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CANARGO ENERGY CORP  
Form POS AM  
January 10, 2003

As filed with the Securities and Exchange Commission on January 10, 2003

Registration No. 333-85116

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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AMENDMENT NO. 4

TO  
FORM S-1  
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

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CANARGO ENERGY CORPORATION  
(Exact name of registrant as specified in its charter)

DELAWARE	1311	91-0881481
(State or other jurisdiction of No.)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification incorporation or organization)

C/O CANARGO SERVICES (UK) LIMITED  
150 BUCKINGHAM PALACE ROAD, LONDON, ENGLAND SW1W 9TR  
(44) 207 808-4700  
(Address, including zip code, and telephone number, including area code, of  
registrant's principal executive offices)

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JEFFREY WILKINS  
CANARGO SERVICES (UK) LIMITED  
150 BUCKINGHAM PALACE ROAD, LONDON, ENGLAND SW1W 9TR  
(44) 207 808-4700  
(Name, address, including zip code, and telephone number, including area code  
of agent for service)

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Please forward a copy of all correspondence to:

PETER A. BASILEVSKY  
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230 PARK AVENUE, 11TH FLOOR  
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Approximate date of commencement of proposed sale to the public: FROM

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TIME TO TIME AFTER THIS REGISTRATION STATEMENT BECOMES EFFECTIVE.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. [ ]

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. [X]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

\*\*\*\*\*

The information contained in this prospectus is not complete and may be changed. We may not sell these securities until the Registration Statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

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SUBJECT TO COMPLETION  
Preliminary Prospectus dated January 10, 2003.

PROSPECTUS

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CANARGO ENERGY CORPORATION  
(CANARGO LOGO)

5,210,000 SHARES

COMMON STOCK

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This prospectus relates to the offer and sale from time to time in one or more transactions of 5,210,000 shares of common stock of CanArgo Energy Corporation ("CanArgo") by certain of our stockholders. None of our directors or executive officers is selling shares in this offering, and neither we nor they will receive any proceeds from the sale of the shares offered hereby. All expenses of registration of the shares which may be offered hereby under the Securities Act of 1933, as amended, will be paid by us (other than underwriting discounts and selling commissions, and fees and expenses of advisors to any of the selling stockholders).

CanArgo is an independent oil and gas exploration, production, refining and marketing company operating in Eastern Europe with finance and administrative functions located in London, England c/o CanArgo Services (UK) Limited, 150 Buckingham Palace Road, London, England SW1W 9TR, telephone (44) 207 808-4700.

Our common stock is traded in the Over-the-Counter (OTC) Bulletin Board (symbol: GUSH). On January 9, 2003, the closing bid price of the common stock on the OTC Bulletin Board was \$0.06 per share. Our common stock is also traded on the main list of the Oslo Stock Exchange (symbol: CNR). On January 9, 2003, the last reported sale price of our common stock on the Oslo Stock Exchange was 0.34 Norwegian Kroner (NOK) per share. On January 9, 2003 one U.S. dollar equaled 6.877 NOK based upon the noon buying rate as reported by the Federal Reserve Bank of New York.

The selling stockholders and any broker-dealers, agents or underwriters that participate with them in the distribution of the common stock may be deemed underwriters, as that term is defined in the Securities Act, and any commissions received by them and any profit on the resale of the common stock purchased by them may be deemed underwriting commissions or discounts under the Securities Act. Selling stockholders and persons participating in the offer and sale of their shares will be subject to the prospective delivery requirements of the Securities Act. The common stock may be offered and sold by the selling stockholders in one or more transactions through the facilities of any stock exchange on which the shares are then listed for trading, in the over-the-counter market or in negotiated transactions or a combination of these and other methods of sale, at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices. The common stock may be sold either (a) to a broker or dealer as principal for resale by such broker or dealer for its account pursuant to this prospectus (for example, in transactions with a market maker) or (b) in brokerage transactions, including transactions in which the broker solicits purchasers or (c) directly to third persons. See "Plan of Distribution" beginning on page 14.

THE SECURITIES AND EXCHANGE COMMISSION AND STATE SECURITIES REGULATORS HAVE NOT APPROVED OR DISAPPROVED OF THESE SECURITIES, OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

INVESTMENT IN THE COMMON STOCK INVOLVES CERTAIN RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 7.

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The date of this Prospectus is January -, 2003

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YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS AND ANY SUPPLEMENT. WE HAVE NOT AUTHORIZED ANY OTHER PERSON TO PROVIDE YOU WITH DIFFERENT OR ADDITIONAL INFORMATION. IF ANYONE PROVIDES YOU WITH DIFFERENT OR ADDITIONAL INFORMATION, YOU SHOULD NOT RELY ON IT. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED. YOU SHOULD ASSUME THAT THE INFORMATION APPEARING IN OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS AND ANY SUPPLEMENT IS ACCURATE AS OF ITS DATE ONLY. OUR BUSINESS, FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS MAY HAVE CHANGED SINCE THAT DATE.

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FORWARD-LOOKING STATEMENTS

The United States Private Securities Litigation Reform Act of 1995 provides a "safe harbour" for forward-looking statements in this prospectus. When used in this prospectus, 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. The forward-looking statements are based on our current expectations and speak only as of the date made. These forward-looking statements involve risks, uncertainties and other factors that in some cases have affected our historical results and could cause actual results in the future to differ significantly from the results anticipated in forward-looking statements made in this prospectus. Important factors that could cause such a difference are discussed in this prospectus, particularly in this section and the section "Risk Factors". You are cautioned not to place undue reliance on the forward-looking statements.

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Few of the forward-looking statements in this prospectus deal with matters that are within our 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 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.

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

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

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

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

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

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

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

- o enforceability of contracts;
- o currency convertibility and transferability;
- o unexpected changes in tax rates;
- o sudden or unexpected changes in demand for crude oil and or natural gas;
- o availability of trained personnel; and
- o availability of equipment and services and other factors that could significantly change the economics of production.

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

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

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### SUMMARY

#### DESCRIPTION OF THE COMPANY

CanArgo Energy Corporation is an independent oil and gas exploration, production, refining and marketing company operating in Eastern Europe. Our principal operations are located in the Republic of Georgia. Our activities at our primary field in Georgia, the Ninotsminda field, are conducted through our 100% owned subsidiary, Ninotsminda Oil Company Limited. In addition, we have interests in several other oil and gas prospects both in Georgia and in the Ukraine.

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Our principal executive offices are located c/o CanArgo Services (UK) Limited, 150 Buckingham Palace Road, London, England SW1W 9TR, and our telephone number is (44) 207 808 4700.

### RECENT DEVELOPMENTS

In 2001, we wrote down our oil and gas properties in the Ninotsminda field by \$7.3 million 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. In addition, we wrote down our refinery and related equipment by \$3.4 million as a result of product instability and excise taxes on refined products. In 2001, we had negative cash flows from operations and have had negative cash flow from operations in four of the five years ended December 31, 2001.

In February 2002, we closed a private placement of 5,210,000 new shares at Norwegian Kroner (NOK) 2.95 per share (approximately US\$0.33 per share) to the institution and qualified purchaser identified in this prospectus. Gross proceeds from the placement were some NOK 15.4 million (approximately US\$1.7 million). After completion of the private placement, we had 97,218,446 common and Exchangeable shares issued and issuable. See "The Selling Stockholders" at page 13 for a description of the terms of the private placement and "Description of Capital Stock" at page 66 for a description of our common and Exchangeable shares. We have used the net proceeds from the private placement to replenish working capital following the withdrawal by AES from its participation in a three well exploration programme in Georgia.

On January 24, 2002, we announced a redemption of all the outstanding Exchangeable Shares issued by our subsidiary CanArgo Oil & Gas, Inc., which redemption was completed on May 31, 2002 in exchange for the issuance of an aggregate of 148,826 shares of Common Stock, in accordance with the terms of such Exchangeable Shares.

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 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

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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.

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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.

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, as well as the two new blocks. Convertible loans representing advances from new minority shareholders of Norio were reclassified from advances in minority interest to minority interest as at 30 September 2002 following finalisation of CanArgo's equity interest in Norio. As a result of the finalisation of respective equity interest, CanArgo's interest was adjusted to reflect its share of \$6,031,070, the carrying net asset value of Norio, and in accordance with the application of SAB 51, gave rise to a non-operating loss of \$443,564, classified as other expenses. The nominal value of the final shares issued in Norio were \$1,250 per share which gives a nominal value for Norio of \$11,328,928 of which CanArgo share is \$7,269,023 and the minority shareholders share is \$4,059,876.

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

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

### THE PROSPECTUS

This prospectus relates to the offer and sale from time to time in one or more transactions of 5,210,000 shares of our common stock by certain of our stockholders who acquired their shares in a private placement concluded on February 12, 2002. See "The Selling Stockholders" at page 13. None of our directors or executive officers is selling shares in this offering, and neither we nor they will receive any proceeds from the sale of the shares offered hereby. All expenses of registration of the shares which may be offered hereby under the Securities Act of 1933, as amended, will be paid by us (other than underwriting discounts and selling commissions, and fees and expenses of advisors to any of the selling stockholders). See "Plan of Distribution" at page 15.

The shares were placed by ABG Sundal Collier ASA who received a placement fee and reimbursement of their expenses amounting to \$110,000. Net proceeds from the



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placement were approximately US\$1.5 million which CanArgo has used for working capital purposes. The shares issued in connection with the private placement were issued in a transaction intended to qualify for an exemption from registration under the Securities Act afforded by Regulation S promulgated thereunder by the SEC and may not be offered or sold in the United States of America, its territories and possessions, any State of the United States and the District of Columbia (collectively referred to in this prospectus as the United States) or to U.S. persons (as defined in such Regulation) absent registration under the Securities Act or pursuant to an applicable exemption from such registration.

"U.S. person" means:

- (i) Any natural person resident in the United States;
- (ii) Any partnership or corporation organized or incorporated under the laws of the United States;
- (iii) Any estate of which any executor or administrator is a U.S. person;
- (iv) Any trust of which any trustee is a U.S. person
- (v) Any agency or branch of a foreign entity located in the United States;
- (vi) Any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a U.S. person;

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- (vii) Any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organized, incorporated, or (if an individual) resident in the United States;
- (viii) Any partnership or corporation if:
  - (A) Organized or incorporated under the laws of any foreign jurisdiction; and
  - (B) Formed by a U.S. person principally for the purpose of investing in securities not registered under the Securities Act, unless it is organized or incorporated, and owned, by accredited investors who are not natural persons, estates or trusts.

"Accredited investor" includes any person who comes within any of the following categories, or who we reasonably believe comes within any of the following categories, at the time of the sale of common stock to that person:

- (1) Any bank of any savings and loan association or other institution whether acting in its individual or fiduciary capacity; any broker dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934; any insurance company or investment company registered under the Investment Company Act of 1940 or a business development company; any Small Business Investment company licensed by the U.S. Small

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Business Administration; any plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, if such plan has total assets in excess of \$5,000,000; any employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974, if the investment decision is made by a plan fiduciary which is either a bank, savings and loan association, insurance company, or registered investment adviser, or if the employee benefit plan has total assets in excess of \$5,000,000 or is a self-directed plan, with investment decisions made solely by persons that are accredited investors;

- (2) Any private business development company;
- (3) Any organization described in Section 501(c)(3) of the Internal Revenue code, corporation or partnership, not formed for the special purpose of acquiring the securities offered with total assets in excess of \$5,000,000;
- (4) Any of our directors or executive officers;
- (5) Any entity in which all of the equity owners are accredited investors.

We agreed, as soon as practicable after the closing of the private placement, to prepare and file with the SEC a registration statement registering the shares under the Securities Act for resale.

### RISK FACTORS

This offering involves a high degree of risk. You should carefully consider the risks described below, as well as all other information in this prospectus, before investing in our common stock. This prospectus contains forward-looking statements that involve risks and uncertainties. Future events and our actual results could differ materially from those anticipated in these forward-looking statements. All of the known important factors that might cause such a difference are discussed in the various risk factors that follow and in the "Forward-Looking Statements" section of this prospectus.

### 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

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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. See "Oil and Gas Activities Involve Risks, Many of Which are Beyond Our Control" at page 8 for a description of these risks.

### 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

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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

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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;
- o fluctuation in the price of oil and gas, the outlook for the oil and gas industry and competition for funds; and
- o an evaluation of CanArgo and specific projects in which CanArgo has an interest.

Rising interest rates might affect the feasibility of debt financing that is

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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

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development of an oil and gas deposit can be affected by a number of factors which are beyond the operator's control, such as:

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

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

- o Labour disputes.
- o Natural phenomena, such as bad weather and earthquakes.
- o Operating hazards, such as fires, explosions, blow-outs, pipe failures and casing collapses.
- o 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

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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:

- o Enforceability of contracts;
- o Sudden or unexpected changes in demand for crude oil and or natural gas;
- o Availability of trained personnel; and
- o Availability of equipment and services and other factors that could significantly change the economics of production

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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:

- o Low standards of living.

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- o High unemployment.
- o Undeveloped and constantly changing legal and social institutions.
- o 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. See "Quantitative and Qualitative Disclosures About Market Risk" at page 54 for a further description of currency and other market risks.

### 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 Stynawkse

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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,

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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



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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:

- o The amount of recoverable crude oil and natural gas present in a reservoir.
- o The costs that will be incurred to produce the crude oil and natural gas.
- o 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:

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

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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. See "Governmental Authorizations" and "Environmental and Regulatory Matters" on page 35. We must comply with laws and regulations which govern many aspects of our oil and gas business, including:

- o Exploration
- o Development

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- o Production
- o Refining
- o Marketing
- o Transportation
- o Occupational health and safety
- o Labour standards
- o 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.

### 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.

### USE OF PROCEEDS

The selling stockholders are offering all of the shares of common stock covered by this prospectus. We will not receive any proceeds from sales of these shares. Net proceeds from the private placement have been used to replenish working capital used following the withdrawal by AES of its participation in a three well exploration program in Georgia.

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### THE SELLING STOCKHOLDERS

All of the 5,210,000 shares being offered were acquired by the selling stockholders pursuant to a private placement at Norwegian Kroner (NOK) 2.95 (\$0.33) per share, which was completed on February 12, 2002. The shares were placed by ABG Sundal Collier ASA who received a placement fee and reimbursement

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of their expenses amounting to \$110,000 in the aggregate. Net proceeds from the placement were approximately US\$1.5 million have been used for working capital purposes. The shares issued in connection with the private placement were issued in a transaction intended to qualify for an exemption from registration under the Securities Act afforded by Regulation S promulgated thereunder by the SEC and may not be offered or sold in the United States or to U.S. persons (as defined in such Regulation) absent registration under the Securities Act or pursuant to an applicable exemption from such registration. Each of the participants in the private placement executed and delivered subscription agreements in which they represented and warranted to the Company, among other matters, that they were not U.S. persons; that they were acquiring the shares for their own account; that they were acquiring the shares for investment and not with a view toward the distribution thereof; and that they would not sell the shares without registration under the Securities Act or pursuant to an applicable exemption from such registration requirement. In addition, Morgan Stanley & Co. International Ltd., one of the participants in the private placement, has further represented to the Company that it purchased its shares in the ordinary course of its business and in connection with such purchase, neither it nor any of its affiliates had entered into any contract, agreement, arrangement or understanding with any other person or persons to, directly or indirectly, sell, dispose of, distribute or otherwise transfer record or beneficial ownership of its shares. However, we understand that because Morgan Stanley & Co. International Ltd is a registered broker-dealer or an affiliate of a registered broker-dealer, it would be deemed to be an "underwriter" within the meaning of the Securities Act.

We agreed, as soon as practicable after the closing of the private placement, to prepare and file with the SEC a registration statement registering the shares under the Securities Act for resale. Under terms of the Engagement Letter between the Company and ABG Sundal Collier ASA, we agreed to indemnify the placement agents under certain conditions for certain liabilities arising from the engagement, including liabilities arising under the Securities Act.

Our registration of the shares does not necessarily mean that any selling stockholder will sell any or all of his, her, or its shares at any time or from time to time in one or more transactions.

The following table sets forth the number of shares owned by each of the selling stockholders. All information contained in the table below is based upon their beneficial ownership as of October 30, 2002. The shares registered for sale hereby are restricted and not available for trading on the OTC Bulletin Board or on the Oslo Stock Exchange until a Registration Statement filed with SEC becomes effective or such shares can otherwise be offered and sold in transactions exempt from the registration requirements of the Securities Act. The following table assumes that all of the shares being registered will be sold. The selling stockholders are not making any representation that any shares covered by the prospectus will be offered for sale. The selling stockholders reserve the right to accept or reject, in whole or in part, any proposed sale of shares. As of October 30, 2002, we had an aggregate of 97,356,206 common shares outstanding.

NAME OF SELLING STOCKHOLDER -----	NUMBER OF SHARES BENEFICIALLY OWNED PRIOR TO THE OFFERING -----	NUMBERED OF SHARES REGISTERED FOR SALE HEREBY -----	NUMBER OF SHARES OWNED AFTER THE OFFERING -----
Morgan Stanley & Co. Intl. Ltd.	5,010,000	5,010,000	--

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Jan Olav Steensland	200,000	200,000	--
	-----	-----	-----
TOTALS	5,210,000	5,210,000	--
	-----	-----	-----

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 \* Less than one percent.

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### PLAN OF DISTRIBUTION

Under the terms of the private placements, the shares registered for sale hereby are restricted and not available for trading on the OTC Bulletin Board or the Oslo Stock Exchange until after a Registration Statement filed with SEC becomes effective or offers and sales of such shares are otherwise exempt from the registration requirements of the Securities Act. Thereafter, the shares may be sold or distributed from time to time by the selling stockholders named in this prospectus, by their donees, pledgees or transferees, or by their other successors in interest. The selling stockholders may sell their shares at market prices prevailing at the time of sale, at prices related to such prevailing market prices at the time of sale, at negotiated prices, or at fixed prices, which may be changed. Each selling stockholder reserves the right to accept or reject, in whole or in part, any proposed purchase of shares, whether the purchase is to be made directly or through agents. We are not aware that any of the selling stockholders have entered into any arrangements with any underwriters or broker-dealers regarding the sale of their shares of common stock. The registration rights available to selling stockholders after the Registration Statement becomes effective shall terminate at such time as all shares qualified by this Registration Statement are sold by the selling stockholder in accordance with this prospectus or in accordance with the provisions of Rules 144, 144A or their equivalent under the Securities Act, or have been sold pursuant to a transaction effected through the facilities of the Oslo Stock Exchange in accordance with the provisions of Rule 904 or are otherwise freely transferable without restriction under applicable United States securities laws.

The selling stockholders may offer their shares, subject to the restrictions outlined above, at various times in one or more of the following transactions:

- in ordinary brokers' transactions and transactions in which the broker solicits purchasers;
- in transactions including block trades, in which brokers, dealers or underwriters purchase the shares as principal and resell the shares for their own accounts pursuant to this prospectus;
- in transactions "at the market" to or through market makers in the common stock;
- in other ways not involving market makers or established trading markets, including direct sales of the shares to purchasers or sales of the shares effected through agents;
- through transactions in options, swaps or other derivatives which may or may not be listed on an exchange;

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- an exchange distribution in accordance with the rules of such exchange;
- in privately negotiated transactions;
- in transactions to cover short sales; or
- in a combination of any of the foregoing transactions.

In addition, the selling stockholders also may sell their shares in private transactions or in accordance with Rules 144, 144A or 904 under the Securities Act rather than under this prospectus.

From time to time, one or more of the selling stockholders may pledge or grant a security interest in some or all of the shares owned by them. If the selling stockholders default in the performance of the secured obligations, the pledgees or secured parties may offer and sell the shares from time to time. The selling stockholders also may transfer and donate shares in other circumstances. The number of shares beneficially owned by selling stockholders who donate or otherwise transfer their shares will decrease as and when the selling stockholders take these actions. The plan of distribution for the shares offered and sold under this prospectus will otherwise remain unchanged, except that the transferees, donees or other successors in interest will be selling stockholders for purposes of this prospectus. The selling stockholders may use brokers, dealers, underwriters or agents to sell their shares. The persons acting as broker, dealers or agents may receive compensation in the form of commissions, discounts or concessions. This compensation may be paid by the selling stockholders or the purchasers of the shares for whom

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such persons may act as agent, or to whom they may sell as a principal, or both. The selling stockholders and any agents or broker-dealers that participate with the selling stockholders in the offer and sale of the shares may, and we understand, in the case of Morgan Stanley & Co. International Ltd, will be deemed to be "underwriters" within the meaning of the Securities Act. Any commissions they receive and any profit they realize on the resale of the shares by them may be deemed to be underwriting discounts and commissions under the Securities Act. Neither any selling stockholders nor we can presently estimate the amount of such compensation. Because selling stockholders may, and we understand in the case of Morgan Stanley & Co. International Ltd, will be deemed to be "underwriters" within the meaning of the Securities Act, selling stockholders and persons participating in the offer and sale of their shares will be subject to the prospectus delivery requirements of the Securities Act.

The selling stockholders and any other person participating in a distribution of the securities covered by this prospectus will be subject to applicable provisions of the Exchange Act and the rules and regulations under the Exchange Act, including Regulation M, which may limit the timing of purchases and sales of any of the securities by the selling stockholders and any other such person. Furthermore, under Regulation M, any person engaged in the distribution of the securities may not simultaneously engage in market-making activities with respect to the particular securities being distributed for certain periods prior to the commencement of or during such distribution. All of the above may affect the marketability of the securities and the availability of any person or entity to engage in market-making activities with respect to the securities.

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Under our agreements with the selling stockholders, we are required to bear the expenses relating to the registration of this offering. The selling stockholders will bear any underwriting discounts or commissions, brokerage fees, stock transfer taxes and fees of their legal counsel. The selling stockholders may agree to indemnify any broker-dealer or agent that participates in transactions involving sales of the shares against certain liabilities, including liabilities arising under the Securities Act. The selling stockholders have agreed to indemnify us against certain liabilities in connection with the offer of the shares, including liabilities arising under the Securities Act.

If we are notified by a selling stockholder that any material arrangement has been entered into with a broker-dealer for the sale of shares through a block trade, special offering, exchange distribution or secondary distribution or a purchase by a broker or dealer, we will file a supplement to this prospectus, if required, pursuant to Rule 424(b) under the Securities Act. In addition, if we are notified by a selling stockholder that a donee or pledgee intends to sell more than 500 shares, we will file a supplement to this prospectus.

To the extent required, this prospectus may be amended or supplemented from time to time to describe a specific plan of distribution. In effecting sales, broker-dealers engaged by the selling stockholders may arrange for other broker-dealers to participate in the resales.

The selling stockholders may enter into hedging transactions with broker-dealers in connection with distributions of the shares or otherwise. In such transactions, broker-dealers may engage in short sales of the shares in the course of hedging the positions they assume with the selling stockholders. The selling stockholders also may sell shares short and redeliver the shares to close out such short positions. The selling stockholders may enter into option or other transactions with broker-dealers, which require the delivery to the broker-dealer of the shares. The broker-dealer may then resell or otherwise transfer such shares pursuant to this prospectus. The selling stockholders also may loan or pledge the shares to a broker-dealer. The broker-dealer may sell the shares so loaned, or upon a default, the broker-dealer may sell the pledged shares pursuant to this prospectus.

### MARKET FOR COMMON STOCK AND DIVIDEND POLICY

On March 30, 1999, our 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. Our 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 our common stock from the NASDAQ National Market System to the OTC Bulletin Board, stockholders may:

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- o find it more difficult to obtain accurate and timely quotations regarding the bid and asked prices for common stock;
- o experience greater spreads between bid and asked prices;
- o be charged relatively higher transactional costs when buying or selling common stock; and

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- o 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 our 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, we obtained a primary listing on the Oslo Stock Exchange where we are 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".

FISCAL QUARTER ENDED	NASDAQ/OTCBB			HIGH
	HIGH	LOW	AVERAGE DAILY VOLUME	
March 31, 2000	1.00	0.63	95,167	0
June 30, 2000	1.45	0.69	103,033	1
September 30, 2000	1.66	1.03	69,800	1
December 31, 2000	1.38	0.75	24,500	1
March 31, 2001	1.19	0.75	12,933	1
June 30, 2001	0.87	0.50	4,467	0
September 30, 2001	0.50	0.24	20,923	0
December 31, 2001	0.43	0.24	12,757	0
March 31, 2002	0.36	0.26	32,697	0
June 30, 2002	0.38	0.19	3,508	0
September 30, 2002	0.20	0.05	9,156	0
December, 2002	0.10	0.04	29,404	0
March 31, 2003 (through January 9, 2003)	0.11	0.05	66,033	0

At January 9, 2003, the closing price of our common stock on the OTC Bulletin Board and Oslo Stock Exchange was \$0.060 and \$0.049 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 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.

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SELECTED CONSOLIDATED FINANCIAL DATA

The following data, insofar as it relates to each of the years 1997-2001, has been derived from annual financial statements, including our consolidated balance sheets at December 31, 2001 and 2000 and the related consolidated statements of operations, of cash flows and of stockholders' equity for the three years ended December 31, 2001 and notes thereto appearing elsewhere herein. This information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements included herein.

Reported in \$000's except for per common share amounts	NINE MONTHS ENDED SEPTEMBER 30,		YEAR ENDED DECEMBER		
	2002	2001	2001	2000	1999
FINANCIAL PERFORMANCE					
Total revenue from continuing operations	4,558	5,801	7,171	7,010	2,783
Operating income (loss) from continuing operations	(2,047)	(3,089)	(16,091)	(2,401)	(8,119)
Other income (expense)	(558)	943	2,529	258	(354)
Net income (loss) from continuing operations	(2,605)	(2,146)	(13,562)	(2,143)	(8,473)
Net income (loss) from discontinued operations, net of taxes and minority interest (1)	173	129	344	(8)	--
Comprehensive income (loss) from continuing operations	(2,334)	(2,017)	(13,218)	(2,152)	(8,473)
Net loss per common share - basic and diluted from continuing operations	(0.03)	(0.02)	(0.16)	(0.04)	(0.32)
Net loss per common share - basic and diluted from discontinued operations	(0.00)	(0.00)	(0.00)	(0.00)	--
Net loss per common share - basic and diluted	(0.03)	(0.02)	(0.16)	(0.04)	(0.32)
Cash generated by (used in) operations	1,182	(13,906)	(12,364)	7,881	(1,210)
Working capital	1,658	13,195	9,948	23,322	2,729
Total assets	72,855	84,260	70,312	82,849	43,948



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Minority shareholder advances	--	--	450	--	--
Stockholders' equity	65,094	77,001	65,800	72,426	37,863
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

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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.

### THE COMPANY

We are engaged in the acquisition, exploration, development and production of oil and natural gas reserves. Our activities also include investments in downstream operations such as refining and marketing. In 2001, revenues from oil and gas sales, refining and marketing activities accounted for 27%, 18% and 51% of total revenue respectively. Our oil and gas properties, refinery and petrol stations are concentrated in Eastern Europe and, in particular the Republic of Georgia. Our management and technical staff have substantial experience in these areas. Our principal product is crude oil and refined products, and the sale of crude oil and refined products is our principal source of revenue.

With regard to oil and natural gas reserves, our reserves and production have been derived principally through development of the Ninotsminda field. We typically focus on properties that either offer us existing production as well as additional exploitation opportunities, or exploration prospects management believes have significant potential. We believe that our cash flow from operations and our financial resources will provide us with the ability to complete our near term exploration projects in Georgia but will not be sufficient to develop our interests in the Bugruvativske and Stynawske fields in Eastern Ukraine. See "Management's Analysis and Discussion of Financial Condition and Results of Operations" at page 38.

Our business strategy is focused on the following:

#### Further Development of Existing Properties

We intend to further develop our properties that have established oil. We seek to add proved reserves and increase production through the use of advanced

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technologies, including detailed technical analysis of our properties, drilling new structures from existing locations and selectively recompleting existing wells. We also plan to drill step-out wells to expand known field limits.

### Growth Through Exploitation and Exploration

We conduct an active technology-driven exploitation and exploration program that is designed to complement our property acquisition and development drilling efforts with moderate to high-risk exploration projects that have greater reserve potential. We generate exploration prospects through the analysis of geological and geophysical data and the interpretation of seismic data. We intend to manage our exploration expenditures through the optimal scheduling of our drilling program and, if considered appropriate, selectively reducing our participation in certain exploratory prospects through sales of interests to industry partners.

### Pursuit of Strategic Acquisitions

We continually review opportunities to acquire producing properties, leasehold acreage and drilling prospects. We seek to acquire operational control of properties that we believe have significant exploitation and exploration potential. We are especially focused on increasing our holdings in fields and basins from which we leverage existing infrastructure and resources.

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### 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

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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 XI(c)) and North Kumisi Production Sharing

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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.

[MAP]

### 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

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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

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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.

[MAP]

### BUSINESS STRUCTURE

CanArgo and its active subsidiaries are as follows:

[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 JKK 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 JKK 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

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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

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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:

- o 740 barrels of oil per day during 1998;
- o 542 barrels of oil per day during 1999;
- o 280 barrels of oil per day during 2000;
- o 93 barrels of oil per day during 2001; and
- o 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 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

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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.

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### 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 3,876 meters.

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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. In 2002 the Participation Agreement with AES was terminated without AES earning any rights to any of the Ninotsminda field reservoirs. Under a separate Letter Agreement, if gas from the Sub Middle Eocene is discovered and produced, AES will 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 also has 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 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,

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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.

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

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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

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#### 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



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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

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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 expenditure 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%

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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:

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

-----

(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:

- 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; and
- o 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

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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.

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### Norio (Block XI(c)) 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.

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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.

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 XI(G) (Tbilisi) and Block XI(H) (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 XI(G) (Tbilisi) and Block XI(H) (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.

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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. See also the information appearing under the section entitled "Segment Information" on page 33.

### 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 naphtha, 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 naphtha, diesel and mazut can be produced and of these products, an excise tax on naphtha sales remains in place. As a result of these taxes and the local market for naphtha in the Republic of Georgia, CanArgo deemed production of naphtha 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 products allowed 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

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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 dual fuel power plant. The rigs and related equipment are used in CanArgo's Georgian operations, and from time to time have also been leased out to other operators on a service basis.

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### 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 fa