted average number of common shares outstanding	83,869,579	54,950,
NET LOSS PER COMMON SHARE - BASIC AND DILUTED		
- from continuing operations	(0.16)	$ (0
- from discontinued operations	0.00	$ (0
NET LOSS PER COMMON SHARE - DILUTED	(0.16)	$ (0

The accompanying notes are an integral part of
the consolidated financial statements

CANARGO ENERGY CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999
(EXPRESSED IN UNITED STATES DOLLARS)

	DECEMBER 31, 2001	December 31, 2000
Operating activities:		
Net loss from continuing operations	(13,561,912)	$ (2,143,306)
Depreciation, depletion and amortization	3,249,962	3,875,988
Impairment of oil and gas properties	7,300,000	-
Impairment of other assets	3,859,795	-
Issuance of common stock for services	-	112,700
Equity loss (income) from investments	160,000	240,070
Loss (gain) on disposition of assets	16,130	-
Allowance for doubtful accounts	200,000	100,000
Minority interest in loss of consolidated subsidiaries	(2,138,163)	(26,939)
Changes in assets and liabilities:		
Accounts receivable	(1,623,866)	300,405
Inventory	262,419	46,828
Prepayments	(130,300)	(628,853)
Other current assets	(496,764)	(144,222)
Accounts payable	(3,352,399)	197,889
Income taxes payable	61,000	-
Accrued liabilities	(281,318)	62,225
Receipt (use of) advances from joint venture partner	(5,888,573)	5,888,573
NET CASH GENERATED BY (USED IN) OPERATING ACTIVITIES	(12,363,989)	7,881,358
Investing activities:		
Capital expenditures	(11,116,538)	(11,857,279)
Proceeds from disposition of assets	19,383	13,408
Acquisitions, net of cash acquired	(4,044,973)	-
Proceeds from disposition of investment	125,000	-
Investments in and advances to oil and gas and other ventures	(831,403)	(236,074)
Change in non working capital items	(1,340,359)	(150,000)
NET CASH USED IN INVESTING ACTIVITIES	(17,188,890)	(12,229,945)
Financing Activities:		
Proceeds from sales of common stock	7,235,337	33,283,873
Share issue costs	(643,075)	(2,848,505)
Minority shareholder advances	450,000	-
Advances from minority interest	1,931,874	500,000
Cash acquired	-	207,470

NET CASH PROVIDED BY FINANCING ACTIVITIES	8,974,136	31,142,838
NET CASHFLOWS FROM SUBSIDIARY HELD FOR SALE	(3,226,873)	(744,999)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(23,805,616)	26,049,251
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	29,696,654	3,647,403
CASH AND CASH EQUIVALENTS, END OF PERIOD	5,891,038	$ 29,696,654

The accompanying notes are an integral part of
the consolidated financial statements

CANARGO ENERGY CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999
(EXPRESSED IN UNITED STATES DOLLARS)

	COMMON STOCK			
	NUMBER OF SHARES ISSUED AND ISSUABLE	PAR VALUE	ADDITIONAL PAID-IN CAPITAL	ACCUMUL DEFIC
BALANCE, DECEMBER 31, 1998	15,157,868	1,515,786	90,549,249	(63,61
Shares issuable upon exchange of CanArgo Oil & Gas Inc. Exchangeable Shares without receipt of further consideration	5,856,775	585,678	10,996,692	
TOTAL, DECEMBER 31, 1998	21,014,643	2,101,464	101,545,941	(63,61
Less shares issuable at beginning of year	(5,856,775)	(585,678)	(10,996,692)	
Issuance of common stock upon exchange of CanArgo Oil & Gas Inc. Exchangeable Shares	5,327,016	532,702	10,002,014	
Issuance of common stock in connection with acquisition of oil and gas properties	650,000	65,000	375,740	
Issuance of common stock for services	537,917	53,792	245,080	
Issuance of common stock				

pursuant to registration statement	11,850,362	1,185,036	2,370,073	
Issuance of common stock pursuant to private placement	3,300,000	330,000	2,507,630	
Share issue costs	-	-	(828,300)	
Net loss	-	-	-	(8,47
BALANCE, DECEMBER 31, 1999	36,823,163	$3,682,316	$105,221,486	$(72,08
Shares issuable upon exchange of CanArgo Oil & Gas Inc. Exchangeable Shares without receipt of further consideration	529,759	52,976	994,678	
TOTAL, DECEMBER 31, 1999	37,352,922	$3,735,292	$106,216,164	$(72,08

The accompanying notes are an integral part of
the consolidated financial statements

CANARGO ENERGY CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999
(EXPRESSED IN UNITED STATES DOLLARS)

	COMMON STOCK			
	NUMBER OF SHARES ISSUED AND ISSUABLE	PAR VALUE	ADDITIONAL PAID-IN CAPITAL	ACCUMULATE DEFICIT
TOTAL, DECEMBER 31, 1999	37,352,922	$ 3,735,292	$ 106,216,164	$(72,088,83
Less shares issuable at beginning of year	(529,759)	(52,976)	(994,678)	
Issuance of common stock upon exchange of CanArgo Oil & Gas Inc. Exchangeable Shares	105,968	10,597	198,966	
Issuance of common stock for services	140,000	14,000	98,700	
Issuance of common stock to purchase minority shareholder's				

interest in subsidiary	4,054,054	405,406	4,094,594	
Exercise of stock options	1,504,664	150,466	431,939	
Issuance of common stock pursuant to private placements	31,355,916	3,135,592	29,565,876	
Issuance of common stock to purchase controlling interest in refinery	1,543,125	154,313	1,512,263	
Share issue costs	-	-	(2,848,505)	
Net loss	-	-	-	(2,151,60
BALANCE, DECEMBER 31, 2000	75,526,890	$ 7,552,690	$ 138,275,319	$(74,240,43
Shares issuable upon exchange of CanArgo Oil & Gas Inc. Exchangeable Shares without receipt of further consideration	423,791	42,379	795,712	
TOTAL, DECEMBER 31, 2000	75,950,681	$ 7,595,069	$ 139,071,031	$(74,240,43
Less shares issuable at beginning of year	(423,791)	(42,379)	(795,712)	
Issuance of common stock upon exchange of CanArgo Oil & Gas Inc. Exchangeable Shares	274,965	27,497	516,276	
Issuance of common stock pursuant to private placement	16,057,765	1,605,776	5,629,561	
Share issue costs	-	-	(643,075)	
Net loss	-	-	-	(13,218,34
BALANCE, DECEMBER 31, 2001	91,859,620	$ 9,185,962	$ 143,778,081	$(87,458,78
Shares issuable upon exchange of CanArgo Oil & Gas Inc. Exchangeable Shares without receipt of further consideration	148,826	14,883	279,436	
TOTAL, DECEMBER 31, 2001	92,008,446	$ 9,200,845	$ 144,057,517	$(87,458,78

The accompanying notes are an integral part of
the consolidated financial statements

CANARGO ENERGY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

CanArgo Energy Corporation and its consolidated subsidiaries (collectively "CanArgo"), is an integrated oil and gas company operating predominately within the Republic of Georgia. Historically the principal activity of CanArgo has been the acquisition of interests in and development of crude oil and natural gas fields with a productive history that indicate the potential for increased production through rehabilitation and utilization of modern production techniques and enhanced oil recovery processes. In 2000, this activity was expanded to include the refining and marketing of crude oil and crude oil products.

Certain activities in which CanArgo has interests are conducted through unconsolidated entities. CanArgo owns majority and less than majority interests in entities developing or seeking to develop oil and gas properties in Eastern Europe including the Russian Federation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION - The consolidated financial statements and notes thereto are prepared in accordance with U.S. generally accepted accounting principles. All amounts are in U.S. dollars.

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

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

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

In September 2002, CanArgo approved a plan to sell CanArgo Standard Oil Products to finance Georgian and Ukrainian development projects and in October 2002, CanArgo agreed to sell its 50% holding for $4 million with legal ownership being transferred upon receipt of final payment due in August 2003. The agreed consideration to be exchanged does not result in an impairment of the carrying value of assets held for sale. The assets and liabilities of CanArgo Standard Oil Products have been classified as "Assets of subsidiary held for sale" and "Liabilities of subsidiary held for sale" for all periods presented. The results of operations of CanArgo Standard Oil Products have been classified as discontinued for all periods presented. The minority interest related to CanArgo Standard Oil Products has not been reclassified for any of the periods presented, however net income from discontinued operations is disclosed net of taxes and minority interest.

CONSOLIDATION - The consolidated financial statements include the accounts of CanArgo Energy Corporation and its majority owned subsidiaries. All significant intercompany transactions and accounts have been eliminated. Investments in less than majority owned corporations and corporate like entities in which the Company exercises significant influence are accounted for using the equity method. Entities in which the Company does not have significant influence are accounted for using the cost method.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS - Cash and cash equivalents includes term-deposits with original maturity terms not exceeding 90 days.

FAIR VALUE OF FINANCIAL INSTRUMENTS - CanArgo considers all liquid investments with an original maturity of three months or less to be cash equivalents. The carrying amount of cash and other current assets and liabilities approximates fair value because of the short term maturity of these items. CanArgo does not hold or issue financial instruments for trading purposes.

RECLASSIFICATION - Certain items in the consolidated 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.

INVENTORIES - Inventories of crude oil, refined products and supplies are valued at the lower of average cost and net realizable value.

CAPITAL ASSETS - Capital assets are recorded at cost less accumulated provisions for depreciation, depletion and amortization unless the carrying amount is viewed as not recoverable in which case the carrying value of the assets is reduced to the estimated recoverable amount. See "Impairment of Long-Lived Assets" below. Expenditures for major renewals and betterments, which extend the original estimated economic useful lives of applicable assets, are capitalized. Expenditures for normal repairs and maintenance are charged to expense as incurred. The cost and related accumulated depreciation of assets sold or retired are removed from the accounts and any gain or loss thereon is reflected in operations.

Oil And Gas Properties - CanArgo and the unconsolidated entities for which it accounts using the equity method account for oil and gas properties and interests under the full cost method. Under this accounting method, costs, including a portion of internal costs associated with property acquisition and exploration for and development of oil and gas reserves, are capitalized within cost centers established on a country-by-country basis. Capitalized costs within a cost center, as well as the estimated future expenditures to develop proved reserves and estimated net costs of dismantlement and abandonment, are amortized using the unit-of-production method based on estimated proved oil and gas reserves. All costs relating to production activities are charged to expense as incurred. All other costs directly attributable to a project are expensed as incurred as direct project costs when such costs are considered recurring in nature.

Capitalized oil and gas property costs, less accumulated depreciation, depletion and amortization and related deferred income taxes, are limited to an amount (the ceiling limitation) equal to (a) the present value (discounted at 10%) of estimated future net revenues from the projected production of proved oil and gas reserves, calculated at prices in effect as of the balance sheet date (with consideration of price changes only to the extent provided by fixed and determinable contractual arrangements), plus (b) the lower of cost or estimated fair value of unproved and unevaluated properties, less (c) income tax effects related to differences in the book and tax basis of the oil and gas properties.

Estimated undiscounted future site restoration, dismantlement and abandonment costs of $820,000 at December 31, 2001 are amortized on a unit of production basis and reflected with accumulated depreciation, depletion and amortization. CanArgo identifies and estimates such costs based upon its assessment of applicable regulatory requirements, its operating experience and oil and gas industry practice in the areas in which its properties are located. To date CanArgo has not been required to expend any material amounts to satisfy such obligations.

Property and Equipment - Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets ranging from three to five years for office furniture and equipment to three to fifteen years for oil and gas related equipment.

Refining - The refinery and additions thereto are depreciated over the estimated useful lives of the assets ranging from fifteen to twenty years.

Discontinued Operations - CanArgo Standard Oil Products petrol stations and additions thereto were depreciated over the estimated useful lives of the assets ranging from ten to fifteen years until operations were reclassified as discontinued.

REVENUE RECOGNITION - CanArgo recognizes revenues when goods have been delivered, when services have been performed, or when hydrocarbons have been produced and delivered and payment is reasonably assured. Where crude oil or natural gas production is sold to or used for internal consumption by the refinery, on consolidation revenues from these sales are eliminated from sales and other operating revenues and operating expenses.

ADVANCES - Advances received by CanArgo from joint venture partners, which are to be spent by CanArgo on behalf of the joint venture partners, are classified within operating inflows on the basis they do not meet the definition of finance or investing activities. When the cash advances are spent, the payable is reduced accordingly. These advances do not contribute to CanArgo's operating profits and are accounted for/disclosed as balance sheet entries only ie. within cash and payable to joint venture partner.

FOREIGN OPERATIONS - CanArgo's future operations and earnings will depend upon the results of CanArgo's operations in the Republic of Georgia. 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, specifically those in the Republic of Georgia, 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.

FOREIGN CURRENCY TRANSLATION - The U.S. dollar is the functional currency for CanArgo's upstream and refining operations and the Lari is the functional currency for marketing operations. All monetary assets and liabilities denominated in foreign currency are translated into U.S. dollars at the rate of exchange in effect at the balance sheet date and the resulting unrealized translation gains or losses are reflected in operations. Non-monetary assets are translated at historical exchange rates. Revenue and expense items (excluding depreciation and amortization which are translated at the same rates as the related assets) are translated at the average rate of exchange for the year. Foreign currency translation amounts recorded in operations for years ended December 31, 2001, 2000 and 1999 were not material.

INCOME TAXES - CanArgo recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax liabilities and assets are determined based on the difference between the financial statement and the tax bases of assets and liabilities using enacted rates in effect for the years in which the differences are expected to reverse. Valuation allowances are established, when appropriate, to reduce deferred tax assets to the amount expected to be realized.

IMPAIRMENT OF LONG-LIVED ASSETS - CanArgo reviews all of its long-lived assets except its oil and gas assets, for impairment in accordance with SFAS No. 121 Accounting for the Impairment of Long-

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Lived Assets and Assets to be Disposed Of. CanArgo evaluates its oil and gas properties and its carrying value of investments in unconsolidated entities conducting oil and gas operations in accordance with the full cost method of accounting. See Capital Assets, Oil and Gas Properties above.

STOCK-BASED COMPENSATION PLANS - CanArgo has adopted only the disclosure requirements of SFAS No. 123, Accounting for Stock-Based Compensation, and has elected to continue to record stock-based compensation expense using the intrinsic-value approach prescribed by Accounting Principles Board ("APB") Opinion 25. The application of APB Opinion 25 has further been clarified by Financial Accounting Standards Board ("FASB") Interpretation No. 44, "Accounting for Certain Transactions involving Stock Compensation". Accordingly, CanArgo computes compensation cost for each employee stock option granted as the amount by which the quoted market price of the CanArgo's Common Stock on the date of grant exceeds the amount the employee must pay to acquire the stock. The amount of compensation costs, if any, is charged to operations over the vesting period.

RECENTLY ISSUED PRONOUNCEMENTS - In July 2001, 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.

CanArgo has adopted the provisions of Statement 141 and Statement 142 effective January 1, 2002. No adjustments were required as a result of adoption.

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

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("FAS 146"). This standard will require companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The standard replaces the existing guidance provided by EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The statement is effective for fiscal years beginning after December 31, 2002. CanArgo does not expect the adoption of this standard to have a material effect on its financial statements.

3. BUSINESS COMBINATION

On November 12, 2000, CanArgo acquired 38.1% of the common stock of Georgian American Oil Refinery ("GAOR") for Common Stock consideration valued at $1,666,576. On completion of the acquisition, CanArgo held 51% of the common stock of GAOR and GAOR became a subsidiary of the Company. Under purchase accounting, GAOR's results have been included in the Company's consolidated financial statements since the date of acquisition.

The purchase price was allocated to the net assets of GAOR as follows:

Cash	$ 207,470
Other Current Assets	762,733
Refining and Marketing	3,040,910
Current Liabilities	(1,281,197)
Minority Interest	(1,063,340)
Consideration Given - Common Shares	$ 1,666,576

In July 2000, CanArgo acquired the minority shareholder's 21.2% interest in Ninotsminda Oil Company for Common Stock consideration valued at $4,500,000. The purchase price was allocated to the net assets of Ninotsminda Oil Company based on their fair value which approximated net book value. On completion of this transaction, Ninotsminda Oil Company became a wholly owned subsidiary of CanArgo.

4. INVENTORY

Inventory at December 31, 2001 consisted of the following:

	DECEMBER 31, 2001	December 3 2000
Crude oil	$373,818	$186,685
Refined products	32,100	481,652
	$405,918	$668,337

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5. CAPITAL ASSETS

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

	COST	ACCUMULATED DEPRECIATION AND IMPAIRMENT
OIL AND GAS PROPERTIES		
Proved properties	$31,900,462	$(15,230,771)
Unproved properties	24,570,886	-
	56,471,348	(15,230,771)
PROPERTY AND EQUIPMENT		
Oil and gas related equipment	13,928,639	(3,306,868)
Office furniture, fixtures and equipment and other	1,038,451	(476,230)
	14,967,090	(3,783,098)
REFINING AND MARKETING	4,165,067	(4,054,216)
	$75,603,505	$(23,068,085)

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

	COST	ACCUMULATED DEPRECIATION AND IMPAIRMENT
OIL AND GAS PROPERTIES		
Proved properties	$29,768,241	$(5,597,509)
Unproved properties	13,897,096	-
	43,665,337	(5,597,509)
PROPERTY AND EQUIPMENT		
Oil and gas related equipment	10,394,139	2,966,868)

Office furniture, fixtures and equipment and other	884,162	(421,660)
	11,278,301	(3,388,528)
REFINING AND MARKETING	4,081,983	(190,467)
	$59,025,621	$(9,176,504)

OIL AND GAS PROPERTIES

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, which 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 its carrying value.

As a result of application of the ceiling test limitation, CanArgo recorded a write-down in 2001 of oil and gas properties of $7,300,000. In 2001, refining assets and generating equipment were written-down to their estimated net realizable value by $3,359,795 and $500,000 respectively. CanArgo generally has the principal responsibility for arranging financing for the oil and gas properties and ventures in which it has an interest, including the Bugruvativske field. 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 as is available will be on terms that are attractive or 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 investment in oil and gas properties and ventures or other adjustments that would be necessary if financing cannot be arranged for the development of such properties and ventures or if they are unable to achieve profitable operations. Failure to arrange such financing on reasonable terms or failure of such properties and ventures to achieve profitability would have a material adverse effect on the financial position, including realization of assets, results of operations, cash flows and prospects of CanArgo.

PROPERTY AND EQUIPMENT

Oil and gas related equipment includes drilling rigs and related equipment currently in use by CanArgo in the development of the Ninotsminda field.

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6. INVESTMENT 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 December 31, 2001 and 2000 is set out below:

INVESTMENTS IN AND ADVANCES TO OIL AND GAS AND OTHER VENTURES	DECEMBER 31, 2001
Ukraine - Stynawske Field, Boryslaw	
Through 45% ownership of Boryslaw Oil Company	$ 6,698,062
Republic of Georgia - Ninotsminda	
Through 50.0% effective ownership CanArgo Power Corporation	-
Republic of Georgia - Ninotsminda	
Through an effective 50% ownership of East Georgian Pipeline Co.	192,500
Uentech International Corporation	
Through an effective 45% voting interest	-
Other Investments	75,000
TOTAL INVESTMENTS IN AND ADVANCES TO OIL AND GAS AND OTHER VENTURES	$ 6,965,562
EQUITY IN PROFIT (LOSS) OF OIL AND GAS AND OTHER VENTURES	
Ukraine - Stynawske Field, Boryslaw	(593,961)
Republic of Georgia - CanArgo Power Corporation	-
Republic of Georgia - East Georgian Pipeline Co.	(192,500)
Uentech International Corporation	-
CUMULATIVE EQUITY IN PROFIT (LOSS) OF OIL AND GAS AND OTHER VENTURES	$ (786,461)
IMPAIRMENT - STYNAWSKE FIELD	(5,459,793)
TOTAL INVESTMENTS IN AND ADVANCES TO OIL AND GAS AND OTHER VENTURES, NET OF EQUITY LOSS AND IMPAIRMENT	$ 719,308

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.

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

Other investments include CanArgo's 10% interest in a potential Caspian Sea exploration project.

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 December 31, 2001 and 2000 include the following:

	DECEMBER 31, 2001
Professional fees	$150,000
Office relocation	-
Operating costs	90,000
Other	160,221
	$400,221

8. MINORITY SHAREHOLDER ADVANCES

In 2001 CanArgo received $450,000 on issuance of convertible loans from the other 50% shareholders of CanArgo's subsidiary, CanArgo Norio Limited ("Norio"). The cash amount received represents part of their share of the cost of drilling an exploration well under the Norio and North Kumisi production sharing agreement. CanArgo anticipates increasing its interest to over 60% in CanArgo Norio Limited through an increased level of funding of this well.

The convertible loans are non interest bearing and will convert into ordinary share capital of CanArgo Norio Limited 30 days after the final cost of the well is known. It is at this point when the final ownership interest in CanArgo Norio Limited will be determined and consequently the $450,000 and any subsequent advances from the other 50% shareholders towards the cost of the well will be reclassified as minority interest.

9. 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 December 31, 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.

LEASE COMMITMENTS - CanArgo leases office space under non-cancellable operating lease agreements. Rental expense for the years ended December 31, 2001, 2000 and 1999 was $353,594, $178,745 and $115,425 respectively. Future minimum rental payments over the next five years for the Company's lease obligations as of December 31, 2001, are as follows:

2002	$250,000
2003	$250,000
2004	$250,000
2005	$220,000
2006	$220,000

10. CONCENTRATIONS OF CREDIT RISK

CanArgo's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable and advances to oil and gas and other ventures. CanArgo places its temporary cash investments with high credit quality financial institutions. Accounts receivable relates primarily to entities active in the energy and manufacturing sectors. The concentration of credit risk associated with accounts receivable is reduced as CanArgo's debtors are spread across several countries and industries.

11. STOCKHOLDERS' EQUITY

On July 8, 1998, at a Special Meeting of Stockholders, the stockholders of CanArgo approved the acquisition of all of the common stock of CAOG for Common Stock of the Company pursuant to the terms of an Amended and Restated Combination Agreement between those two companies (the "Combination Agreement"). Upon completion of the acquisition on July 15, 1998, CAOG became a subsidiary of CanArgo, and each previously outstanding share of CAOG common stock was converted into the right to receive 0.8 shares (the "Exchangeable Shares") of CAOG which are exchangeable generally at the option of the holders for shares of CanArgo's Common Stock on a share-for-share basis.

On January 24, 2002 CanArgo announced that it has established May 24, 2002 as the redemption date for all of the Exchangeable Shares of CAOG. Each Exchangeable Share will be purchased by CanArgo for shares of CanArgo Common Stock on a share-for-share basis. No cash consideration will be issued by CanArgo and the purchase will not increase the total number of shares of Common Stock of CanArgo issued and issuable.

As of December 31, 2001, 91,859,620 shares of Common Stock, 148,826 Exchangeable Shares and 100 shares of Voting Preferred Shares were issued and outstanding. No other shares of the Company's preferred stock have been issued.

During the years ended December 31, 2001, 2000 and 1999, the following transactions regarding CanArgo's Common Stock were consummated pursuant to authorization by CanArgo's Board of Directors or duly constituted committees thereof.

YEAR ENDED DECEMBER 31, 2001

- In 2001, CanArgo issued 274,965 shares upon exchange by holders of Exchangeable Shares.

- In July 2001, CanArgo issued 16,057,765 shares at $0.41 per share upon completion of a private placement.

YEAR ENDED DECEMBER 31, 2000

- In 2000, CanArgo issued 105,968 shares upon exchange by holders of Exchangeable Shares.

- In February and March 2000, CanArgo issued 140,000 shares at $0.805 per share in connection with services performed by third parties.

- In April 2000, CanArgo issued 3,695,000 shares at $0.862 per share for gross proceeds of $3,184,166 upon completion of a private placement.

- In June 2000, CanArgo issued 4,054,054 shares at $1.11 per share for gross proceeds of $4,500,000 to acquire the minority interest shareholders interest in Ninotsminda Oil Company.

- In 2000, CanArgo issued 1,504,664 shares at $0.387 per share pursuant to exercised stock options.
- In June 2000, CanArgo issued 15,550,916 shares at $0.98 per share upon completion of a private placement.
- In August 2000, CanArgo issued 12,000,000 shares at $1.18 per share upon completion of a private placement.
- In November 2000, CanArgo issued 1,543,125 shares at $1.08 per share to acquire controlling interest in a refinery.

YEAR ENDED DECEMBER 31, 1999

- In 1999, CanArgo issued 5,327,016 shares upon exchange by holders of Exchangeable Shares.
- In 1999, CanArgo issued 650,000 shares at $0.678 per share in connection with the acquisition of net profits interests related to the Ninotsminda oil field in the Republic of Georgia.
- In 1999, CanArgo issued 537,917 shares at $0.555 per share in connection with services performed by third parties.
- In August 1999, CanArgo issued 11,850,362 shares at $0.30 per share for gross proceeds of $3,555,109 upon completion of the Company's registered public offering.
- In December 1999, CanArgo issued 3,300,000 shares at $0.86 per share for gross proceeds of $2,837,630 upon completion of a private placement.

12. NET LOSS PER COMMON SHARE

Basic and diluted net loss per common share for the years ended December 31, 2001, 2000 and 1999 were based on the weighted average number of common shares outstanding during those periods. The weighted average number of shares used was 83,869,579, 54,950,630 and 26,370,235 respectively. Options to purchase CanArgo's Common Stock were outstanding during the years ended December 31, 2001, 2000 and 1999 but were not included in the computation of diluted net loss per common share because the effect of such inclusion would have been anti-dilutive.

13. INCOME TAXES

CanArgo and its domestic subsidiaries file U.S. consolidated income tax returns. No benefit for U.S. income taxes has been recorded in these consolidated financial statements because of CanArgo's inability to recognize deferred tax assets under provisions of SFAS 109. Due to the implementation of the quasi-reorganization as of October 31, 1988, future reductions of the valuation allowance relating to those deferred tax assets existing at the date of the quasi-reorganization, if any, will be allocated to capital in excess of par value. A reconciliation of the differences between income taxes computed at the U.S. federal statutory rate (34%) and CanArgo's reported provision for income taxes is as follows:

	YEAR ENDED DECEMBER 31, 2001	YEAR ENDED DECEMBER 31, 2000
Income tax benefit at statutory rate	$(4,494,238)	$(731,545)
Benefit of losses not recognized	4,494,238	731,545
Other, net	-	-
Provision for income taxes	$ -	$ -
Effective tax rate	0%	0%

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The components of deferred tax assets as of December 31, 2001 and 2000 were as follows:

	DECEMBER 31, 2001
Net operating loss carryforwards	$ 11,256,000
Foreign net operating loss carryforwards	4,844,000
Net timing differences on impairments and accelerated capital allowances	8,981,000
	25,081,000
Valuation allowance	(25,081,000)
Net deferred tax asset recognized in balance sheet	$ -

On August 1, 1991, August 17, 1994, July 15, 1998 and June 28, 2000 CanArgo experienced changes in the CanArgo's ownership as defined in Section 382 of the Internal Revenue Code ("IRC"). The effect of these changes in ownership is to limit the utilization of certain existing net operating loss carryforwards for income tax purposes to approximately $413,000 per year on a cumulative basis. As of December 31, 2001, total U.S. net operating loss carryforwards were approximately $33,107,000. Of that amount, approximately $322,000 was incurred subsequent to the ownership change in 2000, $32,785,000 was incurred prior to 2000 and therefore is subject to the IRC Section 382 limitation. See Note 1 of Notes to Consolidated Financial Statements.

The net operating loss carryforwards expire from 2002 to 2021 The net operating loss carryforwards limited under the separate return limitation rules may only be offset against the separate income of the respective subsidiaries. CanArgo has also generated approximately $14,247,000 of foreign net operating loss carryforwards. A significant portion of the foreign net operating loss carryforwards are subject to limitations similar to IRC Section 382.

CanArgo's available net operating loss carryforwards may be used to offset future taxable income, if any, prior to their expiration. CanArgo may experience further limitations on the utilization of net operating loss carryforwards and other tax benefits as a result of additional changes in ownership.

14. DISCONTINUED OPERATIONS

In September 2002, CanArgo approved a plan to sell CanArgo Standard Oil Products to finance Georgian and Ukrainian development projects and in October 2002, CanArgo agreed to sell its 50% holding to Westrade Alliance LLC, an unaffiliated company, for $4 million in an arms-length transaction, with legal ownership being transferred upon receipt of final payment due in August 2003. The agreed consideration to be exchanged does not result in an impairment of the carrying value of assets held for sale. The assets and liabilities of CanArgo Standard Oil Products have been classified as "Assets of subsidiary held for sale" and "Liabilities of subsidiary held for sale" for all periods presented. The results of operations of CanArgo Standard Oil

Products have been classified as discontinued for all periods presented. The minority interest related to CanArgo Standard Oil Products has not been reclassified for any of the periods presented, however net income from discontinued operations is disclosed net of taxes and minority interest.

The results of discontinued operations at December 30, 2001, December 30, 2000 and December 30, 1999 consisted of the following:

	DECEMBER 31, 2001	December 31, 2000
Operating Revenues	7,607,489	126,014
Income (Loss) Before Income taxes and Minority Interest	733,335	(16,596)
Income Taxes	46,203	-
Minority Interest in Income	(343,566)	8,298
Net Income (Loss) from Discontinued Operation	$ 343,566	$ (8,298)

Gross consolidated assets and liabilities of subsidiary held for sale at December 30, 2001 and December 30, 2000 consisted of the following:

	DECEMBER 31, 2001	Decem 2
Assets held for sale:		
Cash and cash equivalents	254	
Accounts receivable	90,108	7
Inventory	177,931	2
Other current assets	35,384	
Capital assets, net	5,149,291	62
Investment in other ventures, net	366,614	
	$5,819,582	$73
Liabilities held for sale:		
Accounts payable	240,958	
Current portion of long term debt	392,408	
Income taxes payable	29,456	
Long term debt	514,352	
	$1,177,174	$

Other investments include two petrol station sites in Tbilisi, Georgia in which CanArgo has a 50% non-controlling interest. CanArgo accounts for its interest in the two petrol station sites using the equity method.

In November 2001, CanArgo Standard Oil Products Limited entered into a $1 million credit facility agreement with a commercial lender in Georgia to fund further expansion of its petrol station network. In 2001, the full amount of the facility was drawn of which $906,760 was outstanding as at December 31, 2001. The loan bears interest at 18% per annum and is secured by the assets of three petrol stations. The full amount of the loan is to be repaid by December 2003. No parent company guarantees have been provided by CanArgo with respect to this loan.

The remaining 50% interest in CanArgo Standard Oil Products is held by Standard Oil Products of Georgia and an individual, Mr. Levan Pkhakazde, who is one of the founders of Standard Oil Products and the General Director of CanArgo Standard Oil Products.

15. SEGMENT AND GEOGRAPHICAL DATA

During the year ended December 31, 1999 CanArgo operated through one business segment, oil and gas exploration and production. In 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 from continuing operations for the years ended December 31, 2001, 2000 and 1999 by business segment and geographical area were as follows:

OPERATING REVENUES FROM CONTINUING OPERATIONS:	DECEMBER 31, 2001	DECEMBER 31, 2000
OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION		
Eastern Europe	$4,873,623	$6,108,779
Canada	-	-
	4,873,623	6,108,779
REFINING		
Eastern Europe	2,595,763	535,865
INTERSEGMENT ELIMINATIONS	(906,545)	-
TOTAL	$6,562,841	$6,644,644

In 2001, the Company sold its oil and gas production in Eastern Europe to five (2000 - five, 1999 - five) customers. In 2001 sales to three third party customers represented 67%, 12% and 12% of oil and gas revenue respectively. In 2000 sales to three customers represented 43%, 25% and 14% of oil and gas revenue respectively. In 1999 sales to three customers represented 38%, 34% and 11% of oil and gas revenue respectively.

Operating profit (loss) from continuing operations for the years ended December 31, 2001, 2000 and 1999 by business segment and geographical area were as follows:

OPERATING PROFIT (LOSS) FROM CONTINUING OPERATIONS:	DECEMBER 31, 2001	DECEMBER 31, 2000
OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION		
Eastern Europe	$ (6,630,886)	$ 871,896
Canada	-	-
	(6,630,886)	871,896
REFINING		
Eastern Europe	(4,683,563)	(298,255)
CORPORATE AND OTHER EXPENSES	(4,793,047)	(2,974,791)
TOTAL	$(16,107,496)	$(2,401,150)

As a result of application of the ceiling test limitation, CanArgo recorded a write-down in 2001 of oil and gas properties of $7,300,000. In 2001, refining assets and generating equipment were written-down to their estimated net realizable value by $3,359,795 and $500,000 respectively. The write-down of oil and gas properties and generating equipment was recorded in operating profit (loss) for oil and gas, exploration and

production. The write-down of refining assets was recorded in profit (loss) for refining and marketing activities.

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

	DECEMBER 31, 2001
CORPORATE	
Eastern Europe	$ 3,926,930
Western Europe (principally cash)	7,310,678
TOTAL CORPORATE	11,237,608
OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION	
Eastern Europe	52,424,569
REFINING AND MARKETING	
Eastern Europe	110,850
DISCONTINUED OPERATIONS	
Eastern Europe	5,819,582
OTHER ENERGY PROJECTS	
Eastern Europe	719,308
Canada	-
TOTAL OTHER ENERGY PROJECTS	70,311,917
TOTAL IDENTIFIABLE ASSETS	$70,311,917

16. SUPPLEMENTAL CASH FLOW INFORMATION AND NONMONETARY TRANSACTIONS

The following represents supplemental cash flow information for the years ended December 31, 2001, 2000 and 1999:

Supplemental schedule of non-cash activities:	DECEMBER 31, 2001	DECEMBER 31, 2000
Issuance of Common Stock in connection with acquisition of minority interest shareholders interest in subsidiary	$ -	$4,500,000
Issuance of Common Stock in connection with acquisition of controlling interest in refinery	-	1,666,576
Issuance of Common Stock in connection with investments in oil and gas ventures	-	-
Issuance of Common Stock in connection with compensation earned and third party services provided	-	112,700
	$ -	$6,279,276

CANARGO ENERGY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. STOCK-BASED COMPENSATION PLANS

On August 17, 1994, options to purchase 200,000 shares of CanArgo's Common Stock were issued to various individuals who were serving or were expected in the future to serve CanArgo as officers, directors, employees, consultants and advisors (the "1994 Plan"). The options were exercisable at an exercise price of $3.00 and were only exercisable at the time or within six months after services are rendered by such individuals. In 1999 all of the options issued under the 1994 Plan expired.

Pursuant to the 1995 Long-Term Incentive Plan (the "1995 Plan") adopted by CanArgo in February 1996, 7,500,000 shares of the CanArgo's Common Stock have been authorized for possible issuance under the 1995 Plan. Stock options granted under the 1995 Plan may be either incentive stock options or non-qualified stock options. Options expire on such date as is determined by the committee administering the 1995 Plan, except that incentive stock options may expire no later than 10 years from the date of grant. Pursuant to the 1995 Plan, a specified number of stock options exercisable at the then market price are granted annually to non-employee directors of CanArgo, which become 100% vested six months from the date of grant. Stock appreciation rights entitle the holder to receive payment in cash or Common Stock equal in value to the excess of the fair market value of a specified number of shares of Common Stock on the date of exercise over the exercise price of the stock appreciation right. No stock appreciation rights have been granted through December 31, 2001. The exercise price and vesting schedule of stock appreciation rights are determined at the date of grant. Under the 1995 Plan, 4,065,334 options were outstanding at December 31, 2001.

Pursuant to the terms of the Combination Agreement, on July 15, 1998 each stock option granted under CAOG's existing Stock Option Plan (the "CAOG Plan") to purchase a CAOG common share was converted into an option to purchase 0.8 shares of the CanArgo's Common Stock. Pursuant to the CAOG Plan, which has been adopted by CanArgo, a total of 988,000 shares of CanArgo's Common Stock have been authorized for issuance. Stock options granted under the CAOG Plan expire on such date as is determined by the committee administering the CAOG Plan, except that the term of stock options may not exceed 10 years from the date of grant. Under the CAOG Plan, 806,667 options were outstanding at December 31, 2001. In 2000, special stock options and warrants to purchase 2,220,000 shares of CanArgo's Common Stock were issued to various individuals who were serving or were expected in the future to serve CanArgo as officers, directors and employees. The special stock options are exercisable at an exercise price of $1.437 per common share. The warrants are exercisable at an exercise price of $1.27 per common share. At December 31, 2001, all 2,220,000 special stock options and warrants remained outstanding.

The purpose of the Company's stock option plans is to further the interest of the Company by enabling officers, directors, employees, consultants and advisors of the Company to acquire an interest in the Company by ownership of its stock through the exercise of stock options and stock appreciation rights granted under its various stock option plans.

A summary of the status of stock options granted under the 1994 Plan, the 1995 Plan, CAOG Plan and special stock options and warrants is as follows:

	SHARES AVAILABLE FOR ISSUE	SHARES ISSUABLE UNDER OUTSTANDING OPTIONS
BALANCE, DECEMBER 31, 1998	93,584	1,718,416
Options (1994 & 1995 Plan):		
Increase in shares available for issue	3,250,000	-
Granted at market	(2,746,166)	2,746,166
Canceled (1994 Plan)	-	(74,000)
Canceled	298,332	(298,332)
CAOG Plan Authorization:		
Granted at market	(227,500)	227,500
Canceled	198,000	(198,000)
BALANCE, DECEMBER 31, 1999	866,250	4,121,750
Options (1994 & 1995 Plan):		

Granted at market	(1,087,000)	1,087,000
Exercised	-	(1,441,331)
Canceled	436,250	(436,250)
CAOG Plan Authorization:		
Granted at market	(485,000)	485,000
Exercised		(63,333)
Canceled	737,500	(737,500)
Special Stock Options and Warrants:		
Granted at market	-	2,220,000
BALANCE, DECEMBER 31, 2000	468,000	5,235,336
Options (1995 Plan):		
Increase in shares available for issue	3,500,000	-
Granted at market	(1,795,000)	1,795,000
Exercised	-	-
Canceled	123,335	(123,335)
CAOG Plan Authorization:		
Granted at market	(185,000)	185,000
Exercised	-	-
Canceled	-	-
BALANCE, DECEMBER 31, 2001	2,111,335	7,092,001

CANARGO ENERGY CORPORATION
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Shares issuable upon exercise of vested options and the corresponding weighted average exercise price are as follows:

	SHARES ISSUABLE UNDER EXERCISABLE OPTIONS
December 31, 1999	672,277
December 31, 2000	725,329
December 31, 2001	3,452,831

The weighted average fair value of options granted during the year was $0.71, $1.26 and $0.22 for the years ended December 31, 2001, 2000 and 1999 respectively.

The following table summarizes information about stock options outstanding at December 31, 2001:

OPTIONS OUTSTANDING OPTIONS E

Range of Exercise Prices	NUMBER OF SHARES OUTSTANDING AT DECEMBER 31, 2001	WEIGHTED AVERAGE REMAINING TERM	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES EXERCISABLE AT DECEMBER 31, 2001
$0.275 to $0.69	2,790,001	4.64	0.65	1,511,249
$0.70 to $0.99	175,000	3.97	0.88	61,667
$1.00 to $1.85	4,127,000	2.50	1.30	1,879,915
$0.275 to $1.85	7,092,001	3.38	0.92	3,452,831

As discussed in Note 2, Summary of Significant Accounting Policies, "Stock-Based Compensation Plans", CanArgo accounts for its stock-based compensation plans under APB Opinion 25. Accordingly, no compensation cost has been recognized for those stock options with exercise prices equal to or greater than the market price of the stock on the date of grant. Under SFAS No. 123, compensation cost is measured at the grant date based on the fair value of the awards and is recognized over the service period, which is usually the vesting period. Had compensation cost for those stock options been determined consistent with SFAS No. 123, CanArgo's net loss and net loss per common share after plan forfeitures would have been approximately $14,553,000 and $0.17 respectively for the year ended December 31, 2001, $3,077,000 and $0.05 respectively for the year ended December 31, 2000 and $8,806,000 and $0.34 respectively for the year ended December 31, 1999.

The fair value of each stock option granted by CanArgo was calculated using the Black-Scholes option-pricing model applying the following weighted-average assumptions for the years ended December 31, 2001, 2000 and 1999: dividend yield of 0.00%, risk-free interest rate of 4.61% for the year ended December 31, 2001, dividend yield of 0.00%; risk-free interest rate of 5.98% for the year ended December 31, 2000, and dividend yield of 0.00%; risk-free interest rate of 5.86% for the year ended December 31, 1999, the average expected lives of options of 3.37 years, 3.51 years and 4.0 years respectively; and volatility of 75.15% for the year ended December 31, 2001, 75.07% for the year ended December 31, 2000 and 80.0% for the year ended December 31, 1999.

18. RELATED PARTY TRANSACTIONS

Of the 50% of CanArgo Standard Oil Products not held by CanArgo, 41.65% is held by Standard Oil Products, an unrelated third party entity, and 8.35% is held by an individual who is one of the founders of Standard Oil Products and is an officer and director of CanArgo Standard Oil Products. In September 2002, CanArgo approved a plan to sell CanArgo Standard Oil Products to finance Georgian and Ukrainian development projects and in October 2002, CanArgo agreed to sell its 50% holding for $4 million with legal ownership being transferred upon receipt of final payment due in August 2003. The majority of refined product purchased by CanArgo Standard Oil Products for resale at its petrol stations is purchased from a company controlled by Standard Oil Products. Total product purchasers from the related company in 2001 were $4,941,000. At December 31, 2001, accounts payable included $223,725 with respect to these purchases. In 2001 the related company also contributed petrol station sites to CanArgo Standard Oil Products at negotiated arms length amounts. Certain equipment is provided to Georgian British Oil Company Ninotsminda by a company owned by significant employees of Georgian British Oil Company Ninotsminda. Total rental payments for this equipment in 2001 was $124,078.

In 2000, three non-employee directors each received compensation in the amount of $90,000 for services provided with respect to the June and August 2000 private placements.

19. SUBSEQUENT EVENTS

On February 12, 2002, CanArgo completed a private placement of 5,210,000 common shares at NOK 2.95 per share (approximately US$0.33 per share) for gross proceeds of approximately $1,719,000.

CANARGO ENERGY CORPORATION
SUPPLEMENTAL FINANCIAL INFORMATION
QUARTERLY RESULTS OF OPERATIONS - UNAUDITED

	2001			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Operating Revenue from Continuing Operations	$2,154,378	$ 1,551,524	$2,095,429	$ 1,369,
Operating Loss from Continuing Operations	(619,150)	(1,294,077)	(877,314)	(13,316,
Net Loss from Continuing Operations	(364,852)	(1,214,048)	(566,994)	(11,416,
Net Income from Discontinued Operations, net of Taxes and Minority Interest	38,771	10,608	79,630	214,
Net and Comprehensive Loss	(326,081)	(1,203,440)	(487,364)	(11,201,
Net Loss per Common Share - basic and diluted from Continuing Operations	0.00	(0.02)	(0.01)	(0
Net Loss per Common Share - basic and diluted from Discontinued Operations	0.00	0.00	0.00	0
Net Loss per Common Share - basic and diluted	0.00	(0.02)	(0.01)	(0

	2000			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Operating Revenue from Continuing Operations	$2,080,976	$1,515,095	$1,163,277	$ 2,250,
Operating Profit (Loss) from Continuing Operations	122,707	(187,392)	(788,199)	(1,548,
Net Profit (Loss) from Continuing Operations	100,462	(279,952)	(712,729)	(1,251,
Net Income from Discontinued Operations, net of Taxes and Minority Interest	-	-	-	(8,
Net and Comprehensive Loss	100,462	(279,952)	(712,729)	(1,259,
Net Loss per Common Share - basic and diluted from Continuing Operations	0.00	(0.01)	(0.01)	(0
Net Loss per Common Share - basic and diluted from Discontinued Operations	-	-	-	0
Net Profit (Loss) per Common Share - basic and diluted	0.00	(0.01)	(0.01)	(0

CANARGO ENERGY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ESTIMATED NET QUANTITIES OF OIL AND GAS RESERVES

Users of this information should be aware that the process of estimating quantities of "proved" and "proved developed" natural gas and crude oil reserves is very complex, requiring significant subjective decisions in the evaluation of all available geological, engineering and economic data for each reservoir. The data for a given reservoir may also change substantially over time as a result of numerous factors including, but not limited to, additional development activity, evolving production history and continual reassessment of the viability of production under varying economic conditions. Consequently, material revisions to existing reserve estimates occur from time to time. Although every reasonable effort is made to ensure that reserve estimates reported represent the most accurate assessments possible, the significance of the subjective decisions required and variances in available data for various reservoirs make these estimates generally less precise than other estimates presented in connection with financial statement disclosures.

Proved reserves are estimated quantities of natural gas, crude oil and condensate that geological and engineering data demonstrate, with reasonable certainty, to be recoverable in future years from known reservoirs with existing equipment under existing economic and operating conditions.

Proved developed reserves are proved reserves that can be expected to be recovered through existing wells with existing equipment and under existing economic and operating conditions.

No major discovery or other favorable or adverse event subsequent to December 31, 2001 is believed to have caused a material change in the estimates of proved or proved developed reserves as of that date.

The following tables sets forth the Company's net proved oil and gas reserves, including the changes therein, and net proved developed reserves at December 31, 2001, as estimated by the independent petroleum engineering firm, Ashton Jenkins Mann:

NET PROVED RESERVES - OIL (In Thousands of Barrels)	REPUBLIC OF GEORGIA	CANADA
DECEMBER 31, 1998	7,544	158
Purchase of properties	-	-
Revisions of previous estimates	-	-
Extension, discoveries, other additions	274	-
Production	(100)	(17)
Disposition of properties	-	(141)
DECEMBER 31, 1999	7,718	-
Purchase of properties	1,610	-
Revisions of previous estimates	-	-
Extension, discoveries, other additions	583	-
Production	(246)	-
Disposition of properties	-	-
DECEMBER 31, 2000	9,665	-
Purchase of properties	-	-
Revisions of previous estimates	(5,689)	-
Extension, discoveries, other additions	-	-
Production	(247)	-
Disposition of properties	-	-
DECEMBER 31, 2001	3,729	-
NET PROVED DEVELOPED OIL RESERVES		
December 31, 2001	2,928	-

CANARGO ENERGY CORPORATION
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NET PROVED RESERVES - GAS (In Million Cubic Feet)	REPUBLIC OF GEORGIA
Purchase of properties	-
Revisions of previous estimates	-
Extension, discoveries, other additions	8,417
Production	(83)

DECEMBER 31, 1999	8,334
Purchase of properties	1,658
Revisions of previous estimates	-
Extension, discoveries, other additions	4,654
Production	(1,146)
Disposition of properties	-
DECEMBER 31, 2000	13,500
Purchase of properties	-
Revisions of previous estimates	(7,365)
Extension, discoveries, other additions	-
Production	(1,110)
Disposition of properties	-
DECEMBER 31, 2001	5,025
NET PROVED DEVELOPED GAS RESERVES	
December 31, 2001	3,863

Net proved oil reserves in the Republic of Georgia as at December 31, 2001 and 2000 were as follows:

	DECEMBER 31, 2001		DECEMB 20
	OIL RESERVES - GROSS (MSTB)	PSC ENTITLEMENT VOLUMES (MSTB) (1)	OIL RESERVES - GROSS (MSTB)
Proved Developed Producing	3,985	2,928	3,800
Proved Undeveloped	1,076	801	14,500
TOTAL PROVEN	5,061	3,729	18,300

Net proved gas reserves in the Republic of Georgia as at December 31, 2001 and 2000 were as follows:

	DECEMBER 31, 2001		DECEMB 20
	GAS RESERVES - GROSS (MMCF)	PSC ENTITLEMENT VOLUMES (MMCF) (1)	GAS RESERVES - GROSS (MMCF)
Proved Developed Producing	12,878	3,863	15,200
Proved Undeveloped	3,873	1,162	29,800
TOTAL PROVEN	16,751	5,025	45,000

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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.

Results of operations for oil and gas producing activities for the years ended December 31, 2001, 2000 and 1999 are as follows:

YEAR ENDED DECEMBER 31, 2001	REPUBLIC OF GEORGIA
Revenues	$ 4,873,623
Operating expenses	1,568,011
Depreciation, depletion and amortization	10,167,368
Operating Income/(Loss)	(6,861,756)
Income tax provision	-
RESULTS OF OPERATIONS FOR OIL AND GAS PRODUCING ACTIVITIES	$(6,861,756)

YEAR ENDED DECEMBER 31, 2000	REPUBLIC OF GEORGIA
Revenues	$ 6,108,779
Operating expenses	1,287,035
Depreciation, depletion and amortization	3,099,000
Operating Income	1,722,744
Income tax provision	-
RESULTS OF OPERATIONS FOR OIL AND GAS PRODUCING ACTIVITIES	$ 1,722,744

YEAR ENDED DECEMBER 31, 1999	REPUBLIC OF GEORGIA	CANADA	
Revenues	$2,274,524	$ 219,088	$
Operating expenses	703,430	205,495	
Depreciation, depletion and amortization	968,203	-	
Operating Income (Loss)	602,891	13,593	
Income tax provision	-	-	
RESULTS OF OPERATIONS FOR OIL AND GAS PRODUCING ACTIVITIES	$ 602,891	$ 13,593	$

CANARGO ENERGY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Costs incurred for oil and gas property acquisition, exploration and development activities for the years ended December 31, 2001, 2000 and 1999 are as follows:

	EASTERN EUROPE	CANADA	TOT
DECEMBER 31, 2001			
Property Acquisition			
Unproved*	$ 5,186,002	$ -	$ 5,1
Proved	-	-	
Exploration	5,851,306	-	5,8
Development	2,054,989	-	2,0
Total costs incurred	$13,092,297	$ -	$13,0
DECEMBER 31, 2000			
Property Acquisition			
Unproved*	$ 1,365,783	$ -	$ 1,3
Proved	-	-	
Exploration	-	-	
Development	9,261,624	-	9,2
Total costs incurred	$10,627,407	$ -	$10,6
DECEMBER 31, 1999			
Property Acquisition			
Unproved	$ -	$ -	$
Proved	-	-	
Exploration	-	-	
Development	1,991,779	39,101	2,0
Total costs incurred	$ 1,991,779	$39,101	$ 2,0

* These amounts represent costs incurred by CanArgo and excluded from the amortization base until proved reserves are established or impairment is determined.

CANARGO ENERGY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS RELATING TO PROVED OIL AND GAS RESERVES

The following information has been developed utilizing procedures prescribed by SFAS No. 69 Disclosure about Oil and Gas Producing Activities ("SFAS 69") and based on crude oil reserve and production volumes estimated by the Company's engineering staff. It may be useful for certain comparative purposes, but should not be solely relied upon in evaluating the Company or its performance. Further, information contained in the following table should not be considered as representative of realistic assessments of future cash flows, nor should the Standardized Measure of Discounted Future Net Cash Flows be viewed as representative of the current value of the Company.

CanArgo believes that the following factors should be taken into account in reviewing the following information: (1) future costs and selling prices will probably differ from those required to be used in these calculations; (2) actual rates of production achieved in future years may vary significantly from the rate of production assumed in the calculations; (3) selection of a 10% discount rate is arbitrary and may not be reasonable as a measure of the relative risk inherent in realizing future net oil and gas revenues; and (4) future net revenues may be subject to different rates of income taxation.

Under the Standardized Measure, future cash inflows were estimated by applying period-end oil prices adjusted for fixed and determinable escalations to the estimated future production of period-end proven reserves. Future cash inflows were reduced by estimated future development, abandonment and production costs based on period-end costs in order to arrive at net cash flow before tax. Future income tax expenses has been computed by applying period-end statutory tax rates to aggregate future pre-tax net cash flows, reduced by the tax basis of the properties involved and tax carryforwards. Use of a 10% discount rate is required by SFAS No. 69.

Management does not rely solely upon the following information in making investment and operating decisions. Such decisions are based upon a wide range of factors, including estimates of probable as well as proven reserves and varying price and cost assumptions considered more representative of a range of possible economic conditions that may be anticipated.

The standardized measure of discounted future net cash flows relating to proved oil and gas reserves is as follows:

DECEMBER 31, 2001 (IN THOUSANDS)	REPUB GEO
Future cash inflows	$61
Less related future:	

Production costs	26
Development and abandonment costs	6
Future net cash flows before income taxes	29
Future income taxes (1)	
Future net cash flows	28
10% annual discount for estimating timing of cash flows	12
Standardized measure of discounted future net cash flows	$16

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CANARGO ENERGY CORPORATION
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DECEMBER 31, 2000 (IN THOUSANDS)	REPUB GEO
Future cash inflows	$219
Less related future:	
Production costs	37
Development and abandonment costs	63
Future net cash flows before income taxes	119
Future income taxes (1)	(5
Future net cash flows	114
10% annual discount for estimating timing of cash flows	51
Standardized measure of discounted future net cash flows	$ 62

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(1) Future cash flows are based on 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.

A summary of the changes in the standardized measure of discounted future net cash flows applicable to proved oil and gas reserves is as follows:

IN THOUSANDS	DECEMBER 31, 2001	December 31, 2000

Beginning of year	$ 62,966	40,168
Purchase (sale) of reserves in place	-	11,316
Revisions of previous estimates	(36,196)	(409)
Development costs incurred during the period	2,055	9,262
Additions to proved reserves resulting from extensions, discoveries and improved recovery	-	-
Accretion of discount	-	-
Sales of oil and gas, net of production costs	(2,327)	(4,822)
Net change in sales prices, net of production costs	(12,865)	4,393
Changes in production rates (timing) and other	3,062	3,058
Net increase (decrease)	(46,271)	22,798
End of year	$ 16,695	62,966